Saving in lower-income households
A review of the evidence

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Executive Summary

The promotion of saving has been the subject of Government activity for a number of years. When the Financial Inclusion Taskforce was re-appointed for a second three-year period in 2008, its terms of reference were extended to cover savings. This study was carried out to provide an overview of the existing evidence on non-retirement saving among lower-income households and is intended to help the Taskforce identify the potential for increasing levels of saving among these groups and improving take-up of saving products from regulated providers. The findings are based on a review of the literature and secondary analysis of two existing data sources: the Baseline Survey of Saving for and by Children (BSSC); and the first pilot of the Saving Gateway, a government supported cash saving scheme for people on low incomes and of working age.

Patterns of saving

Most people on lower incomes save in some form, albeit sporadically and in small amounts. There is, however, a heavy reliance on informal saving methods, such as saving cash at home and buying saving stamps.

The reasons for saving among people on lower incomes tend to fall into two broad categories: saving for a specific, typically short-term purpose or anticipated expense; and saving to provide a financial safety net. Although many people with low incomes aspire to saving towards longer-term needs, such as for their children's future needs, more immediate priorities mean that few do so in practice.

Regardless of income level, people tend to approach saving in a way that is consistent with a deep-seated disposition. *Rainy day* savers are the most committed types of savers, who save actively and most regularly and with no specific purpose in mind, instead seeing saving as a priority in itself. This approach normally starts in childhood and becomes a self-reinforcing habit throughout adulthood.

Instrumental savers – who represent a large and diverse group – find it difficult to save without a specific goal in mind and consequently cycle through phases of saving and spending. As a result they often have no savings at all or only small amounts saved. Instrumental savers tend to be people who have only started to save as a teenager or as an adult. Meanwhile, the small minority who are *non-savers* see little reason – practical or psychological – to save.

Many non-savers become instrumental savers with time. Moreover there is evidence that, with the right incentives, some non-savers and especially instrumental savers can convert to rainy day savers.

Levels of saving account-holding

Analysis of the BSSC shows that lower-income families were less likely to have a saving account (53 per cent) compared with better-off families (82 per cent). At all income levels, having any money saved in an account was much less common than account holding: fewer than one in five (18 per cent) of all lower-income families had any money saved formally.

Lower-income families who were renting their home, particularly if renting from a social landlord, one-parent families, and those in which one or both householders were not working were at increased risk of saving account exclusion, other things (including income) being equal.

People of Asian or Asian British origin were less likely than other groups to have a formal saving account, even after accounting for other characteristics. Remitting money abroad and a preference for alternative forms of financial provision (such as investing in property, micro-business and gold) help to explain the low rates of saving among some minority ethnic (and migrant) groups.

Lacking a current account was also independently linked with increased likelihood of lacking a saving account among lower-income families although the effect was not strong.

Somewhat different factors related to having no money saved in an account. Living in Scotland, Wales, and especially Northern Ireland and having no unsecured borrowing or large amounts in borrowing increased the likelihood of lacking formal savings independently of other factors.

Nonetheless, attitudinal characteristics were important drivers of being without a saving account and being without any formal savings, as was reporting never or hardly ever having money left over at the end of the week or month. The research additionally suggests that having an unstable income is important for understanding saving exclusion, over and above the effect of having a low income.

Active saving and the attractions of saving informally

The likelihood of saving actively into an account was also far lower among lower-income families (37 per cent) than those who were better off (66 per cent).

When informal saving was taken into account, the difference between the proportions of lower-income and better-off families who were saving narrowed considerably. Thirty-eight per cent of lower-income families were *only* saving informally, compared with 21 per cent of better-off families.

The attractions of saving informally identified in research include the ability to save small and varying amounts conveniently, as and when people could afford to do so and the ability to save directly towards a particular purpose. Socio-cultural factors, such as an existing tradition or culture of use of particular alternative providers, trust and familiarity with individual organisations, and the potential for some schemes to fulfil a social function, also played a role.

Not saving at all and how to shift priorities

Nevertheless, families with lower incomes were still more likely (25 per cent) than better-off families (12 per cent) to not be saving actively in any way, not even informally.

The inability to save due to a low – or unpredictable – disposable income is generally considered the main reason for not saving at all, including by individuals themselves. However, a lack of money does not fully explain why so many people do not save. Instead, it is important to distinguish between being unable to save due to a lack of money and being unable to save due to having other priorities.

This raises the question of what can be done to encourage people to shift their priorities. Since patterns of saving are set early in life initiatives that encourage children to save have particular value. Some providers offer special accounts for children and some third sector organisations work with schools to provide saving clubs. Both are initiatives that the Taskforce may wish to promote.

Experience with the Saving Gateway shows that adult non-savers can be encouraged to save with the right account and if the reward is high enough. Moreover, once they had started to save many Saving Gateway participants continued to do so at the end of the life of the account.

Barriers to saving formally and how they may be overcome

Overall, the existing evidence base provides a good understanding of the factors that inhibit and incentivise saving formally among people on lower incomes.

Compared with other areas of financial services, there are no major structural failures in the supply of saving accounts. Where failures do exist, these reflect a mis-match between what people on lower incomes want or need and the products and services that are available. The study has identified three 'meta-barriers' to saving formally where the supply barriers interact with and reinforce the demand barriers. These relate to 'access', 'knowledge and understanding' and the 'attractiveness of formal products'.

While the evidence shows that the Saving Gateway has the potential to overcome many of the barriers identified, the findings suggest other actions that the Taskforce may wish to explore.

Access

Local branch closures not only create a geographical and cost barrier to the use of their services but create an even greater psychological one. People on low incomes or from a Black and ethnic minority background mistrust commercial providers who they believe are neither interested in nor understand their needs. This is reinforced by the application of identity checks and the behaviour of a minority of staff.

The evidence shows that trusted providers with a local presence can play a role in overcoming both physical and psychological access problems. Experience from the two Saving Gateway pilots shows the importance of trusted intermediaries in helping people overcome psychological barriers.

The Taskforce may, therefore, wish to promote the availability of the Saving Gateway through the Post Office and credit unions and also to encourage saving through third sector organisations alongside loans from the Growth Fund. Financial Inclusion Champions also have an important role to play in encouraging intermediary organisations to support people who may wish to save formally but are fearful of approaching a provider or who encounter difficulties with account-opening.

Knowledge and understanding

The complexity of financial products generally, combined with people's lack of experience and understanding, deters them from using formal saving products. This is compounded by a lack of products with a simple expression of returns and a paucity of easy-to-read product information.

Rather than try to educate people to deal with inappropriate complexity, the most effective way of tackling a lack of knowledge of saving accounts is to try and remove the barriers. The provision of easy to understand accounts has been shown to be the most important factor for encouraging people on the very lowest incomes to open an account. The simplicity of matched saving and bonus payments means they have a far greater effect than interest rates or other financial incentives.

People on low incomes also need clear information about accounts that is easily accessible. Trusted intermediaries have an important role to play as a source of information and advice.

In promoting saving generally and through third sector organisations, the Taskforce should bear in mind the need for simple accounts that are accompanied by easy-to-read information. The Financial Inclusion Champions can also encourage intermediary organisations to provide information and help to people on low incomes who may want to open a saving account.

Attractiveness of formal products

The design of formal saving accounts means they are less attractive to people on lower incomes than informal and alternative methods of saving. The returns on a conventional saving account are insufficient to counteract this or to encourage people not to spend.

In general, the rate of return is the most important incentive for account opening among people on lower incomes and also for saving into it. The Saving Gateway has recognised this fact and will be offering 50 pence matching for every pound that is saved. A lower match rate is likely to be insufficient to convince non-savers to start saving.

It is clear that people save in different ways for different purposes. Among those on low incomes, formal saving accounts are thought to be primarily for rainy day saving. They often save up informally for known expenditure; this is the reason why Christmas saving schemes have been so attractive. Some building societies and credit unions are now offering Christmas saving accounts.

Some people also choose to save informally because they like to be able to see their savings mount up. A saving account that caters for people on low incomes does, therefore, need to have a passbook or something similar for it to have the same attraction.

There is also a general preference among people on low incomes for accounts that incentivise them not to make withdrawals but allow easy access in an emergency without too great a penalty. The exception is accounts where the money is being saved for a particular purpose, when they may prefer not to be able to access the money at all until a pre-determined date.

The Taskforce may wish to promote the development of successor accounts to the Saving Gateway which, though not able to offer such generous returns, have the key attributes that encourage people to retain the savings they have accrued and which continue to reinforce the saving habit.

Encouraging longer-term and regular saving

Finally, whether people save formally or informally, the most common pattern is saving to spend. A key challenge is, therefore, to find ways of encouraging people to extend their saving horizons and to begin saving for non-specific reasons (such as rainy day saving).

Rainy day savers are 'born' at a very early age and retain that aspiration for life. This argues for encouraging saving at a very young age through, for example, financial education initiatives that help students learn the importance of saving and other money management issues.

Among adults, the factors that encourage regular and longer-term saving include establishing realistic saving targets and a routine for making deposits so that the money saved is not missed. Again, incentives to retain the money in the account encourage people not to withdraw the money saved.

1 Introduction

This study was carried out to provide an overview of what has been learnt from existing research about non-retirement saving among lower-income groups. The promotion of saving has been the subject of Government activity for a number of years. The Government recognised the benefits of financial assets in *Helping people to save,* a consultation paper that was published as part of the Pre-Budget Report in November 2000. This publication also identified the need for incentives to save that are targeted at lower-income households. It was followed, in April 2001, by the publication of *Savings and assets for all*, which set out the Government's early thinking in this area. Since that time, HM Treasury has been piloting and developing the Saving Gateway – a government supported cash saving scheme for people on low incomes and of working age – for national roll-out in 2010. And in 2005, the Child Trust Fund was launched to ensure that every child would have an asset at age 18.

In 2008, the Financial Inclusion Taskforce was re-appointed for a second three-year period and its terms of reference extended to cover savings. The findings from this study will therefore be used by the Taskforce to help identify the potential for increasing levels of saving among lower-income groups and improving access to and take-up of saving products from regulated providers. The results are based on a review of research literature and secondary analysis of two existing data sources.

1.1 Aims and objectives

The overall aim of this study was to identify and understand the barriers to saving formally among lower-income households and how these may be overcome by drawing on the existing evidence. The main objectives were to:

- identify the key 'demand-side' factors that limit saving in general and use of formal saving products in particular;
- identify the key **'**supply-side' barriers preventing low-income households from saving in regulated products;
- assess the relative importance of supply and demand-side barriers and their inter-relationships;
- provide an understanding of the different ways in which people save and how different barriers might impact on the different types of savers (and non-savers);
- identify any supply-side responses to the barriers for which there is promising evidence of take-up; and
- help the Taskforce identify priority knowledge gaps in the savings research literature.

1.2 Overview of the study approach

The findings presented here draw mainly on a review of previous research. The review focused on literature reporting primary research on non-retirement saving among lower-income groups, undertaken in the UK since 1998. In total, around 90 reports and papers were identified in the research literature as providing potentially relevant empirical evidence to inform to the aims and objectives of this review. However, many of these addressed saving but without specific reference to lower-income groups or, conversely, addressed access to financial products among lower-income groups but without a specific focus on saving products. As such, only a minority (15) of the papers directly addressed the issue of saving in lower-income groups. These 'core' studies – which reflect a fair balance between qualitative and quantitative primary studies (plus one literature review) – form the main evidence base for the review, supplemented with the findings from the remaining studies.

An initial scoping review of the available literature identified key knowledge gaps which could be addressed readily by undertaking secondary analysis of existing data sources. Consequently, the subsequent full review of the literature reported in this paper incorporates some new analysis. First, the Baseline Survey of Saving for and by Children provided detailed quantitative evidence on savings holdings and saving activity and its relation to current account exclusion. The survey was unusual in capturing both informal and formal saving, allowing us to construct of a typology of saving based on the combinations of approaches used and exploration of the approaches used at different income levels and variations within a subset of the lower-income families. Second, the evaluation of the first pilot of the Saving Gateway provided qualitative and quantitative evidence on incentives to save. We have re-analysed data from depth interviews with scheme participants and from surveys with participants and a control group to provide a better understanding of the impact of a range of incentives to save with regulated providers.

Further details on the approaches used can be found in Appendix 1.

1.3 The structure of this report

The report begins by outlining the reasons why people on low incomes save, the different approaches to saving used, and the main 'types' of savers among lower-income groups. Chapter 3 expands on this by examining the numbers who have saving accounts and any money saved in these and the extent to which people are saving actively, either into saving accounts or via informal methods of saving.

Chapter 4 considers the significant minority of people who were not saving at all and the reasons for this. It also examines the large group of people on lower incomes who were only saving informally and the factors that attract people to saving through these alternative means.

In Chapter 5, the focus turns to saving formally, and the demand and supply factors that have been evidenced to act as barriers to saving with regulated providers. Chapter 6 considers the triggers for starting to save and incentives to open, save into and retain money in an account.

Finally, Chapter 7 draws together the main findings from the previous chapters to consider what needs to be done to encourage higher levels of formal saving among people with lower incomes.

2 Patterns of saving

Most people on low incomes save in some form, albeit sporadically and in small amounts. The methods used vary considerably and there is a heavy reliance on informal saving methods among those on the lowest incomes in particular. The ways in which people save are linked with their reasons for doing so, which in turn reflect a combination of saving needs, the ability to save and a natural inclination to save in a particular way.

Drawing mostly on qualitative research, this chapter provides an overview of the saving patterns evidenced among low income groups, considering first the ways in which people save, then the reasons for saving and a typology of savers (and non-savers). The chapter concludes by focusing on long-term saving, a type of saving that many people on low incomes aspire to, but do not undertake in practice. It should be noted that saving is a dynamic process. So, whilst the ability to save varies over time with changes in economic and family circumstances, so do the reasons for saving and the methods used (Kempson, 1998a; Whyley and Kempson, 2000b).

2.1 Reasons for saving

Psychology research has identified a 'hierarchy of saving motives' ranging from the more concrete goals (purchases, holidays etc.), through intermediate goals including security, retirement, debt avoidance and precaution to the more abstract goals of self-esteem and self-gratification (Canova et al., 2005). In practice, the reasons for saving among lower-income households are more often described in terms of two broad categories: saving for a specific purpose and saving to provide a financial safety net (see for example, Gregory and Drakeford, 2006; Graham et al., 2005; Edwards, 2001). Kempson (1998) identified the following as the main reasons for saving described by people on low incomes:

- To pay bills
- Children's needs generally
- To meet specific and anticipated expenses e.g. decorating, car tax
- Christmas and other family events (such as weddings)
- Holidays
- To provide a safety net / peace of mind

What people save for, however, is more than a straight-forward reflection of people's saving needs. It also reflects the ability to save (in turn influenced by life-stage and economic status) and an underlying disposition towards saving. We discuss the different underlying 'types' of savers in section 2.3. But first we consider the different ways in which people save – the methods used and types of saving activity – which are linked closely with the purposes for which people save.

2.2 Methods of saving

Some methods of saving are more visible than others, while some may not be perceived as saving at all. This section distinguishes between the formal and informal methods of saving people use.

2.2.1 Saving formally

A variety of products exist that enable people to save formally with regulated providers including cash deposit accounts, investment products and life insurance policies. As the next chapter explores, although many low-income households had some form of saving product, usually a deposit account with a bank or building society, few were saving into these. In prior research, where money was saved regularly by those on the lowest incomes, this related mostly to saving into life insurance policies (Kempson, 1998a).

People on low incomes tend only to use formal saving accounts when they want to put money away for longer-term needs. Qualitative research found the most common reason people saved formally was to build up savings for their children (or grandchildren), to ensure they had a good start in life (Kempson, 1998a). A quantitative study found evidence to suggest that, although people from poorer backgrounds are less likely to save in order to bequeath money, once assets *have* been accumulated they are keener than others to retain these to leave to children and grandchildren (Rowlingson and McKay, 2005).

Qualitative research has also found that low-income households were using saving accounts to provide security for the future in case of a rainy day or for old age (Kempson 1998a, Dominy and Kempson, 2006).[1] Using life insurance policies to provide the funds for one's own funeral (so as not to encumber family members) was not uncommon. On the other hand, saving formally towards a specific purpose was more unusual and limited to the large expense of a family holiday or a car (Dominy and Kempson, 2006; Kempson, 1999a).

2.2.2 Saving informally

In contrast to saving formally, saving informally is widespread among low-income groups though it does not tend to be seen as 'saving'. Generally speaking, people are either saving up to meet an anticipated expense, such as Christmas, a family event, school trips or decorating, or they are putting aside for an anticipated household bill. A minority of people do, however, save money informally for a rainy day (Kempson, 1998a; Kempson, 2002; Whyley et al., 2000).

Various studies have considered informal methods of saving, including saving cash at home, buying saving stamps and letting money mount up in a current account (BMRB Social Research, 2006; Graham et al., 2005; Opinion Leader Research, 2007). One study identified the wide range of methods used by people on low incomes in particular, which additionally included letting benefits mount up before drawing them, over-paying fuel prepayment meters, paying into Christmas clubs and a minority who saved by giving money to a relative (Kempson, 1998a).

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[1] Saving into a pension, meanwhile, was very uncommon indeed (Kempson 1998a), especially among minority ethnic groups (Kempson 1998b).

Saving informally tends to be undertaken routinely (often as part of everyday money management) and the money saved in this way tends not to be missed at all, helping to explain why people often do not perceive these methods as saving *per se* (Whyley and Kempson 2000b). The savings that are accumulated informally are viewed as more accessible and suited to meeting short-term needs (Chapman, 2003; Dominy and Kempson, 2006; Whyley et al., 2000). Although informal saving is normally associated with saving small amounts (Kempson, 1998a; Dominy and Kempson, 2006), the sums saved can mount up (Kempson, 1998a; Whyley and Kempson 2000b).

2.3 Types of saving

Qualitative studies have noted that some forms of saving are readily recognised as 'saving' by study participants themselves, whilst others – especially those that involve the use of informal methods – are not really deemed to be saving at all (Kempson, 1998a; Kempson, 2002; Whyley et al., 2000). Kempson (1998b) distinguishes between three types of saving activity:

- Putting money into savings
- Saving up
- Putting money aside.

These conceptually distinct ways of saving reflect the different reasons why people save and the methods they use (formal or informal), along with their ability to save once daily living expenses are met. It is the first of these, 'putting money into savings', which people tend to perceive as 'saving' but which is only common where some disposable income remains after outgoings have been met. Money saved in this way is normally deposited in formal saving accounts or used to buy insurance policies (life or endowment policies) and is usually saved for no specific purpose and/or the longer term (Kempson, 1998a).

'Saving up', in contrast, normally relates to money that is saved towards paying for specific purposes that involve lumpy expenditure, which cannot be accommodated within the normal budgeting cycle. Saving in this way uses either formal saving products or informal methods (Kempson, 1998a). However, particularly when informal methods are used, 'saving up' does not tend to be seen as saving (Kempson, 2002) and this was especially apparent in recent research with users of Christmas hamper type schemes (Opinion Leader Research, 2007).

Finally, 'putting money aside', involves routinely setting aside a certain amount of money to put towards regular household expenditure, such as bills. The amounts saved are typically small and saved informally, for example in cash containers, put into savings stamps or given to someone outside the household for safe-keeping (Kempson, 1998a). Again, this type of saving is often not really deemed to be saving at all (Whyley et al., 2000b).

A quantitative study found that 'putting money into savings' was the most common type of saving by people from low-to-middle income groups (Whyley and Kempson, 2000a). However, this form of saving was much less likely among those on the lowest incomes, for whom the more common forms of saving, by far, were 'saving up' in the short-term and 'putting money aside'.

The fact that only the first of these forms of saving is readily recognised as 'saving' suggests that studies – including qualitative studies – in which the language used to talk about saving fails to encompass all three types will unwittingly portray a distorted and under-stated picture of saving, especially for lower-income groups.

2.4 Types of savers

Whilst people might demonstrate more than one approach to saving as priorities or resources dictate, the evidence suggests that people tend to behave in a way that is consistent with one main approach throughout their lifetimes, reflecting some deep-seated disposition (see for example, Kempson et al., 2002). The most detailed typology for understanding the approaches people take to saving was developed based on depth interviews with people living in low-to-middle-income households (Whyley and Kempson, 2000b). Regardless of the methods and forms of saving activity people used in practice (as outlined in sections 2.2 and 2.3 above), the study identified four distinct types of savers.[2] We describe the main features of these below drawing heavily on findings from this study (Whyley and Kempson, 2000b), supplemented by those from a similar study which looked at saving patterns across all income groups (Rowlingson et al., 1999). Other studies are referenced as appropriate.

2.4.1 Rainy day savers

Rainy day savers, who Rowlingson et al., (1999) called 'dedicated' savers, are the most committed types of savers. These are people who save actively and often regularly and with no specific purpose in mind and tend to build up the largest sums. The sums saved, which generally take the form of a flexible, multi-function pot of money (Dezyk and Slater, 2003; Edwards, 2001), are conceived as providing security against unexpected eventualities such as job loss, ill-health or unexpected expenses, "just in case". Otherwise, the money is kept for retirement, at which point the psychological value of saving reduces for some people; although breaking the habit proves difficult for others (Wells, 2008).

