How important were savings for protecting households financially during the pandemic?

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@TheIFS

Introduction

- We have just seen considerable **variation** in the **amount of savings** held by different groups

- We have also seen that many with **low savings** would **struggle** to deal with one type of economic shock – **an unexpected expense**

- A **widespread consequence** of the pandemic was another type of economic shock – **unexpected loss of income**

- We provide evidence to **measure** the **importance of savings** during the pandemic, in **protecting** people from **financial distress**

Data

- UK Household Longitudinal Study (“Understanding Society”)

- **During the pandemic**, people asked range of questions about their experiences, including
    - Whether they were on **furlough / had stopped work**
    - Whether they were **behind on bills**
    - What **actions they had taken** to deal with losses to earnings

- **Pre-pandemic**: survey of all people in a sample households; questions on variety of characteristics pre-pandemic
    - Including (in some years): **savings**

- We focus on **working-age people’s** experiences, in **April** and **May 2020**

How can we measure the effect of low savings on financial distress?

- We look at the relationship between having **low or no savings before the pandemic** and falling into **arrears in bills**

- We focus on **three groups** who were in paid work at the beginning of 2020, but **lost work** due to COVID and lockdown:
  - Those who were **furloughed** in April (or May) 2020
  - Those who had been **self-employed**, but **lost all work**, in April (or May) 2020
  - Those who became **unemployed** by April (or May) 2020

Savings

- Each adult is asked about the amounts they hold in the **following types** of savings:

1) Savings or deposit accounts (with bank, post office, building soc)

