Which?

Which? works for you

Consumer Insight

August 2014

The three habits of successful savers

How learning from their behaviour could get the UK saving

Contents

1. Executive summary

1.1 Why we did this research

The UK is emerging from recession and a prolonged squeeze on incomes and spending. At last, both consumer spending and levels of confidence in the economy are rising. However, many UK consumers' financial resilience remains fragile. Four in ten consumers say they find it difficult to cope with an unexpected expense, and five in ten are concerned about their level of savings – levels that are unchanged since the beginning of 2013.[1] And the situation is not improving as consumers are not putting more money aside: UK households saved 7.3% of their disposable income in 2012, but by the first quarter of 2014 this had dropped to 4.9%.[2] One in four UK households has no savings at all.[3]

In this context, now is a good time to investigate UK consumers' savings behaviour: how are savings distributed across households and how can households (who could afford to) be encouraged both to start saving and to maintain a savings buffer? Throughout this report, by savings buffer we mean having at least three months' essential expenditure put aside in liquid cash savings – in other words, savings that can be turned into cash at short notice, so not pensions or other long-term investments. Such a buffer can be crucial when it comes to coping with sudden shocks to income or expenditure that can tip families from surviving to struggling.

It is clear that many households cannot afford to put more money aside; little or no growth in wages combined with the rising price of essentials mean that many households have no breathing space. Credit obligations also prevent some from committing money to savings. Yet our report does identify a group (about 5% of the UK adult population – approximately 2.5 million people) who do not currently save anything but could afford to start saving, and another group (23% of the UK adult population – approximately 11.5 million people) who do save but do not manage to do so in a consistent or sustainable way. This report looks primarily at how these two groups could be encouraged to save, or to save in a more sustainable way.

Saving for retirement has received considerable attention from policy makers and government in recent years with the roll out of pension auto-enrolment and the Chancellor's 'Budget for Savers'. But the question of how best to encourage people to build and maintain a short-term savings buffer has received much less attention. Long-term savings are undoubtedly important yet, as our research shows, having a short-term savings buffer provides peace of mind as well as an essential safety net against having to go into debt to make ends meet on a day-to-day basis. Short-term savings are important in growing a resilient and healthy consumer economy.

The issues in the cash savings market are well-reported and Which? has been at the forefront of campaigning for change in this area. Our recent report, *The Savings Trap*, focuses on the key areas where consumers are being let down as a result of a lack of effective competition in the market. It finds that nearly a third of savings accounts in the market are 'zombie' accounts which are closed to new customers and pay very low rates of interest. The lack of easy comparability between savings products, plus a number of other problems including poor notification practices, complex savings products and barriers to switching which fail to encourage consumer engagement,

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[1] Which? Consumer Insight Tracker (2013 – 2014). Populus, on behalf of Which?, interview a representative sample of 2,000 UK adults each month. Data are weighted to be demographically representative of all UK adults. Latest data from June 2014. [2] The households' saving ratio reflects households' gross saving as a percentage of their total available resources (the amounts available to invest or save). Savings ratios are a rather inexact way of measuring household savings as they include pension equity and also credit is included as negative saving. As an aggregate measure, it also gives very little insight into the distribution of savings. ONS data. See www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=NRJS&dataset=qna&table-id=J3 [3] Which? savings research (2014)

mean that consumers are often effectively trapped in such accounts. Which? estimates this costs savers £4.3 billion per year in lost interest. Many of these problems can be rectified by the regulator and industry and we are starting to see some providers taking positive steps.

Reforming the way the cash savings market operates, and in doing so improving the trust and engagement of consumers in the market, would have a positive effect on the issue this report seeks to address: how to encourage more people to save in the first place. This is crucial for household financial security and the resilience of our consumer economy. Which? wants to work with government and industry to develop joined up proposals for a comprehensive savings strategy that could help to get the UK saving.

1. 2. Key findings

Lack of financial resilience

There is a lack of resilience in the financial situation of a significant number of households in the UK. Our research finds that four in ten (41%) say their household could not last three months without their main source of income, while a third (32%) say the longest they could last is a month.[4] One in six (17%) say they would not be able to last any time at all, rising to a quarter (25%) of those with an annual household income of £21,000 or less.

Savings provide households with resilience and peace of mind

There is a clear link between having savings and being financially resilient. Households without three months' worth of essential expenditure in savings are significantly more likely to have defaulted on a loan, rent or mortgage payment in the last month, and are also more likely to have taken out high cost credit. Savings have also been strongly linked with peace of mind and our research evidence underlines the wider benefits of savings – such as the freedom 'to enjoy life's little luxuries'.

Financial and behavioural barriers prevent more people saving

It is clear that, for some households, saving three months' worth of essential spending is unaffordable. And, for some, it is more important to pay off debt than to build up savings. Even so, a significant minority of people say that they do not save because they prefer to spend money now. This propensity reflects a number of behavioural traits and ways that we think about money. These include the tendencies to value the present more highly than the future, and to view putting money aside as a loss in terms of current spending. We also have a tendency to be overly optimistic about future financial health and therefore less incentivised to build up a buffer. These behavioural traits are currently aligned against building up savings but we argue in this report that they can be harnessed more effectively to encourage households to save more.

Encouraging more Habitual Saving

There are demographic and socio-economic factors that are closely correlated with higher savings: age and income, for example, are both significant drivers of higher levels of saving. But our research for this report reveals that there are also certain behaviours that are strongly linked both with having the three months' recommended buffer and with saving sustainably. Our analysis divides UK households into ten groups of savers or non-savers, based on their attitudes and behaviour. Of particular importance for this research are three groups of savers which are defined by savings behaviour regardless of their age, gender or income. These groups – the Habitual Savers (14% of the UK adult population – approximately 7 million people), the Lifestyle Savers (9% of the UK adult population – approximately 5 million people) and the Struggling Savers (23% of the UK adult population – approximately 11.5 million people) – are explored in detail. The report focuses on the way that the first of these groups, the Habitual Savers, are more likely to have larger savings pots, to be increasing these pots and are less likely to use credit to get by. In particular, we look at the differences between the Habitual Savers and the other groups of savers, as well as at the contrast with a group of non-savers, who could afford to save but do not (5% of the UK adult population).[5]

[4] Q16 How long do you think you would be able to cover the essentials if your household lost its main source(s) of income? [5] All population figures are taken from the ONS Mid-2013 Population Estimates. See www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/stb--mid-2013-uk-population-estimates.html

The results reveal three main behaviours that are strongly linked to successful, sustainable saving:

- **Saving every month** – our research reveals that saving regularly is crucial to building and maintaining a savings buffer. Not only this but saving every month, as opposed to most months, also makes a significant difference in terms of building up savings.

- **Saving for a rainy day** – while saving for a specific goal, such as a holiday or a car can help increase savings, it also means that this money is subsequently spent. Our research shows that people who save in this way often take a break from saving until a new goal is identified, because they are saving in order to spend. On the other hand, those who save with a less specific goal – for the future or for 'a rainy day' – are more likely to build up a buffer. Similarly, our analysis shows that saving a certain amount, or proportion, of regular income is more successful than saving towards a goal of a particular sum.

- **Keeping savings separate from other money** – those with a savings buffer are much more likely than the other savers to have a savings product and to keep their savings separate from their spending money. This means that it feels like a separate 'pot' and they are less likely to dip into it when they do not strictly need to.

Our research reveals that the Habitual Savers are more likely to do each of these things than the other groups of savers. We found that the habit of saving every month is far more likely to result in a three-month saving buffer. This is true irrespective of income, and low income does not completely rule this behaviour out; 11% of those who saved every month in the last year were in the lowest income quintile, the same proportion of monthly savers as in the highest income quintile.

1.3 Strategies for improving the savings culture

The ideas in this report are designed to encourage more people to adopt the behaviours and emulate the successful saving of the Habitual Savers. Given the mixed evidence about the success of economic (i.e. financial) incentives to increase levels of savings, our ideas use behavioural insights and focus on working with the grain of consumer behaviour rather than solely relying on more traditional policy levers such as financial incentives. We think that saving could be encouraged by taking advantage of behavioural insights to develop principles for creating an innovative range of savings products designed to work with consumers' existing behaviour.

The following ideas are grouped loosely into categories based on the behaviours that we think they could encourage. Some of the ideas for industry build on interesting work that is already underway by some providers. The innovative use of technology has been key in some providers' thinking about how to encourage their customers to save more. And the British Banking Association (BBA) has recently launched a consultation on how to improve the savings culture in the UK. [6]

The ideas below should be seen as a starting point for how to think about these issues, building on both the conclusions of our own research and on behavioural insights more widely. There is not a one-size-fits-all solution to the savings challenge. The suggestions presented below should be seen as a suite of options, not prescriptions designed to apply to all. They would need to be properly piloted as people's behaviour is notoriously unpredictable and realistic trials are the best way to avoid unforeseen problems and optimise consumer outcomes. There would also need to be robust governance standards to protect consumers from detriment, particularly given that a number of them involve the use of defaults.

Saving every month

Auto-save: encourage short-term saving through workplace incentive schemes

Building on the early success of auto-enrolment in pensions, this would be a flexible savings product that automatically diverts, through the payroll, a small amount of post-tax wages into a savings account. As with

[6] See www.bba.org.uk/news/bba-voice/help-rebuild-britains-savings-culture/#.U9I21fldXVY

pensions, ideally employees would be 'auto-enrolled' into the scheme when they joined a company with the ability to opt out if they wanted.

Employees could choose either a savings account of their own, or the default choice of a savings account that tracks the Bank of England base rate. The account would be easily accessible but it could incorporate prompts that discouraged withdrawals for discretionary purposes. For example, an employee could be asked to set out the purpose of the fund at the start and be reminded of this if they did make a withdrawal. The account has the potential to be positioned as an employee benefit and it could move with the employee when they changed jobs.

Using debt repayment as a springboard to developing a savings habit

Our research found that more than a third of people who are not saving at all said this is because they wanted to pay off debts first. The tension between paying off debt (or wanting to avoid going into debt) and wanting to start saving was also apparent in our qualitative research. Altering the way that these two aspects of finances are strictly segregated could be one way to help instil a savings habit. For example, lenders could offer an optional feature that deposits a 'token' contribution into a savings account as part of the debt repayment process. Some credit unions already do this when they lend money; they pay a small proportion of debt repayments into a savings pot, so that, at the end, consumers are left with no debt and a small savings buffer.

Equally, with consumers' consent, savings providers could use debt repayment as a commitment device to help enable future savings. Given that people repaying debt are already regularly foregoing some of their existing income; it makes sense to focus efforts on helping people to start a savings habit once their debt is repaid. Products could leverage this key window of opportunity by changing the default from ceasing to make payments to continuing to do so. Such a system could automatically assign the consumer a good quality savings account and require consumers to opt-out of continuing payments if they wanted to stop.

Saving for a rainy day

Stressing the benefits of saving

Our research reveals that there are both material and emotional benefits of saving and having a savings buffer. Yet saving is often seen as a very low priority, particularly given most people's preference for pleasure in the present rather than the future. Making people aware of the benefits of saving in a salient and engaging way could help persuade more people to save. Such messaging should focus on the emotional benefits, in providing peace of mind, as well as practical benefits, the opportunity to 'enjoy little luxuries', for example. This should be done through consistent messaging and language, particularly within communications from savings providers.

Changing incentives to save

Loss aversion has a large impact on savers. Product designers should bear this in mind when designing savings products to encourage greater saving: security and peace of mind can be more important to savers than high returns. It should also be acknowledged by those who aim to encourage savings that some people tend to see putting money aside as a 'loss' in terms of today's expenditure. Again, a product designed from a behavioural point of view will attempt to remove this aspect of saving by offering some sort of compensation, be it material or otherwise, for this 'loss'. This might include offering other ways to incentivise saving, other than simply the interest rates.

People's tendency to be present-centred is something that could also potentially be harnessed through incentives that offer some kind of 'reward' now, in exchange for regular savings. Given that Struggling Savers and Non-Savers tend to be much more present-centred than Habitual Savers, they need to be prompted into saving for the future by a reward that kicks in immediately -for example, cinema tickets or other small, yet tangible benefits. The reward could be revoked if regular savings were stopped – which could tap back into loss aversion and act as a commitment device.

Keeping savings separate

Offering the option of paying a salary directly into a savings account

Typically, people's salaries are paid into a current account and then they transfer money into a savings account either manually or automatically. There is potential to explore whether being paid directly into a savings account, then having to move money into a current account, could increase the likelihood of saving and saving more.

