Towards a nation of savers

Understanding and overcoming the challenges to saving on a lower income

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Despite the continued commitment of successive Governments to promote higher levels of saving, rates of formal saving remain low among people on lower incomes in the UK. This study from the Personal Finance Research Centre throws new light on the ways in which people on lower incomes today think about and approach saving, their concerns about affordability, and how they may be encouraged to save more and to do so using regulated provision. It highlights how, despite the challenges that people on lower incomes face, there is nonetheless considerable scope for policy-makers and financial services providers to facilitate and support them to save more; and in doing so to help foster 'a nation of savers'.

Study design and methods

The study distinguished between three types of people – the ***saving-engaged***, ***saving-inclined*** and ***non-savers*** – based on their current and recent saving behaviours and attitudes. It focussed exclusively on those living in a lower-income household, defined as below approximately 70 per cent of the national median, and on adults in the middle, family-rearing years (ages 25 to 55).

One-to-one depth interviews were held with 30 people from across the three saving categories. Four focus groups were also conducted, three comprising saving-inclined participants and one with non-savers. All fieldwork was undertaken in autumn 2010. Quantitative analysis of the 2006-08 Wealth and Assets Survey was also undertaken.

Composition and characteristics of the different saver types

Analysis of the Wealth and Assets Survey showed that only one in five adults aged 25 to 55 living in a lower-income household in Britain was already saving-engaged. A further two in five people in this population were saving-inclined and the remaining two in five were non-savers. This suggests that there is the potential for targeting interventions to promote saving at a large majority of this population, particularly as socio-economic factors only partly explain differential levels of saving. The depth interviews highlighted the subtle but important differences between the three saver types.

The engaged savers saved formally in a range of ways, from Credit Union accounts to Premium Bonds, with Individual Savings Accounts featuring heavily. These individuals tended to save routinely, often at the beginning of their budgeting cycle, for purposes other than day-to-day spending. As such, these funds were intended for use over relatively long planning horizons and tended to be left untouched for the purposes for which they were earmarked. All the engaged savers saved informally as well, mainly to smooth income and expenditure over the budgeting cycle.

By definition, the saving-inclined participants had not saved into an account in the past three months. The interviews confirmed that most of them did not have any type of saving account, although all but one had some form of transaction account or Post Office Card Account. Many of them saved informally, though, and in similar ways to the saving-engaged who saved money informally. One key difference was that, unlike the engaged savers, saving-inclined individuals admitted to sometimes dipping in to their savings for day-to-day expenses or emergencies.

The non-savers we interviewed in depth were not saving formally and generally did not have saving accounts. Although they said they did not save informally when they were recruited to the study, in the interviews most talked about putting aside small sums of money (pounds, 20p pieces) on an ad hoc basis, which they drew on over the course of their budgeting cycle. Although all had some form of transaction or Post Office Card Account, the non-savers lack of engagement with formal saving appeared to reflect lower levels of use of banking services generally.

Saving conceptions and perceptions

From the perspectives of people on lower incomes, 'saving' can incorporate a wide range of activities, which appear to fall broadly along one continuum of saving-related behaviours. Two main factors seemed to determine whether a behaviour or activity was classed as saving: whether the money was earmarked for a particular purpose and how easily the money could be accessed. Whether or not money was saved formally or informally seemed less important. This suggests that the potential exists to encourage higher rates of saving by building on the saving behaviours that people on lower incomes already engage in, informally and spontaneously and at whatever level. The challenge for providers will be to enable people to continue to earmark their savings and to provide the level of access individuals feel they need.

Somewhat ambivalent views were expressed in response to the idea of 'savers' by the focus group participants. So although it engendered some positive and socially desirable qualities, many negative associations with being a 'saver' were also expressed. Moreover, some of the savers interviewed in depth recognised that they had qualities that other people might view negatively. As such, very few focus group participants admitted to identifying with group descriptions of a 'saver' as a whole, tending instead to identify with the 'non-savers' whom they saw as 'normal'. This suggests that there is a need, if not the potential, for changing the public view of 'savers', by emphasising the normality of it and the positive qualities associated with being a saver (regardless of wealth status).

It was what someone did – whether or not they saved – that was generally seen to define them as a 'saver' or a 'non-saver'. And the depth interviews indicated that people's perceptions of themselves as either a 'saver' or a 'spender' were closely aligned with their actual saving behaviour. In other words, people had a good appreciation for where they were on this spectrum, even if they preferred not to be seen this way by others.

Nonetheless, there was a perception among some of the study participants who were not engaged in formal saving that the ability to save was determined at least in part by factors outside the individual's control. The challenge for policy-makers who wish to encourage saving among this group will lie in engendering a feeling of self-efficacy and empowerment among lower-income people.

Desirability and motivations to save

The study highlighted a subtle but important distinction in people's minds between the desirability of saving and motivations to save. Almost all of the depth interview participants saw saving as desirable and described many benefits of saving. However, the strength of feeling varied considerably, largely depending on how easy people found it to save. And, for some, this desire related only to having savings rather than building them up.