For people who save in this way, saving is satisfying and a priority in itself. Moreover, rainy day savers are likely to feel discomfort or distress if they don't have this safety net. Consequently, whilst it is the most committed type of saving approach it is also the most enduring, normally starting early in childhood with parental influence, and being retained in adulthood through a self-reinforcing habit.

Rainy day savers are unlikely to move out of this category, changing their pattern of saving only in extreme circumstances. They may reduce the amounts they save or, more rarely, stop saving altogether for as long as circumstances dictate but are extremely resistant to running savings down.

The rainy day savers identified in the qualitative study of people on low-to-middle incomes were aged in their late 20s to mid 60s and were mostly women. All were owner-occupiers and most had white-collar and relatively stable employment, though they included people who had been on higher incomes until recently (Whyley and Kempson, 2000b). Rainy day savers made up about three in ten

[2] A fifth group of "long-term savers" were found only among those towards the higher end of the low-to-middle-income spectrum and are not discussed here. See section 2.5 for consideration of saving for the long-term among lower-income groups.

of the participants of the first pilot of the Saving Gateway, a government supported cash saving account aimed at helping to encourage saving among people of working age on lower incomes (Kempson et al., 2005).

2.4.2 Instrumental savers

The saving behaviour of instrumental savers – who Rowlingson et al (1999) called "circumstantial savers" – is characterised by a pattern of 'save to spend', whereby money is saved towards a particular purpose and then spent, more often than not all in one go. For instrumental savers, spending is the primary driver of saving money and many find it difficult to save without a particular goal in mind.

When the need or desire for a particular saving goal is strong, instrumental saving can be a dedicated form of saving. However, unlike the rainy day savers, instrumental savers do not ring-fence money for saving and are more likely to save whatever spare cash is left at the end of the month. Extra money received, for example as a gift or other windfall, is likely to be found a purpose on which to be spent. The cyclical nature of 'save to spend' also means that instrumental savers will often have no savings at all or only small amounts saved.

Again, this pattern of saving can be set in childhood or later, in the teens or 20s, and like rainy day saving, can also be very enduring. However, this group can become non-savers at the end of a save and spend cycle if further saving goals do not present. Or, at certain trigger points in life – such as transitioning into marriage thereby becoming partly responsible for another person or setting up home – or reaching a certain age, some instrumental savers begin to value future security and become rainy day savers. The evaluation of the first pilot of the Saving Gateway found clear evidence of the potential for people who previously saved to spend to be converted to rainy day savers (Kempson et al., 2005).

In comparison to the rainy day savers, instrumental savers form a large and diverse group. They comprised about a half of participants of the first Saving Gateway pilot (Kempson et al., 2005). Instrumental savers exist in all age groups, though they tend to be concentrated among the younger age groups, and are found disproportionately among people in less stable and lower paid employment (Whyley and Kempson, 2000b).

2.4.3 Non-savers and passive savers

Although many people are without any savings at any point in time (see section 3.2.2), very few are truly 'non-savers', defined as people who do not actively save at all and have no plans to start saving in the near future (Whyley and Kempson, 2000b).

Being a non-saver is strongly associated with youth, and often occurs among people who are single, working full time and don't have children, or young people still living at home. Non-savers have little reason – whether practical or psychological – to save. They tend to believe in 'living for the day' and are more likely than the other groups to borrow; in turn the burden of paying down the borrowing becomes another reason not to save.

To a great extent, non-saving reflects having not yet developed a pattern of saving. Many non-savers become instrumental savers in time. And the first Saving Gateway pilot showed that a substantial minority of participants who were 'non-savers' at the time they opened the account even became rainy day savers during the life of the pilot (Kempson et al., 2005). Nonetheless, for some, not saving was born out of a strongly-held rejection of any value of saving since childhood or because of long-term poverty (Rowlingson et al., 1999).

Passive savers are a particular type of non-saver, the key difference being that they can appear to be savers when they are not. This is usually because someone else has accrued savings on their behalf to which they have never personally contributed, or because of a windfall (e.g. a tax rebate or bequest; Whyley and Kempson, 2000b). In terms of their approach and attitudes towards saving, passive savers are very similar to non-savers. They do not place sufficient value on the savings they have come by to keep it in savings. As such, the majority of passive savers interviewed in the qualitative study had spent the money in full as soon as they acquired access to it; a few became instrumental savers. Most passive savers were in relatively unstable relationships, were renting their homes, and were supporting their entire households in part-time and blue-collar employment, more so than in the other groups of the typology (Whyley and Kempson 2000b).

2.5 A focus on saving for the longer term

Saving towards medium or longer-term goals appears rare among people on low incomes. Although there are exceptions – such as some young adults (who report saving up towards the costs of higher education or to buy a home; Whyley and Kempson, 2000a; Rahmand and Palmer, 2001), some minority ethnic groups (Whyley and Kempson, 2000a; Synovate, 2004; Ethnic Response, 1999) and the self-employed (McKay, 2002) – several studies confirm that saving to meet specific needs in the short rather is the more common saving pattern among households on low incomes (Kempson et al., 2005; Kempson et al., 2002; Dominy and Kempson, 2006; Whyley and Kempson, 2000b; Whyley and Kempson, 2000a). This reflects a greater tendency towards shorter financial planning horizons among, though not limited to, lower-income groups (Atkinson et al, 2006; Collard et al., 2001; Dezyk and Slater, 2003; Harvey, 2007; Rowlingson, 2000).

Nonetheless, many low-income households do aspire to saving for the longer term (see, for example, Kempson and Whyley, 1999; Collard et al., 2001; Edwards, 2001; Kempson and Taylor, 2004; Dezyk and Slater, 2003). This is most apparent in relation to the future needs of children – providing a 'nest egg' to spend on something 'worthwhile' when they start their adult life – as evidenced in studies that have examined attitudes and intentions towards schemes like the Child Trust Fund (Edwards, 2001; Kempson and Taylor, 2004). In a survey at the inception of the Child Trust Fund, the kinds of expenditure parents (of all income groups) had in mind for such savings included the costs of higher education, setting up home, buying a car or motorcycle and driving lessons (Kempson et al., 2006). Driving lessons was the one area those on lower incomes were more likely than those with higher incomes to report as being a suitable way of spending matured Child Trust Fund money. Finally, one study that directly addressed the issue of unmet needs for financial products found that one of the main unmet needs for financial products was for a product to help them provide for their family in the event of their own death (Kempson and Whyley, 1999).

3 Levels of saving

There are two main ways to consider levels of saving: savings held; and active saving. Saving account holding is relatively uncommon among people on lower incomes, while having formal savings of any value is less common still. When informal saving is taken into account we find that a much smaller number of people are not saving at all, though a significant minority rely exclusively on informal saving.

Drawing on a body of literature reporting mostly large-scale survey research and new analysis of the Baseline Survey of Saving for and by Children (BSSC),[3] this chapter turns first to levels of saving account holding and savings held in this way, before considering active saving into accounts and saving informally. It ends by considering the totality of active saving, giving particular attention to those who do not save at all or who only save informally.

3.1 Formal savings

Studies show consistently that people with lower incomes are less likely to have formal saving products and, those who do, have lower amounts saved in them than people who are better-off (e.g., Atkinson, 1999; BMRB Social Research, 2006; DWP, 2008; new analysis of the BSSC).

3.1.1 Saving account ownership

The 2006-07 Family Resources Survey (FRS), the most robust and up to date source of data on the formal assets owned by households in the UK, shows that only three per cent of households overall were without an asset account of any kind (including transaction banking and investment accounts; DWP, 2008). This proportion increased gradually with declining incomes, peaking at 11 per cent among those on the lowest incomes (less than £100 per week, or £5,200 per year), compared with six per cent among those with incomes of between £100 and £200 per week and four per cent among those with slightly higher incomes than this. At each income level, however, these high rates of asset account-holding of any kind largely reflected high rates of ownership of current accounts, which were owned by 90 per cent of households overall. The BSSC records similar levels of current account holding to those in the FRS (Table 3.1).

[3] The BSSC survey collected detailed information about formal and informal saving by parents (the respondent and their partner, where applicable) of dependent children for themselves. It allows for analysis across the income range and for detailed analysis within a subset of lower-income families. For more detail on the BSSC and how we have defined the different income levels see Appendix 1.

Table 3.1 Savings and other account holding, families by income group

Percentages

	Lower-income families (below 70% median income)				**Better-off families** (70% median income or higher)	**All families**
	Very low[1]	Low[1]	Moderately low[1]	All lower		
Saving account holding						
Currently has a saving account	51	53	62	53	82	69
Does not currently have a saving account but has in the past	13	13	12	12	7	9
Has never had a saving account	37	34	27	34	11	21
Type of saving account held currently (respondent or their partner)						
Bank or building society deposit account	44	44	55	46	73	61
Cash ISA	11	14	20	13	33	24
Credit Union Account	1	2	2	2	2	2
NSandI Account	3	6	4	3	7	5
Tessa	2	1	3	2	5	4
Other type of saving account[2]	2	2	2	2	4	3
Value of formal savings						
£0	83	77	80	82	71	76
£1, less than £100	5	7	4	5	3	4
£100, less than £1,000	7	8	8	7	8	8
£1,000, less than £5,000	3	4	4	3	9	7
£5,000 or more	2	3	4	3	9	6
Median amount (where > £0)	*£200*	*£683*	*£465*	*£371*	*£2,000*	*£1,200*
Other asset product-holding						
Any current account	79	89	90	83	98	91
Any investments	16	16	26	18	48	34
Any life insurance	29	41	47	35	67	52
Unweighted base	***1,270***	***269***	***400***	***1,940***	***2,370***	***4,314***

Source: new analysis, Baseline Survey of Saving for and by Children. Excludes don't knows and refusals

1. "Very low" indicates an income of below 50 per cent median income, "low" indicates an income of below 60 per cent but above 50 per cent median income, moderately low indicates those with incomes of below 70 per cent but above 60 per cent median income.
2. Includes a small number who spontaneously cited a current account as their saving account.

Unfortunately, the published FRS statistics do not consider bank or building society saving accounts as a discrete type of product, as distinct from transaction banking products. When saving accounts specifically are considered – using the BSSC data for families – rates of account-holding are far lower (Table 3.1). Overall, 69 per cent of all families had a saving account, the remaining 31 per cent of families being without an account of this type at the time of the interview. Fewer better-off families (defined as those with incomes of 70 per cent of the median or higher) were without a saving account (18 per cent) than the average (31 per cent). In comparison, lower-income families were much more likely to be without an account (47 per cent), ranging from 38 per cent of those with moderately low incomes to 49 per cent of those with very low incomes.[4] These rates are confirmed for the wider population of low-income households (not restricted to families) by the first Saving Gateway pilot, which found that about a half of participants and the comparison group were without an existing saving or credit union account (Kempson et al., 2005).[5]

An additional one in ten BSSC families overall had had a saving account in the past (nine per cent; Table 3.1). However, three times as many lower-income families had never had a formal saving account (34 per cent; peaking among those with very low incomes, 37 per cent) than the better-off families (11 per cent).

3.1.2 Types of saving account

The lower rate of account holding among lower-income families in the BSSC is reflected across the different categories of accounts to a fairly equal degree (see Table 3.1, above). The one exception is credit union accounts, which were held by two per cent of the lower-income and better-off families alike.

Among lower-income families, a saving deposit account with a bank or building society was the most common account type (44 per cent, BSSC). In reality, these were probably mostly accounts held with building societies or former building societies (Collard et al., 2001; Kempson, 1998a).

Cash ISAs were the second most commonly owned type of account, held by 13 per cent of lower-income families in the BSSC. While Cash ISA holding was less common in this group than the average for all families (24 per cent), it was relatively high among those on moderately low incomes (20 per cent). These findings corroborate official ISA statistics for 2005/06. People with pre-tax personal incomes of between £10,000 and £20,000 had the highest Cash (and Stocks and Shares) ISAs subscription rates and deposited the most amounts into these; meanwhile, the totals saved in Cash ISA accounts were lowest on average for those with personal incomes of less than £10,000 (HMRC, 2008a).

Table 3.1 indicates that the remaining types of saving accounts were owned by only very small numbers of lower-income families (NS&I account, three per cent; TESSA, two per cent; or another type of saving account, two per cent), who were fewer than among those with middle and higher incomes (seven per cent, five per cent and four per cent respectively). Again, this overall finding is confirmed by the FRS data (DWP, 2008).

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[4] "Lower-income families" are defined here as those with equivalised household incomes of below 70 per cent of median income. Within this group, "very low" indicates an income of below 50 per cent median income, "low" indicates an income of below 60 per cent but above 50 per cent median income, moderately low indicates those with incomes of below 70 per cent but above 60 per cent median income. See Appendix 1 for more details.

[5] People were eligible to participate in the first Saving Gateway pilot if they were either of working age, in work and entitled to Working Tax Credit or were not in paid work and were receiving a qualifying means-tested benefit. The pilot evaluation included a comparison (or reference) group of people who met the same eligibility criteria as the participants but who were not invited to take part.

3.1.3 Amounts saved

Regardless of income level, having any money saved is much less common than the levels of account-holding suggest because many accounts are dormant with only a pound or two in them (Kempson et al., 2005; DWP, 2008; new analysis of the BSSC). Even then, people who have only small sums saved are not necessarily significantly better off than those without any savings at all (Kempson et al., 2000).

Looking across all the assets types, the FRS data shows that 43 per cent of the lowest-income households had no money in savings or assets at all (compared with the average of 24 per cent across all households); a further 21 per cent (24 per cent overall) had modest savings with a value of less than £1,500. Whilst the proportion with no liquid assets whatsoever was slightly lower in the second lowest-income bracket (36 per cent), this was compensated for by a larger proportion of this group who had only modest amounts of savings (29 per cent; DWP, 2008).

Similarly, the BSSC shows that although half of lower-income families had a saving account fewer than one in five (18 per cent) had any money saved in this way (Table 3.1). The average amounts saved by those with any savings were also greatly depressed among the lower-income families (median of £371) compared with the remaining families (£2,000). It was lower again among the group with very low incomes (£200).

3.1.4 Which groups do not have formal savings?

Studies have shown that people (and households headed by people) who were unemployed or unable to work due to long-term sickness or disability, were unskilled manual workers, lived in social rented accommodation and lone parents were among those most likely to have no saving products (for example, Atkinson, 1999; DWP, 2008; Khan, 2008; McGil, 2002; Small Change Research Partnership, c2006). Others have additionally identified housewives, older families, homeless people and the poorest pensioners as being disproportionately more likely to be without formal savings (Big Issue in the North, 2000; McGil, 2002; Kempson et al., 2002; Small Change Research Partnership, c2006). Clearly, many of these characteristics are reasonably indicative of being on a low income. However, the findings from one study suggest that it is not just low incomes that are associated with a lack of saving product holding but also volatile incomes (Atkinson, 1999).

Previous research has tended to show that women are either as likely as, if not more likely than, men to have formal saving or investment accounts across the income range (Devlin, 2005; Westaway and McKay, 2007). However, the amounts held were lower among women than men (Bettio and Caretta, 2005; Rake and Jayatilaka, 2002 in Sodha and Lister, 2006; Westaway and McKay, 2007). And while older people are more likely to have savings and have larger amounts saved than average (Devlin, 2005; Wells, 2008), those who have reached retirement are less likely to be adding to them, formally at least (Dominy and Kempson, 2006).

People from Black and minority ethnic groups – particularly African Caribbeans, Pakistanis and Bangladeshis – have been found to make far lower use of formal methods of saving (Devlin, 2005; Khan, 2008; Kempson, 1998a; McKay and Collard, 2006), lower even than comparable white households (Devlin, 2005; Kempson 1998b). Though using rather a blunt measure of ethnic background, new BSSC analysis shows that lower-income families in which the respondent was Asian or Asian British were very likely to be without a saving account (and this held true after other factors were controlled; Table A 2).[6] However, those in which the respondent was Black or Black British had about average levels of saving account holding.

Of particular note is the finding from the evaluation of the first pilot of the Saving Gateway that the likelihood of having a saving account and the amounts saved in these differed markedly depending on the 'type of saver' (see Chapter 2) the participant described themselves as (Kempson et al., 2005). Rainy day saver were far more likely to have an account (67 per cent) and at least some money in formal savings (63 per cent) than instrumental savers (51 per cent and 34 per cent respectively), who in turn were more likely to have some money saved than the non-savers (26 per cent and 20 per cent respectively). Moreover, a third of rainy day savers had £500 or more saved (34 per cent), compared with 14 per cent of instrumental savers and just two per cent of non-savers.

Few studies have attempted to separate out the independent effects of different socio-demographic characteristics on the likelihood of people being without formal savings are rare. One study showed that having a low income, being young, male, Asian, unemployed, in the lower grades of social class, having low academic qualifications and living in rented accommodation were all significantly and independently correlated with saving account exclusion (Devlin, 2005). Multivariate analysis of the Taskforce's 2006 survey of financial exclusion showed that households receiving benefits or renting their home from a social landlord – but not the unemployed – were more likely to have no formal savings once other potentially confounding factors including income were controlled in multivariate analysis (HM Treasury, 2007a). The difference in the average amounts held between men and women mentioned above (with women holding less savings) remained true, if greatly weakened, when other factors including age, income and qualifications were controlled (Bettio and Caretta, 2005).

Using the BSSC, we examined the effects of many socio-demographic characteristics in addition to the influence of attitudinal factors on two measures – not having a saving account and not having any money saved in these accounts – *within* the subset of lower-income families.[7] The main focus here is on the results of logistic regression analysis (a form of multivariate analysis), which controlled for the inter-relationships between the different characteristics to isolate their *independent* effects (full tables of the bivariate and multivariate analysis can be found in Table A 1 and Table A 2).

The results show that housing tenure, the number of earners, the number of parents in the household and ethnic background were all significantly and independently related to saving account exclusion among lower-income families. Other things being equal (including income level and attitudes to saving), households renting their accommodation, particularly if renting from a social landlord, one-parent families, families where one or both parents were not working and (as already reported above) families in which the respondent was of Asian or Asian British origin were at increased risk of saving account exclusion.

[6] Note that the ethnicity of the respondent can only be taken to be indicative, since it does not necessarily represent others in the household.

[7] It is important to note that 90 per cent of respondents to the parent interviews were women (who were responding on behalf of their household). As a result, it is inappropriate to analyse the survey data by gender. Other individual measures reported here, including attitudinal measures and ethnic background, should be interpreted with caution since the respondent's characteristics do not necessarily represent other adults in the household (where applicable).

In contrast, somewhat different demographic and socio-economic characteristics predicted having no money saved in an account. In this case, only the country of the UK and the level of unsecured borrowing were significant.[8] So, living in Scotland, Wales, and especially Northern Ireland was associated with greatly increased odds of having no formal savings compared with those living in England. Consistent with the findings of previous research (Whyley and Kempson, 2000b), those without any unsecured borrowing and those borrowing the largest sums were most likely to lack formal savings.

Nonetheless, analysis of the BSSC shows that self-reported frequency of having money left over at the end of the week or month was significant in both models, with those saying they hardly ever or never had money left over being more likely to lack a saving account and to be without savings of any value (belonging either to themselves or their partner if they had one; Table A 2)). Attitudes also exerted an independent influence in both cases, such that respondents who did not consider themselves a "saver" were among the most likely to be without a saving account or to be without formal savings (other things being equal). Feeling that they did not know enough about savings and investment products to choose ones suitable for their circumstances was also associated with increased likelihood of being without an account but not to having no money saved.

3.1.5 Investments and life-insurance

The lower rate of account holding among lower-income groups continues beyond saving accounts to investment and life-insurance product holding. In the FRS data, for example, eight per cent of households with incomes of between £100 and £200 per week (£5,200 to £10,400 per year) held stocks and shares, two per cent held PEPs, two per cent had unit trusts and 14 per cent held Premium Bonds. This was much lower than the average (Stocks and Shares, 26 per cent; PEPS, six per cent; unit trusts, four per cent; Premium Bonds, 23 per cent). Similarly, the BSSC showed that 34 per cent of families overall had investment products of one type or another, dropping to 18 per cent of lower-income families; the figures for life insurance being 53 per cent and 35 per cent respectively.

Our analysis of the BSSC also shows that – for the most part – lacking a formal saving account was not offset by ownership of these alternative vehicles. That is, if people held investments they also generally had a saving account. Families with a saving account at the time of the interview were most likely to also have investment accounts (45 per cent) and life insurance policies (62 per cent), and this was true of the lower-income families (30 per cent and 47 per cent respectively). Altogether, whilst 53 per cent of lower-income families had a saving account, only slightly more – 56 per cent – had either a saving account or an investment (the equivalent figures for all families were 69 per cent and 72 per cent respectively).

[8] Housing tenure and the number of earners and number of parents were significant when versions of the regression models were run without the attitudinal and frequency of running out of money variables.