Clearly, the practicality of such arrangements would have to be explored but there are three reasons to think this might have a positive impact on savings behaviour):

- It would disrupt the status quo and increase the salience of saving, as people would have to 'engage' at some point to move money into a current account
- Money would be regularly deposited through a weekly/monthly salary into the savings account
- It could potentially leverage the endowment effect in consumers' favour – the hypothesis that people ascribe more value to things merely because they own them.[7] As such, if people saw a significant amount of money in their savings account, it might make people less reluctant to transfer the whole sum into a current account.

Help people separate savings from other money

Our research shows that Habitual Savers almost always keep their savings separate from their everyday money. Participants in our qualitative research told us that this was important psychologically as it helped prevent them dipping into their savings. Typically, when behavioural solutions are suggested along these lines, they tend to be designed to help consumers save for particular purchases, towards a 'holiday pot' for example, or a 'new car pot', often through 'jam jar' accounts that match people's spending goals. However, our research indicates that, while this may be a successful way to encourage people to start saving,[8] it does not instil a regular, savings habit. Therefore, instead of incentivising people towards specific goals that are viewed as 'pots', it is likely to be better to incentivise moving money regularly from current accounts to savings accounts. One way to do this might be to make setting up a standing order to a savings account the default option when opening up a current account, or to prompt this option more visibly on current account statements.

Help people lock away money through reminders, commitments and incentives

Participants in our research liked having their money 'locked away' in savings accounts that require regular deposits to deter them from using funds for discretionary purposes. However, they also wanted to be able to access their money in an emergency without incurring a financial penalty. As such, one way to build in more accessibility to 'regular savers' accounts might be to include features such as receiving a reminder of the purpose of the savings fund that you committed to at the start upon withdrawal. Furthermore instead of penalising withdrawals, providers could look at incentivising keeping money in these accounts. Consumers may respond better to carrots rather than sticks when choosing savings accounts.

1.4 Opportunities for government

Developing a comprehensive savings strategy

We are calling on the Government to develop a comprehensive savings strategy aimed at increasing the number of people with a savings buffer of three months' essential spending. This strategy should involve coordinating industry and employers to take advantage of the growing behavioural evidence to design schemes and products that work with, rather than against the grain of consumer behaviour. This report highlights some of the behaviours that could be encouraged. With leadership from government, we believe that all the relevant actors – employers, industry and consumers themselves – could be encouraged to instil a stronger and more effective savings culture in the UK.

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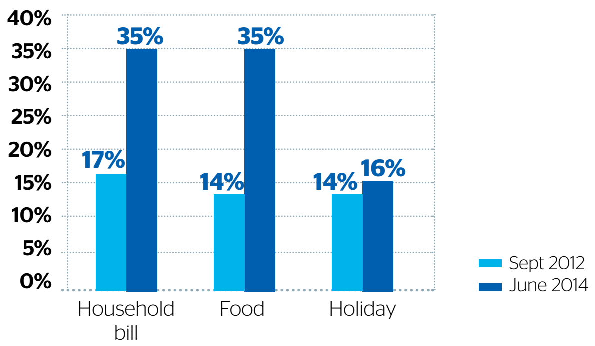
[7] One of the most famous examples of the endowment effect in the literature is from a study by Kahneman, Knetsch & Thaler (1990) in which research participants were given a mug and then offered the chance to sell it or trade it for an equally priced alternative good (pens). Kahneman et al. (1990) found that participants' willingness to accept compensation for the mug (once their ownership of the mug had been established) was approximately twice as high as their willingness to pay for it. See D Kahneman, J Knetsch, and R Thaler (1990) 'Experimental tests of the endowment effect and the Coase theorem' Journal of political Economy: 1325-1348. [8] There is some research which suggests that saving for goals can be linked to regular savings, provided that when a goal is achieved, it is replaced with another target. The Fairbanking Foundation, which evaluates banking products on how well they help improve their customers' financial well-being, rates enabling customers to set savings goals as one of their key measures by which they evaluate savings accounts. See The Fairbanking Foundation (2013) Fairbanking Ratings: Reaching for the Stars.

2. Background

2.1 Consumers spending habits

Having emerged from recession, the UK economy is in the process of recovering from a longer-term economic squeeze, with consumer confidence and spending rising in the last year. [9] However, there is evidence that some of this increased spending has come from some consumers taking out more credit and some dipping into their savings. Which? research on consumer spending habits shows that, on average, 23% of households have been dipping into their savings each month to get by.[10] The proportion of people doing this has not changed dramatically in the last 18 months, yet what people are using their savings for has. Some 18 months ago, people were using savings largely to pay for holidays or big ticket items; recently, more consumers report dipping into their savings and taking out credit to pay for essentials like food and household bills (see Fig. 1).

1. Reasons for dipping into savings, 2012 compared to 2014



Source: Which? Consumer Insight Tracker

2.2 The cash savings market is not working for consumers

Much of the recent public debate on the state of the savings market in the UK has centred on the poor consumer outcomes resulting from the historically low rates of interest being paid by savings accounts. This stemmed initially from the impact of the reduction of the Bank of England base rate, which fell from 5.25% in January 2008 to 0.5% by March 2009, in the aftermath of the financial crisis. [11] Savings interest rates were then further depressed as a consequence of the introduction of the government's Funding for Lending Scheme (FLS) in July 2012, which aimed to incentivise banks and building societies to boost their lending to both households (in particular mortgage lending) and companies by making access to credit cheaper for an extended period of time. [12] This meant that banks and building societies no longer had to compete for savers' deposits to fund their lending, and the rate of return on savings accounts suffered as providers cut headline interest rates as a result.

Low interest rates have clearly had a negative impact on savers, particularly in an economic environment where incomes are being squeezed and spending has been at the expense of saving. However, the focus on this, and speculation about when interest rates will rise again, paints only part of the picture of the significant level of detriment experienced by consumers in the cash savings market.

[9] Which? Consumer Insight Tracker (2014); ONS Consumer Trends(2014): available at www.ons.gov.uk/ons/rel/consumer-trends/consumer-trends/q1-2014/index.html [10] Which? Consumer Insight Tracker, (2013 – 2014) [11] Bank of England (2014) 'Changes in the Bank Rate, Minimum Lending Rate, Minimum Bank 2 Dealing Rate, Repo Rate and Official Bank rate', Availble at: http://www.bankofengland.co.uk/monetarypolicy/Pages/decisions.aspx [12] Bank of England (2012), 'The Funding for Lending Scheme', *Quarterly Bulletin Q4*

Whereas this report looks at how people save and at potential ways to encourage more people to save, a detailed exploration of the underlying issues with the cash savings market is contained in a separate report – *The Savings Trap* – published by Which?. This latter report examines the market in terms of low interest rates, lack of switching and consumer detriment in an often complex and confusing market.

2.3 The UK lacks a culture of saving

Britain's low savings ratio is well-documented. [13] Whether putting money aside for a rainy day, or ensuring sufficient pension savings for retirement, the statistics show the UK has a poor track record compared with other countries. [14] The OECD figures for percentage of household income going into savings have consistently placed the UK near the bottom of the league table. [15] This is not a new trend: while salaries have increased since the 1940s, each successive generation has increased spending in line with earnings and reduced relative savings levels. [16]

In particular, many low-to-middle income families in the UK have few or no savings. This is particularly worrying, given low-to-middle income families are more likely to be in less secure jobs, and are less able to access affordable credit, both of which increase their need for accessible savings. [17]

At the same time, easy access to credit pre-recession meant consumers haven't needed to save. The UK saw a rapid growth in unsecured consumer lending in the 10 years after 1997, with the total amount borrowed increasing from £77 billion in 1997 to £190 billion at the start of 2007. Qualitative research with consumers reveals a perception that credit was so easy to access that it became a part of everyday life and, although borrowers on the whole do not like being in debt, nearly two thirds now see it as necessary. [18]

There are other indications of the lack of a savings culture. Qualitative evidence suggests that for some consumers, saving is perceived as equating to an austerity lifestyle or being on a diet, in contrast to spending which is fun, provides instant gratification and can enhance our status among peers. [19] Adverts offer easy money in the form of payday loans and enticing cashback offers for spending on our credit cards. Simultaneously, there is a notable absence of any public facing campaigns from government or industry to encourage consumers to save or promote what 'good' looks like in saving.

2.4. Existing incentives to save have had mixed results

Policy makers often resort to financial rewards, such as matching or tax-incentives, as a way to boost levels of savings. Matched savings vehicles, common in parts of the US, were tested in the UK in the 'Saving Gateway' pilot under the last Labour government. Targeted at low to middle income earners, the Saving Gateway accounts offered matches between 20p and a £1 for every £1 contributed up to individual contribution limits that varied between £25 and £125 a month. In theory, matched accounts should provide a strong incentive to start a longer-term saving habit. However, the evidence is mixed on the success of the pilot. [20] Data suggests that the higher matching rates led to an increase in take-up and greater contributions to the matched savings account. However, overall take-up among the lower-income target group was still relatively low. In addition, researchers found evidence that people were reshuffling their existing savings to take advantage of the financial incentive rather than saving more overall. There is also no evidence about the longer-term impact of the accounts on the subsequent saving behaviour of account holders once their eligibility for the matched contributions had expired. [21]

Tax-favoured savings vehicles, such as pensions or ISAs, are the most commonly used financial incentive in the UK to boost savings. However, the literature suggests that, as with the matching trial, although tax incentives have a large impact on the form in which savings are held, they do not necessarily lead to a significant increase in overall household saving. As a result, they also tend to disproportionately benefit those, usually wealthier consumers, who already have savings. [22]

[13] The households' saving ratio reflects households' gross saving as a percentage of their total available resources (the amounts available to invest or save). Savings ratios are a rather inexact way of measuring household savings as they include pension equity and also credit is included as negative saving. As an aggregate measure, it also gives very little insight into the distribution of savings. ONS data (2014). See www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=NRJS&dataset=qna&table-id=J3. [14] The ONS will this autumn change the way that it calculates GDP. This is expected to impact the measurement savings ratio in the UK and to improve Britain's position relative to other countries. [15] OECD http://www.oecd-ilibrary.org/sites/9789264067981-en/02/05/index.html?itemId=/content/chapter/9789264075108-10-en [16] TISA (2014) *Our Financial Future*. Available at: http://www.tisa.uk.com/downloads/TSIP%20Our%20Financial%20Future%20-%20Review%20Summary%20April%202014.pdf [17] J Plunkett, A Hurrell & M Whittaker (2014) *The State of Living Standards*, Resolution Foundation [18] Which? credit research (2013 and 2014) [19] Which? savings research (2014) [20] See E Kempson and A Finney (2009) 'Saving in lower-income households', A Review; P Harvey, N Pettigrew, R Madden, C Emmerson, G Tetlow and M Wakefield (2007), *'Final Evaluation of the Saving Gateway 2 pilot: main report'* [21] The British Academy (2012) *Raising Household Saving* [22] The British Academy (2012) *Raising Household Saving*

3. Why does a savings buffer matter?

This section examines why a short-term savings buffer is important. For this report we have used the Money Advice Service (MAS) and government definition of a recommended savings buffer, which is having three months' or more of essential expenditure put aside in liquid savings.

3.1 Having a three months' savings buffer means greater financial resilience

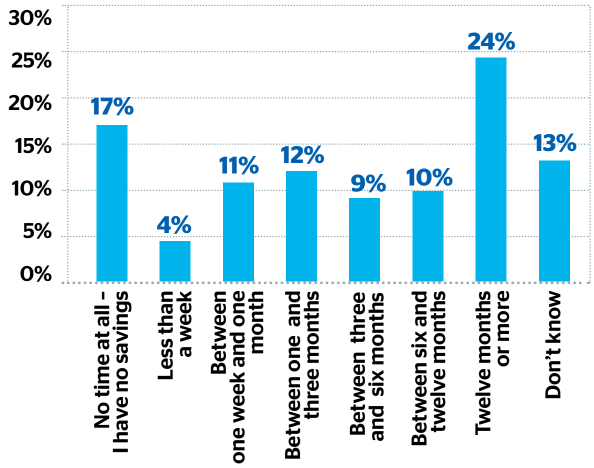
Having a three months' savings buffer leads to greater financial resilience and means people are less vulnerable to financial 'shocks', such as an unexpected bill or drop in income, as well as helping to meet day-to-day living costs.

The length of time UK households say they could last without their main source(s) of income is worrying. Four in ten (41%) say they could not last three months, while a third (32%) say the longest time they could last is a month. One in six (17%) (see Fig. 2) say they would not be able to last any time at all, rising to a quarter (25%) of those with an annual household income of £21,000 or less.

With 19% of the population running out of money at the end of each month, easily accessible savings can make a difference to how households cope.[23] It is clear from our data that households without a savings buffer are significantly more likely to have defaulted on a bill, loan or rent/mortgage payment in the last month, and are also more likely to have used high-cost credit such as a payday loan.

