SAVING THE NATION

THE EVOLUTION OF SAVINGS BEHAVIOUR ACROSS FIVE EXTRAORDINARY YEARS

A report by
Yorkshire Building Society

YORKSHIRE
BUILDING SOCIETY
Helping real life happen

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FOREWORD

The last few years have been incredibly challenging, both for the UK and for individuals, given the impact of the global pandemic, the increase in inflation, and rapid rise in interest rates. Over this period we've been talking to people across the UK to understand the impacts these events have had on not only their finances but also how people's mental wellbeing and their ability to plan and dream for the future have changed.

It is encouraging to see that there are some positive trends evident in our research, with average monthly saving increasing from £161.27 in 2019 to £256.40 in 2023 (although falling back slightly from 2022).

From a Yorkshire Building Society perspective, this correlates with a significant growth in savings balances over the same period. While this is positive in that it helps us support more people into homes with competitive mortgages, we also take seriously our ambition to help build financial resilience in the UK.

However saving isn't easy when people are facing day-to-day expenditure challenges. The cost-of-living crisis is hitting people hard, as some of our report highlights, so it's crucial that people have access to all the information and support they need to help weather this storm. I want Yorkshire Building Society to continue to play a role in helping people save and build financial resilience. Our work with Citizens Advice is an example of targeted support which is making a real difference for people who are really struggling.

Our role as a mutual is to deliver real help with real life, so having five years of insight like we have in this report helps us to better understand attitudes and behaviours to better support people to save and own their own homes.

I hope the tips in the report offer some practical guidance to anyone unsure how to start saving, as ultimately supporting people to find their own financial well-being and helping people to build a savings habit that suits them is part of our DNA and mutual heritage.

Susan Allen OBE
CEO of Yorkshire Building Society

INTRODUCTION

Over the past five years, the UK economy has endured a uniquely challenging period, navigating the global pandemic, the subsequent rise in inflation and the fallout of the 2022 mini-budget. This period of economic turmoil has proven to be one of the most volatile in recent memory and has forced households across the UK into reconsidering their financial behaviours. Some of these changes have been short-lived and radical, while others appear to represent a more structural shift.

During this period, we have completed detailed savings behaviour research to better understand how these economic shocks have impacted the public.

The cost-of-living and households' financial resilience to this have formed key impacts of this process, as did the economic implications of the Covid-19 pandemic.

In this report, we scrutinise survey data taken between 2019 and 2023 which examines the changes of attitudes to saving, financial advice, support, spending behaviours, and more over this period. The surveys encapsulate the full regional spectrum of the United Kingdom, across a variety of age and socioeconomic fields, and have allowed us to build a more accurate picture of the current climate for households and their financial well-being.

MAIN FINDINGS

1. Post-pandemic, households are saving at a much higher rate, likely transitioning the money-saving behaviours enforced upon them by the lockdown into a more habitual monthly practice. In 2023, the average monthly saving amount is up by 58% relative to those surveyed in 2019.

2. Worringly however, the amount of people unable to save money on a monthly basis has doubled since 2019, from one in ten (12%) to one in five (22%) today increasing the gap between those that have and those that have not.

3. Debt has risen notably since the cost-of-living crisis in both the 18-34 and 35-54 age brackets. While this figure is much lower for those 55 and over, this demographic has felt compelled to assist their families with rising mortgage costs and deposits, thereby impacting their savings.

4. Younger people appear to be more financially conscious than in previous years and are saving more money while utilising different account types and products. However, there remains a significant shortfall in their access to professional financial advice or at least their perception of its relevance to their specific situations.

5. There is a growing sense of pessimism among respondents of all age ranges as to whether, following the impacts of the cost-of-living crisis, they will have enough money saved to eventually retire. Over a third (35%) of the 55+ bracket felt they would not have money to retire, while four in ten (42%) 35–54-year-olds felt the same.

6. Sentiment surrounding government messaging on saving is quite negative, with many respondents suggesting that they did not know of the savings options on offer or, more worryingly, felt that what was on offer would not apply to them.