2) National Savings Accounts

3) ISA – cash only

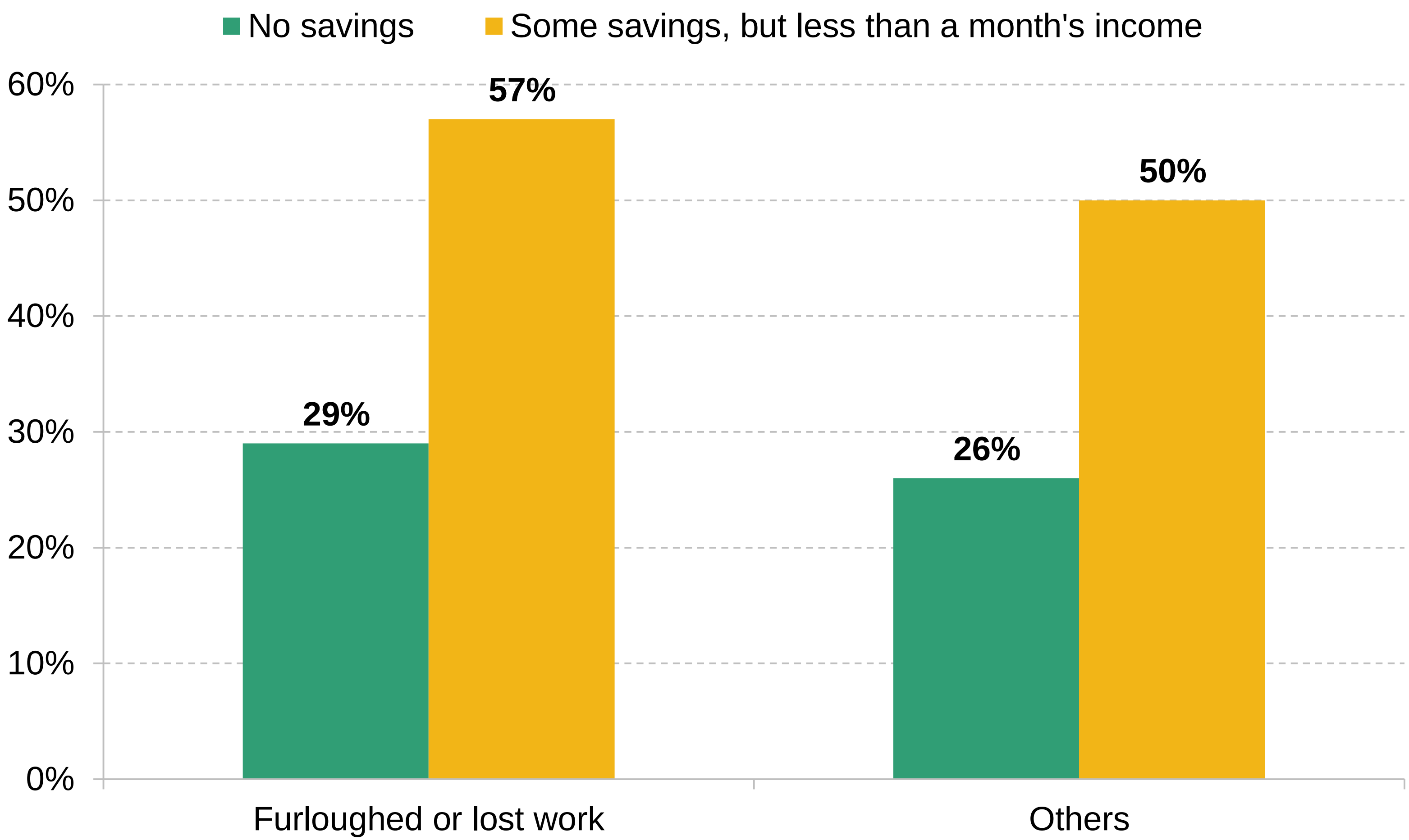
4) ISA – stocks and shares or PEPs

5) Premium Bonds