It is also notable that, while those with the recommended savings buffer are more likely to have dipped into their savings in the last month, they are also more likely to have increased their savings recently. This indicates that having savings allows households to smooth their consumption, while still putting money aside when they can. On the other hand, not having savings correlates with further financial difficulty: those who do not have

2. How long respondents say their household could cover essentials if they lost their main source(s) of income.



Source: Which? savings research

[23] Which? credit research (2014)

a savings buffer are 2.2 times more likely to experience financial difficulty, even when controlling for income, age and education. This is clearly unsustainable: evidence from Which?'s *Credit Britain* report highlights the link between reliance on credit for everyday purchases and spiralling debt. [24]

3.2 Having a savings buffer can provide peace of mind

Evidence from academic research shows that psychological well-being increases with the presence of savings. [25] There is also evidence to show that a low level of liquid assets is associated with poor psychological well-being in the case of men, and both men and women living in social housing. Which? research shows that people with savings also tend to be more optimistic about the future, more emotionally stable (i.e. less neurotic on the Big Five personality scale), [26] and respondents in our qualitative research stressed that savings provide them with 'peace of mind' and the freedom to 'enjoy life's little luxuries'.

4. Who has what? The current UK savings landscape

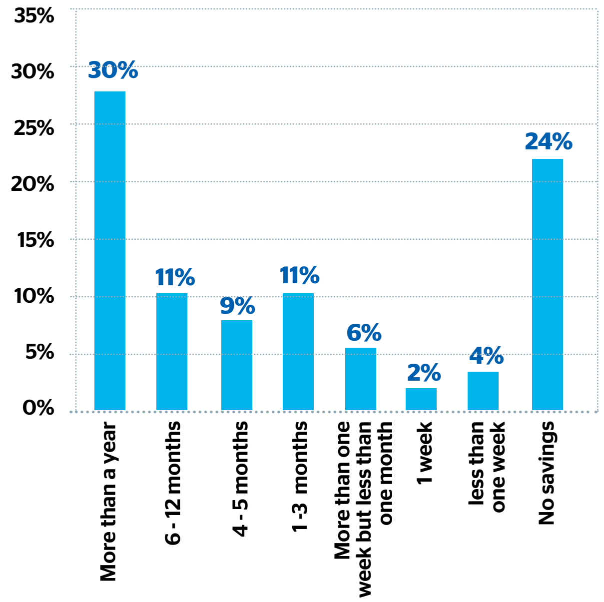
We have seen that having short-term savings provide both financial and psychological benefits. This section examines the distribution of savings in the UK today.

4.1 There is a significant disparity between those who have savings and those who do not

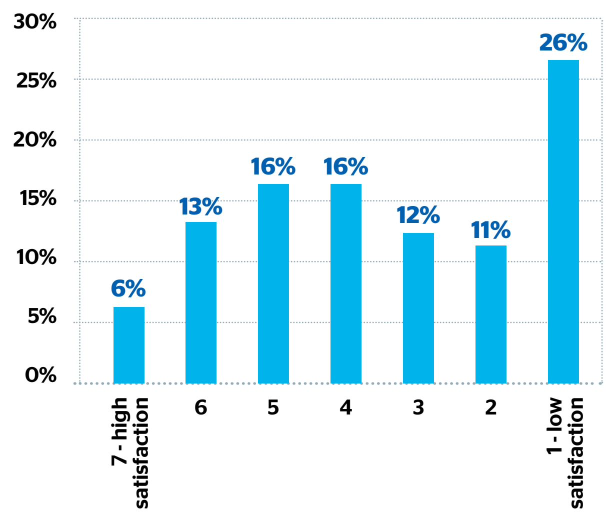
The UK savings landscape is characterised by a significant disparity between those who have savings and those who do not. While approximately a quarter (24%) of the population has no savings whatsoever, three in ten (30%) say they have more than a year's worth of household income saved up (see Fig. 3).

[24] Which? (2013) *Credit Britain* [25] M-Y Kan and H Laurie (2010) 'Savings, investments, debts and psychological well-being in married and cohabiting couples' *Institute for Social and Economic Research*. Available at:https://www.iser.essex.ac.uk/files/iser_working_papers/2010-42.pdf [26] Please see the appendix for a more detailed explanation of the 'Big Five' personality scores

3. Amount of household saving as a proportion of household income



4. Satisfaction with saving



Source: Which? savings research

This divide is also reflected in people's views of their situation, with 35% of respondents satisfied with their level of household savings and half (49%) dissatisfied. As Fig. 4 shows, the distribution reveals that, while some people are very satisfied, there is a large proportion of the population (26%) who gave the lowest possible answer to the question.

4.2 Segmenting the UK population to understand more about who saves, who doesn't and why

We segmented survey respondents on their attitudes to saving to understand in more detail who saves what (or not), and why. The segmentation analysis produced ten distinct groups: six groups of savers (those who had saved something in any of the last 12 months) and four groups of non-savers (those who had not saved at all in the last 12 months). Fifteen qualitative interviews (telephone) were conducted with respondents from the groups that were of most interest, which were three groups of savers (Habitual Savers, Struggling Savers and Lifestyle Savers) and one group of non-savers who are able to save, but do not. The analysis of the segments also incorporated several psychological measures and scales to provide a more in-depth understanding of why people do/don't save. These were the 'Big Five' personality scores, an optimism/pessimism scale, measures of self-control and financial literacy. [27]

4.2.1 Three groups of savers defined by circumstance [28]

Our segmentation revealed three groups that are divided as much by who they are, as by what they do. Each of these groups is relatively homogenous in terms of demographics, compared to the subsequent three groups. The first three groups are predominantly made up of successful savers. However, their income levels (and in two cases their age) suggest that it is likely that their circumstances explain this more than any specific behaviours.

High-Income Savers (11% of population – approximately 5.5 million people; 17% of savers): These people tend to save every month. They have a large amount of savings, held primarily in savings products, and little or no household debt. They see savings as part of their normal expenditure and tend to be saving for a rainy day or retirement, rather than for specific purchases. They are more likely than average to have a savings account, and are much more likely

[27] Please see the appendix for a more detailed explanation of the 'Big Five' personality scores [28] All population figures are taken from the ONS Mid-2013 Population Estimates. See www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/stb---mid-2013-uk-population-estimates.html

to have investment products as well as cash savings accounts. A high proportion of people in this group are saving simply because they always have.

However, the defining characteristic of this group is not their behaviour – they share some of these characteristics with other groups – but the fact that they have above average income and are largely aged between 45 and 64. Men are more likely to be in this group than women, and they are likely to be married and own their own homes. Often educated to degree level or further, they score very highly on levels of self-control and financial literacy. Not yet retired, the vast majority of people in this group work (whether full or part-time).

- **Older Savers (6% of population – approximately 3 million people; 10% of savers)**: In short, this group can be seen as an older version of the High-Income Savers. The Older Savers have higher levels of savings than the High-Income Savers and are even more likely to save regularly. They are people who tend to have saved for most of their lives and largely see it as something they do because they always have. They tend to see saving as a prudent thing to do with left-over income but they often set themselves targets and save specifically for planned purchases.

Their level of savings means that they can spend savings on specific purchases and luxuries while leaving money aside for a rainy day. Like the High-Income Savers, they use a variety of products to help them save. Again, they are more likely to be men but are predominately over 55. Their income levels are lower and they are more likely to be retired than the High Income Savers. They overwhelmingly own their own homes outright and are more likely than average to live in rural areas. This group are highly educated, similar to the High Income Savers, and score even higher than them on self-control and financial literacy.

- **Younger Savers (5% of population – approximately 2.5 million people; 8% of savers):** This group is made up largely of younger people who are saving for a deposit to buy a property. They have quite high savings levels and are more likely than most to save regularly. They tend to set themselves specific savings goals ('I am saving for this') and targets ('I will save £300') and deliberately put money aside rather than simply save whatever they have left. Because of this, they do not see their savings as being for a rainy day and they are much less likely to have the recommended three months' buffer than either the High-Income Savers or the Older Savers. This is an overwhelmingly young group, with two-thirds of its members being under 35. Most people in this group are employed full-time, but there are also a higher proportion of students here than in other groups. They tend to either be single or cohabiting and are more likely to have young children than average. They are largely from higher socio-economic groups than most, although they do not have higher than average incomes. They tend to be renters in urban areas, and while they tend to have low levels of self-control they score highly on financial literacy.

4.2.2 Three groups of savers defined by attitudes and behaviour [29]

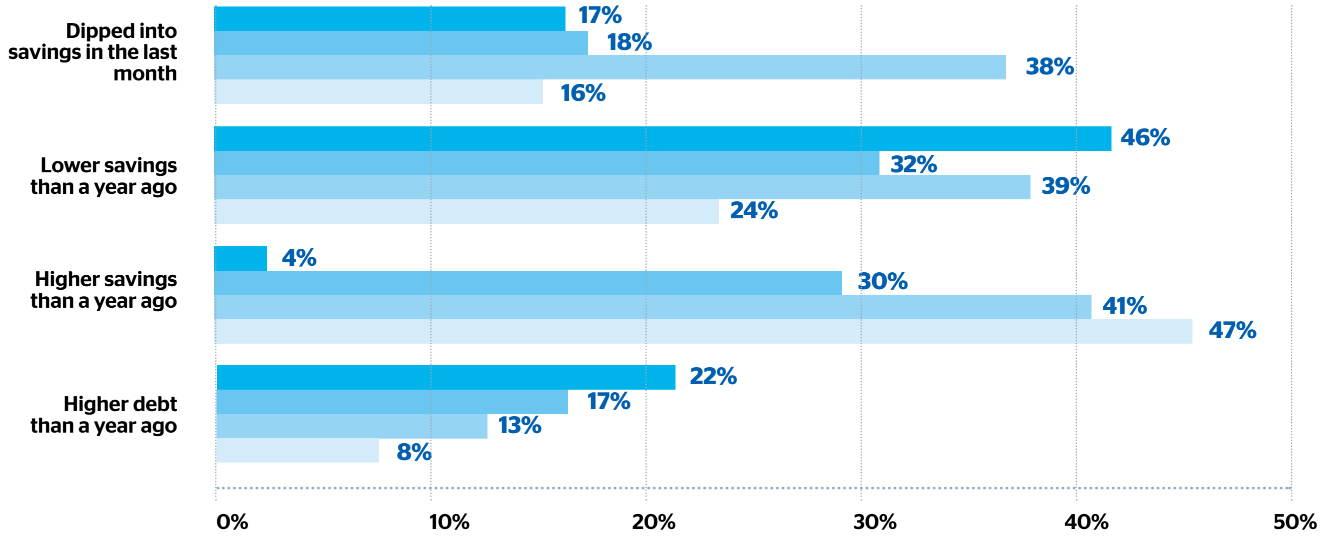
The following three groups are largely defined by how they save, rather than who they are. The demographic profile of each of these groups reflects the country as a whole much more than the three preceding groups. As they represent more of a demographic cross-section of society, their behaviours are therefore more important in term of what drives savings.

- **Habitual Savers (14% of population – approximately 7 million people; 22% of savers)** These are the most successful savers of all. They are the most likely to save every month and also to have reasonable amounts saved up; 43% have more than £10,000 and 55% have the MAS recommended buffer. The significant aspect that defines this group compared with the two that follow is that they are less likely to have specific savings goals. People in this group have a strong belief in the importance of saving per se, and make sure that they save regularly. Therefore they tend not to see their savings as being earmarked for anything and, when asked, will say that they are saving for 'no particular reason' or because they always have.