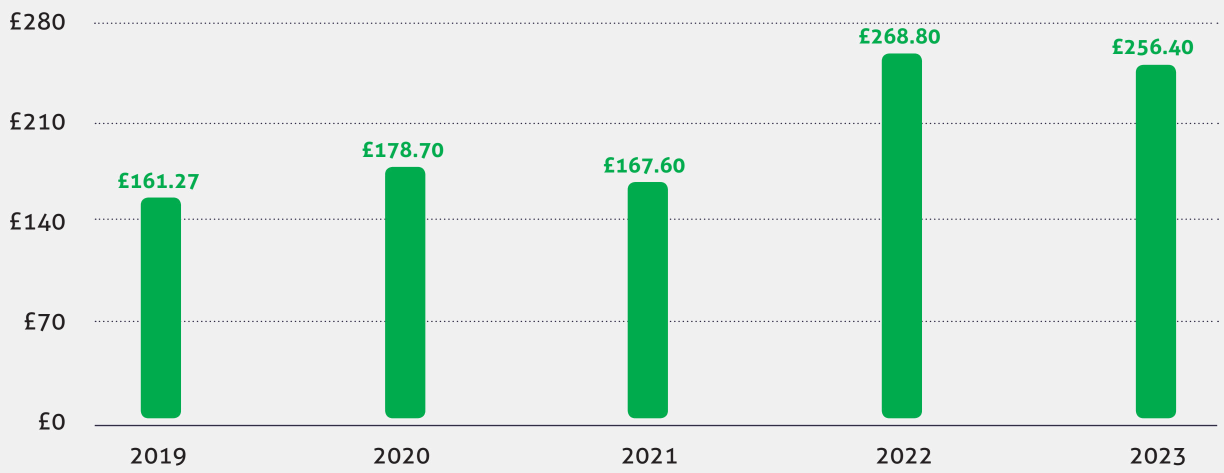
ATTITUDES TO SAVINGS AND FINANCIAL RESILIENCE HAVE CHANGED IN THE LAST FIVE YEARS

Prior to the pandemic, it was estimated that a third of households had no savings whatsoever[1], however, this trend altered radically following the onset of lockdown and the various restrictions that came into place. These factors made it much harder to spend money and household savings rose as a natural consequence. This was captured in our survey, where in 2019, the average monthly saving was circa £161 but by 2023, this figure had grown to £256 (down from £268 in 2022).

This finding presents a marked change in both the attitude toward saving and the public's response to economic turmoil.

While saving throughout the pandemic was essentially enforced, due to the limited options for spending, our research suggests that households have since grown accustomed to having money in their pocket. But this trend may extend beyond building nest eggs or curbing spending alone.

AVERAGE MONTHLY SAVING



1. Office for National Statistics: Households' saving ratio RSA: Seven portraits of economic security and modern work in the UK

The British public has endured a number of economic shocks over the past five years, firstly through the global pandemic and onto the increase in inflation prompted initially by bottlenecks within the global supply chain. This was, of course, worsened in February 2022 by Russia's invasion of Ukraine, which in turn sparked a steep rise in the price of gas and oil. These price rises bled through to the wider economy, prompting a pronounced cost-of-living crisis across the UK which saw the cost of essential items grow exponentially. During the review period, the Bank of England raised interest rates on 15 separate occasions, lifting the Bank Rate from 0.1% in 2019 to 5% in June, 2023 (the period of which our survey was taken). Later in 2022, then-chancellor Kwasi Kwarteng's September mini-budget startled the market, leading to chaos in the financial markets.

Having endured all of this, without a significant increase in real wages, it is perhaps understandable that the British public has committed further to the saving patterns stemming from the pandemic. This is something of a siege mentality, born out of the financial trauma of a volatile half decade and speaks to a renewed sense of preservation, less for rainy days but more for shock absorption. But despite the relatively recent impact of these economic shocks, this behaviour model is not without precedent.

In previous periods of recession, we have witnessed the ratio of household savings grow[2], despite the economic environment, as households seek to add ballast to their cash reserves. Historically, this trend has unwound as the economy moved back to normal levels and it will be interesting to see if that will be the case again here.

