



16 June 2023

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@TheIFS

# Who has low savings and how problematic can that be?

# Our thanks to the IFS Retirement Saving Consortium and the ESRC



ASSOCIATION OF CONSULTING ACTUARIES



# Introduction

- Policy concern: many working-age people have low, or no, savings
  - ‘Rainy day fund’ – important in the case of an unexpected expense or income shock
- How should concern about low savings be balanced with other policy concerns?
- Key question: **What are the circumstances of those with low financial wealth?**

- Use the **Wealth and Assets Survey** (2006-08 to 2018-20)
- Restrict sample to **working-age people aged 20-59**
- Measure savings at the “family” level
  - Includes current accounts, savings accounts, ISAs, stocks + shares
  - Excluding pension wealth and LISAs: not easily accessible
  - “Family” level: single person or cohabiting couple, and any dependent children
- Two indicators of “low savings”
  - Less than £2,000 (in 2020 prices)
  - Less than a month’s disposable income



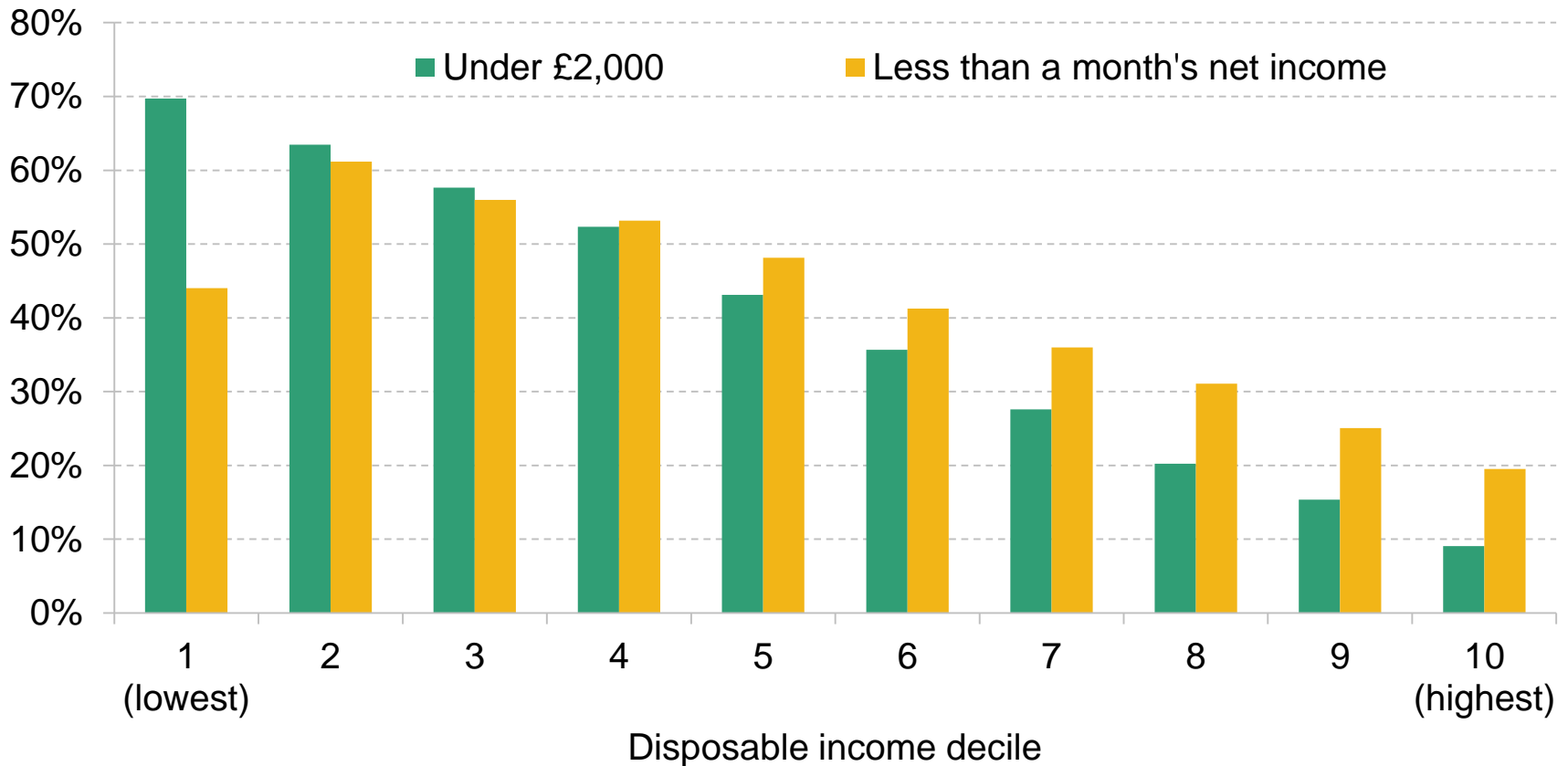
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**Who has low savings?**

