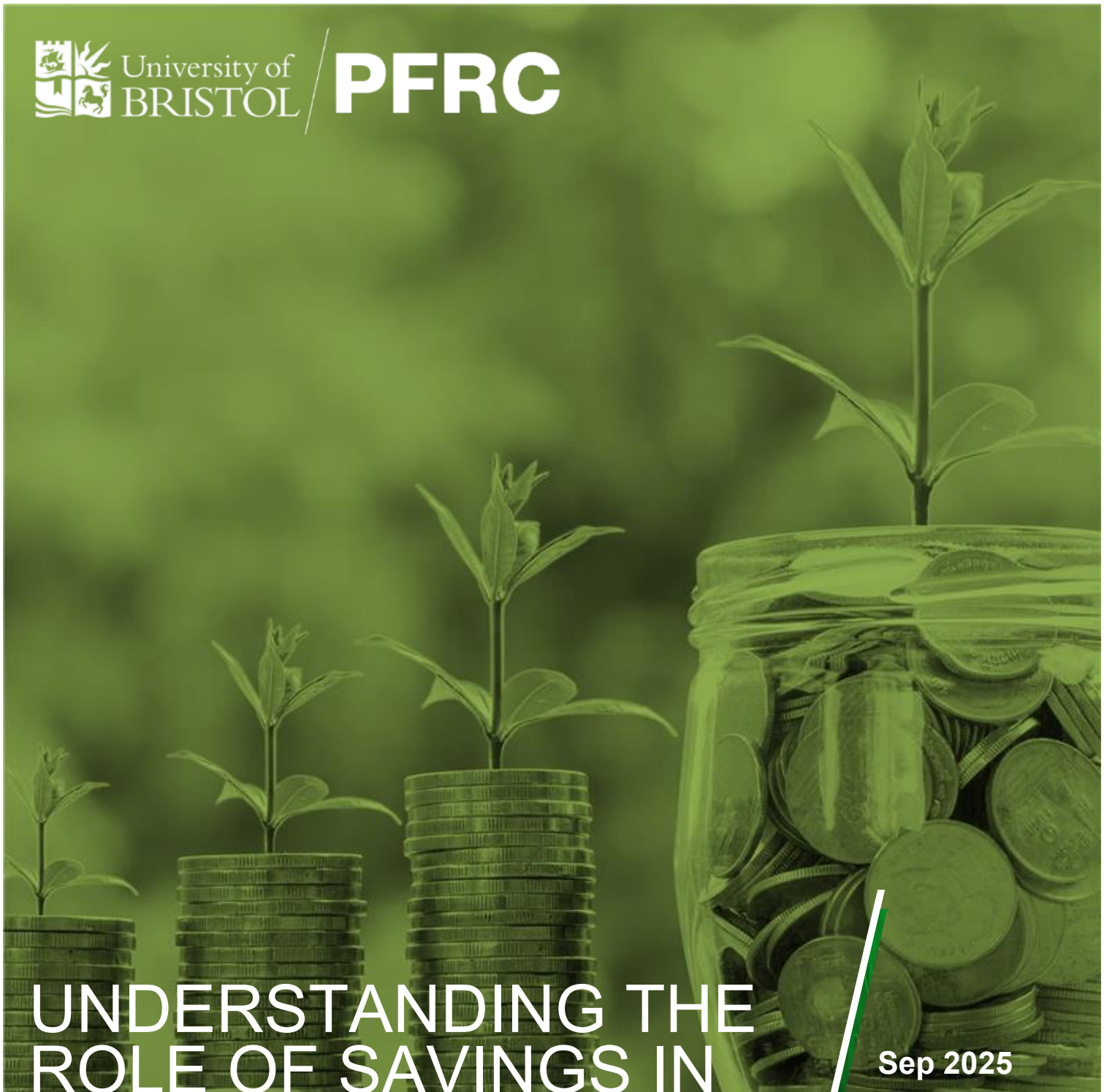




University of
BRISTOL

PFRC



UNDERSTANDING THE ROLE OF SAVINGS IN BUILDING LONGER- TERM FINANCIAL SECURITY

Sep 2025

A research report from the
Personal Finance Research Centre (PFRC),
University of Bristol

Sponsored by:



Supported by:



UNDERSTANDING THE ROLE OF SAVINGS IN BUILDING LONGER-TERM FINANCIAL SECURITY

ABOUT THIS REPORT

This report was published by the University of Bristol in September 2025.