3.1.6 The link with current account exclusion[9]

Current accounts are the most commonly held type of asset account (DWP, 2008); they are also the most commonly held of all types of financial product (Kempson and Whyley, 1999). Previous qualitative and quantitative research has shown clearly that exclusion from ownership of formal saving products is linked with financial exclusion generally and to banking exclusion specifically (Atkinson, 1999; BMRB Social Research, 2006; Devlin, 2005; Opinion Leader Research, 2006). For example, the Taskforce survey of financial exclusion found that 62 per cent of marginally-banked households (those without a bank account used for day-to-day money management or no bank account at all) did not have any savings in a recognised saving products compared with 31 per cent of fully-banked households (BMRB Social Research, 2006).

Lacking a current account was linked with increased likelihood of savings exclusion in the BSSC at all income levels (Table 3.1). So, whilst 43 per cent of the lower-income families with current accounts lacked a saving account, this increased to almost two-thirds (65 per cent) among those who were also without a current account. Among the lower-income families, lacking a current account predicted saving account exclusion independently of other factors – including income – in regression analysis (table not shown). However, the effect of lacking a current account was not large (odds ratio of 1.4) and adding the measure to the regression model did not greatly improve the ability to predict saving account exclusion.[10] In conclusion, while current account holding *is* an important factor in saving account exclusion, it is only *one* of a number of important factors.

3.1.7 Saving for children

The study undertaken just prior to the introduction of the Child Trust Fund found a strong link between parental saving and saving for children. Income had a particularly large effect on children's account-holding (ranging from 50 per cent in the lowest-income households to 88 per cent in the highest) and the sums saved. It was also clear that children of one-parent families and larger families were less likely than the average to have an account (Kempson et al., 2006). Qualitative research (also before the Child Trust Fund was made available) confirmed that most lower-income parents had a saving account for their child though few had added to it since it was opened; middle-income parents were more likely to have added money. And most parents tried not to withdraw the money though this was sometimes unavoidable for those on lower-incomes (Kempson and Taylor, 2004).

Children born since September 2004 have received vouchers for a Child Trust Fund account into which parents (and others) can make additional contributions. During 2007/08, 14 per cent of lower-income accounts (those that received a £500 initial voucher) received additional contributions compared with 29 per cent of other accounts, reflecting similar findings in 2006/07 (14 per cent and 29 per cent respectively). The lower-income accounts that received additional funds also received smaller contributions (HMRC, 2008b).

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[9] Current accounts are referred to here in the broadest sense, taking into account basic bank accounts and Post Office Card Accounts (POCA) where measured.

[10] This is indicated by a Nagelkerke R^2 of 0.261 (compared with 0.258 when current account holding was not included). Current-account holding was associated with a p-value of 0.036 in the model.

3.2 Active saving

The focus now turns from saving account holding to the act of saving. In this section we consider both formal and informal saving and quantify the extent to which households with low incomes are disproportionately more likely to not be saving at all or to be saving informally only.

3.2.1 Saving into saving accounts

The BSSC shows that 37 per cent of all lower-income families had actively saved into a saving account in the last 12 months (equivalent to 77 per cent of those with an account; Table 3.2). Again, this is far lower than the number who had an account (53 per cent), a finding echoed by the first Saving Gateway pilot (Kempson et al., 2005).

Table 3.2 Saving actively (formal and informal), by income group

Percentages

	Lower-income families (below 70% median income)				**Better-off families** (70% median income or higher)	**All families**
	Very low	Low	Moderately low	All lower		
Saving into a saving account	33	36	46	37	66	53
Saving informally	62	63	64	62	62	62
Unweighted base	***1,270***	***269***	***400***	***1,940***	***2,370***	***4,314***

Source: new analysis, Baseline Survey of Saving for and by Children. Excludes don't knows and refusals

Nonetheless, these rates *are* higher than the proportions with any money in formal savings when they were interviewed (18 per cent; BSSC). Consequently, and regardless of income level, many more people were saving into accounts over the course of a year than actually had savings to draw on at a snapshot in time, confirming that the cyclical pattern of saving and spending identified in Chapter 2 is indeed common.

As might be expected, the lower-income families who were most likely to be saving formally included those with moderately low incomes (46 per cent), those who owned their properties (whether with a mortgage, 51 per cent or outright owners, 55 per cent), those who reported always having money left over at the end of the week or month (61 per cent), and, especially two-earner families (65 per cent). Attitudes supportive of saving were also important, and formal saving was also fairly common among people with moderate levels of unsecured borrowing (Table A 3). This was shown even more clearly in the evaluation of the first saving Gateway pilot: 56 per cent of participants who described themselves as rainy day savers were saving regularly or occasionally into an account, compared with 38 per cent of instrumental savers and 12 per cent of non-savers (Kempson et al., 2005).

In a previous study, women with low personal incomes were more likely to be saving from current income (28 per cent) than men with similar incomes (18 per cent) although the amounts deposited were lower (Rake and Jayatilaka, 2002, cited in Sodha and Lister, 2006).

Saving informally

Re-analysis of the BSSC shows, perhaps surprisingly, that saving informally in some way was equally common among the lower-income families (62 per cent) as it was among the better-off families (62 per cent). It also did not vary much by income within the lower-income group (Table 3.2).

The most common method of saving informally – used by a half (51 per cent) of all families – was to save loose change in some sort of container at home. Buying saving stamps (for example at supermarkets; nine per cent) or paying into Christmas savings clubs (11 per cent) were equally likely among the lower-income and the remaining families. The main difference by income is observed for putting cash aside to pay the bills when they come, which was a method of informal saving reported by more lower-income families (21 per cent) than the remaining families (11 per cent).

Among lower-income families, saving informally was far more common among those living in Scotland (71 per cent) and especially Wales (80 per cent) and families renting their homes from a local authority (69 per cent; Table A 3). Informal saving was also reported by disproportionately large numbers of people who said they "sometimes" had money left over at the end of the week or month (70 per cent), those who said they were better off financially now than 12 months ago (70 per cent) and families with any unsecured borrowing commitments (rising to 73 per cent among those owing £3,000 to £6,999). It was also slightly more common among those who had experienced a fall in income in the past three years, 66 per cent. These findings suggest that informal saving is more common where financial stability is less certain, reinforcing the finding of previous research (reported above in section 3.1.4) that financial instability was associated with not having a formal saving account.

Similarly, previous research has shown that informal saving was particularly likely among households headed by someone who was out of work, where the main earner had had a spell out of work, and families with children who had very low incomes (Kempson, 1998b). It has also been observed as being very common among older people including the elderly (Dominy and Kempson, 2006) and in a study of recent ex-prisoners (Jones, 2008).

Previous qualitative research also found that considerable levels of saving were made by some minority ethnic groups – particularly among Pakastani and African Caribbean communities – in informal mutual savings and insurance associations and rotating savings and credit schemes (ROSCAS; Kempson, 1998b).[11] These schemes have no counterpart in White British communities. Credit unions, many of which have their origin in informal schemes among African-Caribbean communities but which are now formalised (and regulated by the Financial Services Authority), were popular among these groups. Compared with white households in a similar economic position, significant use was also made of property and business investment and overseas remittances, particularly among people from Pakistani and Bangladeshi – and to a lesser extent African Caribbean – populations who had migrated to Britain as adults. Their own adult children were more integrated into British financial services, although investing in property and businesses remained important among 'second generation' Pakistanis and Bangladeshis. Jewellery and especially gold, often

[11] For an explanation of how ROSCAS and similar schemes work, see Kempson (1998b) or Kempson et al. (2000).

received as gifts, were also seen as providing a means of raising cash, though only if absolutely necessary (Kempson, 1998b).

Finally, and mirroring the finding that saving account exclusion was linked with banking exclusion, informal saving by low-income households seemed to reflect a disengagement from financial services generally in qualitative research (Kempson, 1998b). This is supported by a finding from earlier research that marginally-banked households were more than twice as likely to be putting cash by to pay bills (27 per cent) as those that were fully banked (12 per cent; BMRB Social Research, 2006). Re-analysis of the BSSC also shows that 82 per cent of lower-income families without a current account were saving informally in some way, compared with just 58 per cent of those with a current account.

3.2.2 The totality of saving

Informal saving sometimes occurs alongside formal saving (Chapman, 2003; Whyley et al., 2000b; Graham et al., 2005) but mostly among people with slightly higher average incomes. A qualitative study of low-income households found that only a small group saved by both formal and informal methods, the largest group by far being those who only saved informally (Kempson 1998a).

The evaluation of the first pilot of the Saving Gateway provides the best available quantitative source of information on the totality of saving, taking into account money held in formal saving accounts or saved informally, among low-income adults.[12] Fewer than two in five Saving Gateway participants (and members of the reference group) were saving already – regularly or occasionally – into a savings or credit union account. As a result, many more people were saving either informally only (about four in 10) or were not saving at all (about a quarter; Kempson et al., 2005).

Table 3.3 Totality of saving activity, by income groups

Percentages

	Lower-income families				Better-off families (70% median income or higher)	All families
	Very low	Low	Moderately low	All		
Not saving at all	27	25	20	25	12	18
Informally only	39	40	34	38	21	29
Formally only	11	12	16	12	26	20
Both	23	24	31	25	41	34
Unweighted base	***1,271***	***269***	***400***	***1,940***	***2,370***	***4,314***

Source: new analysis, Baseline Survey of Saving for and by Children.

We have replicated (and extended) this approach using the BSSC and found remarkably similar results to those from the Saving Gateway study among lower-income families (Table 3.3). Moreover, the new analysis identifies clear differences in overall saving activity by income, both between the lower-income and better-off families and within the subset of lower-income families. So, whilst a small group of lower-income families were saving exclusively into a formal account (12 per cent) and

[12] See Appendix 1 for the scheme eligibility criteria and details of the study design.

a quarter were saving formally and informally (25 per cent), these rates roughly doubled (26 per cent and 41 per cent respectively) among the better-off families.

Meanwhile, a quarter of lower-income families in the BSSC were not saving at all (25 per cent) and the single largest group of lower-income families – almost two in five – were those who were saving informally only (38 per cent). The next chapter discusses these two important groups in more detail, examining their characteristics and the reasons for their behaviour.

4 Why people don't save or only save informally

As the previous chapter showed, a quarter of lower-income families were not saving at all, and almost two in five were only saving informally. In this chapter, we explore each of these groups in greater detail and identify the factors that constrain saving and the attractions of saving informally.

4.1 Not saving at all

The new BSSC analysis shows that lower-income families were rather less likely to be saving in any way (25 per cent were not saving at all) than all families on average (18 per cent; Table 3.3). Within the subset of lower-income families, the effect of income level on any saving remains clear: 27 per cent of those on very low incomes were not saving at all, compared with 25 per cent of those on low incomes and 20 per cent of families with moderately low incomes.

The new analysis of the BSSC also found that, among lower-income families, those renting their homes from a Housing Association (37 per cent) and minority ethnic groups (Table A 4) were particularly likely not to be saving in any way. Attitudes also played a role, with 32 per cent of those who strongly disagreed that they were encouraged to save when growing up were not saving at all. This corroborates the finding from the first Saving Gateway pilot that people who described themselves as non-savers by character were most likely not to be saving in anyway (42 per cent, compared with 18 per cent of instrumental and 21 per cent of rainy day savers; Kempson et al., 2005).

Once the influence of other factors was controlled using multivariate analysis (Table A 5), lower-income families with a mortgage, all other things being equal, were among those most likely to not be saving in any way, as were those who had experienced a fall in income in the past three years and one-parent families (particularly where the parent was not earning). Never having money left over and, conversely, not having any unsecured borrowing significantly increased the odds of not saving, and attitudes towards saving were also significant.

Finally, where respondents were Black or Black British, families had the greatest odds of not saving in any way (3.2 times the odds of White British respondents), followed by families in which the respondent was Asian or Asian British (2.8 times the odds). Note, however, that after taking into account all other methods of 'saving' used (investment in property, remitting etc., see section 3.1.1), qualitative research concluded that the level of saving in minority ethnic households was much higher overall than it was among comparable white households (Kempson, 1998a).

4.1.1 The reasons why people don't save at all

A lack of affordability due to low incomes, and in particular insufficient disposable income, is the most important factor for explaining why many people do not save (Kempson et al., 2000). The impact of life-stage and changes in circumstances on disposable incomes are also important, while other factors such as borrowing and remitting are relevant, albeit to more narrowly defined groups.

Affordability

The inability to save due to a lack of money and the demand of everyday living expenses has been noted in relation to saving and planning ahead generally (e.g. Dezyk and Slater, 2003; Slater, 2003; new analysis of the BSSC; Opinion Leader Research, 2007), accessing saving products and saving formally (e.g. Ethnic Response, 1999; McKay and Kempson, 2003), and saving into particular savings vehicles such as ISAs (Hall et al., 2007; HM Revenue and Customs, c2005). Moreover, the inability to save can lead to a lack of knowledge about savings vehicles (Rowlingson et al., 1999).

Unpredictable and fluctuating incomes also impacted on people's ability to plan ahead and to save (or save consistently; Ethnic Response, 1999; Whyley and Kempson, 2000b). Unpredictable expenditure patterns have been observed to have a similar effect (Whyley et al., 2000).

The ability to save even modest amounts of money is correlated closely with income (Financial Services Consumer Panel, 2005a and 2005b; McKay and Collard, 2006; Smith, 2000). For example, a national survey in 2000 found that four times as many people in the lowest income quintile said they could not afford to save at least £10 per month towards a rainy day (36 per cent) compared with the highest income quintile (seven per cent; McKay and Collard, 2006). Groups identified as being least able to save included the parents of children living in persistent poverty (Magadi and Middleton, 2005 and 2007), people from social class E (Smith, 2000), lone parents (Collard, 2001; McKay and Collard, 2006), and people from minority ethnic groups and those living in socially rented accommodation (McKay and Collard, 2006).

A lack of affordability is the main reason people give for not saving, across all income groups (Collard et al., 2001; Financial Services Consumer Panel, 2005b). People's subjective views of their financial situation have been shown to have the biggest impact on levels of saving into accounts, both across individuals, and within the same individual over time (McKay and Kempson, 2003). Our analysis of the BSSC (reported in detail in Chapter 3) confirms that lower-income families were less likely to be saving (whether formally or informally) if they said they "never had any money left over at the end of the week or month" (63 per cent; compared with the average of 75 per cent). The evidence suggests that these subjective views are often justified. In a quantitative study, many people who said they were not saving because they could not afford to do so were already having problems meeting regular bills and credit commitments (Financial Services Consumer Panel, 2005a).

Nevertheless , a lack of money does not fully explain why so many people do not save. Although the evidence shows lower-income families were indeed less likely to be saving if they reported never having money left over, still a substantial minority of those who said they always had money left over (14 per cent) or had money left over often ("most weeks" or "more often than not"; 19 per cent) were also not saving at all (analysis of the BSSC). There is therefore an important distinction to make between being unable to save due to a lack of money *per se*, and being unable to save due to having other priorities.

Prioritising spending over saving

Behavioural economics theory suggests that even when people want to save they can have difficulty curbing temptations to spend (Beverly, 2008). Young people had priorities other than saving for their money, preferring to spend instead (Samson et al., 2004). However, this is not limited to younger people.

Qualitative research with low-to-middle-income people of all ages found that only a small number of people prioritised saving over spending, and that saving was the first thing to be cut back in favour of spending (Whyley and Kempson, 2000b). In another study, when asked to say in their own words why they were not saving, 15 per cent of people across all incomes made some reference to preferring to spend their money ('life's too short'; Financial Services Consumer Panel, 2005b). Finally, among the sample lower-income families surveyed in the BSSC, not saving at all was far more likely if the respondent said they strongly disagreed that "I am a saver not a spender" (30 per cent) than those who strongly agreed (13 per cent).

Conversely, in making an effort to save, research has shown that people take steps to control their consumption (Warneryd, 1998, cited in Rabinovich and Webley, 2007). This is supported by evidence from the second Saving Gateway pilot. This found tentative evidence that the account led to a reduction in the likelihood of spending more than £25 per month on food consumed outside the home in the lower-income group only, while there was no significant impact on spending on non-durable items, durable goods or food consumed inside the home (Harvey et al., 2007).

Life-stage factors and changes in circumstances

Life-stage factors linked with age and changes in personal and family circumstances play a role in levels of saving (e.g. Bdifferent, c2007; Hall et al., 2007; Kempson et al., 2000 Whyley and Kempson, 2000b; McKay and Kempson, 2003). Being young ('carefree youth'), raising a family, and retirement are times that are associated with lower levels of active saving (Whyley and Kempson, 2000b). Meanwhile, pre-retirement 'empty nesters' and especially pensioners are more likely to have formal savings, although the latter are unlikely to be adding to these significantly (Kempson et al., 2000).

It is the effect of these factors on disposable income and people's spending priorities that explain the lower rates of saving (Whyley and Kempson, 2000b). So when people are young or have dependent children they were unlikely to be able to afford to save despite an often strong intention to do so at this time (Kempson et al., 2000).

Furthermore, a change of circumstances, such as family structure or employment status, also impacts on the ability to save, again mediated by the effect on disposable incomes, and can act as a trigger to ceasing to save (Whyley and Kempson, 2000b). A change in circumstances was cited as the main reason for people stopping saving into long-term savings vehicles (Smith, 2000). Qualitative research found that many people had to scale back their saving or stop altogether when they started or expanded their family. Retirement was also a point at which people scaled down or stopped saving, often having felt that they had saved enough or wanted to start enjoying their income more (Whyley and Kempson 2000b). Other events identified in qualitative and quantitative research as being associated with stopping saving were an unexpected expense, ill-health, buying a home, relationship breakdown and the death of a partner and relationship breakdown (McKay and Kempson, 2003; Whyley and Kempson, 2000b). Another, quantitative, study found that divorce and becoming a parent had a bigger negative impact on women's formal asset-holding in the longer term than men's (Westaway and McKay, 2006).

Quantitative analysis of data from a longitudinal survey, which interviewed the same individuals every year across several years also found that job loss, drops in income or earnings and movements from employment into self-employment all had clear, negative consequences for levels of saving (McKay and Kempson, 2003). This was true at all levels of the income distribution, and is verified qualitatively (Whyley and Kempson, 2000b). Moreover, a fall in earnings had a much more powerful, negative effect on the number of people saving (from 48 per cent before the drop to 39 per cent afterwards), than did an increase have a positive effect (from 46 to 51 per cent of people; McKay and Kempson, 2003).

Borrowing

Several studies have identified that the impact of borrowing commitments on saving and the ability to save is especially strong for people on lower incomes (Dezyk and Slater, 2003; Opinion Leader Research, 2007; Slater, 2003; Whyley et al., 2000). Some people on low-to-middle-incomes, albeit it a minority, were borrowing to the exclusion of saving (16 per cent; Whyley and Kempson, 2000a). Among the lower-income families, credit users were also less likely to be saving at all if they found their borrowing to be a heavy burden (71 per cent) compared with those who did not find it a burden at all (81 per cent; analysis of BSSC; Table A 4). Qualitative research showed that heavy credit commitments and the repayment of these were often considered the first priority for any disposable income (Whyley and Kempson, 2000b).

On the other hand, it was slightly more common for people on low-to-middle-incomes to have both borrowing and savings at the same time (22 per cent; Whyley and Kempson, 2000a). Though the level of saving account holding appeared to be similar whether or not people used credit, there was evidence that people saved less when they also had borrowing commitments (analysis of BSSC; Whyley and Kempson, 2000a). Similarly, analysis of the BSSC shows that it was the lower-income families who were saving informally only who were most likely of all to have credit commitments (69 per cent, compared with average of 63 per cent).

Remitting

Remitting money abroad has been identified as an important factor for understanding the low levels of saving observed among some minority ethnic and migrant groups (Kempson, 1998b; Khan, 2008). It was most common among Caribbeans (four in 10) and Pakistanis and Chinese (three in 10; Modood et al., 1997 cited in Kempson, 1998b). Depth interviews showed the amounts remitted could be quite substantial (Kempson, 1998b). Recent estimates suggest £2.3 billion to £5 billion is remitted abroad each year (Khan, 2008), with as many 2.7 million people doing so – including increasing numbers of Eastern European migrants – despite many having low incomes (Remittance Working Group, 2006, cited in Khan, 2008).

Qualitative research showed that the relevance of remitting to the low levels of saving observed was two-fold (Kempson, 1998b). Some of the money remitted was sent to help support family, thereby limiting the ability to save. But at least some was invested in the country of origin, including in property, and doing so was even incentivised in some countries, so providing an alternative means of providing for the future.

Preference for alternative provision

A preference for alternative forms of financial provision (other than remitting) is particularly notable among minority ethnic groups, taking three main forms: property; businesses and gold. Note, though, that the evidence relating to Black and minority ethnic groups is now rather dated.

Home ownership was far higher than for comparable white households among all Black and minority ethnic groups except the Chinese (Modood et al., cited in Kempson, 1998b). Property, often bought in very poor condition, was seen as a good financial investment, especially among Bangladeshis (Kempson, 1998b). Another study found a tendency among the self-employed (irrespective of ethnicity) to rely on property as an alternative source of future wealth (Andrew Irving Associates, 2003).

Meanwhile, self-employment was also common among the minority ethnic groups, with many surprisingly young (in their 20s and 30s) people owning their own businesses and seeing this as an alternative way of building capital (Kempson, 1998b).