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# Low savings common among middle-income people

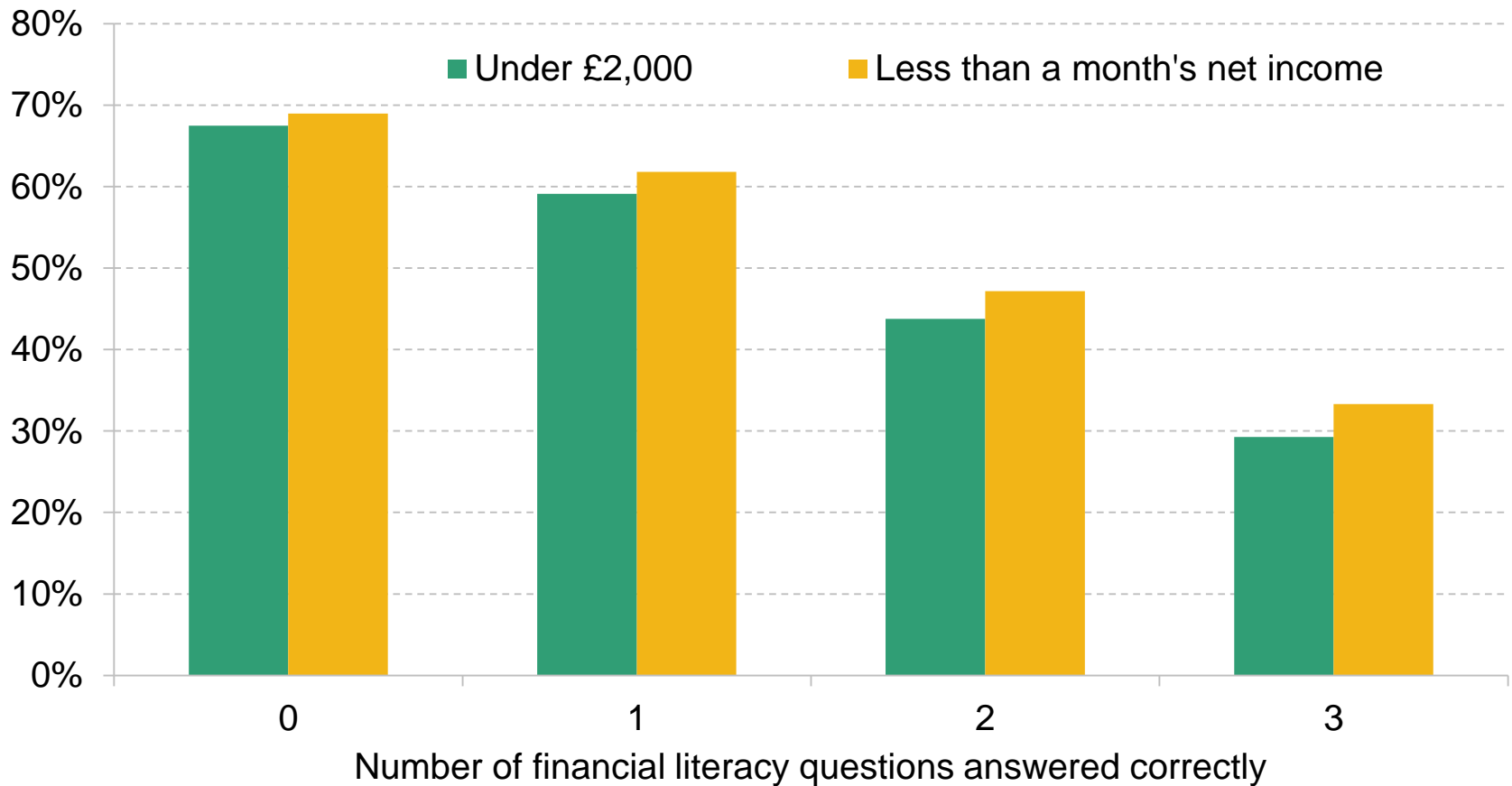
Proportion of people with low savings in each disposable income decile



