Savings and life events

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The aim of this research project was to learn more about people's pattern of saving and pension provision, especially among those of working age. In particular, the research considered the effect on saving and pensions of different key life events, such as getting married, having children or receiving a windfall. The report presents findings based on analysis of the British Household Panel Survey (BHPS) for 1991-2000. The BHPS is an annual survey of adults in a nationally representative sample of more than 5,500 households, with the same individuals re-interviewed each year. The report describes the patterns of savings and pensions for 2000/01 (the most recent data), and over the ten-year duration of the data previously collected.

Key findings

- In 2000, just over four in ten (43 per cent) of individuals said they were saving money, and half of them reported that they or their partner were saving. They were saving an average of £154 a month. People with a non-state pension were both more likely to save than those without one and to save larger sums of money.
- The most common purpose was saving up for holidays, followed by saving for old age, house purchase and special events. 40 per cent of people interviewed in 2000 were saving for retirement, either in the form of a non-state pension or in general savings.
- More than twice as many self-employed people, as employees, said that they were saving (into bank and building society accounts) for their old age.
- Over the ten year period examined in the study, most people of working age (75 per cent) reported periods when they were saving and not saving, with at least one change of saving behaviour over the ten years. Around one-quarter of all individuals changed their saving behaviour year-on-year – with half of them starting to save, half ceasing. The main factor affecting whether people were saving was their own 'subjective' assessment of their financial situation.
- The proportion saving for old age was trivially small for people below the age of 30. There was some increase in saving for old age at 30, and after 35, but it was the age of 45 that appeared most decisive in kick-starting saving for this purpose.
- When people started families, the proportion saving dropped from 45 per cent to 39 per cent. Following the birth of a second or subsequent child, the proportion of savers and amount of saving were already below average, and these reduced further.
- Holding assets was associated with positive *outcomes* in 2000 (e.g. not smoking), but much more weakly associated, if at all, with *changes* in behaviour during 1995-2000 (e.g. quitting smoking). There was no 'asset effect', once appropriate statistical controls were included.

Summary of research

Background

The report examines how particular life events affect patterns of saving[1]. It identifies the range of purposes for which people save, and how many and what kinds of people save. Last, it examines whether savings positively affect later life events (which has been called the 'asset effect').

Who saves?

The characteristics associated with saving were explored, specifically; whether people are saving at all, the purposes for saving, and the amounts saved. A range of social and demographic factors was included, and results presented are from both simple tabulations and multivariate analysis.

In 2000, just over four in ten (43 per cent) of individuals said were saving money, and half of them (51 per cent) reported that they or their partner was doing so. Overall, three in ten (30 per cent) said that they regularly put money aside; and about the same proportion (27 per cent) were saving for the long-term. The average amount saved was £154 a month (year 2000 money terms).

Four in ten (41 per cent) of all those who saved said that the money was not earmarked for anything in particular – for a 'rainy day'. The most common specific purposes were saving up for holidays (22 per cent), followed by saving for old age (9 per cent), house purchase (5 per cent) and special events (5 per cent).

People's subjective assessment of their financial situation had the greatest impact on regular saving (and also on long-term saving). Workers were by far the most likely to save regularly even when other important factors such as income and benefit receipt were controlled-for.

Two in ten (21 per cent) of self-employed people said that they were saving was for their old age – twice the proportion (nine per cent) of employees. This covers money saved into bank accounts and the like, not into pensions.

People with a non-state pension were both more likely to save than those without one and to save larger sums of money. The effect was greater, on saving regularly, among those with an occupational pension than it was for people with a personal pension. Moreover, the multivariate analysis showed that the effects persisted even when other factors, such as income and employment status, were included.

The main predictors of saving for old age were somewhat different from those for saving in general. The largest impacts were associated with age (which had little effect on general saving) and employment status (which affected general saving far less).

Patterns of saving over time

Between 39 per cent and 43 per cent of respondents were saving at any given wave, 1991-2000. Average amounts saved over time have risen in real terms. The proportion of individuals saving for old age (or with a non-state pension) has been broadly constant since the mid-1990s.