It is worth noting though that whilst many have renewed their savings habits and built funds they can now fall back on when needed, others may now be facing a continued struggle with those unable to save anything on a monthly basis almost doubling in the five year period from one in ten (12%) in 2019 to over one in five (22%) today which may have a future impact on their ability to navigate future turmoil.

2. Trading Economics: United Kingdom Household Savings Ratio

THE COST-OF-LIVING, DEBT, AND THE NEW WEALTH TRANSFER

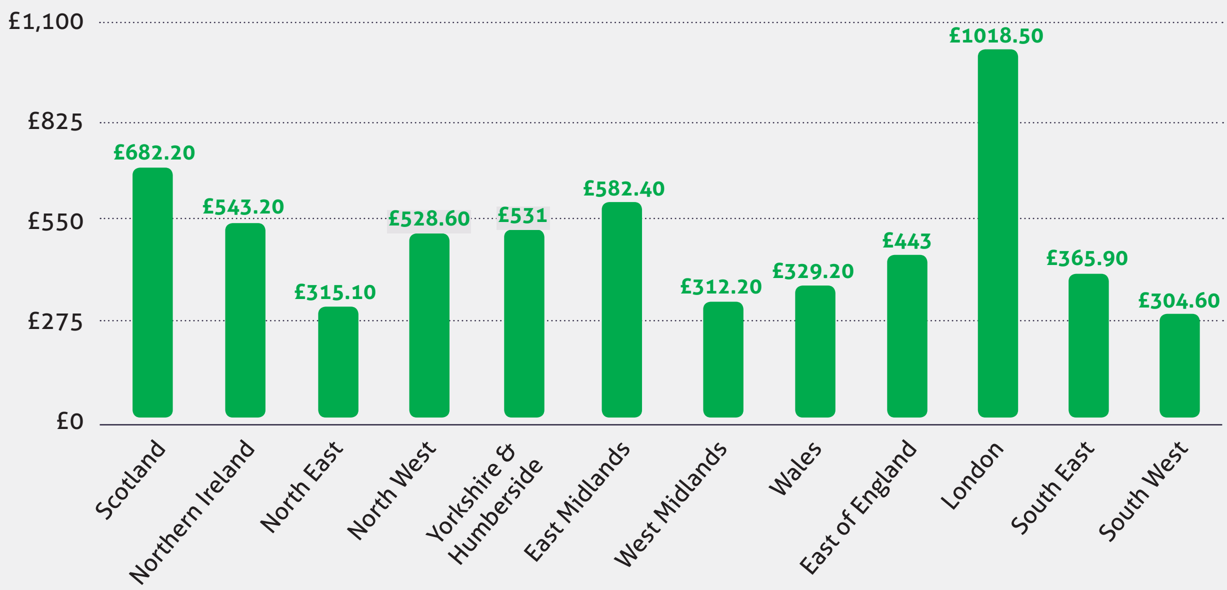
Given the cost-of-living crisis, it may be reasonable to have expected a slowdown in savings behaviours, as households instead look to utilise their surplus in order to balance out the increase in their outgoings. While the data has so far not shown this to be the case, some interesting new patterns are arising as a direct consequence of core inflation.

For example, as of 2023, the 18-34 age bracket saved, on average, £321 each month, while those aged 35-54 saved £244 and 55+ saved £229, respectively. In terms of economic theory, this is exactly what we would expect to see, albeit it is clear that younger people are beginning to save money earlier than in previous periods, rightly taking advantage of higher interest-rate savings accounts.

However, where things are evolving is that following the mini-budget and the subsequent spike in mortgage rates, we have witnessed an increase in parents or grandparents utilising their savings to assist their children or grandchildren with deposits or mortgage payments.

Rather than using their savings on consumption, as is typically the case, this represents more of a transfer of wealth and will likely become a key behaviour to monitor over the next several years.

Debt acquired since cost-of-living crisis by region



Regardless of location, it's evident that this surge in prices, particularly in staples such as food and energy, has had a notable impact on the financial resilience of those pre-retirement ages, which is now having a knock-on effect on the over 55s, as they seek to prop up their families by dipping into their own savings pots.

WHAT LESSONS CAN WE TAKE FROM THESE CHANGES?