© University of Bristol, 2025.

ACKNOWLEDGEMENTS

Our thanks go to colleagues at the Building Societies Association (BSA) who commissioned this research and were supportive of the project throughout, in particular to Andrew Gall, Isobel Gordon and Tanya Jackson. We are also grateful to those who attended our product- and policy-focused workshops and provided useful feedback on our early findings. We are grateful to Nationwide, Principality and Yorkshire building societies which funded the research.

ACCESSIBILITY

Our reports are tested for accessibility before they are published to make them easier for people to read. Please note that some PDF files cannot be made fully accessible. If this document is not accessible to you or you would like to read it in a different format, email pfrc-manager@bristol.ac.uk or write to us at:

Personal Finance Research Centre,
School of Geographical Sciences,
University of Bristol,
13 Berkeley Square,
Bristol BS8 1HB.

ABOUT THE AUTHORS

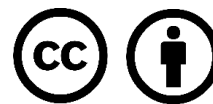
The authors are members of the Personal Finance Research Centre (PFRC) at the University of Bristol, an inter-disciplinary research centre exploring the financial issues that affect individuals and households, with a particular focus on low-income, marginalised or vulnerable groups.

Jamie Evans is a Research Fellow at PFRC.

Andrea Finney is an Honorary Senior Research Fellow at PFRC.

Sara Davies is an Associate Professor at PFRC.

CITATION



This is an open access publication, distributed under the terms of the [Creative Commons Attribution 4.0 International licence](https://creativecommons.org/licenses/by/4.0/), which permits unrestricted re-use, distribution, and reproduction in any medium, provided the original work is properly cited.

Our preferred citation is: Evans, J., Finney, A. & Davies, S. (2025) Understanding the role of savings in building longer-term financial security. Personal Finance Research Centre, University of Bristol.

DISCLAIMER

Please note that the contents of this report should not be considered financial advice. Readers should consider seeking advice from a qualified financial adviser in relation to their financial decisions.

FOREWORD

This research is extremely helpful in demonstrating the impact that a savings habit has on people's financial resilience. There is compelling evidence here that having a savings buffer of at least £2,000 halves the chances of someone falling behind on their bills in later years, but even putting aside a small amount can help in difficult times. The research also makes clear the pressures faced by those in lower income groups as well as younger adults.

For us, this highlights the value of our own strategic aims to improve the UK's financial wellbeing. It confirms why, as an organisation we focus on key measures such as saving regularly. The report also quantifies the benefits of saving, in terms of reducing the risk of future financial difficulty. The rigorous methodology used to carry out this research is extremely reassuring and takes our understanding to a new level on which to build.

Through the Money and Pension Service's Nation of Savers pillar of the UK Strategy for Financial Wellbeing and our MoneyHelper services, we look forward to continuing our collaboration with BSA as its cross-sector UK Savings Week builds momentum and its positive impact year on year.

Oliver Morley

Chief Executive, the Money and Pensions Service



SUMMARY

The importance of financial resilience is well-recognised. Whether it's protecting against life's unexpected costs or giving a buffer against loss of income, holding some form of cash savings is a crucial form of protection.

But how much should households be aiming to save to avoid financial difficulties?

This report aims to shed light on this question, building on previous 2014 research from StepChange Debt Charity which found that holding £1,000 in cash savings reduces the odds of perceived problem debt by 44%. We extend this research by using several waves of data from the large-scale *Understanding Society* survey to track households over the course of a decade (from 2012-13 to 2021-22).

We explore how the level of savings held by a household in earlier years may affect their later likelihood of three types of financial difficulties: falling behind with bills; high levels of borrowing; and a measure of subjective financial difficulty.

