Who has low savings and how problematic can that be?

Bee Boileau
Jonathan Cribb
Thomas Wernham
Our thanks to the IFS Retirement Saving Consortium and the ESRC
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?
Data

- 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
Who has low savings?
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

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?

<table>
<thead>
<tr>
<th>Duration</th>
<th>Under £2,000</th>
<th>Less than a month’s net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only in 2018-20</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>In 2018-20 and either 2016-18 or 2014-16</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>In all three waves: 2018-20, 2016-18, 2014-16</td>
<td>70%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: Wealth and Assets Survey, Wave 5, Rounds 6 and 7
How problematic is it to have low savings?
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

- **Less than 1 month’s income saved**
  - No answer: 16%
  - Money from current account: 12%
  - Existing savings/investments: 23%
  - Borrow the money: 28%
  - Help from family/friends: 3%
  - Some other way: 3%
  - Not able to find money: 17%

- **1 month’s income saved**
  - No answer: 39%
  - Money from current account: 46%
  - Existing savings/investments: 5%
  - Borrow the money: 7%
  - Help from family/friends: 2%
  - Some other way: 1%
  - Not able to find money: 2%

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’
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’.
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