6) Other types of savings accounts

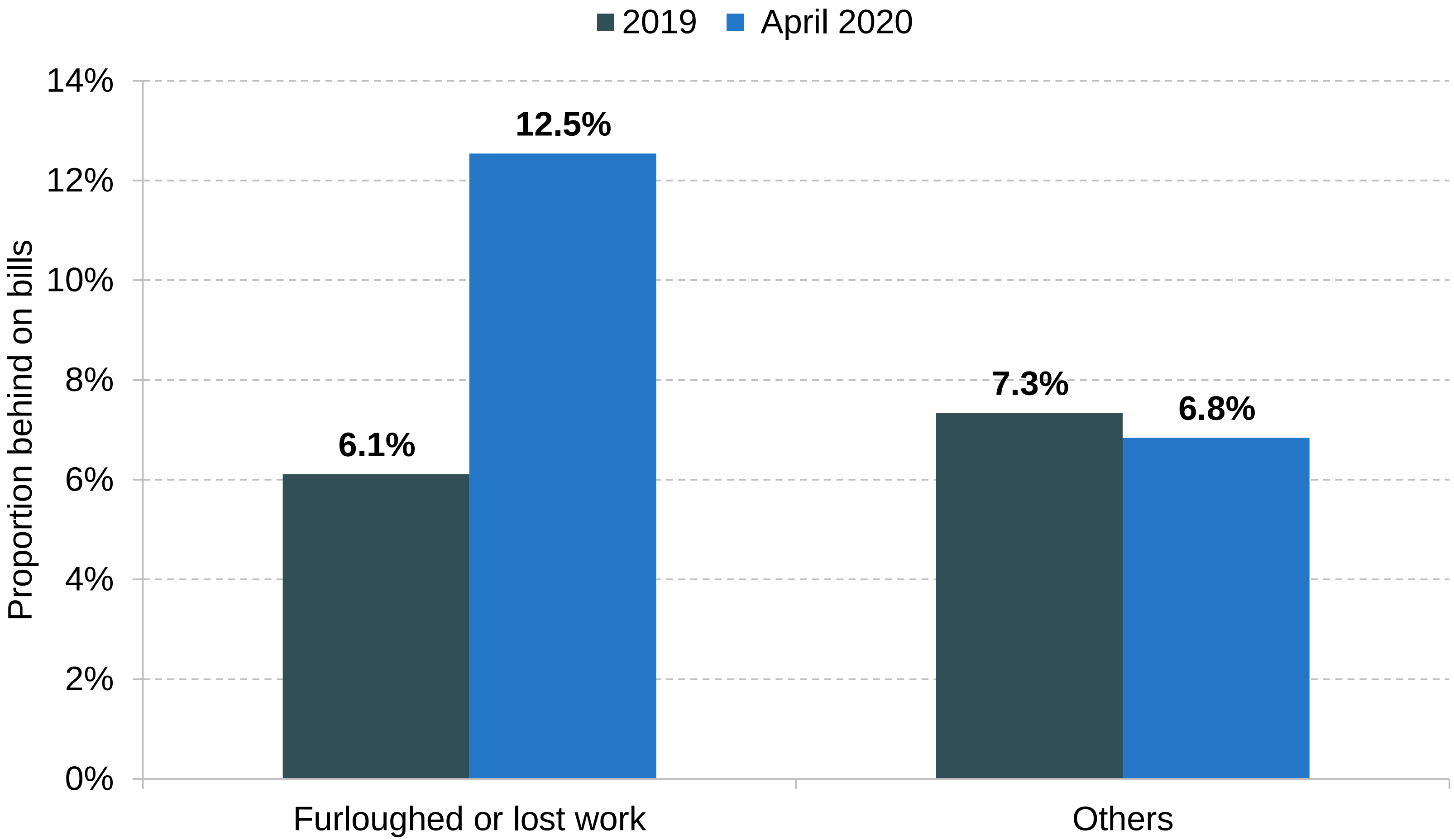
- We take the **amount** in each type of account, calculate **total for the household**