Source: Wealth and Assets Survey, Round 7 (2018-20). Note: disposable income has been adjusted for family size and structure.

# Financial literacy related to savings levels

Proportion of people who answer different numbers of financial literacy questions correctly with low savings



Source: Wealth and Assets Survey, Round 7 (2018-20)

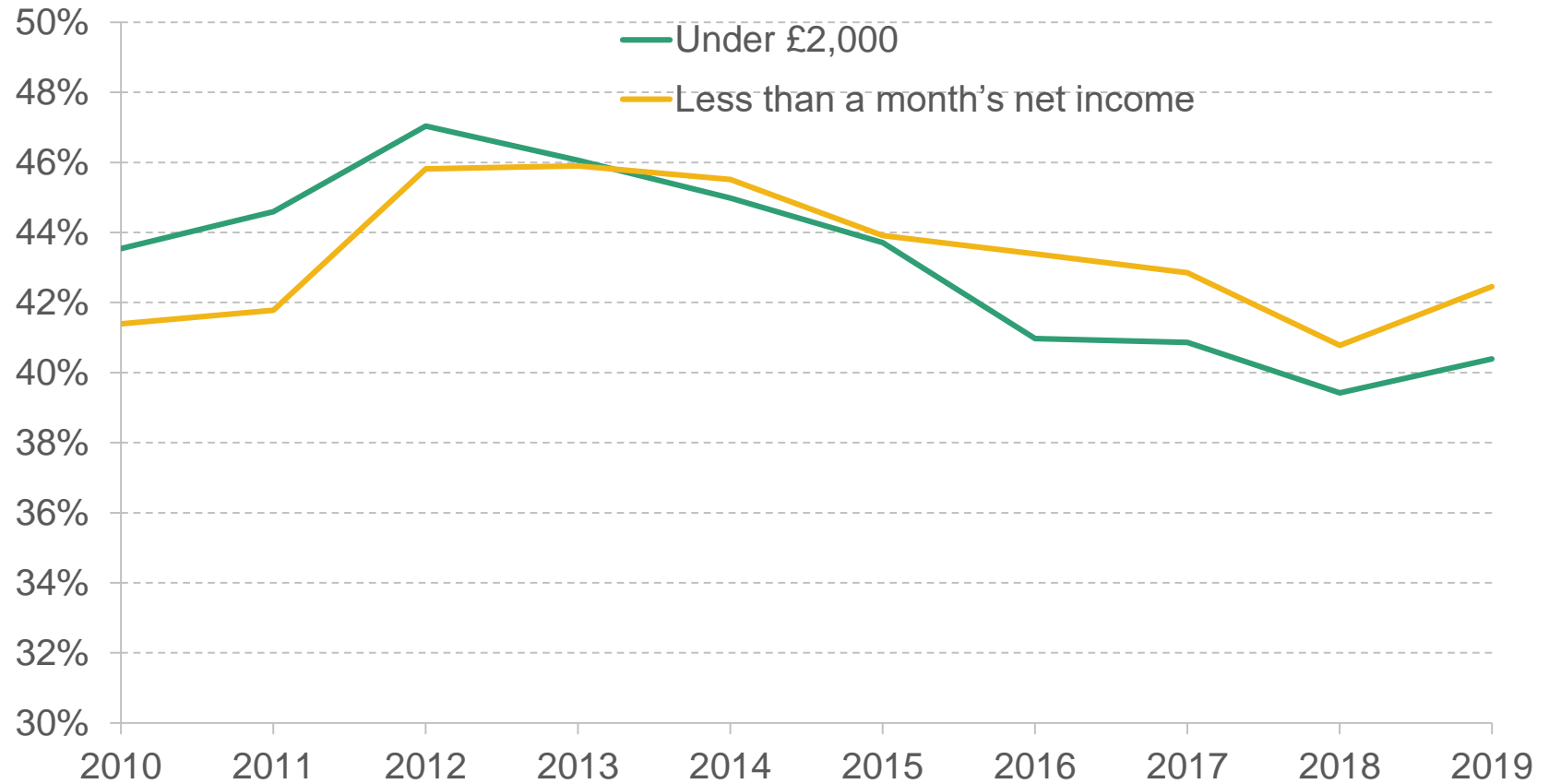
# Factors predicting low levels of savings