After controlling for other factors, such as age, income and previous financial issues, our analysis suggests the following savings thresholds are important:

- Holding at least £2,000¹ in savings is associated with a nearly 60% reduction in the odds of subsequently falling behind with household bills (compared to an equivalent household with nothing or less than £200 saved). Related to this, we find that holding at least one month's income in savings is linked to a nearly 75% reduction in the odds of falling behind with bills several years later.
- £2,000 also appears to be an important threshold for reducing over-indebtedness, defined as using three or more types of debt² or resorting to borrowing from friends or family. Again, at this threshold the odds of difficulty reduce by 60% compared to those with limited or no savings.
- When looking at subjective financial difficulty, the most important threshold appears to be £10,000. This implies that, while households may need less to avoid more material financial difficulty, they don't necessarily feel secure until a higher buffer is reached.

£2,000 may therefore be an appropriate goal for households with some disposable income to aim for and could be a target for policymakers and those working in financial services to assess progress against.

¹ In 2021/22 prices.

² Excluding mortgage or education-related debts (e.g. student loan).

This appears to apply for much of the income spectrum. Low-income households that had access to at least £2,000 in savings in earlier survey years, for example, had a 12% risk of falling behind with bills in 2021-22, compared to 24% among those who didn't have access to such savings (when controlling for other household characteristics).

But, clearly given the ongoing high cost-of-living, many households will struggle to reach this goal. For these households, the amount that they save each month is perhaps less important; what is important is building the savings habit. We see, for example, that those who were 'regular savers' in earlier survey years had over 70% lower odds of subsequently falling behind with their bills. This relationship remained significant regardless of how much they actually held in savings.

Does basic saving lead to other product-holding in future?

We also explore the relationship between holding more basic forms of savings product and later holding more complex forms of saving or investment products.

We find evidence that those who held a basic savings product in earlier survey waves were significantly more likely to then newly take-out the following types of product by 2021-22: Cash ISAs, 'other' savings, investment products (such as stocks and shares), and private pensions. For example, 15% of those who had a basic savings account in both the 2012-13 and 2016-17 survey went on to take out investments (for the first time³) by 2021-22; whereas this figure drops to just 4% of those who hadn't ever held a basic savings product.

This may mean that basic savings products can act as a gateway to other more complex financial products, while we also see pathways between other products and assets. For example, we find that someone with access to a Cash ISA in both earlier survey waves had around twice the odds of becoming a homeowner by 2021-22 than someone without this product.

We also see that those who hold more products tend to have a higher likelihood of reporting that they feel financially secure; however, this effect appears driven more by the level of someone's savings or the regularity of their saving than by simply having an account. Opening an account remains, of course, an important first step for future savers.

How can we encourage more people to save?

We held roundtables with key policy stakeholders and those working within the mutual sector to discuss the initial findings and to explore how they might be used to encourage more people to save. The key insights that emerged from these discussions were:

- Clarifying the multiplicity of purposes people use their savings for, and agreeing common language to describe the taxonomy of different types of saving.

³ Those who previously held an investment product are excluded from this analysis.

- Providing clearer communication and messaging around savings; that savings are there to be spent, and how to demonstrate the importance of savings within the rules of the social security system or debt repayment plans. It is also essential that the £2,000 rainy day target isn't presented in way that may be demotivating to those who may feel this goal unobtainable, and to present savings as a pathway or ladder, rather than an end goal. Other interim savings goals, such as £200, also remain important.
- Starting savings education earlier and providing products that will support people into adulthood with the potential to hold £2,000 in savings.
- The importance of understanding the barriers to saving for different groups and how to improve product design and incentives to address these barriers. Prize draw savings, penalty free withdrawals, framing deposit levels in easily understood terms, and more frequent bonus calculations were felt to appeal to non-savers, particularly those who may be struggling financially.
- Meeting people where they are – for example, by engaging employers and community partners to offer products that remove any friction to regular savings and may help them to ladder up to longer term savings. These environments also offer opportunity for testing and evaluating innovative product design.