It was especially common for jewellery, particularly gold, to be seen as an investment among minority ethnic groups. This was often received or given as gifts and although most were reluctant to sell it, it was generally considered to be a useful way to raise money if necessary (Kempson, 1998b).

Lack of desire to engage

According to the principles of behavioural economics, financial planning takes mental effort; meanwhile, individuals generally prefer the easiest course of action, that is, status quo (Beverly, 2008). It is of little surprise therefore that research has identified a lack of desire to engage with financial planning or a lack of perceived need to save (Furnham and Goletto-Tankel, 2008; Synovate, 2004). However, the existing evidence appears to relate mostly to younger people. For example, many young people thought saving at their age was futile (Furnham and Goletto-Tankel, 2008).

4.2 Only saving informally

According to the new analysis of the BSSC, lower-income families (38 per cent) were more likely than the average (29 per cent) to be saving informally only. There were also variations within the subset of families with lower-incomes, from 34 per cent of those on moderately low incomes and 39 per cent and 40 per cent of those on very low and low incomes respectively (Table 3.3).

The same analysis shows that the methods used by lower-income families that were only saving informally were typical of all those saving informally. Most saved loose change in some kind of container (74 per cent) or by putting cash aside for bills (37 per cent). A significant minority (17 per cent) were paying into Christmas or other savings clubs, and slightly fewer were buying saving stamps (13 per cent). Saving through a local savings and loans club remained the least common method (two per cent).

Compared with some of the other measures of saving considered in this report, there was fairly limited variation in the likelihood of only saving informally across different groups of lower-income families. Those who stood out as being especially likely to be only saving informally included those living in Wales (56 per cent), those who rented their homes from a Local Authority (51 per cent) and to a lesser extent those renting from a private landlord (46 per cent), families with no earners (48 per cent) and one-parent households (46 per cent) and those with modest amounts of borrowing (£500 to £1,499; 49 per cent). Those who said they “hardly ever” (but not “never”) had money left over had above-average rates for saving informally only.

People with a Black or Black British background (13 per cent) and to a lesser extent Asian or Asian British background (30 per cent) were much less likely than the average to be saving exclusively in this way. This at least partly reflects the finding reported above that, other things being equal, these groups were much less likely to be saving in any way.

Multivariate analysis shows that many of these differences were independent of the influence of other factors (Table A 5). So, living in a rented home, (especially if rented from a Local Authority), being a lone parent, being White, having no earners in the household, living in Wales, and those owing modest or large sums in consumer borrowing were all more likely to only save informally, all other things being equal.

Saving informally only was also high among those who disagreed strongly that they were a “saver, not a spender” (49 per cent), although this did not reach statistical significance in the multivariate analysis. And those agreeing that they did not know enough about saving and investment products were also towards the higher end of the range. The evaluation of the first Saving Gateway pilot additionally found that instrumental savers and non-savers were equally likely to be saving informally only prior to opening their Saving Gateway account (44 per cent and 46 per cent respectively), compared with fewer than a quarter of ‘rainy day’ savers (23 per cent) who were relying on this method of saving (Kempson et al., 2005).

Saving informally poses particular risks to low-income households saving in this way. Cash kept at home is at risk of loss in the event of a burglary (and low-income households are unlikely to be insured to cover this loss) and, as evidenced in the high-profile collapse of Farepak in 2006, money held in saving clubs and other mutual associations (which are not regulated by the Financial Services Authority) are afforded no official protections. Additionally, many users of hamper schemes recognised they did not always provide good value for money, and the risk of losing (or having stolen) a retail savings card concerned some potential users (Opinion Leader Research, 2007).

4.2.1 Attractions of saving informally

Only a handful of, mostly qualitative, studies have examined what attracts lower-income savers to saving through means other than in saving accounts and other products with regulated providers. This section considers these factors, making a further distinction between saving with unregulated providers (such as ‘hamper schemes’ and mutual savings associations) and truly informal methods (such as saving cash at home).

Saving with unregulated providers

A preference by some people for alternative providers over mainstream, regulated banking service providers has been noted in research (Anderloni et al, 2008). Socio-cultural and religious influences play an important role in this (Anderloni et al., 2008; Kempson et al., 2000), seemingly for a number of reasons. First, saving in these ways was often driven, in the first instance, by an existing tradition or culture of their use within the local communities such as in the use of credit unions and mutual savings associations among African Caribbeans (Kempson 1998b).

Similarly, hamper schemes were often marketed within local communities and scheme users often either 'inherited this method of saving from parents or were recruited through word of mouth by family, friends or work colleagues (Opinion Leader Research, 2007).

Second, a trust in and familiarity with the supermarkets providing retail savings cards or to local organisations providing hamper schemes (Opinion Leader Research, 2007) or credit unions (Kempson 1998b) also had a bearing on the preference to save in this way. Credit unions – which are regulated, though are not mainstream – were seen among the current and former hamper scheme users who were aware of them as being preferable to banks because they considered them to be more local, personal and the staff more supportive (Opinion Leader Research, 2007).

Meanwhile, a social obligation to other mutual savings association members – who were all known directly or indirectly – helped 'enforce' a commitment to save (Kempson 1998b). And where hamper scheme agents were friends or family, the arguments for making routine payments were all the more persuasive (Opinion Leader Research, 2007).

Finally, many schemes also fulfilled a social function, with members of mutual savings associations among African Caribbean, Pakistani and Indian communities typically coming together socially to make their contributions. Members of Pakistani 'death kommittis' (mutual funeral insurance associations) valued the social role support provided to their relatives when they die (Kempson 1998b). Family members enjoyed sitting down together to make their choice of goods from the hamper schemes (Opinion Leader Research, 2007).

A very important attraction of hamper schemes and retail savings cards and stamps (also by overpaying fuel pre-payment meters) was the ability to save directly for a particular purpose and the peace of mind afforded by knowing specific expenses were already budgeted or paid for (Kempson, 1998a; Opinion Leader Research, 2007; Whyley and Kempson, 2000b). Consequently, people liked the 'lock-ins' hamper schemes provided, in effect, they welcomed being unable to access the money deposited until it 'matured'. The lock-ins ensured the money would be spent on the intended purpose and that they would not have to resort to borrowing later in the year. The bonuses provided by retail savings cards were viewed as having a similar effect to a lock-in (Opinion Leader Research, 2007).

Also related to this, it is noteworthy that many hamper scheme users did not view these as 'saving' schemes at all (which, technically, they are not), recognising them instead as a means of making down-payments on goods. Retail savings cards were viewed in a similar way; moreover at least some people did not like to think of the schemes as 'saving' at all, being put off by the very idea of saving (Opinion Leader Research, 2007).

The ability to deposit small and varying amounts, as and when they could afford to do so (and without embarrassment) was an attraction of saving into hamper schemes and especially to retail savings cards and stamps (Opinion Leader Research, 2007; Whyley and Kempson 2000b). Being able to save routinely through these methods was also important and the ability to add money to savings cards whilst doing the weekly shop and the door-to-door collections of hamper schemes made this convenient (Kempson 1998a; Opinion Leader Research, 2007). Home collections by agents helped enforce and reinforce routine saving into the hamper schemes, all the more so where the agents were friends or family (Opinion Leader Research, 2007).

Finally, and unique to hamper schemes, were the intangible rewards of saving in this way. Common among users of these schemes was the notion that choosing the contents of the hamper from a catalogue early in the year and opening the hamper when it arrived provided a degree of excitement (and achievement) that could be matched by no other means of saving (Opinion Leader Research, 2007).

Other forms of informal saving

The attractions of other ways of saving informally – for example, saving loose change in a jar, or setting aside cash into different envelopes or jars – also reflect closely what people need to save for, with most people saving informally in multiple ways for distinct purposes. The money saved informally was used primarily to meet short-term purposes, which were earmarked in advance, or put aside to meeting regular and anticipated expenditure (Kempson 1998a; Whyley et al., 2000).

The seemingly over-riding attraction of saving informally was that it is easy, convenient and very small and variable amounts can be saved. People could save as much and as often as they chose, in such a way that they would not miss the money saved (Whyley and Kempson, 2000b). The ability to incorporate this into budgeting regimes was important and provided peace of mind that expenses could be met (Kempson 1998a).

Whilst most methods of informal saving provided an extremely easy and accessible way of saving and giving immediate access to the money as and when it was needed (Whyley and Kempson 2000b), a small number of mostly younger people sought to limit access to the money they had saved by entrusting it to someone else (Kempson 1998a; Whyley et al., 2000; Whyley and Kempson, 2000b). This tended to relate to saving up for specific things, with strict instructions being given to the keeper – usually a close family member – not to return the money before the agreed time or unless absolutely necessary.

5 Barriers to saving formally

Drawing on both qualitative and quantitative research, this chapter reviews the barriers to saving, taking into account those that appear to be most potent. Although many of the barriers may apply regardless of income, they tend to be felt most acutely among those on low incomes. While other chapters have been able draw on some research that has distinguished the different types of savers (such as using the rainy day, instrumental, non-saver typology), there is a notable lack of evidence on the influence of barriers to saving formally according to this dimension.

The first section considers the demand barriers to saving formally, that is, the factors that emanate from consumers themselves, including perceptions (and sometimes misperceptions) of the financial services industry. The second section then considers the factors associated with the supply of regulated saving products that present barriers to their use by lower-income groups. We conclude with a discussion of the ways in which the demand and supply factors interrelate.

5.1 Demand barriers to saving formally

Building on the constraints to saving generally (discussed in the previous chapter), attention now turns to demand barriers relating to the use of saving products provided by regulated providers. Previous research has identified a number of barriers to the use of mainstream financial services, and banking in particular (see for example, O'Reilly, 2006; Opinion Leader Research, 2006; Kempson and Whyley, 1999; Wallace and Quilgars, 2005). By association, many of these barriers also apply to *saving* in mainstream institutions, noting that they tend to relate more strongly to banks than to current or former building societies, who are seen as more friendly and approachable (e.g. Kempson, 1998a)

5.1.1 Not for the poor

Qualitative studies have observed a pervasive view among poorer people that mainstream banking institutions would not welcome them as a customer (e.g. Collard et al., 2003; HM Treasury, 2007b). About a half of Saving Gateway participants (and those in the comparison groups) in the first pilot agreed with attitude statements that banks were only interested in people in work or with well-paid jobs (Kempson et al., 2005).

These views appear to be more pronounced in some groups than others. In one study, the notion that banks would not want to deal with them was entrenched among older people, though much diminished among younger people (Collard et al., 2003), and in another (albeit dated) qualitative study, banks were perceived as bureaucratic and 'very stiff upper lip' by minority ethnic groups (Kempson 1998b).

5.1.2 Low financial capability

A lack of knowledge about saving products prevents some people making use of formal saving accounts (Kempson et al, 2000). The behavioural economics literature explains that people postpone decision-making ('procrastinate') because of a lack of knowledge or perceived incompetence (Beverly, 2008; de Meza, 2008). This has been evidenced most clearly in research on the Child Trust Fund. Studies have shown that parents who had not used the voucher before it expired were generally confused about the accounts available (Kempson et al., 2006) and were disproportionately low-income, had larger families and were more likely to be lone parents (Bennett et al., 2008).

One study of people on the margins of financial exclusion found a particular lack of knowledge in relation to saving products compared, for example, with current accounts (Collard et al., 2001). While a lack of awareness or understanding of the different types of products and how the tax system treats these was widespread (Hall et al., 2007; Rowlingson et al., 1999), the limited available evidence that exists shows this is most acute among those with lower incomes (Building Societies Association, 1999; Rowlingson et al., 1999) and was also common among young adults (ages 18 to 24; Synovate, 2004). A lack of confidence in making a purchase decision and a failure to understand APRs was more acute among those with lower incomes (Kearton, 2005).

Finally, a failure to shop around when making a purchase decision has also been observed across the income range (Atkinson et al., 2006; Collard, 2001). It is important to caution that this in itself does not necessarily indicate poor financial capability. Rather, it may indicate that other factors are more important, such as the convenient location of the branch or cash machine (Atkinson et al., 2006; Wells, 2008). Nonetheless, and notwithstanding a general mistrust of the industry felt by many (see the next section) or a preference for local providers where known or available (see section 4.2.1 above), a reliance on 'big name' brands and past performance were heightened among those with lower incomes (Collard, 2001).

5.1.3 Mistrust of the industry

A previous review concluded that a lack of confidence in saving account providers deterred some people from using them and that closure of bank and building society branches in some areas helped fuel mistrust and the psychological barriers to using them (Kempson et al., 2000). This has been noted in other studies that have considered saving accounts generally (Anderloni et al., 2008; Andrew Irving Associates, 2003), and ISAs specifically (Hall et al., 2007). A suspicion of the 'advice', particularly 'advice and sell', in banks and building societies has been found to exist regardless of class and income (Rowlingson et al., 1999), though one study found that poorer people and those in social class DE were much more likely to have negative views of the industry (Financial Services Consumer Panel, 2005a).

Mistrust of banks and building societies and feelings of alienation were seemingly especially common among minority ethnic groups (Kempson 1998b). Highlighting the inter-play between different barriers, misunderstanding about the requirement of a passport for opening an account – perceiving this is as being a way to check that customers had a right to be in the country – was a specific factor that deterred some consumers with a minority ethnic background from opening formal saving accounts (Kempson, 1998b).

5.1.4 Money management needs and the amount can afford to save

Both the amounts people can afford to save and their money management needs have been noted as limiting formal saving, in terms of either opening an account or adding to it (Bdifferent, c2007; Collard et al., 2001; Kempson et al., 2000).

Some people were deterred from using formal saving accounts because they feared tying up money for a fixed period of time (Ethnic Response, 1999) or because they believe that large minimum deposits are needed in order to open some building society accounts (Kempson et al., 2000). In a qualitative study, people on the margins of banking, including those with accounts they hardly used, generally believed that saving into a bank or building society was only appropriate for saving relatively large amounts of money, rather than the £2 per week most of them could afford (Collard et al., 2001). Some said they would feel too embarrassed to go into a branch either to deposit such small sums (Collard et al., 2001) or withdraw such small sums (Opinion Leader Research, 2007).

As such, people most needed a simple saving account where the money deposited was 'safe' and that was suitable for saving small sums (Collard et al., 2001). Yet to imply that there is a single solution would be misleading. A separate study of young people and Local Authority and Housing Association tenants found that some people wanted savings to be relatively easy to access whilst others did not, suggesting that a range of products and options was needed (Collard et al., 2003). Similarly, O'Reilly (2006) identified a tension between the availability and accessibility of banks and accounts and the need to remove temptations to spend by securing money away in an account. One study observed a desire for Child Trust Fund accounts to be flexible in terms of how much was saved and how often, and for the money to be released quickly if particular kinds of emergencies arose (Edwards, 2001). There was also a desire among older people to be able to earmark funds for different purposes and to be able to release some savings for immediate use whilst retaining some for the future (Wells, 2008). As such, the importance of 'mental accounting', whereby people mentally assign different 'pots' of money to different purposes (de Meza, 2008; Beverly, 2008), has clear implications for physical accounting within formal saving products.

5.1.5 Preference for alternative providers

As discussed in Section 3.2.2, there was a strong preference among some people for alternative 'savings' providers over the mainstream, regulated banking service providers. Particular characteristics of these schemes, such as a social obligation to save and door-to-door personalised services, which are not replicated in mainstream services made the alternative providers attractive to some people on low incomes and some minority ethnic groups. The 'lock-ins' alternative saving schemes provided were also a major attraction: arguably fixed-term saving accounts can also provide this function, but it appears that the nature and timing of the lock-ins are important in these schemes.

Cultural influences were also important (see section 3.2.2). In addition, the interest paid on most mainstream saving accounts was problematic for some practising Muslims because it does not conform to strict Shariah law. As such, the use of formal saving accounts was felt to be inappropriate among Somali women in one qualitative study (Collard et al., 2001), and in another study, some Bangladeshi and Pakistani participants felt varying degrees of discomfort accepting interest; although none in the sample refused outright to do so (Ethnic Response, 1999).

5.1.6 Risks and returns

People tend to feel losses more acutely than they perceive gains, especially where the gains are in the future (de Meza, 2008; Beverly, 2008). As such, one study identified that the security of savings was of paramount importance among people with only modest amounts to save, more so than the rate of interest (Kempson and Whyley, 1999). Other studies have also observed that a concern about risk presented a barrier to saving formally (Andrew Irving Associates, 2003; Ethnic Response, 1999; Hall et al., 2007). However, it is unclear as to what extent these concerns relate to prudential or to investment risk. People with lower incomes, fewer resources and less experience of financial products were naturally less willing to take risks financially (Collard, 2001). Meanwhile, very little value was placed on the annual dividends savers in credit unions received; instead saving was mainly valued as a tool for accessing borrowing in this particular situation (Collard et al., 2001).

5.1.7 Capital rules/means-tested benefits

Limited evidence exists to suggest that concern about losing qualification for means-tested benefits acts as a barrier to formal saving. Where the evidence does exist, it has tended to relate to schemes intended to build larger assets over long periods (such as the Child Trust Fund; Edwards, 2001; Kempson and Taylor, 2004), is expressed by only a minority of people (Kempson and Taylor, 2004) or those who are unlikely to be affected themselves (that is people who are not current or potential benefit-recipients; e.g. Rowlingson et al., 1999). Nonetheless, qualitative research that considered proposed savings schemes with residents of a deprived area of Edinburgh identified a concern about how much in savings – including those accrued in matched savings schemes – would be allowed before affecting benefit entitlements, the implication being that this would discourage saving into an account (Chapman, 2003).

5.1.8 Suspicion/scepticism of Government role

Suspicion and/or scepticism about the Government's role in subsidising or administering saving schemes has been observed (e.g. Collard et al., 2003; Edwards, 2000; Kempson and Taylor, 2004). Though again, this has tended to relate to the Child Trust Fund and similar long-term asset-building schemes where there are particular concerns about the continuity of the schemes in the event of a change in Government. They were also concerns that were expressed before the actual schemes were implemented. The qualitative interviews with participants of the first Saving Gateway pilot showed that a minority of people had initially been deterred from applying, principally because the matching seemed too good to be true; it was impossible to know how many people were put off entirely (Kempson et al., 2005).

5.2 Supply barriers to formal saving with regulated providers

The liberalisation of the financial market since the 1980s has led to increased competition, and this has resulted in greater attention being given to more lucrative markets and less to more marginalised markets (Anderloni et al., 2008). In other words, whilst there is a wide range of products that are attractive to middle and higher income consumers, few products exist that are attractive to people with more limited resources.

This section considers supply-side factors that present potential barriers to the access of savings providers and their products, before considering the features of products and their delivery that can also act as barriers.

5.2.1 Access

Research has identified a number of barriers to accessing saving accounts, the most significant of which relate to geographical and physical access.

Geographical and physical access

Geographical access barriers to the use of saving accounts, relate principally to the distance to a branch and to the cost and reliability of (public) transport getting there (Anderloni et al., 2008; Kempson et al., 2000; Kempson and Whyley, 1999; McGill, 2002). The 1990s saw a substantial reduction the number of financial retail outlets in poorer communities, in part the result of bank, and to a lesser extent building society, branch closures (Kempson et al., 2000).

Distance to the branch of the Halifax (the bank operating the accounts in the pilot) in the second Saving Gateway pilot had a small but significant negative impact on participation rates (Harvey et al., 2007). Another study suggested that geographical barriers were more acute in Northern Ireland than in Britain, mainly because public transport is poorer and car ownership among poorer people is lower there (McGill, 2002). Although geographical access barriers are more pronounced in rural areas, they are by no means limited to these. Even in city communities, the monetary cost and impracticality of getting to a branch to deposit only small amounts was prohibitive:

> You're talking about two pounds to get into town and then another two, to only put two pounds in there. And that's a long way to put two pounds in. (Participant, Collard et al., 2003)

Some studies have noted the potential for other physical access barriers to compound geographical access problems for some groups, notably people with disabilities (Kempson et al., 2000) and older people for whom access to cash was especially problematic in rural areas (Wells, 2008). There is some evidence that some older people's choice of services is dependent entirely on what is easiest for them to access and that they would benefit from a home service by bank and building society staff to prevent them having to give their cash cards and PINs to someone else to get cash for them (Wells, 2008).

The link between geographical and psychological access is a crucial one. The extent to which geographical access barriers promote psychological access barriers – creating or reinforcing a mistrust in the industry and a perception that financial services are not for the poor as discussed above – is a key aspect to understanding self-exclusion. Research showed that low-income households wanted financial service providers to have a presence in their community (Kempson and Whyley, 1999) and that the operation of the first Saving Gateway pilot through local organisations was important to three quarters of participants (Kempson et al., 2005)

Account-opening process

Preventing the use of financial systems for money laundering and the financing of terrorism has increased the level of bureaucracy in the financial services industry with regard to account-opening (Anderloni et al., 2008). Although this does not appear to present a barrier to lower-income groups in general, account-opening requirements, particularly a requirement for certain forms of proof of identity or address, present a special burden to some groups. These include: young adults, who required guarantors (Edwards, 2001); homeless people, for whom 70 per cent of deposit account refusals were due to not having suitable proof of identity and 19 per cent due to not having a permanent address (Big Issue in the North, 2000); people with learning disabilities, many of whom did not possess the standard documents such as passports, driving licenses or utility bills (Livingstone, 2007); and older people who had tended not to have accounts in their own names in the past (Wells, 2008).