- Even when controlling for other factors, these characteristics stand out as being important predictors of having less than £2,000 saved
  - **Income:** Those in the top 10% of the income distribution 33 percentage points less likely than those in the bottom 10% to have less than £2,000 saved
  - **Financial literacy:** Those who answer questions on financial literacy accurately 8 percentage points less likely to have less than £2,000 saved
  - **Age:** 55- to 59-year-olds 26 percentage points less likely than 20- to 24-year-olds to have <£2,000
  - **Family type:** Couples without children 6 percentage points less likely than couples with children to have <£2,000



# Proportion with low savings falling since 2012

## Proportion of working-age adults with low savings over time



Source: Wealth and Assets Survey, Waves 2-5, Rounds 6-7

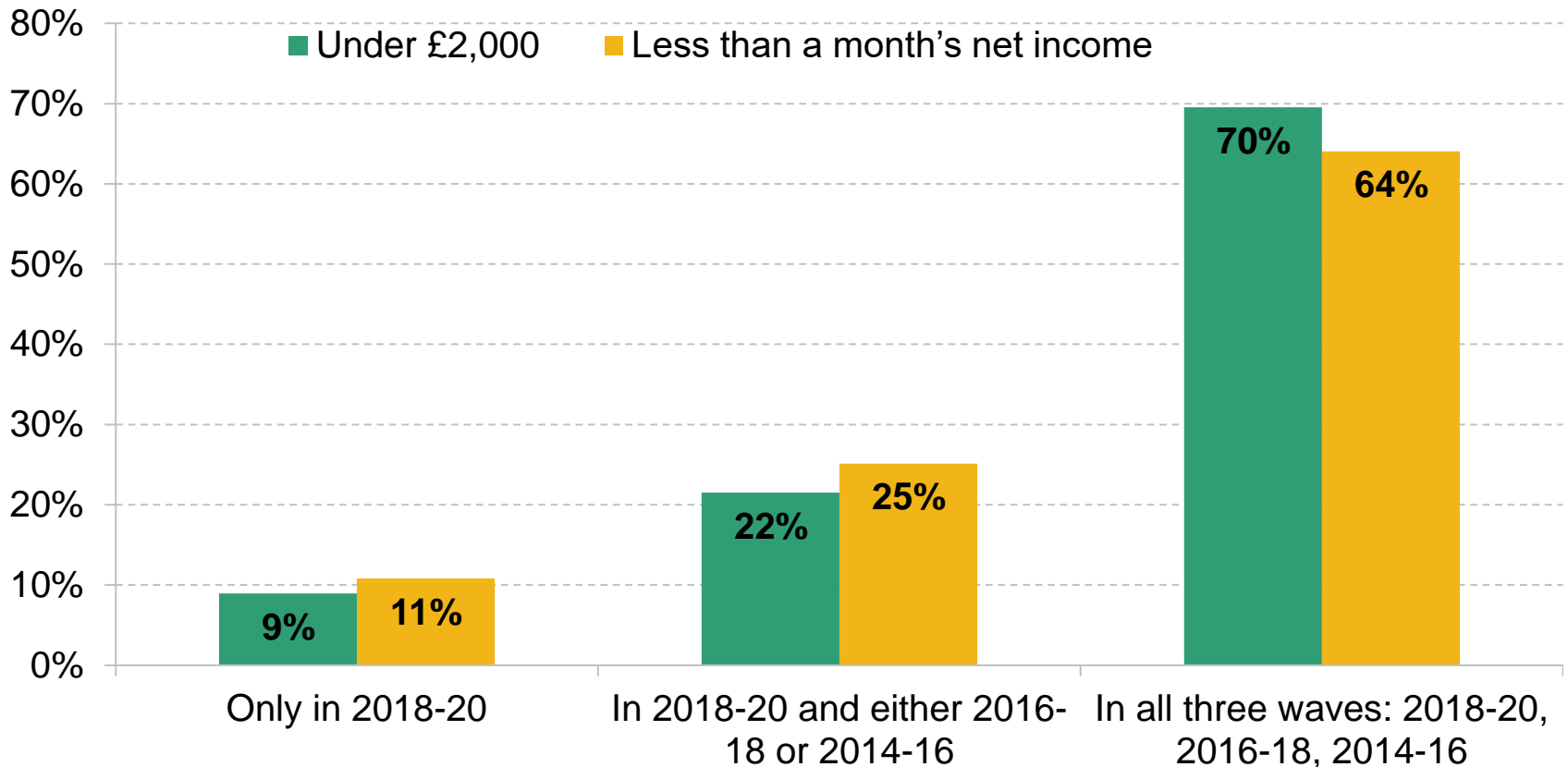
# What has happened since 2020



- Covid-19
  - ‘Forced saving’: greater increases in savings for higher-income households (Crossley et al, 2021)
  - BoE: 42% of high-income households reported saving more during the pandemic, only 23% of low-income households
- Cost of living crisis
  - Eroded some accumulated savings (FCA, 2022)
  - FCA: increase in the proportion of adults in financial difficulty between 2020 and 2022

# Persistently low savings

For how long had those with low savings in 2018-20 had low savings?