CONTENTS

Foreword	3
Summary	4
1 Introduction	8
2 What level of savings helps prevent financial difficulty?	14
3 Does basic saving lead to other product-holding?	24
4 What can be done to encourage saving?	32

1 INTRODUCTION

This report considers the role that savings play in building households' longer-term financial security, protecting them from financial difficulties and leading to more diverse future product-holding.

This study builds on our 2024 research, which explored the relationship between regular saving and a range of indicators of positive mental and physical wellbeing.⁴ The previous analysis found that those who regularly save typically exhibit improved wellbeing across a wide range of measures, including life satisfaction, mental wellbeing and even sleeping better at night. While clearly a big part of this relationship is driven by the relationship between income and wellbeing—where those with higher incomes are usually able to save more—this relationship persists even when we removed the impact of income (and other factors, such as age and tenure). We also found evidence that regular saving has especially positive impacts on the mental wellbeing of lower-income households. We attributed these findings to the role of regular saving in preventing hardship and debt and in helping people achieve their financial goals, such as homeownership.

This report extends the previous analysis, focusing in more detail on the financial—rather than wellbeing-related—impacts of holding cash savings. We focus on two main research questions:

1. **What level of savings helps to protect against financial difficulties, e.g. the risk of falling behind with payments or becoming over-indebted?**
2. **To what extent do basic forms of saving lead to use of other financial products or investments in future, thereby increasing longer-term financial security?**

These questions are not necessarily new or ones we expect to produce surprising results. Rather the aim is to test, quantify and update the assumptions made by those, such as the BSA and policymakers, who aim to improve financial security by encouraging people to save.

Indeed, the first question has been answered before: research on behalf of StepChange Debt Charity back in 2014 found that holding cash savings of £1,000 reduced the odds of problem debt by 44% (for a household with an annual income of £25,000).⁵ Holding £5,000 meanwhile reduced these odds by 72%. The research for StepChange, however, used data from the 2010-12 Wealth and Assets Survey, in the aftermath of the global financial crisis,

⁴ Evans & Davies (2024) '[Understanding the role of savings in promoting positive wellbeing](#)'. University of Bristol: Personal Finance Research Centre.

⁵ Marley (2014) '[Savings and problem debt](#)'. Select Statistical Services, for StepChange Debt Charity.

rendering it more than a decade old. While it has been an influential and much-cited piece of research, we aim to update it and to address two potential limitations of the prior analysis. First, it employed cross-sectional analysis, focusing on the association between debt and saving at a single point in time, rather than taking a longitudinal approach which would allow a better understanding of the association between *prior* savings and *subsequent* financial difficulty. Second, it focused on a subjective measure of problem debt: whether household respondents described their non-mortgage debt as a ‘heavy burden’ or not. While subjective measures such as these are important and often tell us more than objective data alone can, we have chosen to explore the relationship between saving and a range of financial outcomes, both objective and subjective.

The second research question also explores the extent to which basic forms of saving can improve longer-term financial resilience by encouraging people to take out other financial products over time. It is particularly pertinent in a context where the Chancellor of the Exchequer, Rachel Reeves, is keen to encourage people to invest more of their savings in the stock market.^{6,7}

Data from the Financial Conduct Authority’s (FCA) ‘Financial Lives’ survey suggests that nearly three-in-ten (29%) adults in the UK do not hold a dedicated savings product of any type—and the same proportion hold less than £1,000 in savings.⁸ These figures rise to 47% and 57% respectively for households with annual income less than £15,000, highlighting the challenge in enabling lower-income households to build-up an emergency buffer given the high cost of living. The FCA data also highlights the same (often overlapping) challenge facing younger adults, renters, the unemployed and those from certain ethnic minority groups.

At time of writing, the UK Government’s Financial Inclusion Committee continues its work to address some of these issues, including “identifying measures to support [those with low or no savings to] limit their vulnerability to unexpected costs”.⁹ In the concluding chapter, we present views from two roundtables that we held—one with building societies and credit unions and one with policy stakeholders—exploring possible ways that the mutual sector and broader Government policy could support more people to start saving. Please see Appendix 1 for a list of organisations that attended the roundtables.