Although risk assessments, including credit checks, tend to disadvantage lower-income applicants for some types of accounts, we found no evidence to suggest that this impacts directly on access to saving deposit accounts. Where there is a link, this is likely to be mediated by the lower rates of current account holding and the wider lack of contact with banking services by lower-income groups or in their perceptions that mainstream institutions will not want to deal with them (as discussed in Section 5.1.1).

Marketing

In contrast, the marketing practices used by financial services can serve to discriminate against those on low incomes (Kempson et al., 2000; Wallace and Quilgars, 2005). Many people on low incomes are not sent any promotional information about financial products at all because they are not considered attractive as customers. Consequently, they are less likely to hear about the sorts of products they may need the most or receive a skewed picture of the types of products that are available, helping to explain the low levels of product awareness among low-income groups observed above (Kempson and Whyley, 1999).

Information

The availability and presentation of information – printed and oral – presents a significant barrier to access to products, including saving accounts, among lower-income groups. Previous research suggested that banks were failing to cater for people new to banking who may need detailed explanations or money advice (O'Reilly, 2006; Wallace and Quilgars, 2005), and participants of the first Saving Gateway pilot valued the preparedness of staff to explain the way the account worked until it was understood fully (Kempson et al., 2005). People with learning disabilities found that large print and easy to read leaflets, audio tape information, a private place to talk and staff to talk to other than cashiers were often unavailable (Livingstone, 2007). Older people found a lack of clear and relevant language or promotion of large-print options was problematic (Wells, 2008).

Culture and prejudice

Whilst there is little evidence of structural discrimination in the provision of financial services on the grounds of race, previous research found that minority ethnic groups described banks and building societies as being culturally and linguistically unapproachable, and that a minority felt they had experienced rudeness or even racism (Kempson 1998b).[13] The informal savings associations that were common among African Caribbean, Pakistani and Bangladeshi communities were set up largely as a result of difficulties accessing regulated financial services by migrant communities when they first arrived in Britain (Kempson et al., 2000).

Other studies have reported poor attitudes of branch staff towards people with learning disabilities in a minority of instances (Livingstone, 2007) and towards homeless people (Big Issue in the North, 2000).

5.2.2 Products

Qualitative research shows that people with low incomes express the need for simple products, with transparent terms and conditions of use, that offer flexibility, and options that enable them to make small, frequent and regular payments (Kempson and Whyley, 1999).

Features

That products are simple, easy to understand and have transparent terms and conditions are important considerations among lower-income groups (Collard et al., 2001; Kempson and Whyley, 1999). As we discuss in Chapter 6, being easy to understand was cited by a quarter of people in the lowest social class (far more than in other groups) as being an important factor for encouraging them to save or to save more (Building Societies Association, 2007).

Because the circumstances and needs of low-income households can change frequently and rapidly, there is a commensurate need for financial products to provide flexibility, for example in the ability to 'scale down' payments or deposits into longer-term saving accounts or insurance policies during difficult times and for savings to be used as security against lower-cost credit (Kempson and Whyley, 1999; Smith, 2000). O'Reilly (2006) observed the need for saving accounts to replicate the 'jam-jar' approach to saving often used by people on low-incomes to save separately towards different needs.

Studies further suggest that restrictions on the use of money saved in government-subsidised schemes would deter many lower-income consumers from saving into them (Edwards, 2001; Kempson et al., 2005). One study noted the lack of an 'excitement' factor to normal saving accounts, in comparison to hamper schemes (Opinion Leader Research, 2007). Poorer interest rates on branch-based accounts or lower balances were seen as unfair among older people (Wells, 2008).

Delivery mechanisms

Increased use of automated and online methods of service delivery can exclude some users (Anderloni et al., 2008). In a study of older people, the cost of phone banking when they only had a mobile phone was prohibitive and older people across all income levels did not have internet access (Wells, 2008). A study of people with learning disabilities found that cash points and PINs caused

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[13] Now more than 10 years old, this evidence may not reflect the current experiences of Black or minority ethnic (or migrant) groups. New research in this area would be helpful.

some difficulties and that passbook options – the preferred means of access – were not available on most accounts (Livingstone, 2007).

Costs

We reported above that high opening and minimum balances on some saving accounts (and the perception of their widespread existence) can deter some users. Although relating mostly to now obsolete accounts (PEPs and TESSAS, though also Bonds) one study found the high initial investment required for some more complex savings schemes made them less popular with consumers from minority ethnic groups who tended to be on lower incomes (Ethnic Response, 1999). One author points out that the £100 minimum for an initial purchase of Premium Bonds is beyond the reach of most poor people (Khan, 2008).

5.3 The interaction between demand and supply barriers

As we have seen, research has identified rather more demand than supply barriers to saving in a formal account. This reflects the fact that, compared with other areas of financial services, there are no major structural failures in the supply of saving accounts. Lacking a saving product is, for the most part, the result of self-exclusion. Where there are seemingly supply failures, these largely reflect a mis-match between what people on lower incomes want and need from a product (or a provider) and the products and services that are available. As a result, failures in the supply of saving products have created and reinforced demand-side barriers to saving formally.

We have, therefore, investigated the inter-relationships between the barriers identified in previous research and in doing so have identified three over-arching or 'meta barriers' to saving formally, where demand and supply barriers interact. These relate to: access, knowledge and understanding and the attractiveness of existing saving products and are described in the sections that follow.

5.3.1 Access

Among low-income non-savers there is a prevailing belief that accounts provided by commercial financial service companies are 'not for them'. This manifests itself in various ways: that such providers are not interested in people who have only small amounts to deposit; that they are culturally a long way from working class communities and that they are predominantly white organisations. There is also a mistrust of commercial providers who are seen as out to make as much money as possible and not understanding or being interested in the needs of people on low incomes or from a Black and ethnic minority background.

Branch closures in low-income communities, and in some cases the total withdrawal of all commercial financial service providers, not only create a geographical and (financial) cost barrier to the use of their services but appear to create an even greater psychological one, reinforcing people's beliefs that they are 'not for them'. Moreover, non-local branches are generally staffed by people who differ from those who live in low-income communities, tending to be more middle class and predominantly white. The way in which they communicate with or are perceived to react to lower-income customers widens the divide. The requirement for stringent identity checks before accounts are opened only serves to reinforce the divide, being seen to confirm that commercial providers are trying to make it difficult for people on low incomes to open accounts, and requests for passports have (in the past at least) been seen as an indication of racism by some ethnic minorities.

It should also be noted that people with limited engagement with financial services tend to generalise from their own or other people's specific experiences. So, for example, difficulties opening a current account fuel perceptions of saving products and providers.

5.3.2 Knowledge and understanding

There is evidence of a link between low levels of financial capability and knowledge and the non-use of formal saving products. But the direction of causality is not entirely straightforward. It is undoubtedly the case that knowledge increases with engagement with financial services. At the same time the complexity of many existing products combined with people's lack of understanding of percentage interest rates and tax relief deter them from using formal saving products. Again, people with limited engagement with financial services tend to generalise from the complexity of non-saving products and assume that saving products are also complex.

This perceived lack of simple products and the lack of simple expression of returns appears to be compounded by a paucity (and perceived paucity) of easy-to-read and informative product literature and a lack of marketing of financial services to people on low incomes.

5.3.3 Attractiveness of formal accounts

It is clear that people choose to save informally because these methods have many attractions that formal accounts are not seen as possessing. At the same time, there are cultural and religious reasons for some ethnic minorities preferring alternatives to formal saving, such as gold and investing in property or a micro-business.

Put simply, the design of formal saving accounts makes them a less attractive option. There are a limited number of formal products offering features that are important to people on low incomes, namely:

- Accounts where there are incentives not to withdraw the money deposited but where money can be withdrawn in an emergency without penalties for doing so.
- Accounts dedicated to saving for a particular purpose – such as Christmas expenditure – where they may have specific requirements on access and may look for different types of incentive to save (e.g. reductions in the price of goods bought with the money rather than interest paid on the deposit).
- Accounts with transparent and tangible records of deposits and balances, following the phasing out of passbook accounts

Moreover, experience with the Saving Gateway shows that for people on a low income the returns on a conventional saving account are insufficient to counteract either the attractiveness of either saving any spare money informally or spending it or the deterrents to opening a formal saving account. Simple-to-understand accounts and more generous matched saving can, however, have a powerful influence on converting people to saving formally. This was undoubtedly the key to the attractiveness of the Saving Gateway.

6 Triggers and incentives to saving

The previous chapter investigated the barriers to saving faced by people on low incomes. It also showed that affordability was often given as a reason for not saving, but was not always a sufficient explanation. In this chapter we look, first, at the changes in circumstance that can trigger people to save, before considering a range of incentives and other interventions that are designed to promote saving by people on low incomes. In doing so, we draw on evidence from quantitative and qualitative studies, and present new findings based on re-analysis of data from the first pilot of the Saving Gateway (see Appendix 1).

6.1 Triggers for starting to save

People begin saving at different times in their lives and for different reasons. Research with children showed that those from lower-income families were as likely to save some of the money they received (as pocket money, casual earnings etc.) as children from wealthier families (Loumidis and Middleton, 2000). A qualitative study of people on low-to-middle incomes found that parental influence was the most important factor that determined whether or not people had saved as children (Whyley and Kempson, 2000b). Those who saved as children had started doing so by putting money by for a rainy day rather than for a specific purpose. This had occurred in a context of encouragement (rather than coercion) by parents throughout childhood, and with hands-on support from them early on, a finding that is corroborated by the study at the inception of the Child Trust Fund (Kempson et al., 2006). In a study of 11 to 19 year olds, the youngest were most likely to be saving, found it least difficult to do so and had the most positive attitudes towards their own saving habits (MoneySense Research Panel, 2008).

People who started saving as teenagers often did so in response to withdrawal of financial support from parents, and, in contrast to those who started earlier in life, would more often save up for something specific rather than putting money by for a rainy day. Some teenagers had been under pressure to save towards something 'worthwhile' and so had started to save towards driving lessons or a car (Whyley and Kempson, 2000b). Saving for university was also a trigger for saving among young adults (aged 18 to 24) in another study (Synovate, 2004).

Qualitative research showed that people who started to save for the first time only as an adult were also more inclined to save to meet particular needs and circumstances (Whyley and Kempson, 2000b). Often, they were influenced to start saving by a partner who took saving seriously (Rowlingson et al., 1999; Whyley and Kempson, 2000b). Many first started by saving towards a new home, getting married or 'settling down'; and many only began to save when they started a family. Many older people in the pre-retirement stage of their lives had started or resumed saving or saved more intently, only after their adult children had left home (Whyley and Kempson, 2000b).

A similar set of life-stage trigger events were also observed (across all incomes) in the qualitative research by Rowlingson and colleagues (1999). These researchers found additionally that these transitions helped promote financial knowledge, the desire to save led to the acquisition of information on saving and investment rather than the other way.

Changes that have a more direct effect on disposable incomes have been found to impact positively on saving. Quantitative analysis of data from a longitudinal survey, which interviewed the same individuals across several years, found that among people of all incomes, entering work had a dramatic, positive impact on the prevalence of saving and the amounts saved. Rises in earnings and movement to self-employment from unemployment had a similar, though more muted, effect (McKay and Kempson, 2003). Receipt of a windfall also had a small positive effect on active saving, although previous authors have concluded that this generally only happened among people on higher incomes (Whyley and Kempson, 2000b, after Rowlingson et al., 1999). Other research found that people who were starting to think about saving were more likely to have had an improvement in their financial situation and expected it to improve further, suggesting that people save when they feel they can afford to do so (Smith, 2000). A longitudinal study found evidence that people are more likely to start saving (or increase their level of saving) when their economic situation improves (McKay and Kempson, 2003).

6.2 Incentives to save

A range of potential factors have been identified as incentives for people on low incomes to save, some of which appear to incentivise opening a formal account; some to incentivise the level or regularity of saving; and others to limit withdrawals and retain money in savings.

6.2.1 Incentives to open an account

Both account and provider attributes play a part in encouraging people on low incomes to open a formal saving account – rather than saving informally. Various studies have shown that they were attracted by simple and accessible accounts that accommodate small deposits and where their savings are not at risk (Collard et al, 2001; Collard et al, 2003; The Consumer Council c2007; Opinion Leader Research, 2006). They welcomed ready access to a record of the current balance in the account, so that deposit accounts with pass books had a particular attraction (Dayson, 2004; Wallace and Quilgars, 2005).

They also wanted to deal with a well-known and trusted provider (Collard et al, 203; Kempson and Whyley, 1999; Bdifferent, 2007) and were attracted to a provider that had local outlets, since there was a preference for face-to-face transactions (Collard et al, 2001; Dayson, 2004; Kempson et al 2006; Rowlingson et al, 1999). As the sums of money being deposited at any one time were usually small they could be seriously eroded by the cost of public transport to reach a local branch. Consequently, partnership arrangements between well-known financial service providers and local trusted organisations can encourage people on low incomes to open an account (Kempson et al, 2000; Kempson et al, 2005).

Rates of return

Rates of return can undoubtedly affect people's inclination to open a formal saving account. Previous studies with people across all incomes have shown that interest rates can play a role in people decisions about which account to open (Hall et al, 2007; Kempson et al, 2006).

Secondary analysis of data from the evaluation of the first Saving Gateway pilot found that, when described to them, matched savings also proved to be very attractive proposition among the reference group who shared the characteristics of participants but lived outside the catchment of the pilot. Over half of them (54 per cent) said that they would be very likely to open a Saving Gateway account if it were available; a further 35 per cent said that they might do so. It should be noted that this is far higher than the take-up rates in the two Saving Gateway pilots (in the second pilot it averaged 17 per cent), which may well be explained, at least in part, by a suspicion that the matching was too good to be true, a constraining factor that was observed – though impossible to quantify – in the first Saving Gateway pilot (see section 5.1.8 above).

A key question is whether it is the *level* of the matching that is important or its simplicity. Re-analysis of the Saving Gateway first pilot data suggests that both have a part to play.

Most of the participants interviewed in depth described the level of matching (pound for pound) as a 'huge incentive' 'that would encourage anybody to save' – including those who had no other saving accounts. Very similar views were expressed in other research among people who were potentially eligible for the Saving Gateway account (Collard et al, 2003).

Despite the enthusiasm for the pound-for-pound matching in the first pilot, many participants who were interviewed in depth volunteered that they would still have been attracted to the Saving Gateway even if the matching were only 50 pence for every pound saved.

The second pilot was designed to test more directly the impact of the rate of return (different levels of matched funding and a bonus) on people's propensity to open an account. This found that increasing the match rate increased the proportion of eligible people who opened an account. There was a 15 percentage point difference in the number of accounts opened when a 50 pence match for each pound saved was offered, compared with a 20 pence match rate. A match rate of one pound increased the take-up rate by six percentage points, compared with a 50 pence match. A £50 bonus, offered on top of a 50 pence match rate increased take-up by a further six percentage points (Harvey et al, 2007).

Re-analysis of the survey data from the first Saving Gateway pilot (in which all recipients received a pound for pound match) showed that a 50 pence match rate would have dampened the enthusiasm of a minority. Nine in ten participants (89 per cent) said that they would still have opened an account even if the matching had been only 50 pence for every pound saved. The reference group also lost some of their enthusiasm for matching when presented with the option of 50 pence instead of pound for pound. The proportion saying that they would be very likely to open a Saving Gateway account fell from 54 per cent to 38 per cent.

Research for the Building Societies Association asked survey respondents (at all income levels) to rank in order of importance a number of product features when choosing which saving account to open. Table 6.1 below gives the results for the most important feature by social class. This shows that the proportion of people believing interest rates to be the most important factor declined from 44 per cent in classes A and B to just 21 per cent in class E, for whom easy to understand accounts were of greater importance (Building Societies Association, 2007). 'Brand' was the most important factor for only a minority of people, though it appears to have been cited slightly more often by people in the lower-income than the higher-income groups, a finding corroborated by an earlier study (Collard, 2001).[14] Nonetheless, many more people in class E said 'none of these' product features would encourage them to open an account (21 per cent compared, for example, with 11 per cent of those in class C2).

Table 6.1 Most important product features

Column percentages

	Lower-income			Higher income	
	E	D	C2	C1	AB
Interest rate/rate of return	21	27	40	46	44
Flexibility	10	16	16	21	15
Easy to understand accounts	24	19	10	9	10
Advice/recommendation	4	2	4	3	8
Brand	4	5	4	3	2
None of these	21	14	11	10	9

Source: Adapted from Building Societies Association, 2007, total sample size 985

6.2.2 Incentives affecting the level and regularity of saving

Of the various incentives to encourage higher levels and greater regularity of saving, rates of return have, repeatedly, been shown to have a large effect (Building Societies Association, 2007; Hall et al, 2007; Kempson et al 2006; Opinion Leader Research, 2006), although the research for the Building Societies Association among people of all incomes also showed that they were twice as important for savers as for non-savers. On the whole, matched savings and bonuses seem to have a much greater impact than interest rates *per se,* as we describe in more detail below. Tax relief, in contrast, has been found to have much less of an effect.

The promotion of routine methods of paying into an account, and in-built incentives for regularity of saving, also have an effect. The evidence on the effect of financial education and providing access to loans to regular savers is more equivocal. It attracts some people but deters others.

Matched savings

A number of reports on the Saving Gateway pilots show that the matched funding was a major attraction among participants and potential participants (Chapman, 2003; Collard et al, 2003; Kempson et al 2005; Harvey et al, 2007).

[14] It is necessary to treat this finding with caution, due to potentially small sample sizes in one or more individual socio-economic groups.

Six in ten of the reference group in the first pilot of the Saving Gateway (58 per cent)[15] also said that pound-for-pound matching would encourage them to save a lot more; 30 per cent said they would save a little more and only 10 per cent said it would make no difference at all. The match would, however, have a greater effect on people who described themselves as rainy day savers (67 per cent of whom said they would save a lot more) than it would on either people who saved up to spend (60 per cent) or particularly those who were non-savers (49 per cent). Indeed, the first pilot attracted a disproportionate number of rainy day savers as participants (Kempson et al, 2005). It should be noted, however, that many rainy day savers only saved informally and participants had been encouraged by the matching to formalise their savings.

Re-analysis of the survey data from the first pilot suggested that a smaller match rate would have had a greater effect on the amounts people saved than initial account opening. So, while nine in ten participants (89 per cent) said they would still have opened the account (as reported above) if the match had been 50 pence, eight in ten (78 per cent) said that they would have saved just as much money.

Conversely, the second pilot of the Saving Gateway, which tested this directly, found that match rates had less impact on the level of saving into the Saving Gateway accounts than they did on account opening. A comparison between two areas with similar maximum monthly contributions showed that a match rate of 50 pence had a much greater incentivising effect than a 20 pence match. While 65 per cent of people in the 50 pence match area reached the maximum balance over the life of the pilot, only 43 per cent did so in the area with a 20 pence match rate. And although the proportions of account holders who reached the maximum balance was similar regardless of whether they received the 50 pence match (64 per cent) or the one pound match (68 per cent), the difference was more marked for lower-income participants (53 per cent and 60 per cent respectively for participants recruited from DWP benefit records).

Although the level of matching was clearly a draw in both Saving Gateway pilots, a number of the participants who were interviewed in depth said that matched funding expressed as a set amount per pound saved was much easier to understand, it provided greater encouragement for them to save regularly.

> *When it was written down like that, it was more understandable to people.*

> *You know, I've often thought trekking over there [to the branch] I've often thought, 'Oh it's pouring with rain, it's freezing cold, I've got to get there and get back and get dinner ready'. But then I think 'Well I'm taking £25 but that actually means I'm saving £50.'*

The matched funding had an added advantage for Muslim participants, whose religion prohibited the receipt of interest.

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[15] The take-up levels in the Saving Gateway pilots suggest that these figures should be treated with some caution as they over-state the impact that would occur in reality. It is safest, therefore, to use the figures for different incentives comparatively and not as an absolute indication of their likely impact.

Interest rates and bonus payments

There is comparatively little evidence on whether interest rates have an impact on the level or regularity of saving. People interviewed in first pilot of the Saving Gateway were, however, asked what impact a doubling of interest rates from three per cent to six per cent would have on their propensity to save (at the time of the interviews most saving account paid about three per cent interest).

Re-analysis of this data shows that only a quarter (25 per cent) of the reference group (but a third, 32 per cent, of participants) said that this would encourage them to save a lot more.[16]

Significantly, interest rates would have a far bigger incentive effect on people who described themselves as rainy day savers (44 per cent of whom, would save a lot more) than they would on people who saved to spend (24 per cent) or said they were non-savers (17 per cent).

Re-analysis of the depth interviews with participants showed interest rates had an impact on a small minority of people (all existing savers) who had switched accounts in the past to get a higher interest rate. Others gave more equivocal support – saying it would depend on the rate being offered. Most of these would only have been incentivised by rates that were well above anything the market would be likely to offer; 25 and 50 per cent were commonly mentioned

For the majority of people, however, the small sums they would be likely to save would attract so little interest that it would have no incentive effect at all. Saving or investing to make money was an alien concept. Indeed, as we note in section 3.2.2, users of Christmas saving clubs and credit unions were willing to trade interest payments for other features of these accounts (Opinion Leader Research, 2007; Whyley et al, 2000).