Our research suggests that although younger people may feel a heightened sense of concern regarding their financial well-being, they have proven capable of adapting their approach to their own wealth management and are certainly cognisant of the need to save.

From our 2023 results, over half (55%) of respondents in the 18-34 age range felt they knew how to budget autonomously, and half (50%) agreed that they knew how to set and achieve long-term financial goals (this was 3% higher than in the 35-54 category).

Perhaps more interestingly still, while 56% of the 18-34 demographic felt that knew the different types of savings products available, this was compared to four in ten (40%) having said that they did not know who to ask for financial advice. Of greater concern in this area is that two fifths (42%) of respondents felt that they couldn't afford financial advice and the same figure felt they didn't know who to trust for it.

Finally, 42% of the 18-34 bracket felt that they didn't have enough money to make it worthwhile budgeting or planning their finances. This is a deeply worrying statistic. While some of our results cast a positive light on the financial intent, if not the financial well-being, of our younger respondents, it is clear that there is still much work to be done in promoting education surrounding financial fitness.

Of the 18-34 bracket

40% don't know who to ask for financial advice

42% felt they could not afford it

42% felt they did not have enough money to warrant planning

21% felt that they would not have enough money to retire

On the positive side, while the perceived lack of access to professional financial advice is troubling, there has been a notable shift in the financial keenness of young people, stemming in part from the advent of social media and the rise of financially minded programmes and applications. Online budget planners, economic podcasts and exposure to financial mentors are all likely contributors to the improving mentality around saving in this demographic.

Almost half (45%) of young Brits feel that having savings makes them feel responsible and over a quarter (28%) felt having a savings pot made them happy. Additionally the amount of time those aged 18-34 are spending each week managing their finances has increased from just over 30 minutes in 2019 to just short of an hour (at 53 minutes) today.
But of course, the ramifications of the past five years reach further than the nation's youth alone.

More broadly, there is an increasing sense of pessimism concerning having enough savings to retire, as a result of the cost-of-living crisis. Our 2023 survey showed that just 6% of 35–54-year-olds strongly agreed that they would have enough money to retire, while 21% strongly disagreed with this notion. This is largely mirrored in the 55+ category, where the same percentage felt that they would not have enough money to retire, while only 9% felt that they would.

This perhaps speaks to an increasing sense of urgency about saving and how the need to put something away each month has graduated from a luxury to an outright necessity for one's future financial stability and to support those dreams and goals of years to come.

WHAT AS A NATION COULD WE IMPROVE WHEN IT COMES TO OUR SAVINGS HABITS AND BEHAVIOURS?

While the socio-economic challenges endured since 2019 appear to have encouraged many to begin saving, there remains a relative lack of resilience when it comes to financial well-being in the UK.

Given that the intent appears to be present throughout households of all ages, the next step to improving this may centre around product awareness and optimising savings, rather than stockpiling cash alone.

There are many products available that have been designed to help savers through a variety of mechanisms. However, we have noted in our surveys that there remains a significant shortfall in knowledge of this area, meaning that households may not be saving in the most efficient manner available. For example, in our 2023 survey, 42% of respondents had not heard of the Personal Savings Allowance (PSA), while 40% said that they didn't know the rules of the product when quizzed on them. Perhaps unsurprisingly, given our previous findings, the 18-34 demographic felt they had a greater awareness of the PSA than the two older groups. Interestingly, this trend reversed when discussing Inidividual Savings Accounts (ISA), with the younger category seemingly less aware of the product offering.

This dynamic, in some respects, is to be expected, given that the ISA was launched in 1999, some 17 years prior to the introduction of the PSA. However, this does demonstrate that product knowledge is not bridging the generational gap, leaving both sides of the discussion less well-informed than they might hope to be, which in a rising rate environment could leave some savers needlessly paying additional tax.

Perhaps as an addition to the pessimism noted with regard to retirement, respondents appeared to be downbeat on the benefits of such products. As a collective, 39% of respondents felt that ISAs were only of benefit to those with a large amount of savings. This was reflected relatively evenly across the 18-34 and 35-54 categories at 30% and 29% respectively, with the over-55s not far behind at 24%. From a regional perspective, London (44%) and the South East (43%) respondents were among the regions more sceptical of the ISA's value, while the East of England had the largest vote in disagreement with that statement (26%).