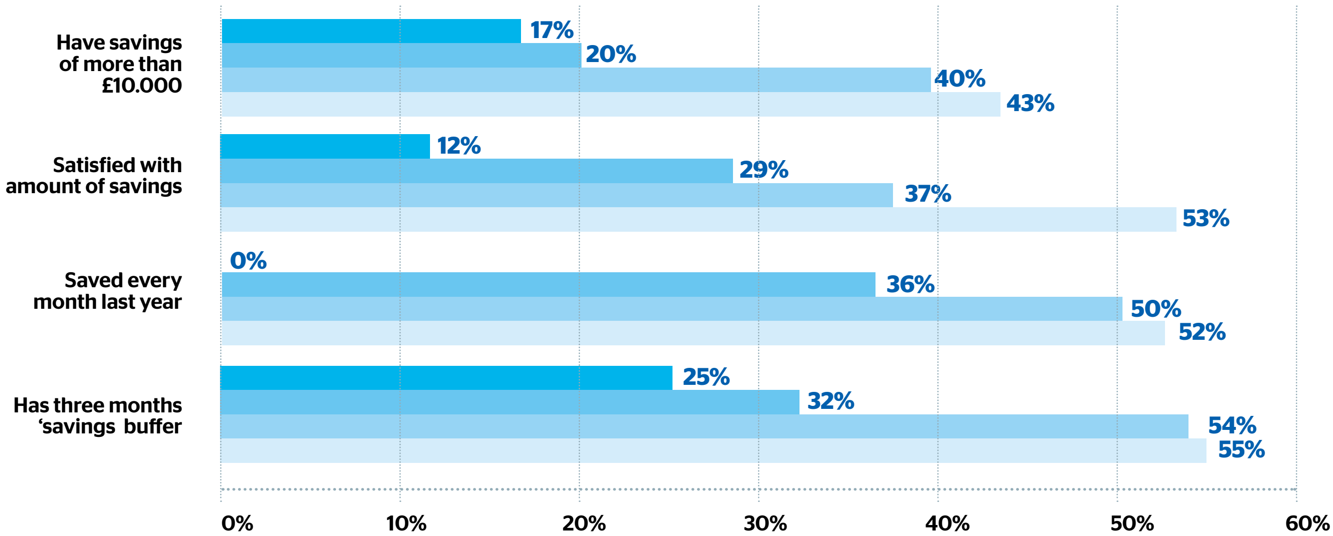
They also cite the security of savings as a big reason for putting money aside. The fact that having savings allows them to 'enjoy life every now and again', in terms of paying for holidays or small luxuries, is another reason that they believe so strongly in saving regularly. When they do make a purchase, they tend not to save specifically for it, but rather take some of their reserve and subsequently increase savings to build their pot back up again. Their attitude to saving enables them to maintain the level of their savings, even when they dip into it, and they are more likely to have increased their savings in the last year and less likely to have depleted

[29] All population figures are taken from the ONS Mid-2013 Population Estimates. See www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/stb---mid-2013-uk-population-estimates.html

5. Change in levels of savings and debt by different segments of savers



6. Savings outcomes by different segments of savers



Source: Which? savings research

Non-Savers Struggling Savers Lifestyle Savers Habitual Savers

them, than either of the other two groups below. People in this group are largely representative of the population as a whole in terms of demographics, including income. This group tends to have relatively high financial literacy and self-control compared to other savers and is also relatively optimistic. Like successful savers across the population, this group has low neuroticism and higher levels of conscientiousness than average as well.

Struggling Savers (23% of population – approximately 11.5 million people; 31% of savers)
This segment is much larger than any of the other segments of savers with nearly a third of all savers in this group. It is largely made up of people who do try to save but struggle to do so regularly and tend to have less saved up than any of the other groups. They are more likely to have some household debt and also tend to have lower levels of savings (e.g. less than £2,000). This group is made up of a mixture of people constrained in their savings by low incomes or high outgoings, and they see savings in quite a different way to either the Habitual Savers or the Lifestyle Savers. They tend to save for specific things but without an actual figure in mind. This seems to correlate with an attitude which views saving as something they do if their budget allows. They are more likely to keep their savings in current accounts

or cash than most savers, and less likely to have or to use a savings product. As saving tends to be for something in particular - for example a holiday or a new car - they are less likely to build up a buffer to protect them from unexpected expenses and more likely to take breaks from saving. For example, while they are likely to save if they have an upcoming expense, once that is achieved they may not save until they have another goal in mind. This means that, they struggle to grow a savings buffer. Like the Habitual Savers and the Lifestyle Savers, this group is broadly representative of the national spread of demographics, although there are slightly more women and the group contains more families with young children than the others. Their income profile matches the general population but they are slightly less likely to have gone to university than average. In term of personality scores, this group has below average self-control and financial literacy, the converse of the Habitual Savers.

Lifestyle Savers (9% of population – approximately 5 million people; 13% of savers)
This group saves more successfully than the Struggling Savers but they tend to use their savings regularly to smooth their expenditure. They are the group that is most likely to be saving for bills, for planned purchases or home maintenance, and for holidays. Citing 'peace of mind' as a large motivating factor for why they save, they save more regularly than the Struggling Savers although they eat into their savings at a much greater rate as well. They tend to use savings accounts but are the only group that regularly dips into their savings, and therefore tend to view their savings as less separate from their income and expenditure than other groups.

Their savings behaviour lends itself to building up savings more effectively than the Struggling Savers, but because they use their savings more regularly, they have mixed outcomes. This explains why, compared with the Struggling Savers, this group contains a higher proportion of people who have more savings than last year and a higher proportion who have fewer savings than last year. Like the other two groups largely defined by attitude and behaviour, the Lifestyle Savers group contains a broad spread of demographics, although retired people are slightly over-represented. The personality scores reveal a group that is closer to the Habitual Savers than the Struggling Savers; although they tend to be less conscientious, they are more financially literate than the Struggling Savers and are more optimistic than average.

4.2.3 The four non-saver segments [30]

We also segmented those who had not saved anything in the last 12 months into four groups, based on their reasons for not saving. The results are not surprising in that one of these groups is made up of people who do not save because they have very low incomes and another with people, also largely on low incomes, who do not save because they have high levels of unsecured debt which they are prioritising paying off. A third group, much smaller in size, does not save because they do not need to – this group is largely made up of people who already have very high savings. However, in terms of looking at whether there are groups that can be encouraged to save more, there was one group of non-savers who are of interest.

Non-Savers (who could save) (5% of the population – approximately 2.5 million people)
This group is different from the other groups of non-savers because, although 84% of them say they can't afford to save, they also cite other reasons for not saving. For example, 77% said they prefer to spend money on things they want now, 23% said they do not think saving is worthwhile, and 17% said they had not thought about saving. So while this group, which makes up just over 5% of the population, is comprised of some people who cannot afford to save, it also contains some who could be encouraged to do so, given that 60% are not currently feeling the squeeze at all, compared to an average of 51% across the whole sample. [31] The group is made up of slightly more women than men and although it contains people of all ages, it is dominated by those aged over 45. People in this group have much lower incomes than average, with over a third of them in the lowest income quintile. Nearly half have no savings at all, and 42% have never saved (the joint highest score, along with the debt preoccupied non-savers). This group also scores far below average on financial literacy, and personality scores reveal they have below average self-control and are generally more pessimistic than average.

4.2.4 Who are the most successful savers?

The evidence suggests that Habitual Savers are the most 'successful' savers. As we go onto explain in more detail in the next chapter, the habitual, regular saving of this group is a successful and sustainable way to build up and maintain a savings pot.

[30] All population figures are taken from the ONS Mid-2013 Population Estimates. See www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/stb---mid-2013-uk-population-estimates.html [31] The Which? Squeezemoter has identified 5 levels of financial squeeze: cutting back on essentials; using savings to cover spending and cutting back on essentials; borrowing from friends and family, using credit or authorized overdrafts and cutting back on essentials; using unauthorized overdrafts and/or a payday loan; defaulted on a loan, bill or housing payment

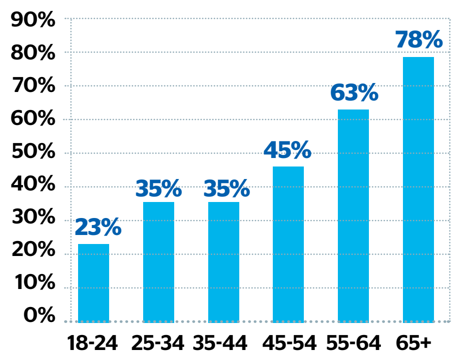
5. Why do some people have a savings buffer and others don't? Drivers and barriers to having a savings buffer

5.1 Why do some people have a savings buffer?

The last section started to highlight some of the key features associated with having a saving buffer. Using a regression analysis, this section identifies in more detail the key drivers and correlations of having a three months' savings buffer. These are:

- **Age/life stage**
- **Saving regularly**
- **Income**
- **Why people save**
- **How people save**
- **Where people save**

7. Proportion of households with a savings buffer by age group of respondent [32]



Source: Which? savings research

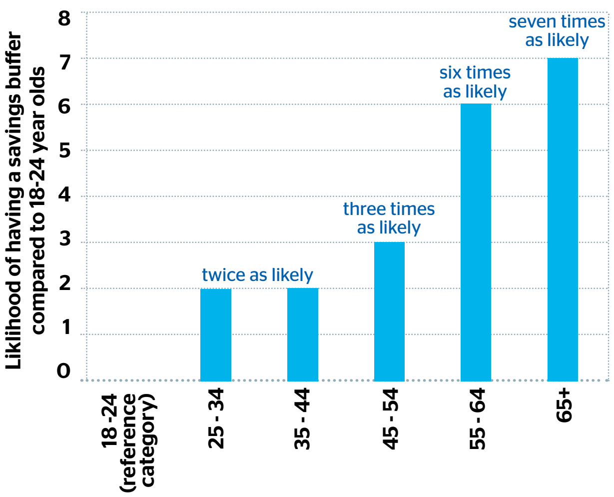
5.1.2 Age / life stage

There is a clear relationship between age and having a saving buffer. The older you are, the more likely you are to have the recommended savings buffer, even after controlling for income (see Fig. 7). Simply being in the 25-34 age group means you're twice as likely to have the savings buffer compared to those aged 18-24 (see Fig. 8). This might be because people get better at saving with experience from saving for 'life milestones' like property, children and marriage, or it may be an indication of the time it takes to build up a three months' savings buffer.

However, the picture is not straightforward; contrary to popular belief, our research suggests that many young

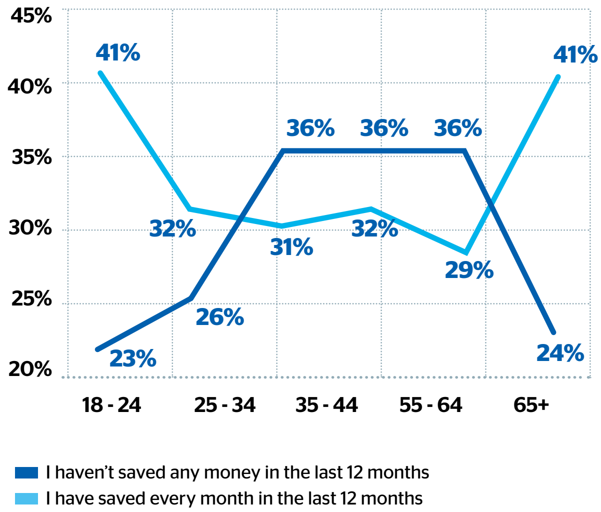
[32] Please note that all respondents either had sole or joint responsibility for household finances

8. Likelihood of having three months' savings buffer compared to 18-24 year olds



Source: Which? savings research

9. Frequency of saving in the last 12 months, by age group



Source: Which? savings research

people are serious about saving. As detailed further on in this chapter (see section 5.1.3), our analysis reveals that saving regularly is another key driver of having a three months' savings buffer. But we found that the youngest age group (18-24 year olds), along with the oldest age group (those aged 65+) have the highest proportion of those that claimed to save every month for the last 12 months (see Fig. 9).

What this suggests is that younger people are saving, but are saving smaller amounts (see Fig 10) are saving to spend and are struggling to build up a savings buffer. There is a significantly lower proportion of 18-24 year olds saving for an unexpected expense (rainy day) compared with all other age groups, which as we go on to detail, is another key driver of having a savings buffer. Finally, looking at the personality scores, this age group makes up the most conscientious age group (i.e. they tend to be more organised and self-disciplined rather than easy-going and spontaneous), although they score less well on self-control and financial literacy.