Source: Wealth and Assets Survey, Wave 5, Rounds 6 and 7



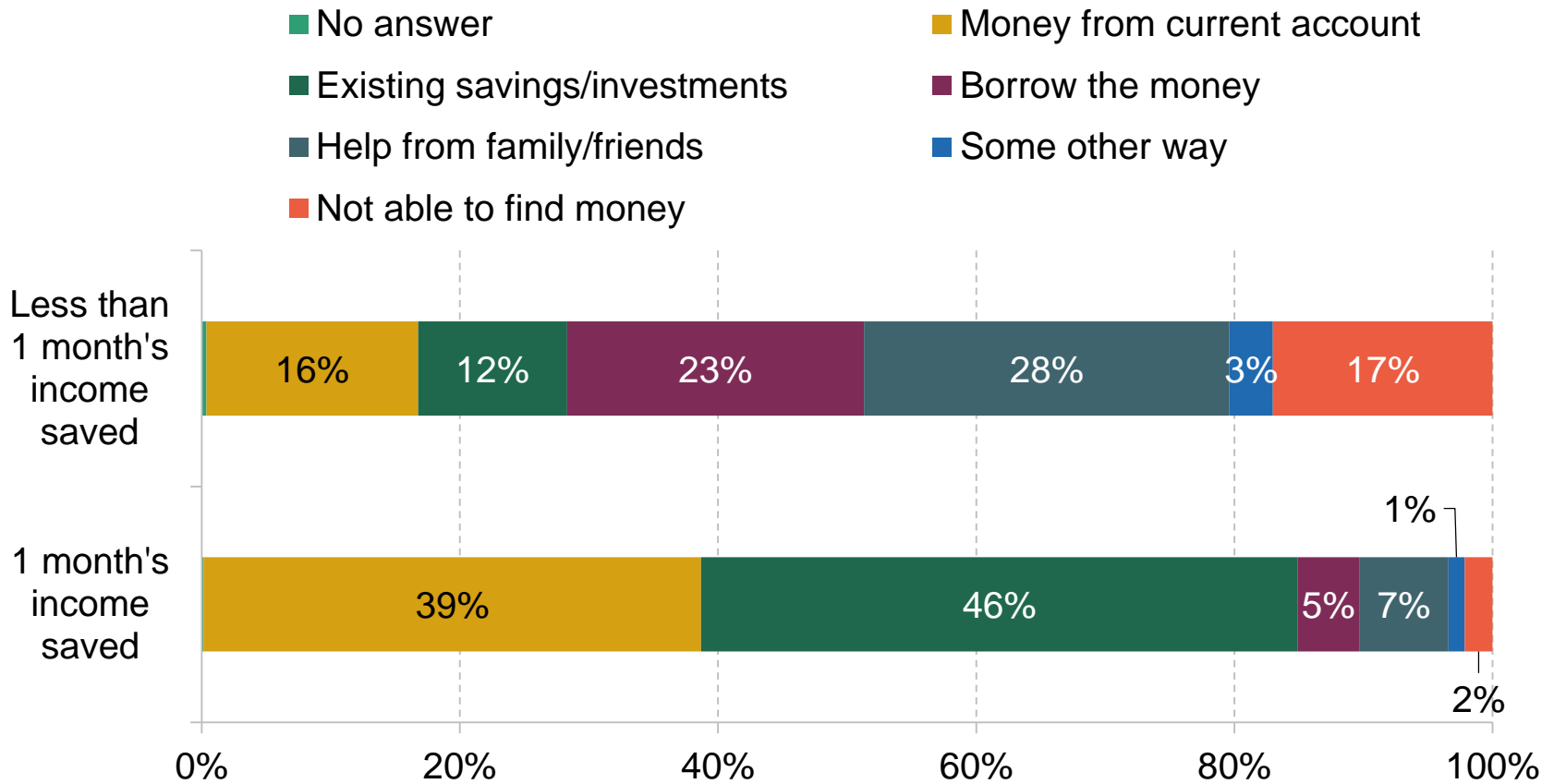
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**How problematic is it to  
have low savings?**

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# Meeting an expense of a month's income