Many people had low or no savings before the pandemic



Notes: controls are as listed in an earlier slide, work status is measured in May, comparing to baseline of January
Source: Calculations using Wealth and Assets Survey

Those who lost work were much more likely to fall behind on bills



How can we measure the effect of low savings on financial distress?

- We compare likelihood of **falling behind on bills** for those who had
  - **no savings**, and
  - those with **low levels of savings** worth less than a month's income,

  against a **baseline group** who had **at least a month's income worth** of savings

- But **these groups differ** in **ways other than savings** which might affect their **resilience** to economic shocks such as lost income

- So we conduct a regression analysis to **control for other relevant factors**

How can we measure the effect of low savings on financial distress?

- We **control** for:
  - Household income (log, and adjusted for household size)
  - Education
  - Age
  - Sex
  - Single/married
  - Children (yes/no)
  - Housing tenure
  - Region
- Helps us measure something closer to a ‘**causal effect**’ of having **no or low savings** on risk of **falling behind on bills**

Results: what was the effect of low or no savings on the risk of falling behind on bills?

Effect of low savings on probability of falling behind on bills in April 2020

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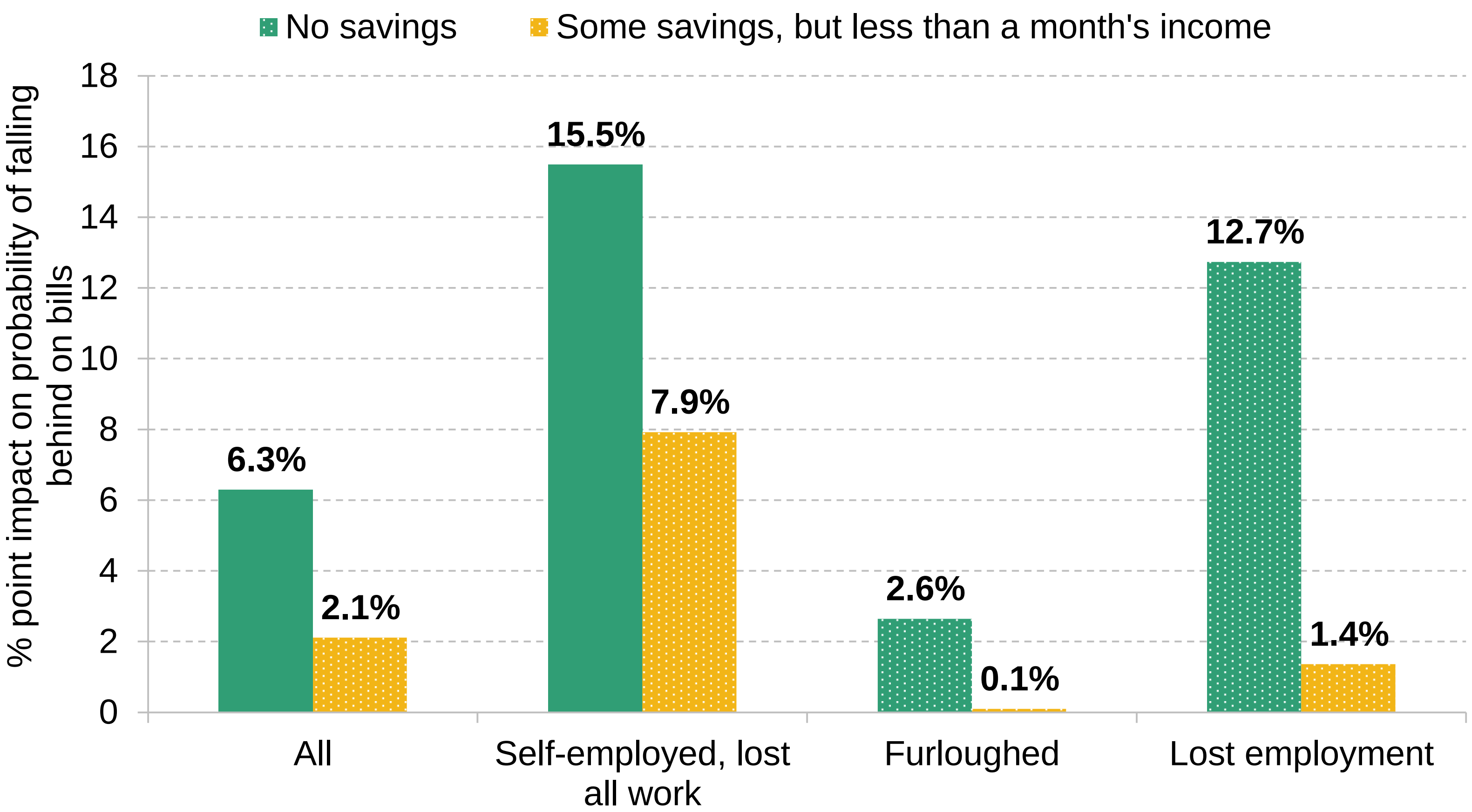
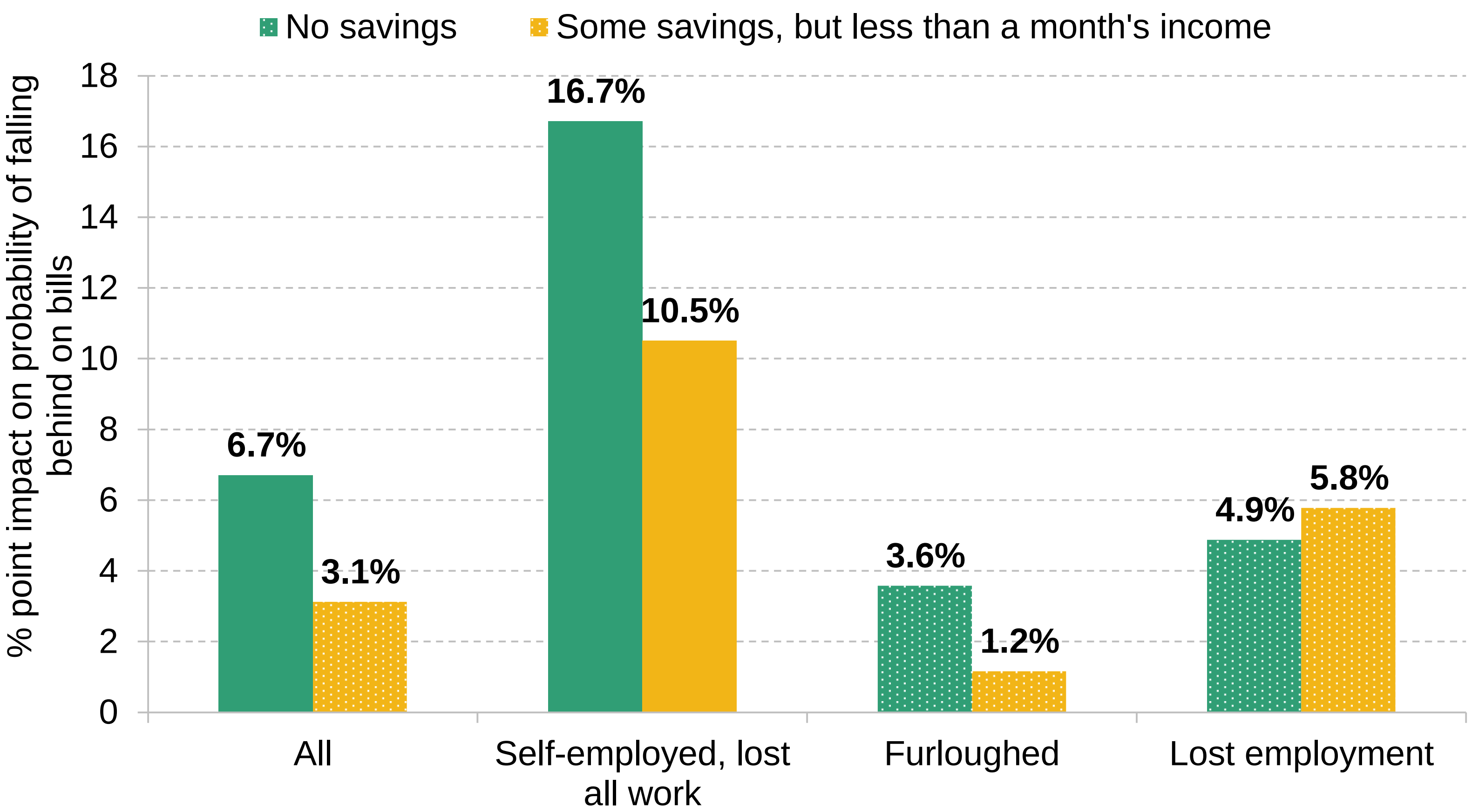