What is also clear from the data is that those aged 25 to 54 are less likely to have the recommended savings buffer (compared with older age groups) and are less likely to have saved every month in the last 12 months,

10. Average weekly amount allocated to savings/investments by age group

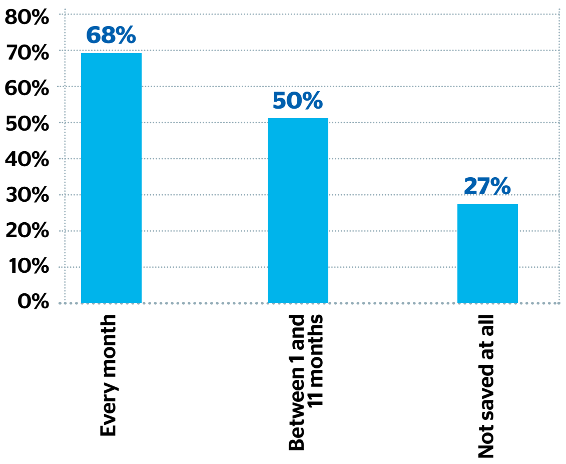
Age group	Average weekly amount allocated to savings / investments
18 – 24	£2.26
25 – 34	£6.87
35 – 44	£5.47
45 – 54	£7.50
55 – 64	£5.06
65+	£1.28

compared with all other age groups. The data suggests this is because this age group is:

- More likely to have dependent children: people with dependent children are less likely to have the recommended savings buffer. However, people with dependent children are still just as likely as other groups to save regularly, but they can't save as much. This is linked to the fact that, on average, households with dependent children spend 9 percentage points more of their income than households without children. [33]

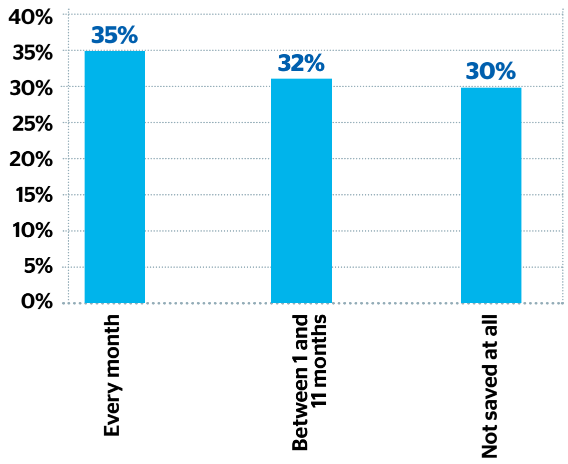
[33] Living Costs and Food Survey (2012) analysis by Which?

11. Proportion of households with a savings buffer, by frequency of saving in the last 12 months.



Source: Which? savings research

12. Frequency of saving in the last 12 months



Source: Which? savings research

- Less likely to own their homes outright and more likely to rent (particularly for 25-34s), both of which are correlated with being less likely to have a savings buffer and with being less likely to be building up savings and more likely to be depleting them.

5.1.3 Saving regularly

Those who save more regularly are more likely to have the three months' savings buffer, compared with those who save less frequently, or more sporadically, even when we control for income. Nearly 7 in 10 (68%) of those who saved every month in the last 12 months have the savings buffer compared with just 35% of those who saved three out of the last 12 months (see Fig. 11).

The importance of saving every month, rather than regularly but not necessarily every month, can be seen in the chart, above. It is clear that the habit of saving every month rather than simply regularly is far more likely to result in saving a three-month savings buffer and so delivers better outcomes. And this pattern is true irrespective of income. Indeed, while income clearly has an effect on whether people can save regularly, low income does not completely rule it out.

5.1.4 Income

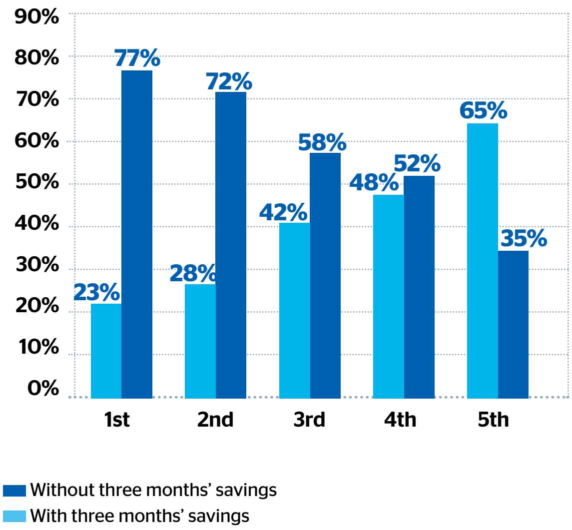
Unsurprisingly, there is also a clear relationship between the level of household income and likelihood to have a three months' savings buffer: 65% of people in the highest income quintile have such a savings buffer (or more), while just 23% of those in the lowest income quintile do (see Fig. 13). Similarly, 52% of those in the lowest income quintile have no savings at all compared with only 6% in the highest income quintile. [34]

However, a lower income does not fully explain why so many do not save. Indeed nearly a quarter of those in the lowest income quintile have the recommended savings buffer. And we have already seen that the successful Habitual Savers have an income profile that reflects the country as a whole.

11% of those who saved every month in the last year are in the lowest income quintile, which is actually the same proportion as in the highest income quintile.

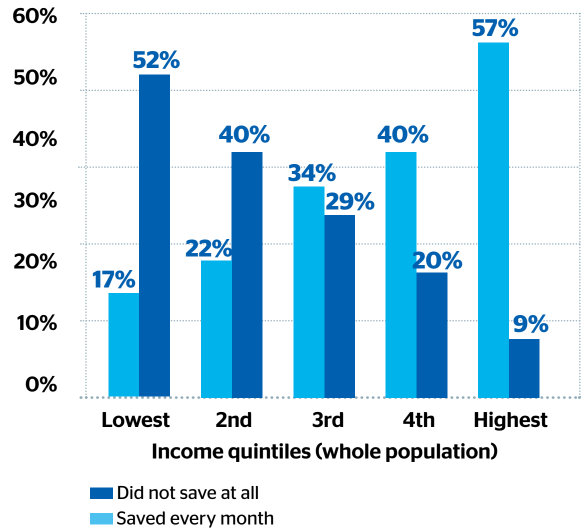
[34] Note that we have excluded 'retired' respondents from this analysis as retired people often have lower incomes and higher saving pots than average, thereby boosting the numbers in the lower income quintiles with higher total savings.

13. Households with three months' savings buffer, by income quintiles (excluding retired)



Source: Which? savings research

14. Frequency of saving in the last 12 months, by income quintiles (excluding retired)



Source: Which? savings research

As Fig. 14 shows, income is not an absolute barrier to saving: just fewer than one in five of those in the lowest income quintile saved every month in the last year. This is reflected in a review of the evidence on saving in lower-income households,[35] which shows that, regardless of income, people tend to approach saving with deep-seated attitudes, and that the most successful savers are those that see saving as a priority in itself rather than something additional or a 'nice to have'. As such, 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 and, from a policy perspective, to think about how people can be encouraged to shift their priorities.

5.1.5 Why people save

Those who save for unexpected expenditures (i.e. a rainy day) are much more likely to have the recommended savings buffer, and saving for unexpected expenditure is by far the most commonly cited reason for saving among those with the buffer (see Fig. 15). This reflects the wider savings literature which shows that, regardless of income, 'rainy day' savers are the most committed type of savers, saving actively and most regularly and with no specific purpose in mind. Instead they see saving as a priority itself. Saving for a rainy day, as well as saving for no particular reason or because 'I always have' are the most common reasons for saving for the segment identified as the most successful group of savers, the Habitual Savers.

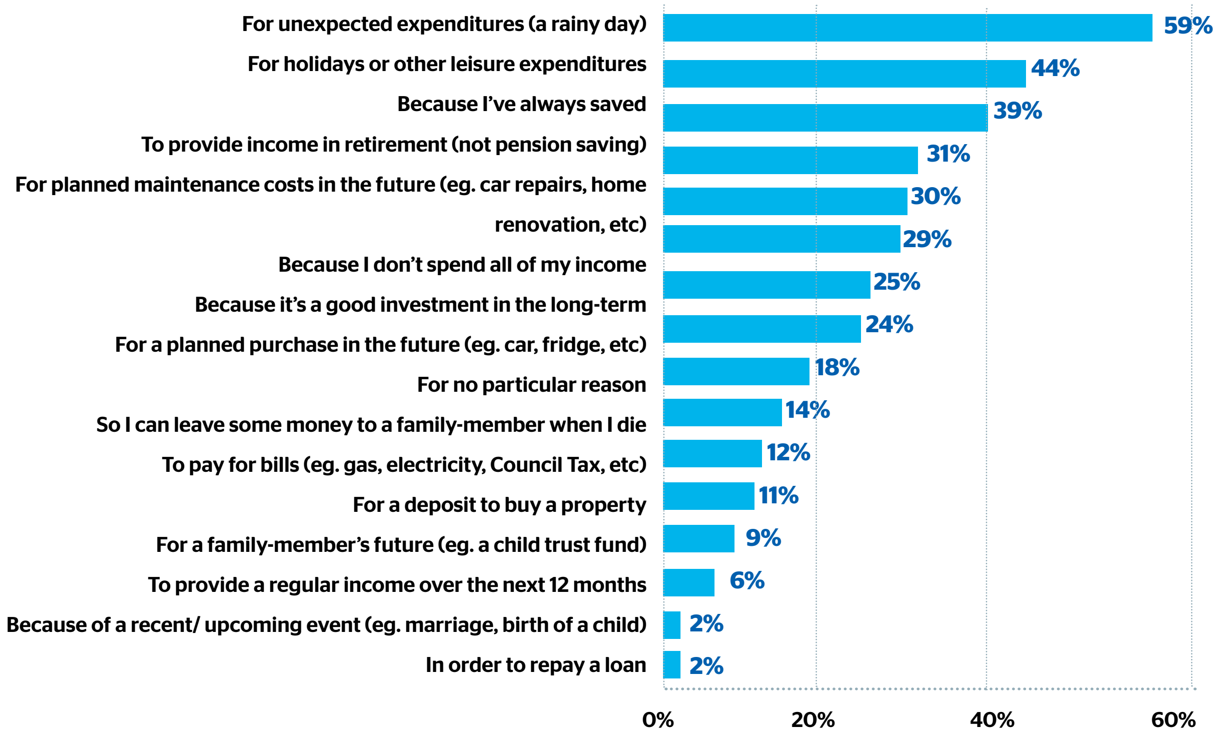
5.1.6 How people save

In terms of the way that people save, our research found that there are a number of ways that people approach saving. Some save money with particular purchases in mind, others have a figure that they try to achieve. Others attempt to save a proportion of their income, while another tactic is just to save whatever is left over at the end of the month.

In terms of how they save, our research has found that those with targets of saving a certain amount over a certain period of time (e.g. £500 per year) are more likely to have saved regularly than those who do not, with 68% having saved every month last year (see Fig. 16). They are also more likely than not to have the three months' savings buffer (see Fig. 17). Those who set themselves goals as a proportion of their income are also more likely than not to have saved every month last year. Both of these can be seen as 'rolling targets' in that they tend to be renewed at the end of each regular period. Saving for specific goals (for example to pay for a new car) is less successful, with only 43% of those who save in this way having saved every month last year, and only 52% having the three months' savings buffer, which is a relatively low score compared to the other ways people save. In addition, our analysis shows that, once a savings goal (either a set figure or for a particular purchase) has been achieved, many people take a 'break' from saving until they have another goal to save for. This may be an effective way to help households budget for planned

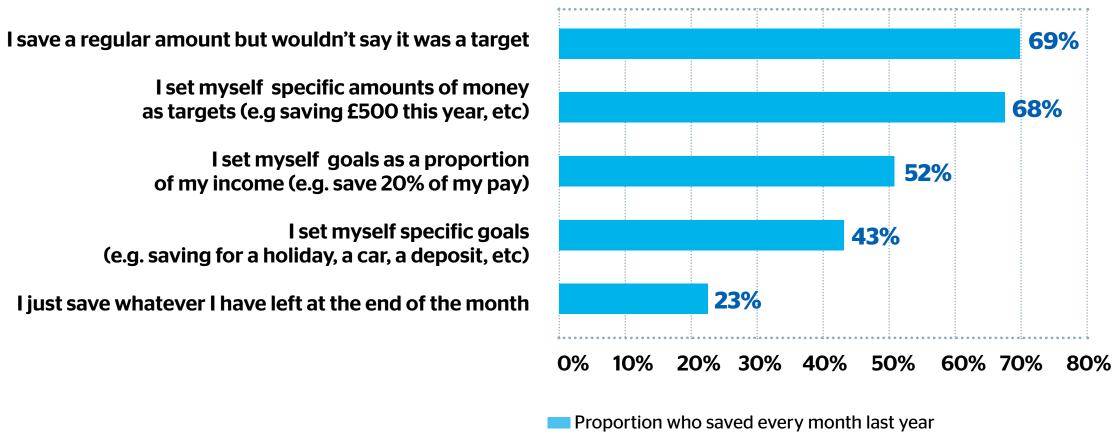
[35] See E Kempson and A Finney (2009) 'Saving in lower-income households', *A Review*