⁶ House of Lords Library (2025) ‘[Encouraging retail investment in the stock market](#)’.

⁷ HM Treasury (2025) ‘[Leeds Reforms to rewire financial system, boost investment and create skilled jobs across UK](#)’.

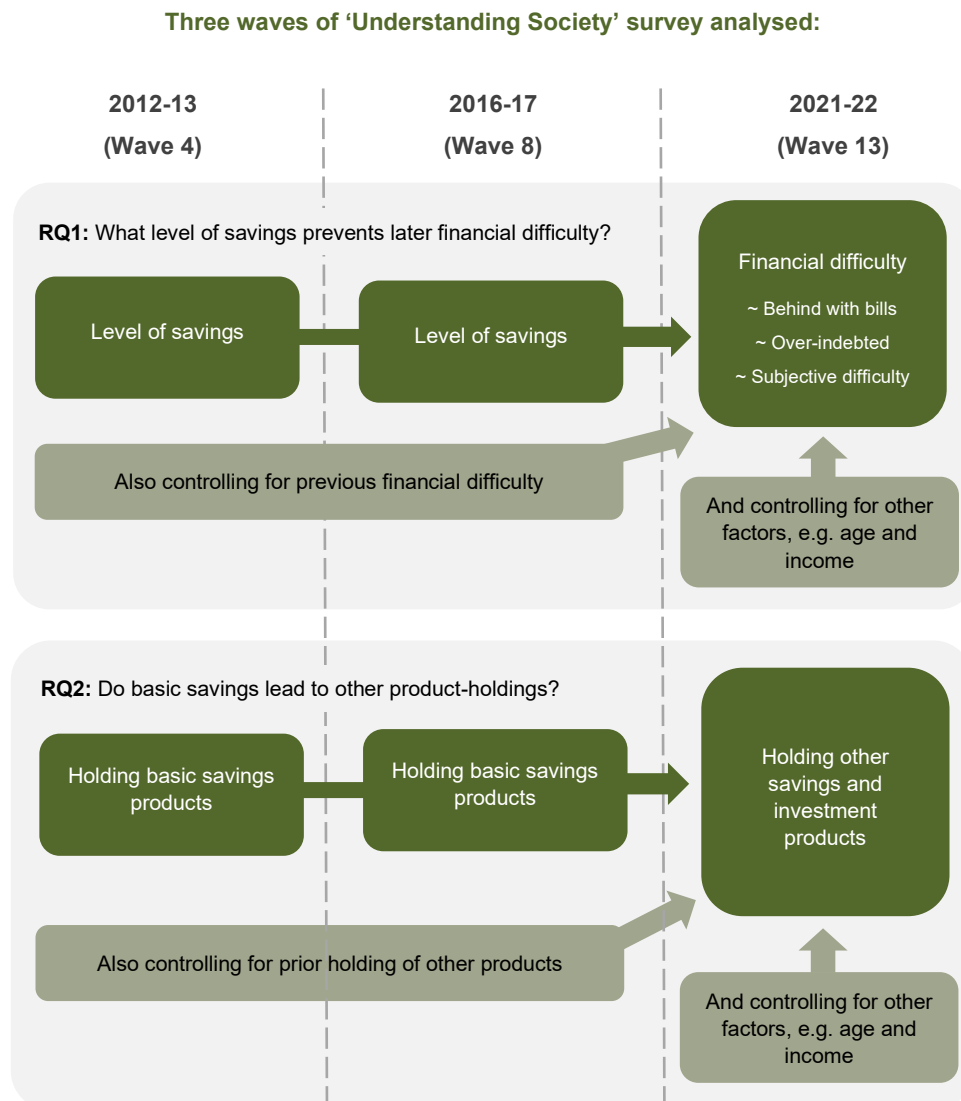
⁸ FCA (2025) ‘[Financial Lives 2024 survey: Cash savings. Selected findings.](#)’

⁹ HM Treasury (2024) ‘[Help for vulnerable Brits to access banking and credit in spotlight](#)’.