As noted above, the receipt of interest is prohibited by Islam and this ruled it out as an incentive for some people (Kempson et al., 2005).

In addition, a number of people said that they were unable to translate a percentage interest rate into the amount they would receive. Instead, they preferred the interest to be quoted as a specific sum of money – reinforcing the point regarding simplicity made in connection with matched saving.

> *When you're sort of thinking '1% over the year gross annum', you can't work it out. People like to see that it's five pound on three hundred… it needs to be clear like that.*

In fact, the Saving Gateway participants interviewed in depth found the idea of a bonus payment much more attractive than interest payments, with the great majority saying it would incentivise them to save. A small number of these people qualified their support in some way – either giving a minimum sum for it to be attractive (which ranged from £20 and 10 per cent of the balance to a maximum of half of the balance in the account); or saying that they would only be attracted if it was not linked to a requirement to save a set sum of money regularly. Most of those in favour of a bonus saw it as a suitable alternative to matched funding.

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[16] We have only discussed those saying that they would save a lot more in this and subsequent items, as it is known that people tend to over-state the impact in hypothetical questions such as these.

The minority who were not interested at all divided into those who simply found the idea unattractive and those who were deterred by past experiences either with bonus accounts or life insurance, where they had been unable to sustain their level of saving and consequently did not get the payout they had been hoping for.

The second pilot of the Saving Gateway undertook very limited testing of the effect of a bonus, which was restricted to a £50 bonus on top of a matched rate of 50 pence. This showed that although, as noted above, the bonus led to a 6.1 percentage point increase in account-opening, it had no impact on the proportion of account holders that reached the maximum permitted balance during the pilot (Harvey et al, 2007).

Tax exemption and tax relief

Studies of ISA-holders across the income range have shown that tax relief played an important part in their decision to open an account (Dezyk et al, 2004; Hall et al, 2007, HM Revenue and Customs, 2005). There is, however, little evidence to suggest that it plays much of a part in the decisions of people on low incomes.

Tax relief was the least attractive of the financial incentives discussed with people on low incomes in the first pilot of the Saving Gateway. Just two in ten of the reference group (21 per cent), and a similar proportion of participants (23 per cent) said that they would save a lot more if the interest on their savings was tax-free.

The effect of tax relief also varied remarkably little with people's approach to saving: 24 per cent of rainy day savers said they would save a lot more, compared with 21 per cent of those who saved to spend and 17 per cent of non-savers.

Re-analysis of the depth interviews with participants suggest that these statistics almost certainly overstate the impact that tax relief might have. Only a minority of people said that tax relief might influence their decision regarding saving – but most were not tax-payers and would not have benefitted from tax relief. The most enthusiastic person was a man who had retired early following a heart attack and had become aware of the impact of tax on his income. He had opened an ISA when he retired and deposited £10,000. Most of the others who expressed some support for tax relief were more equivocal, recognising that that they needed to be in work to benefit and, in addition, there was a general feeling that they would need a large sum to deposit to make it worth while.

The overwhelming majority of participants who were interviewed in depth, however, said that neither tax relief nor tax exemption would play a part at all in their decisions about whether to save or what type of account to open. There were three main and inter-connected reasons for this.

There was a common feeling that they would not gain much from either tax relief or exemption, because they paid little or no tax and because they had so little money to save.

> *It's pathetically small… it's such a small amount to the small saver it's negligible, it's like it's not there really.*
>
> *I wouldn't be saving enough… to get a massive tax relief on it; to see any benefit from it.*

The point was made that tax breaks were more of a reward than an incentive; and if you were going to save you would do it anyway. It should also be noted that some of those for whom tax relief offered no incentive did have an ISA or an old TESSA or PEP even though, in most cases, they stood to gain little or nothing by way of tax relief.

The other main reason for the lack of impact was a lack of understanding of how tax relief and tax exemption worked. A typical comment when people were asked about them was '*What does that mean?'.* Certainly there was no real understanding of the difference between tax relief and tax exemption.

> *I'd probably have to go and ask someone at [the bank] or somewhere to explain what it would mean.*

And a relatively common area of confusion was that tax was payable on the capital sum not on the interest.

> *I've only just realised that it's like the more money you save, the more money they're going to tax you. [But] if it's money you've earned, you've paid tax on it already.*

Indeed, some people who thought it might incentivise them to save had little or no understanding either – suggesting a much wider lack of knowledge.

Not only did they not understand tax relief or exemption but several people found the whole issue of taxation 'boring'.

> *You think tax and you think 'boring!'… Anything to do with tax, you're just like 'forget it'.*

Financial advice and education

The evidence on the impact of financial education and advice on saving is equivocal. Some studies (particularly those evaluating matched savings schemes in other parts of the world)[17] point to the impact that compulsory financial education on budgeting can have on levels of saving (Chapman, 2003). Research in the UK, however, shows that it could deter some people from opening an account at all (Collard et al, 2003).

On the other hand, there *is* evidence that lack of knowledge is associated with not having a saving account (Furnham and Goletto-Tankel, 2008) and that people on low incomes require unbiased information and explanations of accounts in order to overcome financial exclusion (Kempson et al, 2000). Moreover, community organisations played an important role in overcoming people's fears and inhibitions about approaching a formal financial institution to open an account in the first Saving Gateway pilot (Kempson et al, 2005).

Again, secondary analysis of the Saving Gateway first pilot data set provides further information on the possible impact of financial advice on the amounts people save. This showed that well under two

[17] See for example: Sherraden et al. (2004) *The meaning of savings in low-income households: evidence from Individual development Accounts* Center for Social Development, Washington University in Saint Louis; Russell et al (2007) *Saver Plus – encouraging savings and increasing financial capabilities among low-income families*, RMIT University.

in ten of the reference group (16 per cent), and even fewer of the participants (13 per cent), said that they would be likely to save a lot more if they had access to advice on managing their money. Indeed, these proportions were lower than for any of the financial incentives already discussed, including tax relief.

Like tax relief, there was relatively little variation between people with different approaches to saving: 21 per cent of rainy day savers would save a lot more, compared with 15 per cent of those who saved to spend and 14 per cent of non-savers.

This lack of enthusiasm was reflected in the low take-up of financial advice and training in both the first and second pilots of the Saving Gateway – where it was made available but not compulsory (Kempson et al, 2005; Harvey et al, 2007). In the second pilot, for example, take-up rates varied between eight per cent and 18 per cent in different pilot areas. Indeed, although a number of people were positive about financial advice and training being made available, few felt that they actually needed it themselves (Harvey et al, 2007).

Access to loans

For many people who had joined a credit union or one of the other savings and loans schemes, the access they obtained to cheaper loans was one of the main incentives for saving with them (Kempson et al, 2000; Whyley Kempson and Collard, 2000).

Re-analysis of the Saving Gateway first pilot data, however, showed that, like financial advice, access to cheaper loans would only incentivise a relatively small proportion of people to save more money (14 per cent of the reference group and participants alike). In contrast to the other incentives already discussed, cheaper loans would have the greatest impact on non-savers (19 per cent of whom said that they would save a lot more – compared with 13 per cent of those who saved to spend and nine per cent of rainy day savers). Even so the effect on non-savers would not be nearly as great as matched savings and was barely higher than either interest rates or tax relief.

Re-analysis of the depth interviews with Saving Gateway participants similarly showed a very luke-warm interest in cheaper loans. It seemed that most people were either inclined to save or to borrow and did not like the idea of an arrangement where the two were linked. Indeed, many people said categorically that they did not borrow if they could possibly avoid it. A small number of people were deterred by the perceived risk or lack of confidentiality of dealing with community-based savings and loans scheme.

Establishing a routine for payments

A number of studies have shown that people save more when they establish a routine for doing so, whether this is by standing order or direct debit from a bank account, by routinely making cash deposits when shopping at a set time in the week or month, or having a routine for saving all loose change, or coins of a particular denomination at the end of the day (Collard et al., 2001; Collard et al., 2003; Harvey et al., 2007; Kempson, 2000; Kempson et al., 2005; Rowlingson et al., 1999). Psychological research (with people of all incomes) identified that, among people who intended to save, techniques that enabled them to save at least partially automatically and depend less on will power increased the likelihood of actual saving (Rabinovich and Webley, 2007).

Personalised saving targets

There is also some limited evidence – from the two Saving Gateway pilots – that personalised savings targets encourage people to save regularly and routinely (Harvey et al 2007; Kempson et al, 2005). Clearly, however, these targets need to be achievable. Research also suggests that encouraging people to extend their time horizons is beneficial, since having a long time horizon was not only associated with having the intention to save but also distinguished those who implemented their intention from those who did not (Rabinovich and Webley, 2007).

6.2.3 Incentives to retain money in savings

For people on a low income, the temptation to dip into savings is great. Research in psychology suggests that saving money into a separate account not only distinguishes the money physically but also distinguishes it psychologically making it less likely to be spent (Rabinovich and Webley, 2007). A such, there is evidence that people who were serious about saving were often attracted to accounts where access was limited (except in an emergency) or where there was a financial incentive for retaining the money in the account (Kempson et al., 2000; Kempson et al., 2005).

The Saving Gateway design discourages withdrawals but does not prevent access in an emergency and, as such, offers the best of both worlds. In both pilots the level of the match was based on the maximum amount in the account at any one time, but the maximum sum that could be deposited each month was limited and the maximum match rate could be met by making deposits in 15 of the 18 months in the life of the first pilot (and 16 of the 19 months of the second pilot). So that although money *could* be withdrawn, more than three withdrawals would reduce the final maximum match rate achievable. The impact of this was evident as the level of withdrawal was very low indeed in each of the two pilots (Harvey et al., 2007; Kempson et al., 2005).[18]

In the depth interviews, participants in the first Saving Gateway pilot were asked if they would have liked access to the money they saved to be restricted until the maturity of the account. Surprisingly, the great majority of them supported this proposition quite enthusiastically, saying that they did not want to withdraw the money they had saved before the account matured and they received their matched funding.

> *I'm putting that money away for the future, not as a dib-in thing.*

These people spanned those on out-of-work benefits as well as those who were waged (albeit with the addition of tax credits); people with and without other saving accounts and people with various approaches to saving (rainy day, save to spend and non-savers).

The minority of who did not support restricted access were almost all living on out-of-work benefits and felt the need to be able to access their savings in an emergency, although some of them were willing to give a few months notice. Interestingly, though, none of them had actually made any withdrawals during the lifetime of their Saving Gateway account.

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[18] When the Saving Gateway is introduced nationally in 2010, any withdrawals made will reduce the total of the match available although it will not affect the match built up to that point. See HMRC (2008c) for further details.

Finally, while most people left at least some money in the continuation account (a saving account at the Halifax Bank of Scotland) at the end of the Saving Gateway scheme, a significant minority also continued to save formally. However, a group of people who had reverted to saving informally at the end of the Saving Gateway account included a significant number who either did not realise they could save into the continuation account or who did not see an incentive to do so without the attraction of the match (Kempson et al, 2005).

6.2.4 The relative impact of potential incentives and triggers

Although a number of studies have touched on incentives and triggers for saving, only two have investigated the relative impact of different factors.

The Building Societies Association has undertaken research to identify what might encourage people to save more if they already saved or to start saving if they did not. Survey participants were asked which of the following factors would be most important in increasing their level of saving: advice or recommendation; a greater understanding or awareness of the benefits of saving; a better rate of return; simpler, easy to set up saving products and accounts; a reward for commitment; and a change in needs or personal circumstances (e.g. children, retirement but excluding salary increases).

Although the report cites results for people at all income levels, it is possible to extract the replies for people in social classes C2, D and E (Table 6.2). From this it can be seen that in social class E the largest group of people was those who said that none of the incentives would encourage them to save more. Across all social classes the rate of return and a change in circumstance were the two most important incentives, but the importance of the rate of return diminished from over half of people in classes A and B to only about a quarter of those in social classes D and E. This was accompanied by a slight increase in the proportion of people whose level of saving would be most impacted by a change in circumstance. Other factors were uniformly of only minor importance in all social classes.

Table 6.2 Factor most likely to encourage more saving

Column percentages

	Lower-income			**Higher income**	
	E	D	C2	C1	AB
Interest rate/rate of return	26	28	36	44	54
Change in circumstances	13	23	22	18	15
Reward for commitment	4	6	6	5	5
Advice/recommendation	1	5	4	7	4
Simpler, easy to understand accounts	1	4	3	3	3
None of these	40	20	17	15	10

Source: Adapted from Building Societies Association (2007)

The second study is the evaluation of the first Saving Gateway pilot, in which all participants and the reference group were asked which one of a range of saving incentives and triggers have the greatest impact on their own decisions about saving. These included the financial incentives discussed above - pound for pound matched savings (the level in the first pilot), tax relief, and interest rates, as well as access to cheaper loans, advice on money management and a rise in income.

The survey showed that pound-for-pound matched funding would, undoubtedly, have the largest impact, with half (51 per cent) of the reference group saying that, if they had to choose, this would be the factor that would be most likely to increase their level of saving (Table 6.3). This was considerably greater than even an increase in income, which was cited by only a third. None of the other financial incentives would have much of an effect; nor would advice on money management or access to cheaper loans.

As might be expected the matching proved an even greater draw for the Saving Gateway participants, 71 per cent of whom cited this as the most important factor.

It was clear that non-savers would be motivated to start saving by a very limited range of factors indeed - basically either matching or (almost as important) an increase in income (Table 6.3). People who described themselves as saving to spend would be the ones who would be most impacted by matched savings; while higher interest rates would have the greatest impact on rainy day savers.

Table 6.3 The factor most likely to increase levels of saving by approach to saving

Column percentages

	Non-saver	Save to spend	Rainy day saver	All
Government gave a pound for every pound saved	47	58	43	51
An increase in income	44	26	24	32
Higher rate of interest on saving	1	5	19	6
Tax relief on interest paid on savings	2	3	5	3
Savings gave access to cheap loans	1	5	-	3
Advice on managing money	2	3	1	3
Don't know	2	1	8	3
Base (unweighted)	*142*	*220*	*83*	*445*

Source: Saving Gateway Account-opening interview survey (Reference group only); new analysis

We carried out extensive re-analysis of this data for the reference group to identify the types of people most likely to be affected by each of the factors. This included a range of personal characteristics as well as aspects of saving and borrowing behaviour. We have reported only the headline findings below. Those most likely to say that the matching would have the greatest impact included:

- Men (58 per cent compared with 48 per cent of women);
- Home owners (59 per cent compared with 48 per cent of tenants);
- People aged 35 to 44 (63 per cent) or 25 to 34 (57 per cent);
- People who said that they never (66 per cent) or hardly ever (56 per cent) ran short of money at the end of the week or month;
- People who said they were better off financially than 12 months previously (58 per cent) compared with the average (51 per cent); and
- People with a saving account currently (58 per cent) and especially those with other investments (64 per cent).

Those most likely to be affected by an increase in income tended to be the mirror image of the above. So they included above average proportions of:

- Women (36 per cent compared with 24 per cent of men);
- Tenants (36 per cent compared with 25 per cent of home owners);
- People who said that they never had money left over at the end of the week or month (48 per cent) or hardly ever did (41 per cent);
- People who said that they always (44 per cent) or more often than not (39 per cent) ran short of money at the end of the week or month;
- People who said they were worse off financially than 12 months previously (43 per cent);
- People who had had a saving account in the past (45 per cent) or had never had one (38 per cent), and those with no other investments (37 per cent).

A higher interest rate was most attractive to people who described themselves as a rainy day saver (19 per cent) or as a saver not a spender (14 per cent). It was also relatively attractive to people aged over 55 (nine per cent), people with saving accounts currently (eight per cent) or who had held one in the past (eight per cent), people whose incomes had remained stable over the past 12 months (nine per cent) and those who said they never (11 per cent) or hardly ever (nine per cent) ran short of money at the end of the week or month.

On the whole, then, people who were seemingly better able to save found the financial incentives more attractive, while those who showed signs of struggling financially were relatively more likely to report an increase in income as the most important factor.

Tax relief had very limited appeal across all groups, but was highest for people aged over 55 (eight per cent). Likewise access to cheaper loans seemed to hold little attraction for most people. Those most attracted, however, included people who always ran short of money (six per cent) – but, interestingly were no more attractive to credit users than they were to non-users. Advice on money management, likewise appealed most to those who always ran short of money (six per cent).

Finally we ran further analysis of the six factors to identify sub-groups of people likely to be affected in similar ways using a statistical technique known as cluster analysis. This identified three broad groups of people in the reference group (all of whom were on low incomes), differentiated by the extent to which they would be prompted to save by the different incentives.

Group A: People who would be influenced by all the possible incentives

These people, representing 26 per cent of people in the reference group, would be influenced by all the possible incentives; but would be especially influenced by matched savings (91 per cent would save a lot more) and an increase in income (84 per cent would save a lot more). They were, in fact, fairly typical of the people interviewed in the reference group, in terms of their approaches to saving and their personal circumstances. Compared with the average, slightly more of them:

- described themselves as 'rainy day savers' (23 per cent compared with 18 per cent)
- said that they were better off financially than 12 months previously (29 per cent compared with 23 per cent)
- held a current account (81 per cent compared with 74 per cent)

- agreed strongly with the proposition that 'banks only want customers who are in work' (19 per cent compared with 12 per cent)

And fewer of them:

- said that they never save anything (23 per cent compared with 31 per cent)
- had never had a saving account (28 per cent compared with 34 per cent)
- agreed that 'credit is never a good thing, you should save up or buy only what you need' (29 per cent compared with 36 per cent)

They included slightly more women than the reference group interviewed as a whole (71 per cent compared with 66 per cent) and fewer of them were aged under 25 (10 per cent compared with 15 per cent) or over 55 (seven per cent compared with 12 per cent).

Group B: People who would only be influenced by financial incentives

This was the largest of the three groups – 40 per cent of the reference group in total – and they were distinguished by the fact that they would only be influenced by the returns they would receive on their savings. They would be strongly affected by the availability of matched savings (71 per cent said that they would be encouraged to save a lot more and fewer than one per cent said it would make no difference at all). To some extent they would also be influenced by interest rates (30 per cent said that they would save a lot more and only six per cent said it would make no difference). Their saving behaviour would be particularly unaffected by the availability of cheap loans (five per cent said that they would save a lot more and 66 per cent that it would make no difference) or advice on money management 25 per cent said that they would save a lot more and 58 per cent that it would make no difference). They were also the group that was most committed to saving.

Compared with the average they were more likely to:

- to agree that 'I am more of a saver than a spender' (33 per cent compared with 26 per cent)
- to have a saving account (57 per cent compared with 46 per cent)
- to have investments of some kind, including premium bonds and windfall shares (44 per cent compared with 34 per cent)
- to have had stable incomes over the past year (52 per cent compared with 47 per cent)
- never or hardly ever to run out of money at the end of the week or month (46 per cent compared with 33 per cent)
- to say that 'credit is never a good thing, you should save up or buy only what you need' (42 per cent compared with 36 per cent)
- to have no credit facilities (44 per cent compared with 38 per cent)

They also tended to be slightly older on average: 37 per cent of them were aged over 45 compared with the average of 30 per cent. But in other socio-demographic respects they were remarkably similar to the average.

Group C: People most resistant to all forms of incentive

That left a third (34 per cent) of people in Group C, which was the most resistant to all forms of incentive. Of all the possible incentives, they were most attracted to matched savings, but even so only 26 per cent of them said that they would save a lot more and 29 per cent said it would make no difference. Even an increase in income would be relatively unlikely to increase their propensity to save (just 19 per cent said they would save a lot more and 35 per cent said it would make no difference at all). They were also the group that was least engaged with saving.

Compared with the average, they included many more people:

- who said that they never save anything (42 per cent compared with 31 per cent)
- who had never had a saving account (44 per cent compared with 34 per cent)
- who tended to disagree with the statement 'I am more of a saver than a spender' (61 per cent compared with 48 per cent)
- who either always ran short of money or did so more often than not (50 per cent compared with 40 per cent)

And, they were much less likely:

- to have a saving account (36 per cent compared with 46 per cent)
- to have investments (22 per cent compared with 34 per cent)
- to have a current account (66 per cent compared with 74 per cent)

In their personal characteristics they were very much like the reference group as a whole.

7 Conclusions: Encouraging formal saving

The existing evidence base provides a good understanding of patterns and levels of saving and the factors that inhibit and incentivise saving formally among people with lower incomes. Three key points emerge from this evidence, all of which need to be addressed if higher levels of saving are to be achieved. First, a significant proportion of people (at all income levels) put saving low on their list of priorities. Second, many people on low incomes save only informally. And, third, saving among people on low incomes tends to be short-term, sporadic and for specific purposes only. In this final chapter, we bring together the key findings in earlier chapters to identify what needs to be done to promote higher levels of longer-term and formal saving among people on low incomes and highlight actions that the Financial Inclusion Taskforce may wish to take forward.