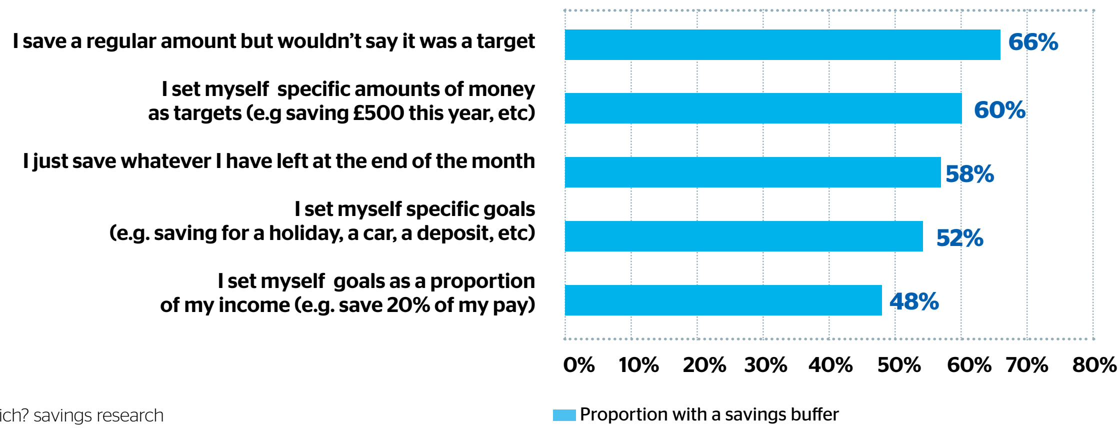
15. Reasons for saving



Source: Which? savings research

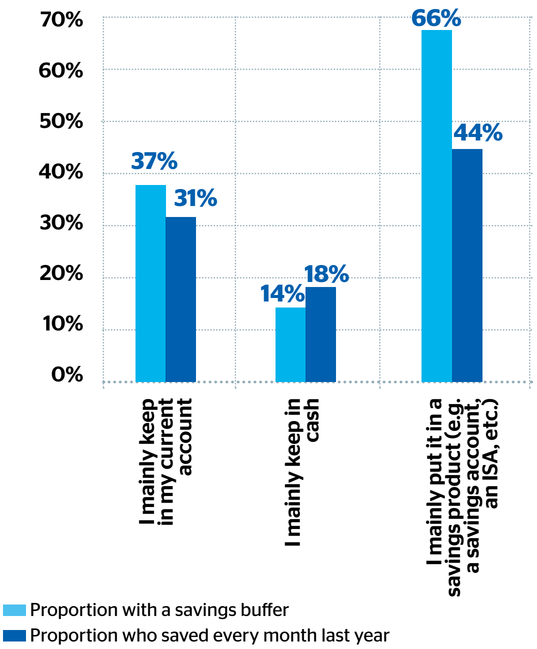
16 and 17. How people save





Source: Which? savings research

18. Where people save



expenses, but unless each goal is immediately followed by another goal, it does not help lead to a savings buffer that can protect households from unexpected expenses.

5.1.7 Where people save

Similarly, those who use a dedicated savings product (for example a savings account or an ISA) rather than keep their savings in their current account are much more likely to have saved regularly in the last year and to have a savings buffer (see Fig. 18).

As this chart shows, there are certain things that people do which are likely to help them build up a savings buffer. Having a savings product, for example, means that savings are separated from everyday spending and are therefore less easy to dip into. Similarly, our research has shown that regular standing orders, which move money across from current accounts to savings products, have helped people save regularly. This will be discussed further in the next section of this report.

5.2 Why do some people not have a savings buffer?

This chapter examines the main barriers to saving, or saving more. In summary, our research identified two main barriers to saving: first, that saving is simply not affordable for a number of households; and second, that putting money aside runs against a number of common behavioural traits. The remainder of this chapter explores these barriers in more detail.

5.2.1 Some households cannot afford to save, or to save more than they are

Affordability is by far and away the main reason respondents give for not saving (see Fig. 19). However, this is not to say people don't want to save: 83% of those with no savings say they would save more if their income was higher. Indeed, participants we spoke to in the qualitative research wanted to save, but they felt that their circumstances meant it was simply out of the question at the current time: "I just can't afford to [save], I'd like to but there's just no chance...I don't feel good about it but that's the way it is." As mentioned in section 5.1.4, however, it is important to note that a lack of affordability does not fully explain why some don't save; sometimes it's more of an issue of prioritisation – i.e. how savings are prioritised relative to other forms of expenditure - rather than affordability.

The perceived lack of affordability is perhaps unsurprising in a climate of stagnant incomes and the ongoing squeeze. Median household incomes have fallen by 3.8% since the 2008 crash. [36] One in five UK workers is now classified as being on 'low pay' according to the OECD, while longitudinal research has shown that those on low pay have difficulty escaping it; only 18% of those on low pay in 2002 had managed to escape it permanently by 2012, while 27% remained on low-pay throughout the decade. [37]

[36] J Plunkett, A Hurrell & M Whittaker (2014) *The State of Living Standards*, Resolution Foundation [37] See J Plunkett et al, *The State of Living Standards*, the OECD defines 'low pay' as being less than two-thirds of the national median income.

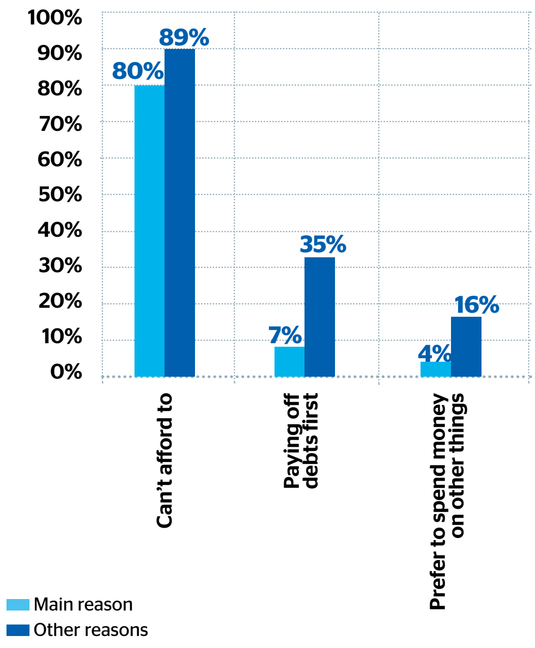
At the same time, prices of essential goods and services have risen faster than other prices. While inflation since 2007 stands at 20%, gas and electricity prices have risen by 61%, fuel has risen by 29% and train fares by 38%. Food and drink prices have risen by 31%. The Which? Spending Power Index – which measures the relative change in consumer purchasing power over time – shows that consumer purchasing power has remained flat for approximately two years. [38]

The impact of stagnating consumer spending power was seen in our qualitative research, where there was a strong feeling among participants that they could not cut back their spending any more than they already have: "I used to save but now everything is rising it's impossible, we can't…there's no money left for anything like that." In contrast, income was not mentioned. This chimes with other research, which shows that when thinking about the squeeze in living standards, people are more concerned with rising prices than stagnant wages. [39]

The squeeze on people's disposable income goes beyond limiting their ability to save, and is also linked to depleting savings pots. Our data shows that, while savings are largely seen as being for a rainy-day, in reality people are increasingly dipping into their savings in order to maintain their living standards. 26% of people who saw their savings 'pot' as partly for regular expenditure dipped into it every month last year, while 61% dipped into it at some point in the last year. 52% have dipped into their rainy day 'pot' at some point in the last 12 months. More generally, one in five (20%) of all savers dipped into their savings in the last month, with the most common reasons being for food or bills. As mentioned earlier, this has changed in the last 18 months, with savings increasingly being used for essentials rather than for holiday or specific purchases.

All in all, the macro economic climate has made it more difficult to save and depleted the level of households' savings. A third of people (32%) say that their total level of household savings is now lower than it was a year ago, while one in five (20%) said that it is now lower than it was a month ago.

19. Top three reasons for not saving



Source: Which? savings research

5.2.2 Those who are struggling to get by have other priorities

A third (35%) of those who are not saving at all said this is because they want to pay off debts first (see Fig. 19). This is patently sensible. Independent sources of advice, such as the Money Advice Service (MAS), stress that people should be wary of saving if they have unsecured loans, credit card debt or high-cost debt (such as payday loans or unauthorised overdrafts). With savings interest rates so low, holding debt is relatively much more expensive than the gains from saving. This has led MAS to recommend paying off certain types of mortgages earlier rather than saving. [40]

MAS also highlights that, under some circumstances, pension saving and protection insurance should also be considered more of a priority than rainy-day saving, because the consequences of not having such arrangements in place can be very serious. Whether this is the case varies on individual circumstances. [41]

[38] See here for the latest data: http://consumerinsight.which.co.uk/powerindex/index [39] Which? has been tracking the top worries of consumers over the last two years, throughout this time the prices of essential goods (energy, fuel and food) have been the biggest causes for concern, ahead of personal financial situation. Which? Consumer Insight Tracker (2012-2014) [40] See www.moneyadviceservice.org.uk [41] see www.moneyadviceservice.org.uk

5.2.3 Low interest rates are not a barrier to those who are not currently saving

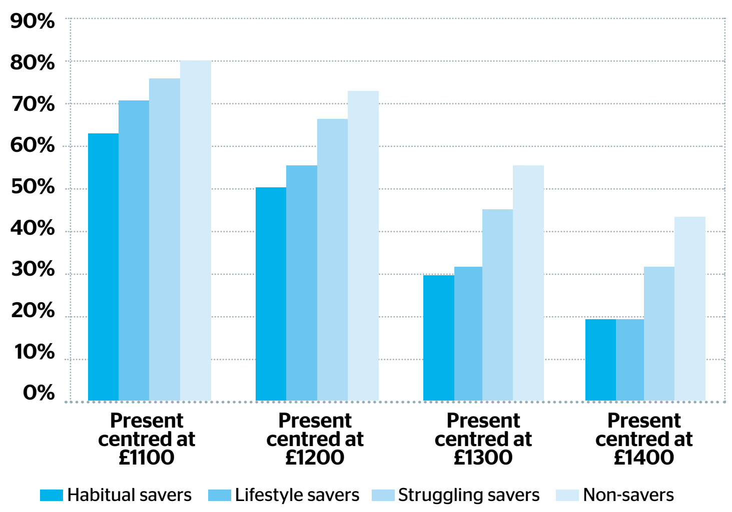
It is interesting to note that the current low rates of interest were not mentioned as a barrier to saving in our research by those who do not currently save. In the quantitative research, low interest rates were not spontaneously cited at all as a reason for not saving and also only 1% cited 'I don't think saving is worth it' as the main issue for not saving. 6% gave it as 'another reason', after their main reason. Not one participant raised it as an issue in our qualitative interviews. It seems that, among those who want to save but currently do not, people are not looking to make money, merely a sustainable way to put money aside. This has important implications for recommendations for boosting savings. It is not to say that low interest rates are not important. They are certainly an issue and Which? has identified serious detriment in the market from savers being trapped in low interest 'zombie' accounts, but they do not appear to be a key barrier putting off people from starting to save. [42]

5.2.4 Behavioural barriers [43]

Setting money aside for a rainy-day is rational behaviour. Yet 16% of our respondents said they do not want to save because they 'prefer to spend money on things I want now' (see Fig. 20). Savings behaviour is a classic example of people not acting as the economically rational, utility-seekers of economics textbooks. In particular, there are four ways that people deviate from this economic consumer which have a particular impact on savings behaviour:

- **Present-centeredness:** We usually have a desire for instant gratification and tend to overvalue the present when making financial decisions. More widely, this can be seen in a number of behaviours including procrastination – putting off unpleasant or boring tasks – and the fact that lifestyle changes, such as going to the gym or dieting, can be very hard. In terms of saving, the temptation to spend money today, rather than set it aside for the future, is a good example of present-centeredness. We asked people to tell us if they would prefer £1,000 today or another sum of money this time next year. The graph below shows that the group we identified as the most successful savers, the Habitual Savers, are less present-centred than the two other groups of savers for each amount involved (see Fig. 20). Conversely, the Struggling Savers are considerably more present-centred than the other groups, even when offered the choice between £1,000 today and £1,400

20. Tendency towards being present-centred by segment of savers.



Source: Which? savings research

[42] Which? (2014) *The Savings Trap* [43] For a summary of the issues discussed in this section see D Kahneman (2011) *Thinking Fast and Slow* (London: Penguin) or R Thaler and C Sunstein (2008) *Nudge: Improving Decisions about Health, Wealth, and Happiness* (New Haven: Yale University Press)

next year. This indicates that Habitual Savers are least likely to prioritise spending today over the future. Indeed, only 27% of them said if they had to choose they would rather have a good standard of living today rather than save for tomorrow. This is compared to 36% of Struggling Savers, 37% of Lifestyle Savers and 61% of Non-Savers.