Methodology and data

In this section, we present an overview of the research methodology employed; we provide more detail in the separate methodological appendix document. Figure 1.1 gives a broad overview of the approach taken:

Figure 1.1 – Overall analytic approach taken



Data used

We conducted secondary analysis of a large, UK-wide survey called The UK Household Longitudinal Study—more commonly known as ‘Understanding Society’.¹⁰ The survey is robustly sampled in a way designed to make it representative of the wider UK public, including often under-represented immigrant and ethnic minority groups. The survey is longitudinal and has been tracking the same households since 2009, allowing us to understand how someone’s past savings behaviour can influence their future financial outcomes. The main savings variables that we’re interested in were asked about in three survey waves: wave 4 (2012-13), wave 8 (2016-17) and wave 13 (2021-22).

Savings-related variables

In all of these three waves, every adult in the household was asked if they hold each of a number of different types of savings or investment products.¹¹ They are then asked a follow-up question about the amount that they hold in each account type. For our first research question—on the level of savings necessary to avoid financial difficulties—we begin by calculating the total amount held by an individual across all of their savings and investment products and then aggregate this to a household level, as adults within a household are likely to pool resources. This leaves us with a variable giving the total amount of savings held by the household. We then adjust for inflation, so that all values are reflected in 2022 prices (the final year of data collection that we consider). We present savings levels in bands.¹² We focus only on those households where all adults provided information on the savings that they hold, which reduces our overall sample size.

For some analyses, we also present a household’s savings in terms of how many months’ worth of their income they hold. This is calculated by taking the total value of their savings (as derived above) and dividing this by their total monthly net income from all sources (in 2022 prices). This is then expressed as a categorical variable, with the following divisions: less than one month’s income in savings; one-two months; three-six months; seven-twelve months; or more than a year’s income in savings.

For our second research question—on the links between basic savings and other subsequent product-holding—we use the data on the types of savings and investment products held by each adult in the household. Again, we convert these to household-level variables. We also bring in other variables related to homeownership, receiving rental income from letting out property, and private pension contributions (if working age) or receipt (if over pension age). In places we combine several account types into a single category

¹⁰ University of Essex, Institute for Social and Economic Research. (2023). Understanding Society: Waves 1-13, 2009-2023 and Harmonised BHPS: Waves 1-18, 1991-2009. [data collection]. 19th Edition. UK Data Service. SN: 6614, DOI: <http://doi.org/10.5255/UKDA-SN-6614-19>

¹¹ The products asked about in all waves are as follows: 1) Savings or deposit accounts (with a bank, post office or building society); 2) National savings accounts (national savings bank or post office); 3) ISA – cash only; 4) ISA – stocks and shares or PEPs; 5) Premium bonds; 6) Other types of savings account. The survey only asked about saving with a current account separately in wave 13 and not in waves 4 or 8, so unfortunately this is excluded from our analysis. Our results therefore relate to savings held within dedicated savings products.

¹² Our banded version accounts for the fact that a) the effect of savings amounts on financial difficulties outcomes is not linear (i.e. it is curved, and beyond that is not a smooth curve) and b) we anticipate, based on our explorations, that there is a certain amount of ‘noise’ in the savings amounts data to render very granular bands inaccurate. As such, we have settled on the comparatively broad bands to reflect optimal thresholds and band sizes as indicated to us by the data.

where initial analyses suggested this was appropriate; for example, we combine all NS&I products into a single category.

Financial outcome variables

For the first research question we consider three key outcome variables, all of which are coded as binaries (0 or 1), with 1 indicating some form of financial difficulty:

- **Behind with bills?** – this captures whether the household is behind with any bills at the moment or has been behind with council tax or housing payments in the past 12 months;
- **High levels of borrowing?** – this shows if anyone in the household either has three or more types of borrowing or has borrowed money from private individuals (such as friends or family). We include both conditions as some low-income households may struggle to access mainstream credit and therefore turn to informal borrowing from friends, family or other private individuals.
- **Poor subjective financial wellbeing?** – each adult in the household had been asked how they were ‘managing financially these days’. We derived a variable showing whether anyone in the household had said that they were either finding it ‘very’ or ‘quite difficult’ to manage. For the second research question, we also look at the other end of the financial wellbeing spectrum, with a binary variable indicating if, in response to the above question, the respondent said that they were ‘living comfortably’. We use this to indicate a form of financial security.