Notes: controls are as listed in an earlier slide, work status is measured in April, comparing to baseline of January, solid bars indicate statistical significance at the 5% level
Source: Table 3.1 of Boileau, Cribb and Wernham (2023)

Effect of low savings on probability of falling behind on bills in May 2020



Notes: controls are as listed in an earlier slide, work status is measured in May, comparing to baseline of January, solid bars indicate statistical significance at the 5% level
Source: Table 3.2 of Boileau, Cribb and Wernham (2023)

Results: how did those with low or no savings deal with losing income?

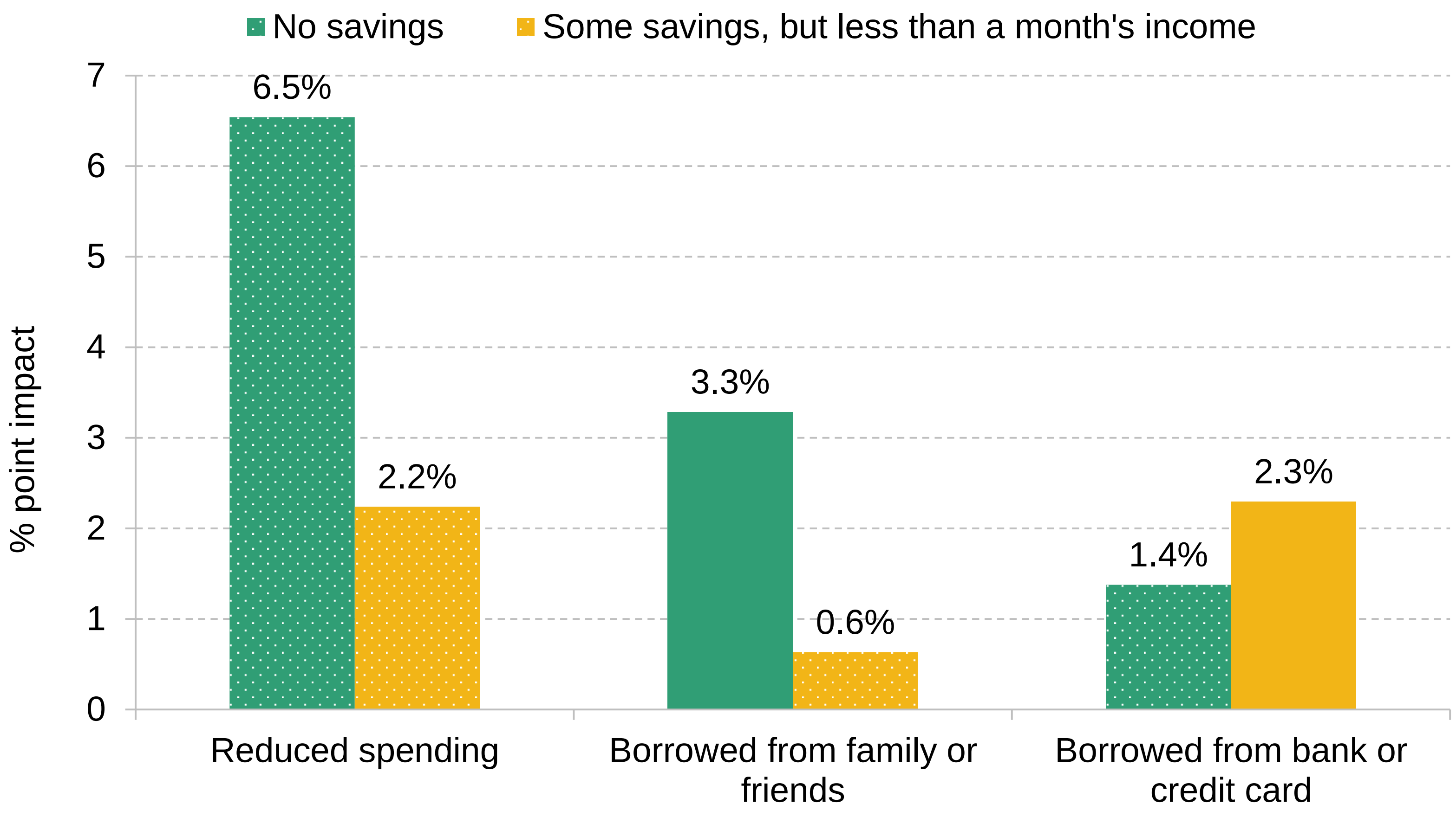
How else did people respond?

- The UKHLS Covid studies included questions which allow us to measure this directly

- Respondents were asked **how they dealt** with **loss of earnings**, to which they could answer
  - **Reduced spending**
  - **Borrowed** from **family or friends**
  - **Borrowed** from **bank** or **credit card**
  - They or other household members got **more paid work**