This seems, at its face, to be an unfortunate underestimation of the benefits of the ISA, regardless of the quantum of one's savings.

With the apparent lack of knowledge of these tax free savings options, savers could also be falling into a tax-trap with the Bank base rate having increased from 0.25% at the inception of the PSA allowance and now at a high of 5.25% meaning they could be exceeding their allowance. Having needed over £400,000 in savings to be worried about paying additional tax, that figure is now around £20,000 such is the combination of increased wages, higher savings rates and a reduced allowance for higher earners.

This, of course, is just one product among a great many in the market, but the findings of our report seemingly allude to a misunderstanding with regard to savings products that must be addressed. We have been pleased to see increased enthusiasm toward saving since the onset of the pandemic but to help secure greater financial resilience, we believe that the public needs to be made more aware of the products available to them, which may ultimately help meet this goal.

COULD THE UK GOVERNMENT BE DOING MORE?

Perhaps this is where we must consider the UK government's role in raising awareness and promoting greater financial education across all generations. Again, referencing our 2023 survey, over half (57%) of respondents felt that the government could be doing more to help people save, with the largest portion of that figure stemming from the 55+ category, while 47% felt that the support currently in place only served to benefit those with an already healthy savings pot.

How much could be held in savings before the Personal Savings Allowance threshold is met

Total amount of interest earned annually on all bank accounts (excluding ISAs) without paying tax

Savings account paying an interest rate of	Non Tax Payer or Basic Rate Tax Payer	Higher tax rate payer
0.25%	£400,000	£200,000
0.50%	£200,000	£100,000
1.50%	£66,666.67	£33,333.33
2.50%	£40,000	£20,000.00
3.50%	£28,571.43	£14,285.71
4.50%	£22,222.22	£11,111.11
5.50%	£18,181.82	£9,090.91

43% of respondents don't know how to get savings help from the government

43% of respondents don't know if they're eligible for government savings schemes

57% felt government could be doing more to help people save

42% felt that current government support only benefits those with large amount of savings

Clearly, there are some misgivings about the government's approach, but the government may feel slightly hard done by here, given the introduction of various schemes. But on the other side of that argument are the 43% of respondents who felt they didn't know how to get savings help from the government – a particularly negative statistic when considering the increase in savings activity more generally – alongside the 44% who did not know which government saving schemes they were even eligible for.

This is a trend that appears in urgent need of correcting with the call out as a starting point to review the current PSA limit which hasn't changed since its inception in 2016. With interest rates continuing to rise, many savers may now find they have additional tax to pay on their hard earned nest egg. According to our research, the average amount saved in the UK is over £36,000 which, should they be a basic rate tax payer, would see their savings become taxable if saved in a standard savings account. This figure is even lower for higher rate payers.

The sentiment stemming from our research is that despite the government having introduced products to assist savers, many who may have benefitted from these schemes simply were not aware of their existence, and as a result, have less financial security than they might otherwise have had. Questions may be asked about what more the government would have to do to achieve the same engagement as that of financial commentators such as Martin Lewis, for example, whose guidance on household finances seems to have penetrated the public's pysche in a manner in which government messaging has been unable to.

There are, of course, other considerations with regard to the government's approach. Inflation is, at the time of writing, still high in the UK, leaving the Bank of England with little alternative but to continue raising interest rates, which in turn has its own effect on the economy. If government messaging around saving had been clearer, or indeed, more successful, theoretically, people would have cut down on consumption as a result, thereby slowing the economy down without the need for raising rates. This is a macroeconomic view of the situation and one that could potentially still be actioned.

HOW CAN PEOPLE IMPROVE THEIR FINANCIAL RESILIENCE?

If more UK households were able to increase their financial resilience, we would all feel the benefit of increased economic confidence. We asked people how much money they would need to have in accessible savings to feel financially resilient and on average they cited £17,345. On the surface, this aspiration would be music to the ears of any financial provider. However, we recognise that for many people achieving that level of savings may be very difficult while current conditions persist and there is no quick win to halt the impact of the crisis.