About the analyses

For each research question, in essence we are looking to understand how prior savings behaviour influences subsequent outcomes—while also controlling for other factors that might be correlated with these latter outcomes. We conducted a wide range of individual analyses, beginning with cross-sectional ones (looking at a single wave of survey data, typically 2021-22) to understand basic patterns within the data, followed by a number of longitudinal analyses looking at all three survey waves (2012-13, 2016-17 and 2021-22). In all analyses, we only include respondents who completed all three waves; this means that respondents needed to be at least 18 in 2012-13 (or 27 by 2021-22). We also add an upper limit of 65 in 2012-13 or 74 in 2021-22, as we recognise that older age tends to be a phase of asset decumulation rather than accumulation. The sample size varies depending on the specific analysis and combination of variables used; however, generally we are able to work with around 7,000-8,000 respondents for each analysis.

In addition to basic cross-tabulation of the data, we conduct regression analyses which allow us to control for other factors that might also be correlated with our outcome variables. When looking at financial difficulty in 2021-22 therefore we might control for financial difficulty in 2012-13 and 2016-17, as we know that the two are very correlated and we want to be able to understand the impact of savings on subsequent financial difficulties *independently* of any previous financial challenges. We also control for other factors that may be important. These were typically taken from the 2021-22 wave and include: household income quintile; economic status; age group; sex; broad ethnic group; migrant status; class background (measured by parents’ occupations when respondent was 14); illness or disability; household composition; and housing tenure. At various points, we conducted sub-analyses looking at specific age cohorts or income groups to determine if, for example, the level of

savings required to avoid financial difficulty is higher or lower for a given age or income group.

In the statistical analysis described throughout this report, significant differences are reported at the 95% level of confidence ($p < .05$). Where figures do not sum to 100, this is due to rounding.

About this report

The report is structured as follows. In section two, we present our analyses related to research question one—showing what level of savings may help someone to avoid later financial difficulty. We then, in section three, move onto our second question, exploring the links between holding basic savings products and moving on to hold more complex savings and investment products. In the concluding section, we draw on the discussion within our policy and product design roundtables to consider what actions could be taken to support more people to save in future. In each chapter, we also hear commentary from the Building Societies that sponsored this research (via the Building Societies Association), highlighting what the findings mean for them.

2 WHAT LEVEL OF SAVINGS HELPS PREVENT FINANCIAL DIFFICULTY?

This chapter aims to answer our first research question, exploring if holding a certain level of savings helps to protect against the risk of different forms of financial difficulty in future.

As previously mentioned, 2014 research for StepChange found that holding £1,000 in cash savings significantly reduces someone's likelihood of having burdensome debts.¹³ Holding higher sums is of course shown to lower the risk even more. Our aim is to update this research and build on it, by conducting longitudinal analyses and reflecting a wider range of measures of financial difficulty. We look at the outcome measures shown in Figure 2.1.

Figure 2.1 – Measures of financial difficulty used in the analyses



We find, as one would expect, that those with high levels of savings are less likely to be in concurrent financial difficulty, on all three of these measures. By concurrent, we mean the relationship between level of savings in 2021-22 and financial difficulty at the same time-point in 2021-22. While the broad trend is that the higher the savings the lower the financial difficulty, the relationships are not always totally linear—and in the case of high levels of

¹³ Marley (2014) '[Savings and problem debt](#)'. Select Statistical Services, for StepChange Debt Charity.