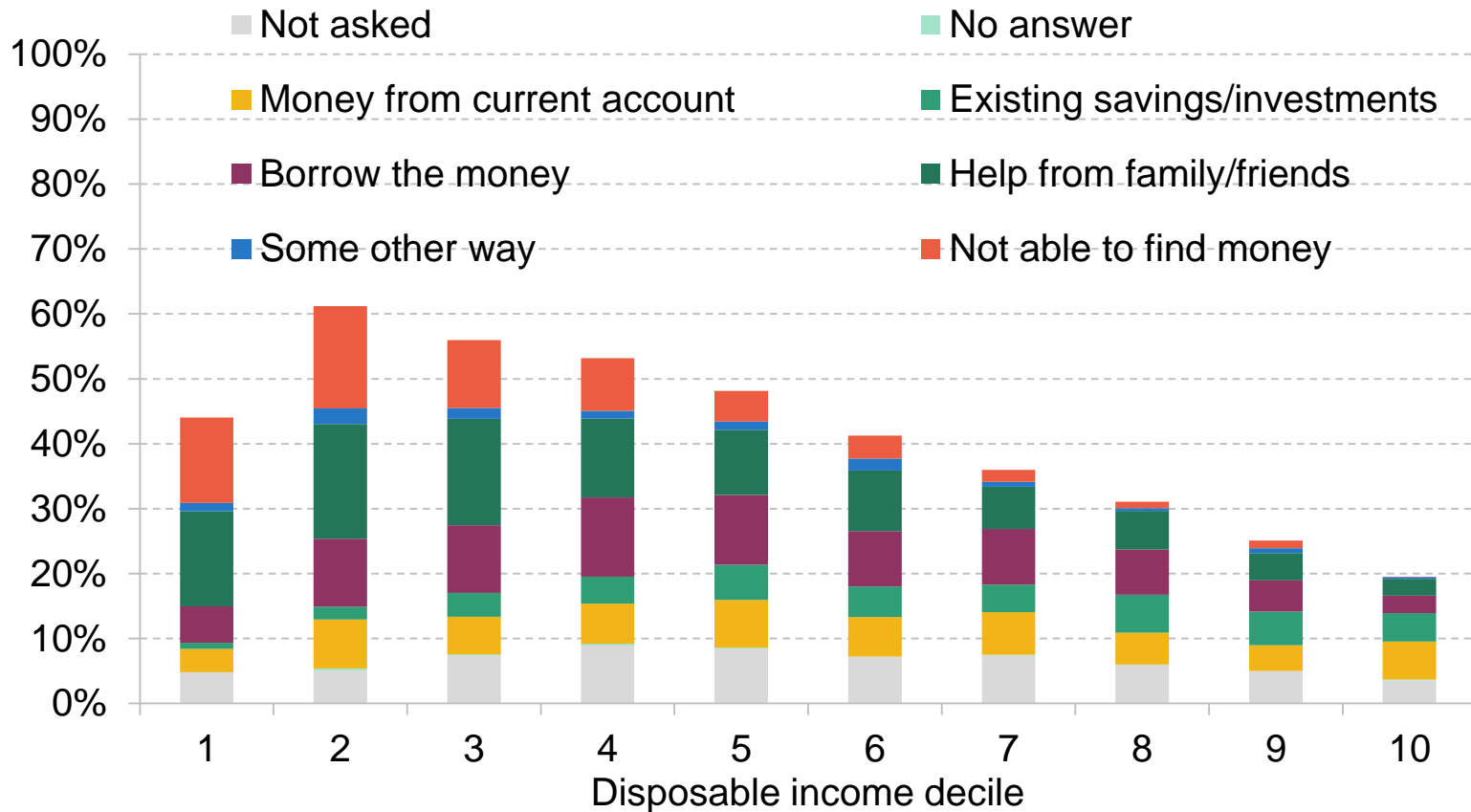
Proportion who would meet an expense of a month's income in different ways, by whether they have less than a month's income saved