The data may be used to look at the saving behaviour of the same individuals over time, considering how many stop and start saving each year, or conversely whether saving persists from year to year. The youngest birth cohort is saving less than those up to ten years older than them. Their slightly older peers (born 1965-74; who elsewhere have been depicted as "Thatcher's children") had, if anything, been saving more than those who were slightly older than them. Nevertheless, these 'values' did not appear to have been taken up by their younger peers.

[1] The savings questions in BHPS cover whether individuals are saving: if so, the monthly amount, for what reasons they are saving; and whether they have non-state pension arrangements. For amounts of capital accumulated by families, there is a reasonably good match between the BHPS 2000 and the Family Resources Survey for 2000-01.

Just over one in six (18 per cent) of those included in the study for all ten years said at each and every annual interview that they were not saving – although for some 30 per cent of this group there was at least one occasion when they had a partner who saved. Among those of working age, around nine per cent never saved or had a spouse who was saving. Conversely, seven per cent were saving at each wave. This means that most people (75 per cent) had a mix of occasions when they were saving and not saving, with at least one change of saving behaviour over the ten years.

The information most strongly associated with saving behaviour was people's 'subjective' assessments of their financial situation.

About one-third of people could be described as 'savers' by virtue of their answers throughout ten years, whilst 53 per cent qualified as non-savers. A further 13 per cent had more mixed patterns of saving, not easily fitting into either group. Savers had notably more stable incomes over time than non-savers, as well as higher incomes.

Savings and life events

The research explored how far changes in life events – moving house, having children, key birthdays, and so on – are associated with changes in saving and pension arrangements. A wide range of different events are included, and results presented from both simple tabulations and multivariate analysis.

Among those saving at a given interview, 31 per cent were not saving the following year. Conversely, 21 per cent of non-savers in a particular year were saving a year later. Overall, around 25 per cent of all individuals changed their saving behaviour year-on-year - with half this number starting to save, and half ceasing.

The proportion saving for old age was trivially small for people below the age of 30. There was some increase in saving for old age at 30, and after 35, but it was the age of 45 that appeared most decisive in kick-starting saving for this purpose.

A range of different life events affected the proportions who were saving. The effect of getting divorced (or separating) was to reduce overall saving by five percentage points, down from 34 to 29 per cent. The average amounts saved also reduced. Those getting married slightly reduced their saving, though this was from a relatively high base.

When people started families, the proportion saving dropped from 45 per cent to 39 per cent. When families added to their family size, the proportion of savers and amount of saving were already below average, and these reduced further.

There appeared to be positive effects on savings and non-state pensions between the ages of 21 and 22. There was some effect, though smaller, of having attained the age of thirty. However, changes in people's work status had among the largest effects on savings and pension we could find.

Women were more likely than men to stop saving in the face of many events, except for drops in earnings where they were less likely to stop. Richer groups (in the top third of the income distribution) were *more* likely to start saving than others, following an expansion in family size, and were much less affected in their decision to start saving by any changes in income. Those with non-state pensions were less likely than others to change their saving behaviour in response to particular life events.

Effects of savings: is there an 'asset-effect'?

An important area of recent debate has been the claim that saving and asset-holding has important and positive effects on people's lives[2]. Previous research has found effects of savings on labour market outcomes, particularly for men, on avoiding marital breakdown, and on certain health questions. Few significant effects had been found for the effects of savings on parenting outcomes, nor on citizenship measures.

When using the same methods as earlier work we also found that assets affected later outcomes. However when a different approach was adopted – one that the researchers argue is superior – no reliable effects of assets on life outcomes was found. The analysis reported on covered a five-year period, so effects taking longer to observe cannot be ruled out – including the ten-year period included in the previous research.

The effects of holding assets are much reduced when simple tabulations included the outcomes of interest, measured in *both* 1995 and 2000. Holding assets was associated with positive *outcomes* in 2000 (e.g. not smoking), but much more weakly associated, if at all, with *changes* in behaviour during 1995-2000 (e.g. quitting smoking). Still, some labour market outcomes were statistically significant. However, models of change over this period including a range of demographic variables found that the effects of holding assets on *changes* of outcome were not statistically significant.

[2] Bynner, J. and Paxton, W. (2001) *The Asset-Effect* London: Institute for Public Policy Research.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 610 1. Price £31.50 Research Report 194. September 2003).

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