- **Over-optimism:** We also have a tendency to be optimistic about future financial health. This can lead to poor evaluations of future risks and a tendency to think a savings buffer is not really necessary. Our interviews revealed that Habitual Savers tend to have a more realistic view of the likelihood of future expenditures than those from groups with less successful savers. Struggling Savers tended not to build up a buffer, partly because they see savings as being for particular spending goals. They are arguably being over-optimistic in this, as they rarely mentioned during interviews the possibility of unexpected expenses occurring. [44]

- **Mental accounting:** We compartmentalise our money when we think about it. Anecdotal and experimental research suggests that many people are remarkably inflexible about how they use their money and, if certain amounts are earmarked for some things, then they are only reluctantly used for others. This can lead people into difficulty when they are juggling tight budgets and can also explain seemingly 'irrational' behaviour, such as saving money at the same time as being in debt. Our research shows that people see their savings as being for many different things. The most successful savers – the Habitual Savers – tend to see savings as not for anything in particular but a pot which is added to regularly and can be drawn upon when needed. Less successful savers, such as the Struggling Savers, tend to see their pot as for specific things, which, as we have seen, can lead to irregular savings and failure to build up a sufficient pot. This mental accounting can be reflected in whether savings are physically kept separate from other money; again the Habitual Savers were most likely to use savings products while the Lifestyle Savers were more likely than any other group to keep the money in their current accounts – indicating that they sometimes may blur the line between savings and everyday expenditure. As one participant in our qualitative research said: "I try to keep it separate from my 'normal' money, [doing that] helps me to avoid temptation, even though I know I could easily just transfer it back. I guess it makes [spending] it a bit harder."

- **Loss aversion:** We tend also to be averse to losing what we have already gained. Experimental research has shown that we value what we have roughly twice as much as what we do not already possess. [45] This is significant for savings in two ways. First, it may explain why savings accounts remain relatively popular among savers, despite the low interest rates. Most short-term savers are not investors and are reluctant to risk depleting their savings for potentially higher returns. Second, putting money in savings is essentially depriving yourself of spending money today. As such, some consumers view this as a loss. Loss aversion can be seen in all groups, with 72% of Habitual Savers saying they 'don't want to take any risks with the savings they have built up', while this figure is even higher for Lifestyle Savers. Nevertheless, Habitual Savers – partly because saving is a habit for them – tend not to see putting money aside as a loss of present income. Interviews with Habitual Savers revealed that they tend to see the growth of a savings pot as something satisfying and, crucially, they see it as something that allows them to enjoy life. They check on the pot regularly and are happy to see it as deferred consumption, rather than lost consumption. On the other hand, the Non-Savers and the Struggling Savers tended to cite 'temptation' to spend as something they struggled against.

[44] This is different to the personality score of optimism/pessimism that we included in our personality scores. Being over-optimistic in the sense discussed on this page is about specific things, the attitude that 'that won't happen to me' which may keep us from buying insurance that 'rationally' would make sense. On the other hand, the optimism/pessimism scale is more about attitude in general, and here optimism correlates with higher saving, perhaps because pessimistic outlooks lead people to think that there is 'no point' to saving anyway. [45] Thaler & Sunstein, *Nudge*, pp33-34

6. Conclusions

6.1 Savings matter

Our research has demonstrated the link between having savings and being financially resilient. We have seen that those without three months' worth of essential expenditure in savings are significantly more likely to have defaulted on a loan, rent or mortgage payment in the last month and are also more likely to have taken out high cost credit. Savings has also been strongly linked with peace of mind and our research stressed the positive aspects of savings – such as the freedom 'to enjoy life's little luxuries'.

Yet the UK has a very low savings ratio, and growing usage of high cost credit. Our research has seen that there is huge inequality in savings and a large proportion of the population with negligible or no savings whatsoever. Our research has highlighted this situation, and what can be done about it.

6.2 Encouraging more Habitual Saving

There are demographic and socio-economic factors that are closely correlated with higher savings: age and income, for example, are both significant drivers of higher levels of saving. But our research for this report reveals that there are also certain behaviours that are strongly linked both with having the three months' recommended buffer and with saving sustainably. Our analysis divides UK households into ten groups of savers or non-savers, based on their attitudes and behaviour. Of particular importance for this research are three groups of savers which are defined by savings behaviour regardless of their age, gender or income. These groups – the Habitual Savers (14% of the UK adult population – approximately 7 million people), the Lifestyle Savers (9% of the UK adult population – approximately 5 million people) and the Struggling Savers (23% of the UK adult population – approximately 11.5 million people) – are explored in detail. The report focuses on the way that the first of these groups, the Habitual Savers, are more likely to have larger savings pots, to be increasing these pots and are less likely to use credit to get by. In particular, we look at the differences between the Habitual Savers and the other groups of savers, as well as at the contrast with a group of non-savers, who could afford to save but do not (5% of the UK adult population). [46]

The results reveal three main behaviours that are strongly linked to successful, sustainable saving:

- **Saving every month** – our research reveals that saving regularly is crucial to building and maintaining a savings buffer. Not only this but saving every month, as opposed to most months, also makes a significant difference in terms of building up savings.

- **Saving for a rainy day** – while saving for a specific goal, such as a holiday or a car can help increase savings, it also means that this money is subsequently spent. Our research shows that people who save in this way often

[46] All population figures are taken from the ONS Mid-2013 Population Estimates. See www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/2013/stb---mid-2013-uk-population-estimates.html

take a break from saving until a new goal is identified, because they are saving in order to spend. On the other hand, those who save with a less specific goal – for the future or for 'a rainy day' – are more likely to build up a buffer. Similarly, our analysis shows that saving a certain amount, or proportion, of regular income is more successful than saving towards a goal of a particular sum.

- **Keeping savings separate from other money** – those with a savings buffer are much more likely than the other savers to have a savings product and to keep their savings separate from their spending money. This means that it feels like a separate 'pot' and they are less likely to dip into it when they do not strictly need to.

Our research reveals that the Habitual Savers are more likely to do each of these things than the other groups of savers.

6.3 Focus on working with the grain of consumer behaviour

The evidence base from pensions and behavioural economics more widely, provides some useful learnings for thinking about how best to encourage consumers who can afford to save, to build and maintain a savings buffer. This is particularly true of the 'Struggling Savers' and 'Non-Savers' groups identified in our research.

Initially, the policy response to increasing pension participation was to deliver initiatives aimed at educating consumers. [47] This was based on the premise that a lack of understanding was responsible for their inaction. If they could better understand the benefits of saving for their retirement in a pension, they would take positive action and join one. However, behavioural insights have shown that providing effective information is a complex process. People respond to information in different ways and the design, the format, the quantity of information, the delivery channel and the timing of the information are all important to get right. For a variety of reasons therefore, these initiatives aimed at encouraging action through information were not successful.

The failure of these initiatives coincided with growing understanding and popularity of behavioural economics and evidence on default effects in particular. [48]
UK policymakers had observed from international examples that simply by changing the default to being in a pension (and needing to opt-out) rather than being out of a pension (and needing to opt-in), participation rates increased dramatically without the need to introduce a system of full compulsion. It transpired that our general tendency to do nothing was a positive thing when it came to pensions and it could be harnessed to solve the participation issue without having to persuade everyone to join a pension.

So far, automatic enrolment looks to be a success in the UK, at least in terms of participation: it is estimated that overall participation in a workplace pension increased from 61 per cent to 83 per cent as a result of automatic enrolment among the largest employers impacted first by staging. [49] And recently the Government halved its forecast for the number of people likely to opt-out from 30 per cent to 15 per cent over the lifetime of auto-enrolment. [50]

In summary, there are two key learnings from UK pensions policy that are particularly relevant to encouraging more people to start saving more money

- Knowing what we should do doesn't make us take action; and

- Attitudes and stated intentions are an unreliable indicator of behaviour; even though people say they want to save, this does not/will not necessarily translate to behaviour.

Given this, as well as the evidence on the impact of tax incentives and matching on savings behaviour outlined in section 2.4, our recommendations therefore focus more on encouraging saving through working with the grain of consumers' existing behaviours, using insight from behavioural economics to leverage the way that consumers think and feel about saving.

[47] DWP (2002) Simplicity, Security and Choice [48] The ideas of Noble Prize winner, Daniel Kahneman, around how we make decisions and choices have been hugely influential. Books discussing his ideas and experiments, and others that followed in his footsteps, have become bestsellers and have proven to be popular with the Cabinet as well as the public. See Thaler & Sunstein, *Nudge*. [49] DWP (2013) Automatic enrolment: Qualitative research with large employers. [50] See www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/news/NEST-CEO-comments-on-government-revised-auto-enrolment-forecast.html

7. Strategies for improving the savings culture

The ideas presented here are designed to encourage more people to adopt the behaviours and emulate the successful saving of the Habitual Savers. Given the mixed evidence about the success of economic (i.e. financial) incentives to increase levels of savings, our ideas use behavioural insights and focus on working with the grain of consumer behaviour rather than solely relying on more traditional policy levers such as financial incentives or providing more information and advice.

We think that saving could be encouraged by taking advantage of behavioural insights to develop principles for creating an innovative range of savings products designed to work with consumers' existing behaviour.

7.1 Ideas for Savings Products

The following ideas are grouped loosely into categories based on the behaviours that we think they could encourage. Some of the ideas for industry build on interesting work that is already underway by some providers. The innovative use of technology has been key in some providers' thinking about how to encourage their customers to save more. And the British Banking Association (BBA) has recently launched a consultation on how to improve the savings culture in the UK. [51]

The ideas below should be seen as a starting point for how to think about these issues, building on both the conclusions of our own research and of behavioural insights more widely. There is not a one-size-fits-all solution to the savings challenge. The suggestions presented below should be seen as a suite of options, not prescriptions designed to apply to all. They would need to be properly piloted as people's behaviour is notoriously unpredictable and realistic trials are the best way to avoid unforeseen problems and optimise consumer outcomes. There would also need to be robust governance standards to protect consumers from detriment, particularly given that a number of them involve the use of defaults.

[51] See www.bba.org.uk/news/bba-voice/help-rebuild-britains-savings-culture/#.U9I21fldXVY

Saving every month

Auto-save: encouraging short-term saving through workplace incentive schemes

Building on the early success of auto-enrolment in pensions, this would be a flexible savings product that automatically diverts, through the payroll, a small amount of post-tax wages into a savings account. Employees would be ideally opted-in on joining a company, where they would commit to save and maintain a savings buffer. Where opt-in was not possible, we recommend a prize draw system from employers to incentivise joining the scheme and retention; the behavioural evidence base has shown that lotteries are an effective financial incentive in that the prize in a lottery is both eye-catching and appeals to our tendency to over-weight small probabilities. [52]

Employees could either choose a savings account of their own, or the default choice of a savings account that tracks the base rate of interest. The account would be easily accessible but with features to discourage accessing funds for discretionary purposes For example, an employee could be asked to set out the purpose of the fund at the start and be reminded of this if they do make a withdrawal. The account has the potential to be positioned as an employee benefit and it could move with the employee when they changed jobs.

The account has the potential to be positioned as an employee benefit, on the basis the account was attractive, for example 'we've made it easy to set up' or 'there's a reward for joining'. The product would move with the employee on changing job. Post-tax rather than pre-tax means there are no complex tax rules or matching requirements, thereby enhancing its appeal to employers. Furthermore, it would avoid distributional issues that using pre-tax income would involve. Pre-tax savings would be relatively more beneficial to those in higher tax brackets, who tend to have more savings anyway. Similarly, leveraging the existing payroll structure means this scheme can be more easily adopted and implemented with lower costs.

Our qualitative research suggests there is appetite among consumers for such an offering, with some participants spontaneously saying they would prefer it if some of their income went straight into a savings account by default. If a certain proportion of income was automatically paid into a savings account, our research suggests that people would be less likely to see this as part of their 'spending income' and more likely to leave it in their savings account.

There are some questions that would need resolving in such a scheme. How would it cater for self-employed people or those in temporary or contract-based work, for example? Perhaps similar schemes run through housing associations could help those without stable employment. We think a real-world pilot is the only way to test whether such a scheme would work, and the impact on net savings levels (we want to avoid people saving less elsewhere at the expense of this).

Using debt repayment as a springboard to developing a savings habit

As reported in section 5.2.2, 35% of those who are not saving at all said this is because they wanted to pay off debts first. The tension between paying off debt (or wanting to avoid going into debt) and wanting to start saving was also apparent in our qualitative research. For example, one Struggling Saver told us that she was trying to save, even though she was in her current account overdraft. She said she knew it was best to put her money in a savings account, but bemoaned the low interest rates that prevented her from doing that as the risk of going into her unauthorised overdraft, and the subsequent higher fees incurred, was too great. While in reality, she was paying off her overdraft, rather than actually saving, she saw this money as being meant for her savings 'pot' but could not put it there because of the risk of overdraft charges. While paying down debt should clearly be a priority, the need to do so was preventing her developing a savings habit.