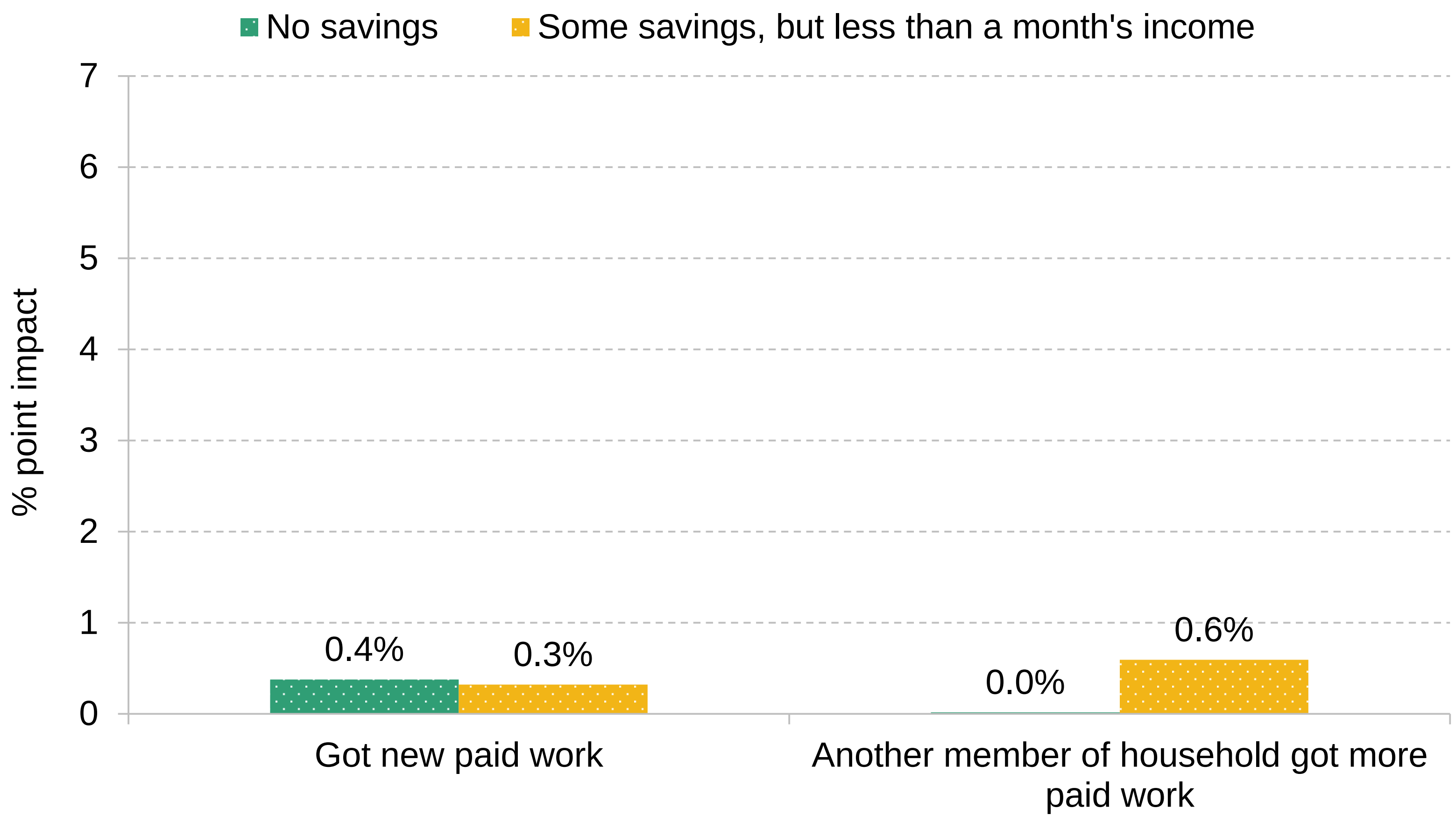
- We looked at how having **low or no savings** affected the **likelihood** of taking **these actions**

Effect of low savings on different actions in April 2020



Notes: controls are as listed in an earlier slide, sample is all individuals in our sample of those who lost work, comparing to baseline of January, solid bars indicate significance at the 5% level
Source: Table 3.3 of Boileau, Cribb and Wernham (2023)

Effect of low savings on different actions in April 2020



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Source: Table 3.3 of Boileau, Cribb and Wernham (2023)

Conclusion

- Among those who **lost work** during the pandemic, those with **more savings** were **much more protected** from falling into **financial distress** in the first couple of months
  - Savings had the **largest effect** for the **self-employed**, many of whom received **limited support** from government early on
- This suggests that **savings** did provide a **valuable** means of **self-insurance** for households
- We also see that households used **other means** of responding to lost income, such as **reducing spending**, or **formal/informal credit**, as a substitute for savings

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