However, here are just a few small actions people can take that could help in small ways:-

- Get into the habit of checking the state of your household finances and spending. Compare it to previous months or the previous year and try to identify when you might have to increase spending in the near future. If you find you're able to save money, set up a regular transfer to a savings account, or a standing order on or just after payday. If you have any extra money left over at the end of the month, add that to your savings too. Over time, even small amounts, saved regularly, will build up some useful additional financial resilience, particularly with higher than recently seen interest rates adding a welcome boost to savings pots.

- Consider creating a financial plan, for general and/or retirement savings, reducing debt and taking other measures to increase your financial resilience. Set goals and review progress towards them regularly.

- Ask for help by reviewing options available. This could include opting for a one-to-one appointment with Citizens Advice – their advisers offer independent advice in private to assist people with a wide range of issues, including financial well-being, directly in a YBS branch.

- Consider reviewing your savings to ensure your current options are working for you, both with access that suits you as well as the best interest rate that matches your needs – and consider speaking to an adviser if you are unsure where to start. This can be paid for independent financial advice, or free at your savings provider.

- Review debt commitments. Make sure you aren't paying over the odds. By switching mortgages, credit cards or loans to different providers you could find a better deal and save money on the amount of interest paid. Repurpose those savings back into household income to pay off more debt or save some for future needs.

- If things get too tough, always remember there is help out there. Organisations such as The Samaritans, StepChange and Citizens Advice are there to help.

CONCLUSION

Historically, the UK has had one of the lowest savings ratios in Europe[3], so it has been encouraging to witness the relative growth in household savings, even while competing with a decline in real incomes and a squeeze on the cost-of-living.

Perhaps the combined impact of the pandemic, inflation and the subsequent price rises have fostered a greater feeling of togetherness, with almost eight in ten (77%) respondents to our 2023 survey saying that they would not lie to friends or family about their savings. This is a positive statistic, as there is a significant mental health component to financial well-being and any effort to shrug off the stigma surrounding being hard up is to be celebrated.

Of the respondents that responded in the affirmative, over a quarter (29%) said that they wanted to appear as though they were coping with their finances. This sobering truth underpins much of what we have seen in this report – that people want to save, that they crave financial security and that though progress has been made, there is still an inclination to 'keep up appearances', despite what might be going on behind closed doors.

Ultimately, times of economic uncertainty are exactly when we should be talking about saving and financial well-being more openly. If not now, then when?

The majority of the public has been negatively affected by the events of the past five years. Given the findings of this report, it's clear that while the public may wish to save more, there is still a knowledge deficit in how best to do so. It is our founding purpose as a building society to provide them with real help for real life so we're committed to exploring ways that can help them reach their financial goals or establish healthy savings habits.

3. Eurostat: Statistics in Focus paper, 29/2009 PWC: UK households are the biggest spenders in europe

Supporting our savers is a key element of the Society's purpose, and ensuring we deliver value to our members, which in turn supports their financial resilience, is why we are proud to have continually raised our interest rates over the past year. In 2022 this resulted in us paying 0.56% above the market average to our savers, equating to an additional £198.6m in interest to reward their loyalty.

Building a picture of the nation's savings behaviour over the last five years has enabled us to see what changes have happened to their finances and what impact the current crisis is having. It's reassuring to see that the financial safety nets that many have built up will undoubtedly now support in some way the ability to withstand the current increases to household outgoings, and that for many savings have again become something to strive for.

We understand however, for some groups, this won't be the case and this report shows a stark reality of the increasing gap between those that can and those that can't.

It's important that we continue to help people with their finances, and engage and support the communities we serve to ensure we further help those people facing challenges. As we navigate this economic uncertainty, it's crucial everyone keeps thinking about how to make the right choices with money. From financial literacy lessons in schools to supporting people to save whatever they can, we're determined to help make that happen – and to empower the nation to grow its financial well-being and ultimately its safety net to withstand future shocks.

Chris Irwin

Director of Savings

WE WILL:

Write to the government to request they review the personal savings allowance.

Continue to pay above average savings rates to our members.

Continue to deliver our Money minds education sessions with children and young adults to support financial education and future generations and will continue to call on the government to make financial education part of the national curriculum in the UK.