As such, altering the way that these two aspects of finances are strictly segregated could be one way to help instil a savings habit. For example, lenders could offer an optional feature that deposits a 'token' contribution into a savings account as part of the debt repayment process. Some credit unions already do this when they lend money; they pay a small proportion of debt repayments into a savings pot, so that, at the end, consumers are left with no debt and a small savings buffer.

Equally, with consumers' consent, savings providers

[52] See E Haisley, C Cryder, G loewenstein and K Volpp (2008) 'The Appeal of Lotteries and their Use in Incentive Design' *Society for Judgment and Decision Making Preconference: Using Human Nature to Improve Human Life*, Chicago.

could use debt repayment as a commitment device to help enable future savings. Given that people repaying debt are already regularly foregoing some of their existing income, it makes sense to focus efforts on helping people to start a saving habit once their debt is repaid. This way, they will be less likely to miss the income saved (even if it's a lower amount than the debt repayment) and people may be more receptive to a savings message to avoid the 'pain' of having to take out costly credit in the future. Products could leverage this key window of opportunity by changing the default from ceasing to make payments to continuing to do so. Such a system could automatically assign the consumer a good quality savings account and require consumers to opt-out of continuing payments if they wanted to stop.

Saving for a rainy day

Stressing the benefits of saving

Our research reveals that there are both material and emotional benefits of saving and having a savings buffer. Yet saving is often seen as a very low priority, particularly given most people's preference for pleasure in the present rather than the future. Making people aware of the benefits of saving in a salient and engaging way could help persuade more people to save. Such messaging should focus on the emotional benefits, in providing peace of mind, as well as practical benefits, the opportunity to 'enjoy little luxuries', for example. This should be done through consistent messaging and language, particularly within communications from savings providers. Participants in our qualitative research spoke very positively about having savings: the opportunity to "enjoy little luxuries" without worrying about how to afford them, or worrying about being profligate, means a great deal to those who have built up a savings pot. As one participant said: "If I didn't have savings, then it becomes more difficult to be able to have the little treats, the things you want to do but may not be able to do."

Changing incentives to save

Loss aversion has a large impact on savers. Product designers should bear this in mind when designing savings products to encourage greater saving: security and peace of mind can be more important to savers than high returns. It was striking in our interviews how little importance the issue of low interest rates has for those who are not saving. It should also be acknowledged by those who aim to encourage savings that some people tend to see putting money aside as a 'loss' in terms of today's expenditure. Again, a product designed from a behavioural point of view will attempt to remove this aspect of saving by offering some sort of compensation, be it material or otherwise, for this 'loss'. This might include offering other ways to incentivise saving, other than simply the interest rates.

People's tendency to be present-centred is something that could also potentially be harnessed through incentives that offer some kind of 'reward' now, in exchange for regular savings. Given that Struggling Savers and Non-Savers tend to be much more present-centred than Habitual Savers, they need to be prompted into saving for the future by a reward that kicks in immediately -for example, cinema tickets or other small, yet tangible benefits. The reward could be revoked if regular savings were stopped – which could tap back into loss aversion and act as a commitment device.

Keeping savings separate

Offering the option of paying a salary directly into a savings account

Typically, people's salaries are paid into a current account and then they transfer money into a savings account either manually or automatically. There is potential to explore whether being paid directly into a savings account, then having to move money into a current account, could increase the likelihood of saving and saving more.

Clearly, the practicality of such arrangements would have to be explored but there are three reasons to think this might have a positive impact on savings behaviour:

- It would disrupt the status quo and increase the salience of saving, as people would have to 'engage' at some point to move money into a current account
- Money would be regularly deposited through a weekly/monthly salary into the savings account
- It could potentially leverage the endowment effect in consumers' favour – the hypothesis that people ascribe more value to things merely because they own them. [53]

[53] One of the most famous examples of the endowment effect in the literature is from a study by Kahneman, Knetsch & Thaler (1990) in which research participants were given a mug and then offered the chance to sell it or trade it for an equally priced alternative good (pens). Kahneman et al. (1990) found that participants' willingness to accept compensation for the mug (once their ownership of the mug had been established) was approximately twice as high as their willingness to pay for it.

As such, if people saw a significant amount of money in their savings account, it might make people less reluctant to transfer the whole sum into a current account.

Help people separate savings from other money

Our research shows that Habitual Savers almost always keep their savings separate from their everyday money. Participants in our qualitative research told us that this was important psychologically as it helped prevent them dipping into their savings. Typically, when behavioural solutions are suggested along these lines, they tend to be designed to help consumers save for particular purchases, towards a 'holiday pot' for example, or a 'new car pot', often through 'jam jar' accounts that match people's spending goals. However, our research indicates that, while this may be a successful way to encourage people to start saving, [54] it does not instil a regular, savings habit. Therefore, instead of incentivising people towards specific goals that are viewed as 'pots', it is likely to be better to incentivise moving money regularly from current accounts to savings accounts. One way to do this might be to make setting up a standing order to a savings account the default option when opening up a current account, or to prompt this option more visibly on current account statements.

Help people lock away money through reminders, commitments and incentives

Participants in our research liked having their money 'locked away' in savings accounts that require regular deposits to deter them from using funds for discretionary purposes. However, they also wanted to be able to access their money in an emergency without incurring a financial penalty. As such, one way to build in more accessibility to 'regular savers' accounts might be to include features such as receiving a reminder of the purpose of the savings fund that you committed to at the start upon withdrawal. Furthermore instead of penalising withdrawals, providers could look at incentivising keeping money in these accounts. Consumers may respond better to carrots rather than sticks when choosing savings accounts.

7.2 Opportunities for government

Developing a comprehensive savings strategy

We are calling on the Government to develop a comprehensive savings strategy aimed at increasing the number of people with a savings buffer of three months' essential spending. This strategy should involve coordinating industry and employers to take advantage of the growing behavioural evidence to design schemes and products that work with, rather than against the grain of consumer behaviour. This report highlights some of the behaviours that could be encouraged. With leadership from government, we believe that all the relevant actors – employers, industry and consumers themselves – could be encouraged to instil a stronger and more effective savings culture in the UK.

7.3 Good work is already being done

Many savings providers are starting to encourage people to save more through innovative methods. For example, NatWest's online 'Savings Goal' tool which helps customers to set savings goals and track progress and has been awarded a 5* rating by the Fairbanking Foundation. [55] The increasing awareness of the savings gap issue among industry is also encouraging with the BBA's consultation on the UK's savings culture and our own constructive (early) discussions with providers about this research.

Below we list some innovative savings products that already exist, both in the UK and internationally. While these ideas alone are unlikely to achieve our policy goal to create more habitual savers, they can contribute to increasing the salience of saving. Which? wants to see more such products developed that work for consumers and for industry to build on the progress it has begun to make.

[54] There is some research which suggests that saving for goals can be linked to regular savings, provided that when a goal is achieved, it is replaced with another target. The Fairbanking Foundation, which evaluates banking products on how well they help improve their customers' financial well-being, rates enabling customers to set savings goals as one of their key measures by which they evaluate savings accounts. See The Fairbanking Foundation (2013) Fairbanking Ratings: Reaching for the Stars. [55] See www.fairbanking.org.uk

Save More Tomorrow

These have been used in Save More Tomorrow programmes in the United States. Save More Tomorrow is a scheme where people commit upfront to increase their level of saving by a certain percentage when they next get a pay rise. This attempts to combat loss aversion as the increased saving 'loss' will be masked by the increase in income which the pay rise brings. While this has been used to good effect on saving for a pension in the US, it could be also adapted to encourage higher levels of everyday savings. [56]

Automatically 'sweeping' leftover money into a savings account

Saving regularly needs to be made as easy as possible. Some accounts try to do this with features such as an 'automatic sweep', which moves money left over at the end of the month into a savings account. This could help those who do not get round to saving and removes some of the awareness of the 'loss' of saving. For some though, having money in a current account provides a buffer against overdraft charges, which can be very high; such money is not wasted but is a necessary part of money management. Saving more should not put people in danger of facing higher charges.

Linking saving with spending

This is a debit card which automatically transfers a rounded up amount into a nominated savings account. For example, if you buy something for £3.70, this is rounded up to £5 and £1.30 gets automatically moved into your account. By linking saving to spending, rather than the more 'boring' act of putting money aside, it can enhance the appeal of saving. It also removes the awareness of the 'loss' and the small but regular payments could mean that pots grow relatively quickly; one of the participants in our qualitative research said this was the main reason he used this facility (offered by Lloyds). Another variation on this is a savings product that offers features to allow saving on impulse. For example, New Zealand's Westpac 'big red button' that allows smartphone users to download an app that allows them to save there and then. This functionality could be applied at the point of sale – similar to charitable giving – or a feature at ATMs allowing you to send money directly to your savings account. However, while these features are certainly 'novel', they are unlikely to engender the regular, monthly saving that our analysis suggests is needed.

Interactive money management tools

In the US, a new generation of money management apps for smartphones are allowing people to stay on top of their finances in an easier and more appealing way that online banking currently provides. Simple, for example, allows you to set savings goals for a set period of time and the app will calculate how much this means per day and will partition this money from the rest of your account. Another example is Moven which allows you to compare your spending this month with your monthly average – so that you can see whether you are spending more or less than usual. Both of these examples allow people to feel more in control and use behavioural techniques to help you achieve your aims. [57]

[56] See S Benartzi (2012) *Save More Tomorrow: Practical Behavioural Finance Solutions to Improve 401(K) Plans* (London: Penguin)
[57] See www.simple.com and www.moven.com

Appendix

1. How we did this research

Our research used a mixed methodology to explore these questions. After surveying a UK nationally representative sample of over 4,000 people about their savings behaviour and attitudes, we used statistical analysis to segment households into 10 distinct groups of savers and non-savers. Subsequently, 15 in-depth telephone interviews were conducted with the groups that interested us most.

2. 'Big Five' personality scores

The Big Five personality traits are ways of looking at individual's personalities through five broad domains. These domains have been found in multiple studies not to overlap and to have been reliable and consistent across a number of studies. They are not predictors of behaviour and are not without their critics, but we have used the Big Five in this report to add some extra descriptive qualities to our segmentation. The five traits are as follows:

Openness is a measure of how curious people are. People who are open tend to be more creative and seek out a variety of experiences. Less open people are more cautious in their outlook and tend to have consistent preferences.

Neuroticism describes the tendency to experience unpleasant emotions easily. Those who tend to score highly on neuroticism tend to experience strong emotions, such as anger or anxiety more often than those who get low scores on this measure.

Extraversion measures how outgoing or reserved people are. Extroverted people find stimulation in group settings, while introverts are more reserved and solitary.

Conscientiousness measures whether people tend to be organised and self-disciplined (high scores) or easy-going and spontaneous (low scores).

Agreeableness measures how compassionate and connected to others people are. Those who score highly tend to be more empathetic and those who score lowly tend to be more withdrawn and focused on themselves

3. Optimism/pessimism, self-control and financial literacy

The **optimism/pessimism** scale is a way of looking at how individuals vary in their general outlook on life, in particular, on how positively or negatively they view the future. Known as the LOT-R (life orientation test – revised) scale, it is based on ten questions which have been used widely in academic research to compile the scale. [58]

Self-control is a measure of how able individuals are to reign themselves in when facing temptation. There is large variation in people's capacities for self-control and it is clearly related to savings behaviour in that those with less self-control are perhaps less likely to save for tomorrow and more likely to give in to temptation to spend today. The scale is taken from one developed by three psychologists in 2004 [59] and which has been used extensively since.

Financial literacy score. The concept of financial literacy is well known and tends to correlate with other measures of good money management.[60] Our measure here is one of self-reported financial literacy for which we asked respondents seven different questions about their level of knowledge and engagement with their finances. Factor analysis was used to come up with a list of six questions, which were combined and the scores standardised.

The six questions used were:

On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess ...

1) your overall financial knowledge
2) your ability at dealing with day-to-day financial matters (e.g. checking your accounts, managing payments, etc.)
3) your tendency to keep up with financial news
4) how engaged you feel with your finances
5) your satisfaction with the amount of savings you have
6) your satisfaction with your income

[58] M F Scheier, S C Carver & M W Bridges (1994) 'Distinguishing optimism from neuroticism (and trait anxiety, self-mastery, and self-esteem): A re-evaluation of the Life Orientation Test' *Journal of Personality and Social Psychology*, 67: 1063-1078 [59] J P Tangney, R F Baumeister & A L Boone (2004) 'High Self-Control Predicts Good Adjustment, Less Pathology, Better Grades, and Interpersonal Success' *Journal of Personality*, 72(2): 271-324 [60] See for example, A Atkinson, S McKay, E Kempson & S Collard (2006) *Levels of Financial Capability in the UK: Results of a baseline survey*, Financial Services Authority

Which?