Freedom from worry was a motivation for saving that was common across all three saver types. However, there were important differences between the savers and the people recruited as saving-inclined and non-savers in terms of the number and range of saving motivations they described. The relative emphasis on internal motivators, such as avoiding going without and not wasting or owing money, rather than external rewards also distinguished the engaged savers from the others. There were some differences between the saving-inclined and the non-savers in terms of the number and range of motivations individuals described, but this reflected more closely whether or not they were saving at all than their recruitment category.

Non-savers also, almost without exception, reported seeing good returns on saving as being a motivation to save – assuming that they had the money to do so. From the current findings, it is difficult to interpret just how powerful a motivator this is in practice for the non-savers. It was a consideration for some of the engaged savers, particularly those who considered themselves to be spenders by nature, but other motivators were just as if not more important for these individuals. As such, and however important good and clear returns on savings may be for some, it may not be the panacea for increasing saving rates among lower-income households.

For behaviour change to be effective and sustainable it ultimately requires individuals to 'buy-in' to the value of the new behaviour. This suggests that a major challenge for policy makers will lie in encouraging a shift in focus among those not engaged in saving from the external rewards to the stronger, and more sustainable, internal motivators of saving. This might be achieved most readily by capitalising on the internal motivations that exist across the spectrum (notably, freedom from worry), and avoiding going without in the future, which had currency among the engaged-savers.

The viability of saving

The study found that factors relating to the individual's situation presented the strongest challenges to saving, while perceptions and experiences of financial services providers played a secondary role. Some participants felt strongly that saving was completely unaffordable at their current level of income. However, there was fairly widespread acknowledgement by participants that they lived to their means, with some degree of choice, and that they could afford to save if they chose to.

The overriding difficulty with choosing to put money by for the future came from the perception that saving was not possible without compromising current standards of living. Some had safety nets other than savings they felt they could fall back on, including commercial and informal borrowing, meaning that they did not always feel they were compromising their futures by not saving.

Compounding this was a strongly-expressed view that saving was futile unless large amounts could be saved. While not as potent as other factors, there was also some recognition that saving required a level of self-discipline that they did not have and a link was observed in the analysis between not saving actively and a disorganised approach to money management. This suggests that saving policies should be supported by broader polices to improve other aspects of financial capability.

Negative perceptions of financial services providers and the saving environment did not feature heavily as barriers to saving formally at the personal level. It was evident, nonetheless, that there were strong and pervasive feelings of disdain and mistrust towards providers generally. This did not derive from personal experience and largely betrayed people's misunderstanding and misperceptions (of products, the industry and repercussions of the financial crisis on savers). This indicates a role for Government and providers alike to ensure that the protections and guarantees that exist within the regulated market are communicated clearly.

Encouraging saving

In addition to the issues for policy that emerged elsewhere from the analysis, the saving-inclined and non-saver focus groups participants were invited to consider what might encourage them to save more than they were doing. This encompassed credible role models and messages that might persuade them to do so and mechanisms which might help people to save.

One of the most potent findings from the study was that focus group participants struggled to identify people in the public eye – real or fictional – who represented authoritative role models for saving for people like them. This suggests that, among lower-income adults at least, there is no social norm that advocates saving as a positive behaviour. This in turn offers an opportunity for those interested in promoting saving to explore and nurture positive role models for saving. A credible role model for this group would be someone who had come from modest beginnings and who ideally, despite their new-found wealth, demonstrated moderation in their spending.

Reflecting other findings from the study, the most persuasive messages were those that acknowledged explicitly the competing priorities people on lower incomes face in their daily financial lives: 'You want to live for today but you need to live for tomorrow too' and 'Every little helps'. The younger saving-inclined group was also particularly responsive to statements that centred on notions of pride, freedom from worry and being in charge of one's own destiny.

Although good, clear and guaranteed financial rewards for saving formally were discussed, other factors were seemingly of far greater import to the focus group participants. The factor with the strongest appeal overall was the notion of identifying small and affordable amounts to save, despite the earlier reservations expressed by participants. This derived from agreeing, through group discussion and peer testimony, that saving small amounts was both affordable and would have sufficient value in the medium to longer term to make it worthwhile. This suggests a clear role for a carefully targeted policy to help frame people's expectations about how much it is reasonable and worthwhile to save routinely and save towards, drawing on consensus and peer testimony to do so.

Additionally, people welcomed 'commitment devices' that would enable them to save routinely without 'seeing' the money they were saving. There was particular interest in setting up automated deposits at the start of the budgeting cycle. Those who were most constrained financially were most interested in these payments being facilitated or set up on their behalf by employers, banks or government. Participants also suggested mechanisms that reduced their access to the savings accrued, in most cases to keep their savings 'at arm's length', including: short notice accounts (e.g. requiring 48 hours notice), savings accounts where money can only be withdrawn over the counter but can be deposited in other, more accessible ways (including online), and having separate but linked accounts for day-to-day spending and savings. The very personal access requirements that individuals described suggest it may not be possible to design a single product to cater to these needs. However, products that enable a degree of tailoring to individual preferences may be attractive among these potential savers.

Further information

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