7.1 Shifting priorities

Although lack of income is the most commonly given reason for people at all income levels for not saving, it is not a sufficient explanation. There are better-off families who do not save at all, not even informally (12 per cent), while there are lower-income families who do (73 per cent; analysis of the BSSC). Except in the very poorest of households, it is often how priorities for any disposable income are set rather than lack of income *per se* that determines the level of saving. For example, parents may put their children's material needs first; some ethnic minorities remit money overseas but more often it is that people prefer to spend money rather to save it. When this spending is facilitated by borrowing this further reduces the capacity to save. And although many people on low incomes say they would save more if they had an increase in income, the reality is that a drop in income is much more likely to make a saver stop saving (the effects being long-lasting) than a rise in income is to make a non-saver start.

This raises the question of what can be done to encourage people to shift their priorities. Patterns of saving seem to be set early in life so initiatives to encourage children to save have a particular value. Some providers offer special accounts for children and some third sector organisations work with schools to provide saving clubs. Both are initiatives that the Taskforce may wish to promote.

Experience with the Saving Gateway shows that adult non-savers *can* be encouraged to save with the right account and if the reward is high enough. Moreover, once they had started to save many Saving Gateway participants continued to do so at the end of the life of the account.

7.2 Formalising savings

Although people on lower incomes do save less often than those on higher incomes, the difference is by no means as great as surveys would suggest because so many of them save informally. This suggests there is a need to encourage the formalisation of saving as much as saving *per se*.

Chapter 5 has discussed the barriers to people using formal accounts and identified three 'meta barriers' that need to be overcome: access; knowledge and understanding and the attractiveness of accounts. At the same time, Chapter 6 has identified a number of financial incentives and other interventions that encourage saving into an account. Bringing these two pieces of analysis together it is possible to identify actions that might be taken as well as those that are unlikely to have an effect.

7.2.1 Overcoming access barriers

A number of studies have shown that trusted providers with a local presence can play a role in overcoming both physical and psychological access problems – although brand is rather less important. At the same time, experience from the two Saving Gateway pilots shows the importance of trusted intermediaries in helping people overcome psychological barriers.

The Taskforce may, therefore, wish to promote the availability of the Saving Gateway through the Post Office and credit unions and also to encourage saving through third sector organisations alongside loans from the Growth Fund.

Financial Inclusion Champions also clearly have an important role to play in encouraging intermediary organisations to support people on low incomes who may wish to save in an account but are fearful of approaching a bank or building society or encounter difficulties with account-opening.

7.2.2 Tackling lack of knowledge and understanding

The most effective way of tackling lack of knowledge and understanding of saving accounts is to try and remove the barriers rather than to educate people to deal with inappropriate complexity. This means the provision of easy to understand accounts, which has been shown to be the most important factor for encouraging people on the very lowest incomes to open an account and of greater importance than even the rate of return.

The simplicity of matched saving and bonus payments means they have a far greater effect than interest rates or other financial incentives both for account opening and for saving into an account. In contrast, tax relief and exemption are not understood and create complexity that deters many people. This is of particular importance when they earn and save so little that they would stand to benefit little, if anything at all.

People on low incomes also need clear information about accounts that is easily accessible and trusted intermediaries have an important role to play as a source of information and advice. In contrast, the evidence on financial education advice is more equivocal, with the two Saving Gateway pilots showing that only a minority of people find it helpful.

In promoting saving generally and through third sector organisations, the Taskforce should bear in mind the need for simple accounts that are accompanied by easy-to-read promotional material. The Financial Inclusion Champions can also encourage intermediary organisations to provide information and help to people on low incomes who may want to open a saving account.

7.2.3 Creating attractive accounts

As we note in Chapter 4, many people on low incomes save money informally because this holds more attraction than putting their money into a formal saving account. The returns offered by saving accounts are generally insufficient to overcome either the barriers discussed above or the preference for informal saving. In general, the rate of return is the most important incentive for account opening and also for saving into it. And the poorer people are, the greater the returns need to be to make it worthwhile putting their savings into an account. The Saving Gateway has recognised this fact and will be offering 50 pence matching for every pound that is saved. A lower match rate is likely to be insufficient to convince non-savers to start saving.

It is clear that people save in different ways for different purposes and like the idea of a pot of money that is earmarked for a particular purpose. Among those on low incomes, however, formal saving accounts are thought to be primarily for rainy day saving. They often save up informally for known expenditure or expenses; indeed this is the reason why Christmas savings schemes, such as the one offered by Farepak that went into administration, have been so attractive. Some building societies and credit unions have now recognised this need and are offering Christmas saving accounts.

Some people also choose to save informally because they like to be able to see their savings mount up; indeed this is a powerful motivator especially for those who are new to saving. A saving account that caters for people on low incomes does, therefore, need to have a passbook or something similar for it to have the same attraction. This is even more important for children who before the age of around eleven cannot cope with abstracts and require a physical record of their savings.

Finally, there is a general preference among people on low incomes for accounts that incentivise people not to make withdrawals but allow easy access in an emergency without too great a penalty. The exception is accounts where the money is being saved for a particular purpose (such as a Christmas saving account) where they may prefer not to be able to access the money at all, until a pre-determined date.

It will be clear from the above that the Saving Gateway meets most of the needs, which is undoubtedly why it was so successful in encouraging saving in both pilots. But both pilots showed that some people did not want to spend the money they had saved but were unsure how to retain it in savings at the end of the Saving Gateway. The Taskforce may wish to promote the development of successor accounts which, while they may not have such generous returns, have other key attributes of the Saving Gateway and well as the features identified above. Accounts similar to ISAs could potentially fulfil this purpose, but given the typically low level of awareness and understanding of these accounts evidence above consideration should be given to how these accounts are presented and promoted.[19]

[19] The roles that different types of successor accounts play in helping encourage people to retain money saved in the scheme would ideally be evaluated, as would the establishment of an appropriate successor account in encouraging participation in the Saving Gateway in the first instance.

7.3 Encouraging longer-term and regular saving

Whether people save formally or informally, the most common pattern is saving to spend. A key challenge is, therefore, to find ways of encouraging people to extend their saving horizons and to begin saving for non-specific reasons (such as rainy day saving).

The research tells us that the patterns of saving set in childhood are enduring. So rainy day savers are ‘born’ at a very early age and retain that aspiration for life even though they may have periods when they are unable to save through lack of money. This is a further reason for encouraging saving at a very young age through, for example, financial education initiatives that help students learn the importance of saving and other money management issues. The School-based Bank Savings Programs in the US – which often offer school-based saving accounts in addition to the classroom-based education – provide one potential model for helping to encourage this.[20]

Among adults, the factors that encourage regular and longer-term saving include establishing a routine for making deposits so that the money saved is not missed and realistic and personalised saving targets. To help overcome inertia, some will benefit from being able to make these deposits in a semi-automatic or routine way, for example by being able to deposit money whilst doing the routine shop or at the point of collection of earnings or benefits. Moreover, saving in itself is a self-reinforcing habit, so once people have started the habit of saving they are more likely to continue.

Once again, incentives to retain the money in the account – such as matching the maximum amount in the account or awarding a bonus at the end of a regular period of saving – encourage people not to withdraw the money they have saved.

7.4 Considerations for future research

In undertaking this review, we have drawn on a large body of existing research literature from the UK which has been supplemented with secondary analysis of key data sources. Together, these sources provide a clear picture of the different ways in which people on low incomes save, levels of saving among this group, the factors that constrain saving and the attractions of saving informally. It has also been possible to consider, in detail, the interaction between many different barriers to saving formally and the relative influence of a range of incentives to promote saving in this group. Although there may be some specific issues that further research might explore (considered briefly below), there appear to be no major gaps in the research literature that need to be addressed before policy-thinking can progress in this area.

Whilst it has been possible to consider the differential impact of incentives to save on different types of savers (such as rainy day savers compared with instrumental savers), there is an absence of evidence on the relative importance of the barriers to saving among people with different overall dispositions towards saving generally. Further research in this area might therefore be warranted.

Previous studies have pointed towards a concern about risk in relation to savings among people with low incomes (as noted in section 5.1.6). This is curious, since saving accounts do not carry an

[20] Comptroller of the Currency Administrator of National Banks (2009) ‘School-Based Bank Savings Programs: Bringing Financial Education to Students’. *Community Developments Insights, April 2009* US Department of the Treasury.

investment risk. As such, it is unclear from the findings of these studies what is meant by risk in this context. Further research might explore (qualitatively) what people – especially those on low incomes – interpret as being risk when thinking about non-retirement saving.

As noted, the literature relating to the evidence of barriers to saving among minority ethnic groups is relatively dated and the evidence relating to incentives to save is lacking among these groups. New research among these groups may be warranted, though we are aware of no evidence (either empirical or anecdotal) to suggest that the earlier research requires updating or that the incentives to save are substantially different for minority ethnic groups. The reader may be interested to note that the Queen Mary and Westfield College (University of London) are currently undertaking qualitative research on financial exclusion among migrant workers (supported by the Friends Provident Foundation).

Finally, saving is generally researched at the level of the household, mainly because resources tend to be pooled (to a greater or lesser extent) at this level. As a result, the available evidence also brings little to bear on any differential impact of barriers or incentives to save between men and women. However, previous research has found some variation in levels of saving by gender (see section 3.1.4) and the rainy day savers in one study were predominantly women (see section 2.4.1). Further enquiry that is able to unpack these findings may prove insightful. We note that the University of Birmingham are currently exploring (qualitatively) the distribution and use of assets (and debt) within couples, again in a project funded by Friends Provident Foundation, which may bring some bearing on this.

Nonetheless, the breadth and depth of existing research suggests that the need for any further research should be considered only once specific policy questions for future development in this area have been agreed.

Appendix 1: Methodological approach

The study approach comprised two linked elements: a detailed review of the literature, including a meta-analysis of the barriers to saving by lower-income households; and new analysis of two existing sources of data (secondary data analysis).

Literature review and meta-analysis

To reduce the biases associated with traditional, narrative literature reviews, we adopted a rigorous approach to the searching, screening and recording of literature. The search involved searches of both published and grey literature using a number of electronic bibliographic databases, web-based publications lists from a range of organisations and organisation types and web search engines, including research in progress.

We were primarily interested in papers reporting studies of non-retirement saving among low-income households or individuals undertaken in the UK since 1998. Within these parameters we looked specifically for studies examining levels of saving; attitudes towards saving and different types of saving vehicles; awareness and understanding of different types of saving products and access to these; and factors which help or hinder saving. We also searched for papers reporting empirical studies of programmes or products designed to encourage the uptake of formal saving, but in practice found very few of these.

In our search of existing literature, we set out to include both academic and non-academic research (for example, research sponsored by Government, the financial services industry and third sector bodies), including both published and grey literature (such as theses and market research) and research in progress. The search strategy therefore involved searches of a number of electronic bibliographic databases, web-based publications lists from a range of organisations and organisation types and web search engines. Although we adopted a systematic and rigorous approach to searching and screening, it was not intended to provide an exhaustive or replicable search of the literature. For example, we have not searched all possible bibliographic databases, and have not screened the bibliographic lists of the literature we have identified. The sources searched are set out below, along with brief information about the search terms used or the sections searched by hand. All searching was undertaken between 21/11/2008 and 07/01/2009, though a small number of newer papers were subsequently received directly by the authors.

Figure 1 Literature sources and overview of search terms

Sources	Search terms used or pages searched
Academic bibliographic online databases *(searched electronically)*	
Applied Social Sciences Index and Abstracts (ASSIA via CSAweb)	combinations of 'saving', 'financial inclusion', 'financial exclusion', 'financial services', 'banking', 'low income', 'poor', 'barrier', 'incentive', attitude', behaviour'
PsychINFO (via OVID web)	combinations of 'saving', 'financial inclusion', 'financial exclusion', 'low income', 'poor'
EconLit (via OVID web)	combinations of 'saving, 'low income', 'poor'
British Library Integrated Catalogue	combinations of 'saving', financial exclusion', 'financial inclusion', 'research'
Web searches:	
Google Scholar	combinations of 'financial exclusions', 'financial inclusion', 'saving', 'low income', 'barriers', 'incentives', 'attitudes'
Google	combinations of 'research', 'financial exclusion', 'financial inclusion', 'saving', 'savings', 'barriers'
Government and industry research databases of published research and research in progress: *Electronic term searches:*	
HM Treasury	'saving research'
DWP	'saving' on text in 'Research Reports 1990 to 2008'
British Bankers Association	'research', 'savings'
Association of British Insurers	'research', 'savings'
Building Societies Association	'research', 'savings'
National Savings and Investments	'research'
Financial Services Consumer Panel	'research'
Electronic hand searches:	
HMRC	Research publications
Financial Services Authority	Consumer Research publications
Research organisation publication lists and lists of current research: Electronic web searches:	
ESRC Society Today Social Sciences Repository	'saving', 'financial exclusion', 'financial inclusion'
Institute for Public Policy Research	'research' keyword search under the 'Assets and Wealth' theme
Joseph Rowntree Foundation	'saving' on text of the 'Findings'
Runnymede Trust	'saving'
Intute: Social Sciences	'saving', 'financial inclusion'
Electronic hand searches of institution websites:	
Institute for Fiscal Studies	Saving and wealth publications)
Centre for Research on Social Policy	Publications; Current project list 2005-present
New Policy Institute	Financial services publications
Friends Provident Foundation	Projects and news
Nuffield Foundation	News
Leverhulme Trust	Grants awarded 2007-08
Personal Finance Research Centre	Pensions, savings and assets publications; banking and financial services publications
Extensive hand searches of the PFRC e-library and paper hand searches of the PFRC paper library	

As had been anticipated given the social policy focus of the research questions, the vast majority of potentially relevant returns came from the grey or semi-grey sources (typically academic research published by Government departments), rather than from academic bibliographic databases.

Screening was undertaken iteratively, first identifying a short-list of potentially relevant articles using the lists of titles or abstracts returned in the initial search return and undertaking further screenings as more detail about the references was obtained. In excess of 150 papers were obtained in total, although with further screening this reduced to 91 studies reporting potentially relevant empirical evidence.

Using a standardised template developed for the project (shown in Figure 2), the in-scope reports were summarised and appraised for relevance and for methodological robustness. Relevance was determined by the extent to which the report findings related to the savings topics listed and also gave specific focus to lower-income groups. Methodological robustness was determined by the appropriateness of the study method for answering the research questions posed and the rigour and reliability of the research and sampling methodologies.

From this process, we identified 15 papers of particular value to the review, all but one of which (a literature review)[21] were primary studies reporting: qualitative evidence (six papers);[22] quantitative evidence (four);[23] and mixed methods (qualitative and quantitative evidence; four)[24]. Greater weight has been given to these 'core' papers when constructing the framework for understanding the barriers to saving among lower-income groups and how these may be overcome presented in this report. However, the findings from the remaining studies have been used to supplement and corroborate the findings from the core studies.

After undertaking the full review of the research literature, we also undertook a qualitative meta-analysis of the core literature reporting the barriers to saving formally among lower-income groups. This enabled us to look across the demand and supply-side barriers to understand the relative importance of these and the interaction between them, a key gap in the evidence identified at the early stages of the initial review.

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[21] Kempson et al. (2000).

[22] Collard et al. (2003), Collard et al. (2001), Kempson (1998a), Opinion Leader Research (2007), Whyley and Kempson (2000b), Whyley et al. (2000).

[23] BMRB Social Research (2006), DWP (2008), McKay and Kempson (2003), Whyley and Kempson (2000a)

[24] Harvey et al. (2007), Kempson (1998b), Kempson et al. (2005), Rowlingson et al. (1999)

Figure 2 template for literature data extraction: fields captured

Field	**Sub-field**
Reference	Author and date
	Sponsor/funding body
Findings	Levels of saving
	Patterns of saving
	Supply barriers of saving generally
	Supply barriers of regulated formal saving
	Demand barriers of saving generally
	Demand barriers of regulated formal saving
	Relationship between supply and demand
	Incentives/triggers for saving generally
	Incentives/triggers for formal regulated saving
	Attractions of unregulated formal saving
	Attractions of informal saving
Research gaps	Author recommendations for further research or gaps noted
Coverage	Unit of analysis
	Geographical coverage
	Population focus by income
	Coverage of specific subgroups (e.g. ethnic minorities, women, lone parents etc)
Methodology	Research type
	If an intervention study, give the name of the intervention(s)
	Study design (if not literature review)
	Study method (if not literature review)
	Sampling (methodology, size and response rate where applicable) (if not lit review)
	Year of study (if not lit review)
	If secondary analysis, give survey name and year
	Study method (if literature review)
	Reviewer comments on methodology (comment on any biases, likely reliability and robustness)
Aims	Research aims or questions
Reviewer assessment	Limitations of the study
	Any additional comments on relevance and quality
	Relevance rating (high/medium/low)
	Methodological robustness rating (high/medium/low)

Secondary analysis

We have undertaken secondary analysis of two sources of data: the 2004 Baseline Survey of Saving for and by Children; and the first pilot of the Saving Gateway.

Baseline Survey of Saving for and by Children (BSSC)

Carried out at the inception of the Child Trust Fund in 2004, the Baseline Survey of Saving for and by Children (BSSC) incorporated a national survey of 4,314 parents of children aged up to 18 for whom Child Benefit was payable.

For the purposes of the current report, we have categorised families by their levels of relative income. This uses a measure of equivalised income derived from total household income before housing costs, equivalised using the OECD equivalence scale to take into account the number of adults and the number and ages (under 14 and 14 or over) of children.

We have divided the sample into two broad income groupings: "lower-income families" and the remaining "better-off families". "Lower-income families" were classed as those with equivalised incomes of below 70 per cent median income. Based on the 2005/06 Households Below Average Income statistics, 70 per cent median income is equal in monetary terms to £20,161 per year (£1,680 per month) for a two-parent family with one child under 14 and one child aged 14 or over and £15,812 (£1,318 per month) for a one-parent family with one child under 14 and one child aged 14 or over. The "better-off families" have incomes of 70 per cent median or higher.

We have further subdivided the lower-income families into three categories: families with "very low", "low" and "moderately low" incomes. Those with "very low" incomes were classed as those incomes below 50 per cent median income, equal £14,400 per year for a two-parent family and £11,294 for a one-parent family with one child under 14 and one child over 14 in 2005/06. Families were defined as having "low incomes" if they had below 60 per cent but above 50 per cent median income. In 2005/06, 60 per cent median was equal to an annual income of £17,280 for a two-parent family and £13,553 for a one-parent family with one child under 14 and one child over 14. Families with "moderately low" incomes were those with incomes of below 70 per cent but above 60 per cent median income.

The sample includes 1,940 parents in "lower-income families" of whom 1,271 were on "very low incomes", 269 were on "low incomes" and 400 were on "moderately low incomes".

The main report from the BSSC was published by HMRC (Kempson et al., 2006).

The Saving Gateway (first pilot)

The first Saving Gateway pilot was undertaken in 2004. People were eligible to participate in the first Saving Gateway if either they were of working age, in work and entitled to Working Tax Credit or were not in paid work and were receiving a qualifying means-tested benefit. The project included a comparison (or reference) group of people who also met these criteria but who were not invited to take part in the Saving Gateway project.

The evaluation incorporated depth interviews into its design. Thirty participants of the scheme were interviewed in depth at three sites (Bethnal Green, Cambridge, Hull) shortly after opening their accounts and a similar number were interviewed again at the same sites shortly after their accounts had matured.

These qualitative interviews were used in the main report form the study (Kempson et al., 2005) primarily to help illustrate and interpret some of the findings from the quantitative elements of the evaluation. However, interviews examined participants' saving behaviour and attitudes, and their experiences of and feelings about their engagement with the Saving Gateway in considerable depth and breadth. In particular, participants were asked, unprompted, about the factors that had encouraged them to save (whether specific to the Saving Gateway and more broadly), and were prompted to consider the relevance of a range of potential saving incentives were to them.

For the purposes of this study, therefore, we undertook targeted re-analysis of the data from these interviews, using thematic grids, to gain a more detailed understanding of how participants of the scheme were incentivised to open and save into the account and beyond its term.

We also undertook quantitative analysis of the survey of Saving Gateway participants and the reference (or control) group at the time of account-opening. Participants and reference group respondents were asked a similar subset of questions about the factors that would incentivise them to save in an account. Our analysis has focused primarily on the results of the 445 people making up the reference group, since these are a more representative sample of people on lower incomes (unlike the participants, they were not a self-selecting sample).

The main findings from the first Saving Gateway pilot can be found in Kempson et al. (2005).