Source: Wealth and Assets Survey, Round 7

# Meeting an expense of a month's income

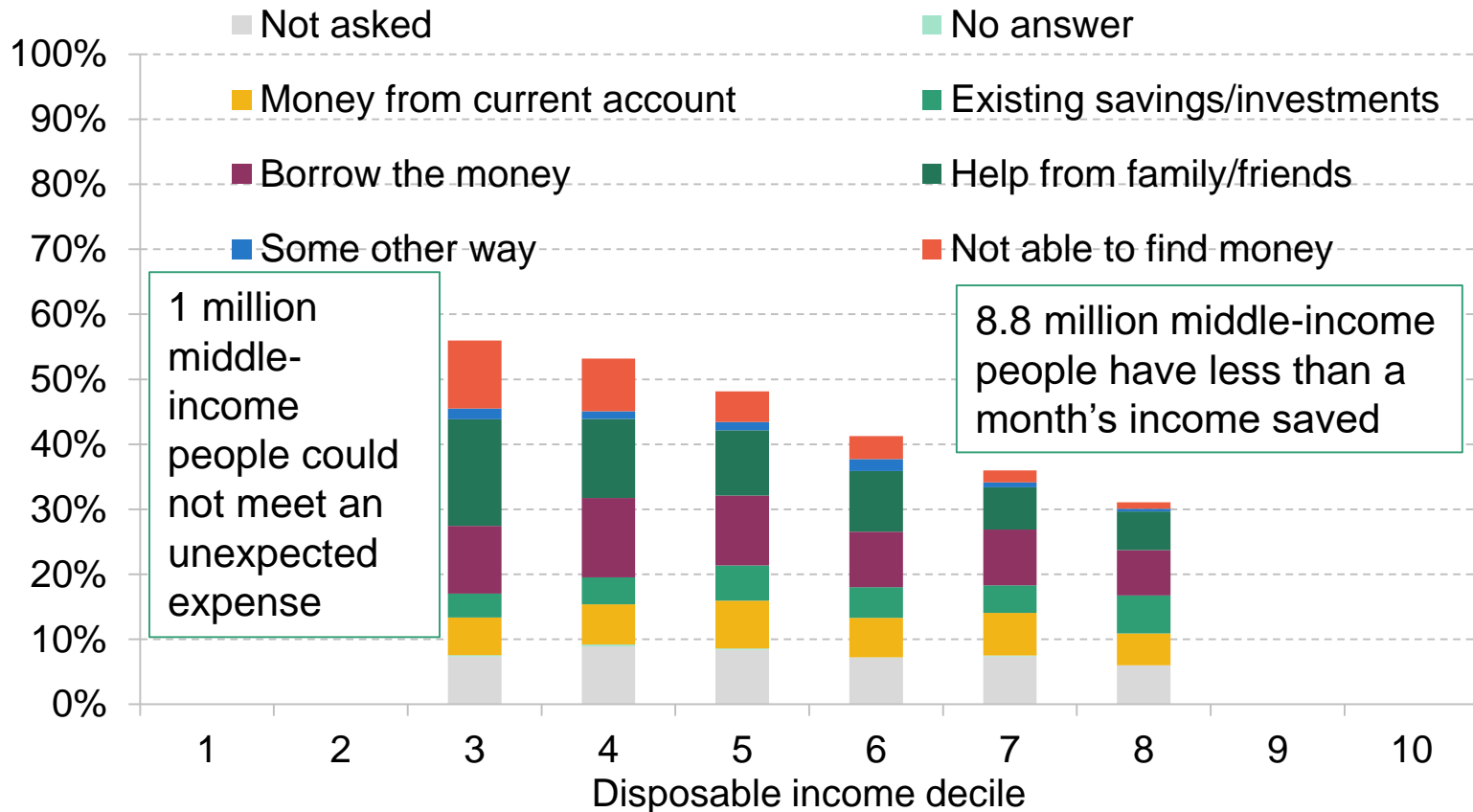
Proportion who would meet an expense of a month's income in different ways, by whether they have less than a month's income saved



Source: Wealth and Assets Survey, Round 7. Note: disposable income has been adjusted for family size and structure. Not all respondents were asked question: those to whom answers could not be assigned were assigned 'Not asked'

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# Conclusion



- Having low savings most common for **low-income, younger, less-educated** people
  - But **not uncommon** even among people who do not fall into these brackets
  - Large proportions of those in the middle of the income distribution have less than £2,000, or a month's income, saved
- More **financially literate** people less likely to have low savings – even controlling for other factors
- Many of those with low savings have **other mechanisms** to deal with an economic shock
  - But may not be optimal – and some cannot access other forms of support



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