Appendix 2: Additional tables

Table A 1 Lack of formal saving, by socio-demographic characteristics

Cell Percentages

Characteristic *and unweighted base*		Does not have a saving account	Does not have any formal savings
Equivalised household income relative to median			
Below 50% median	*1,271*	49	83
50% median but less than 60%	*269*	48	77
60% median but less than 70%	*400*	39	80
Household income before housing costs			
Less than £249	*134*	36	82
£250 to £499	*216*	47	86
£500 to £749	*422*	53	87
£750 to £999	*362*	54	82
£1,000 to £1,249	*280*	47	76
£1,250 to £1,499	*261*	42	78
£1,500 or more	*265*	39	81
Housing tenure			
Being bought mortgage	*683*	30	76
Owned outright	*117*	25	77
Rented from Local Authority	*634*	61	87
Rented from Housing Association	*261*	62	87
Rented from Private Landlord	*192*	54	78
Number of earners			
Two	*300*	19	72
One	*799*	41	80
None	*831*	62	86
Number of parents			
One parent family	*887*	58	86
Two parent family	*1,053*	38	78
Number of children			
One	*428*	48	85
Two	*767*	44	80
Three	*445*	47	81
Four or more	*300*	54	82
Country of the UK			
England	*1,344*	46	79
Wales	*127*	56	96
Scotland	*357*	46	89
Northern Ireland	*112*	44	98
Age (of responding parent)			
16 to 24	*206*	61	16
25 to 34	*621*	54	15
35 to 44	*849*	41	21
45 or older	*262*	42	18

Table continues on next page

Ethnic background (of responding parent)			
White British	*1,599*	46	81
White – other	*95*	(50)	(92)
Asian or Asian British	*139*	58	82
Black or Black British	*60*	(46)	(77)
Other	*44*	((47))	((82))
Amount owed in unsecured borrowing			
None	*718*	45	83
Up to £499	*367*	52	83
£500 to £1,499	*275*	57	82
£1,500 to £2,999	*135*	42	75
£3,000 to £6,999	*140*	36	71
£7,000 or more	*167*	46	82
Burden of credit commitments			
A heavy burden	*264*	57	85
Somewhat a burden	*419*	50	80
Not at all a burden	*495*	42	79
Financial situation now compared with 12 months ago			
Better off	*365*	45	83
Worse off	*588*	48	81
About the same	*987*	47	82
Experienced a fall in income in the past three years			
No	*962*	49	84
Yes	*937*	44	79
Frequency of having money left over at the end of the week or month			
Always	*196*	25	68
More often than not/most weeks/months	*237*	34	79
Sometimes	*435*	42	78
Hardly ever	*577*	52	83
Never	*495*	59	89
Agreement that "When I was growing up I was encouraged to save" (responding parent)			
Strongly agree	*576*	42	83
Tend to agree	*526*	44	82
Neither agree nor disagree	*144*	46	76
Tend to disagree	*331*	51	80
Strongly disagree	*353*	56	83
Agreement that "I am a saver, not a spender" (responding parent)			
Strongly agree	*160*	25	73
Tend to agree	*349*	37	76
Neither agree nor disagree	*617*	44	81
Tend to disagree	*418*	52	84
Strongly disagree	*389*	63	89
Agreement that "I don't know enough about savings and investment products to choose ones that are suitable for my circumstances" (responding parent)			
Strongly agree	*500*	57	84
Tend to agree	*595*	49	81
Neither agree nor disagree	*295*	43	81
Tend to disagree	*316*	38	78
Strongly disagree	*201*	34	84
All	*1,940*	**47**	**82**

() Figures shown in parentheses should therefore be treated with caution due to a small base (double parentheses indicate a very small base) .

Source: new analysis, Baseline Survey of Saving for and by Children.

Table A 2 Logistic regressions predicting not having a saving account and having no formal savings

	Model 1: Predicting not having a saving account			Model 2: Predicting having no formal savings		
	Significance (p-value)	Odds ratio (ExpB)		Significance (p-value)	Odds ratio (ExpB)	
Equivalised income relative to median						
Below 50% median (Comparison)	*0.215*			*0.852*		
50% median but less than 60%	0.088	1.3		0.683	0.9	
60% median but less than 70%	0.850	1.0		0.820	1.0	
Housing tenure						
Being bought mortgage (Comparison)	***0.000***		**	*0.053*		
Owned outright	0.218	0.7		*0.438*	*0.8*	
Rented from Local Authority	0.000	1.9	**	*0.030*	*1.5*	
Rented from Housing Association	0.001	1.9	**	*0.112*	*1.5*	
Rented from Private Landlord	0.029	1.5	*	*0.683*	*0.9*	
One or two parent family by number of earners [1]						
One parent family, no earners (Comparison)	***0.000***		**	*0.121*		
Two parent family, no earners	0.109	0.7		0.019	*0.6*	
One parent family, one earner	0.002	0.6	**	0.192	*0.7*	
Two parent family, one earner	0.001	0.6	**	0.109	*0.7*	
Two parent family, two earners	0.000	0.2	**	0.014	*0.5*	
Number of children						
One (Comparison)	*0.432*			*0.496*		
Two	0.691	1.1		0.263	*0.8*	
Three	0.813	1.0		0.168	*0.7*	
Four or more	0.141	1.3		0.698	*0.9*	
Country of the UK						
England (Comparison)	*0.205*			***0.000***		**
Wales	0.045	1.6		0.000	7.3	**
Scotland	0.825	1.0		0.004	2.3	**
Northern Ireland	0.542	0.8		0.002	16.8	**
Age (of responding parent)						
16 to 24	0.552			0.509		
25 to 34	*0.991*	*1.0*		0.248	1.4	
35 to 44	*0.385*	0.8		0.788	1.1	
45 or older	0.928	1.0		0.544	1.2	
Ethnic background (of responding parent)						
White British (Comparison)	***0.002***		**	*0.297*		
White - other	0.327	1.3		0.084	*2.2*	
Asian or Asian British	0.000	2.2	**	0.450	*1.2*	
Black or Black British	0.196	0.7		0.173	*0.6*	
Other	0.529	0.8		0.739	*1.1*	
Amount owed in unsecured borrowing						
None (Comparison)	*0.304*			***0.000***		**
Up to £499	0.806	1.0		0.695	*1.1*	
£500 to £1,499	0.359	1.2		0.445	*0.8*	
£1,500 to £2,999	0.707	0.9		0.438	*0.8*	
£3,000 to £6,999	0.133	0.7		0.067	*0.6*	
£7,000 or more	0.131	1.3		0.017	*0.5*	*
Experienced a fall in income in the past three years						
No (Comparison)	*0.368*			*0.307*		
Yes	0.159	0.9		0.146	0.8	

Table continues on next page

Frequency of having money left over at the end of the week or month[2]						
Always (Comparison)	***0.000***		**	***0.000***		**
More often than not or most weeks/months	0.290	1.3		0.046	*1.7*	*
Sometimes	0.075	1.5		0.040	*1.6*	*
Hardly ever	0.001	2.0	**	0.001	*2.1*	**
Never	0.000	2.5	**	0.000	*3.5*	**
Agreement that "When I was growing up I was encouraged to save"[2]						
Strongly agree (Comparison)	*0.851*			*0.053*		
Tend to agree	0.744	1.0		0.596	*0.9*	
Neither agree nor disagree	0.295	0.8		0.009	*0.5*	
Tend to disagree	0.755	1.1		0.055	*0.7*	
Strongly disagree	0.888	1.0		0.053	*0.7*	
Agreement that "I am a saver, not a spender"[2]						
Strongly agree (Comparison)	***0.000***		**	***0.004***		**
Tend to agree	0.006	2.0	**	0.174	*1.4*	
Neither agree nor disagree	0.001	2.2	**	0.036	*1.7*	*
Tend to disagree	0.000	3.0	**	0.004	*2.2*	**
Strongly disagree	0.000	3.6	**	0.000	*3.0*	**
Agreement that "I don't know enough about savings and investment products to choose ones that are suitable for my circumstances"[2]						
Strongly agree (Comparison)	***0.004***		**	*0.787*		
Tend to agree	0.907	1.0		0.574	1.1	
Neither agree nor disagree	0.038	0.7	*	0.969	1.0	
Tend to disagree	0.023	0.7	*	0.833	1.0	
Strongly disagree	0.004	0.6	**	0.328	1.3	
Constant	0.015	0.253		0.505	1.620	
Nagelkerke R^2	0.258			0.188		

* indicates significance (p<0.05); ** indicates high level of significance (p<0.01)

Gender was also included in the model to act as a control but is not reported since the outcome measure relates to the household level. Note also that age, ethnic background and the attitudinal variables (including frequency of having money left over at the end of the week/month) are not necessarily representative of the partner (where applicable) and should therefore be interpreted with caution.

1. Due to the natural relationship between the two variables, the number of parents and the number of earners could not both be included as individual variables in any one model. However, when included separately in additional runs of the models, we found that, individually, both variables were highly signficant in model 1. For model 2, only the number of parents variable reached significance.

2. When the attitudinal measures are excluded (including "Frequency of having money left over…") housing tenure and one or two parent families by the number of earners additionally reached significance in model 2; there were no changes to model 1.

Source: new analysis, Baseline Survey of Saving for and by Children.

Table A 3 Percentage of households saving actively by socio-demographic characteristics

Cell Percentages

Characteristic *and unweighted base*		Saving formally	Saving informally
Equivalised relative household income			
Below 50% median	*1,271*	34	62
50% median but less than 60%	*269*	35	63
60% median but less than 70%	*400*	46	63
Household income before housing costs			
Less than £249	*134*	43	48
£250 to £499	*216*	36	53
£500 to £749	*422*	28	66
£750 to £999	*362*	32	68
£1,000 to £1,249	*280*	36	60
£1,250 to £1,499	*261*	43	65
£1,500 or more	*265*	46	63
Housing tenure			
Being bought mortgage	*683*	51	58
Owned outright	*117*	55	53
Rented from Local Authority	*634*	25	69
Rented from Housing Association	*261*	23	61
Rented from Private Landlord	*192*	31	66
Number of earners			
Two	*300*	65	67
One	*799*	41	58
None	*831*	22	65
Number of parents			
One parent family	*887*	26	64
Two parent family	*1,053*	46	61
Number of children			
One	*428*	34	62
Two	*767*	40	63
Three	*445*	35	63
Four or more	*300*	32	62
Country of the UK			
England	*1,344*	36	60
Wales	*127*	29	80
Scotland	*357*	41	71
Northern Ireland	*112*	38	63
Age (of responding parent)			
16 to 24	*206*	23	71
25 to 34	*621*	31	69
35 to 44	*849*	41	60
45 or older	*262*	41	52
Ethnic background (of responding parent)			
White British	*1,599*	37	66
White - other	*95*	(39)	(59)
Asian or Asian British	*139*	28	44
Black or Black British	*60*	(37)	(28)
Other	*44*	((27))	((46))
Amount owed in unsecured borrowing			
None	*718*	38	54
Up to £499	*367*	31	69
£500 to £1,499	*275*	30	71
£1,500 to £2,999	*135*	39	68
£3,000 to £6,999	*140*	46	73
£7,000 or more	*167*	40	66

Table continues on next page

Burden of credit commitments			
A heavy burden	*264*	26	65
Somewhat a burden	*419*	35	68
Not at all a burden	*495*	41	71
Financial situation now compared with 12 months ago			
Better off	*365*	40	70
Worse off	*588*	35	60
About the same	*987*	36	61
Experienced a fall in income in the past three years			
No	*962*	35	59
Yes	*937*	39	66
Frequency of having money left over at the end of the week or month			
Always	*196*	61	66
More often than not/most weeks/months	*237*	48	65
Sometimes	*435*	43	70
Hardly ever	*577*	31	63
Never	*495*	24	54
Agreement that "When I was growing up I was encouraged to save" (responding parent)			
Strongly agree	*576*	43	67
Tend to agree	*526*	40	58
Neither agree nor disagree	*144*	31	59
Tend to disagree	*331*	33	64
Strongly disagree	*353*	27	61
Agreement that "I am a saver, not a spender" (responding parent)			
Strongly agree	*160*	57	67
Tend to agree	*349*	48	62
Neither agree nor disagree	*617*	39	60
Tend to disagree	*418*	31	63
Strongly disagree	*389*	21	64
Agreement that "I don't know enough about savings and investment products to choose ones that are suitable for my circumstances" (responding parent)			
Strongly agree	*500*	30	63
Tend to agree	*595*	33	69
Neither agree nor disagree	*295*	40	58
Tend to disagree	*316*	45	59
Strongly disagree	*201*	45	56
All	*1,940*	**37**	**62**

() Figures shown in parentheses should therefore be treated with caution due to a small base (double parentheses indicate a very small base) .

Source: new analysis, Baseline Survey of Saving for and by Children.

Table A 4 Percentage of households not saving at all and saving informally only, by socio-demographic characteristics

Cell Percentages

Characteristic *and unweighted base*		Not saving in any way	Saving informally only
Equivalised relative household income			
Below 50% median	*1,271*	27	39
50% median but less than 60%	*269*	25	40
60% median but less than 70%	*400*	20	33
Household income before housing costs			
Less than £249	*134*	29	27
£250 to £499	*216*	33	31
£500 to £749	*422*	26	46
£750 to £999	*362*	25	44
£1,000 to £1,249	*280*	26	38
£1,250 to £1,499	*261*	22	36
£1,500 or more	*265*	21	33
Housing tenure		31	28
Being bought mortgage	*683*	24	25
Owned outright	*117*	22	22
Rented from Local Authority	*634*	24	51
Rented from Housing Association	*261*	34	44
Rented from Private Landlord	*192*	23	46
Number of earners			
Two	*300*	11	23
One	*799*	26	33
None	*831*	29	48
Number of parents			
One parent family	*887*	29	46
Two parent family	*1,053*	22	32
Number of children			
One	*428*	26	40
Two	*767*	22	37
Three	*445*	26	39
Four or more	*300*	30	38
Country of the UK			
England	*1,344*	27	37
Wales	*127*	14	56
Scotland	*357*	17	43
Northern Ireland	*112*	25	36
Age (of responding parent)			
16 to 24	*206*	25	38
25 to 34	*621*	26	51
35 to 44	*849*	23	46
45 or older	*262*	25	34
Ethnic background (of responding parent)			
White British	*1,599*	22	40
White - other	*95*	(20)	(40)
Asian or Asian British	*139*	42	30
Black or Black British	*60*	(50)	(13)
Other	*44*	((41))	((32))
Amount owed in unsecured borrowing			
None	*718*	30	32
Up to £499	*367*	24	45
£500 to £1,499	*275*	21	49
£1,500 to £2,999	*135*	24	37
£3,000 to £6,999	*140*	15	39
£7,000 or more	*167*	20	40

Table continues on next page

Burden of credit commitments			
A heavy burden	*264*	29	45
Somewhat a burden	*419*	20	45
Not at all a burden	*495*	19	39
Financial situation now compared with 12 months ago			
Better off	*365*	20	40
Worse off	*588*	27	37
About the same	*987*	26	38
Experienced a fall in income in the past three years			
No	*962*	28	37
Yes	*937*	22	40
Frequency of having money left over at the end of the week or month			
Always	*196*	14	25
More often than not/most weeks/months	*237*	19	32
Sometimes	*435*	18	39
Hardly ever	*577*	26	44
Never	*495*	37	39
Agreement that "When I was growing up I was encouraged to save" (responding parent)			
Strongly agree	*576*	17	40
Tend to agree	*526*	27	33
Neither agree nor disagree	*144*	30	38
Tend to disagree	*331*	26	41
Strongly disagree	*353*	32	41
Agreement that "I am a saver, not a spender" (responding parent)			
Strongly agree	*160*	13	30
Tend to agree	*349*	21	31
Neither agree nor disagree	*617*	27	34
Tend to disagree	*418*	26	43
Strongly disagree	*389*	30	49
Agreement that "I don't know enough about savings and investment products to choose ones that are suitable for my circumstances" (responding parent)			
Strongly agree	*500*	27	44
Tend to agree	*595*	22	45
Neither agree nor disagree	*295*	28	32
Tend to disagree	*316*	26	29
Strongly disagree	*201*	25	30
All	*1,940*	**25**	**38**

() Figures shown in parentheses should therefore be treated with caution due to a small base (double parentheses indicate a very small base).

Source: new analysis, Baseline Survey of Saving for and by Children.

Table A 5 Logistic regressions predicting not saving at all and only saving informally

	Model 3: Predicting not saving in any way (formally or informally)			Model 4: Predicting saving informally only		
	Significance (p-value)	Odds ratio (ExpB)		Significance (p-value)	Odds ratio (ExpB)	
Equivalised relative household income						
Below 50% median (Comparison)	*0.458*			*0.339*		
50% median but less than 60%	0.759	0.9		0.163	1.2	
60% median but less than 70%	0.213	0.8		0.984	1.0	
Housing tenure						
Being bought mortgage (Comparison)	***0.016***		*	***0.000***		**
Owned outright	0.264	0.7		0.999	1.0	
Rented from Local Authority	0.001	0.6	**	0.000	2.3	**
Rented from Housing Association	0.283	0.8		0.003	1.7	**
Rented from Private Landlord	0.025	0.6	**	0.003	1.8	**
One or two parent family by number of earners						
One parent family, no earners (Comparison)	***0.000***		**	***0.017***		*
Two parent family, no earners	0.067	0.7		0.715	0.9	
One parent family, one earner	0.494	0.9		0.074	0.7	
Two parent family, one earner	0.078	0.7		0.062	0.7	
Two parent family, two earners	0.000	0.3	**	0.001	0.5	**
Number of children						
One (Comparison)	*0.270*			*0.522*		
Two	0.546	0.9		0.581	1.1	
Three	0.725	1.1		0.487	1.1	
Four or more	0.254	1.3		0.543	0.9	
Country of the UK						
England (Comparison)	*0.072*			***0.006***		**
Wales	0.026	0.5		0.001	2.2	**
Scotland	0.124	0.7		0.442	1.2	
Northern Ireland	0.895	1.0		0.613	0.9	
Age (of responding parent)						
16 to 24 (comparison)	0.204			0.090		
25 to 34	*0.696*	*0.9*		0.885	1.0	
35 to 44	*0.632*	1.1		0.237	0.8	
45 or older	0.177	1.5		0.117	0.7	
Ethnic background (of responding parent)						
White British (Comparison)	***0.000***		**	***0.000***		**
White - other	0.661	0.9		0.975	1.0	
Asian or Asian British	0.000	2.8	**	0.176	0.7	
Black or Black British	0.000	3.2	**	0.000	0.2	**
Other	0.004	2.6	**	0.085	0.6	
Amount owed in unsecured borrowing						
None (Comparison)	***0.000***		**	***0.019***		*
Up to £499	0.041	0.7	*	0.024	1.4	*
£500 to £1,499	0.000	0.5	**	0.003	1.6	**
£1,500 to £2,999	0.296	0.8		0.438	1.2	
£3,000 to £6,999	0.000	0.4	**	0.100	1.4	
£7,000 or more	0.006	0.5	**	0.003	1.8	**

Table continues on next page

Experienced a fall in income in the past three years						
No (Comparison)	*0.092*			*0.232*		
Yes	0.030	0.8		0.141	1.2	
Frequency of having money left over at the end of the week or month[2]						
Always (Comparison)	***0.000***		******	***0.043***		*
More often than not or most weeks/months	0.581	1.2		0.215	1.4	
Sometimes	0.925	1.0		0.037	1.6	*
Hardly ever	0.087	1.5		0.003	1.9	**
Never	0.000	2.6	**	0.122	1.4	
Agreement that "When I was growing up I was encouraged to save"[2]						
Strongly agree (Comparison)	***0.007***		******	***0.020***		*
Tend to agree	0.001	1.8	**	0.000	0.6	**
Neither agree nor disagree	0.005	1.9	**	0.092	0.7	
Tend to disagree	0.033	1.5	*	0.151	0.8	
Strongly disagree	0.004	1.7	**	0.037	0.7	*
Agreement that "I am a saver, not a spender"[2]						
Strongly agree (Comparison)	***0.003***		******	*0.132*		
Tend to agree	0.020	2.1	*	0.887	1.0	
Neither agree nor disagree	0.001	2.6	**	0.925	1.0	
Tend to disagree	0.001	2.7	**	0.153	1.4	
Strongly disagree	0.000	3.3	**	0.188	1.4	
Agreement that "I don't know enough about savings and investment products to choose ones that are suitable for my circumstances"[2]						
Strongly agree (Comparison)	*0.590*			***0.000***		**
Tend to agree	0.497	0.9		0.078	1.3	
Neither agree nor disagree	0.316	1.2		0.030	0.7	*
Tend to disagree	0.597	1.1		0.038	0.7	*
Strongly disagree	0.486	1.2		0.060	0.7	
Constant	0.000	0.1		0.254	0.5	
Nagelkerke R^2	0.193			0.192		

Notes:

* indicates significance (p<0.05); ** indicates high level of significance (p<0.01)

Gender was also included in the model to act as a control but is not reported since the outcome measure relates to the household level. Note also that age, ethnic background and the attitudinal variables (including frequency of having money left over at the end of the week/month) are not necessarily representative of the partner (where applicable) and should therefore be interpreted with caution.

1. Due to the natural relationship between the two variables, the number of parents and the number of earners could not both be included as individual variables in any one regression model. However, when included separately in additional runs of the models, we found that, individually, both variables were highly significant in model 3, while in model 4 only the number of earners was significant.

2. When the attitudinal measures are excluded (including "Frequency of having money left over…") Country becomes significant in model 3 (Wales and Scotland associated with significantly lower odds compared with England); age becomes highly significant in model 4 (the odds decreasing with increasing age).

Source: new analysis, Baseline Survey of Saving for and by Children.

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