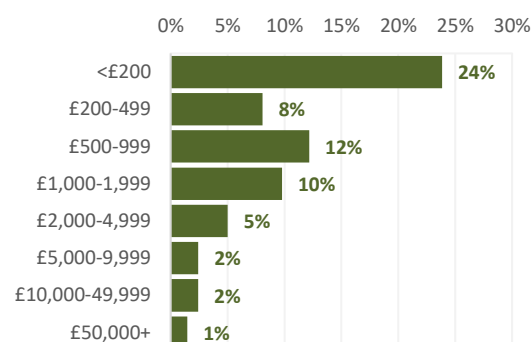
borrowing, we actually see that those with a fairly low level of savings were more likely to be over-indebted¹⁴ than those with less than £200 (or nothing) in savings. This likely reflects a certain level of financial exclusion among those who are the most worse-off; in other words, those with the lowest level of savings are also likely to have lower incomes, which may restrict their access to credit. While we included borrowing from private individuals (such as friends and family) within this measure in order to attempt to account for this financial exclusion, it does not fully offset it. Some sub-sections of low-income households may borrow from family or friends relatively frequently—for example, younger adults—but this option may not be available (or seen as quite so socially acceptable) for other low-income households.

In Figures 2.2a-c, we show the percentage of respondents who experienced each of the three types of financial difficulty in 2021-22, but this time based on their level of household savings in 2016-17. The same broad trends exist. We see, for example, that nearly a quarter (24%) of those with low or no savings in 2016-17 had fallen behind with their bills in the 12 months to 2021-22. This falls substantially to just 8% for those with £200-499 in savings, before rising slightly among the £500-999 (12%) and £1,000-1,999 (10%) groups. Among those with £2,000-5,000 in savings in 2016-17, just 5% had fallen behind in 2021-22. These figures diminish further among those with greater savings.

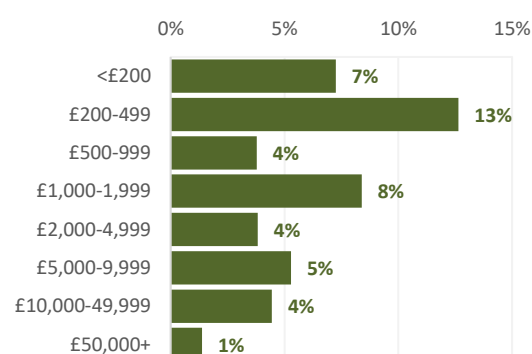
For our high levels of borrowing variable (Figure 2.2b), we see a similar overarching pattern to that in the concurrent analysis, whereby a higher proportion (13%) of those with £200-499 in savings were over-indebted than those with less than £200 in savings (7%). Those with more than £500 in savings

Figures 2.2a-c – Percentage of individuals experiencing each type of financial difficulty in 2021-22, based on household's level of savings in 2016-17

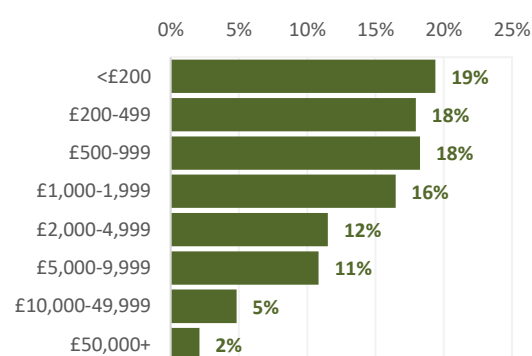
a. Fallen behind with bills



b. High levels of borrowing



c. Poor subjective fin. wellbeing



Notes: sample sizes for A range from 166 (£200-499) to 1,882 (less than £200); for B range from 170 (£200-499) to 1,948 (less than £200); and for C range from 176 (£200-499) to 2,042 (less than £200).

¹⁴ Please note that we use the term 'over-indebted' as a short-hand to mean those with three or more different types of formal borrowing (excluding mortgages or student loan debt) or any borrowing from a private individual. This focuses only on the number of types of borrowing, not on the amount actually borrowed.

then have a lower rate of over-indebtedness (typically 4-5%), although there is a slight jump (to 8%) among the £1,000-1,999 group.

The measure of subjective financial wellbeing behaves slightly differently, which is perhaps to be expected given that the other two measures are more objective in nature. Here, we see that perceptions of financial difficulty reduce more slowly than the other measures, as a household's prior level of savings increases. Nearly one-in-five (18-19%) of those with less than £1,000 in savings reported perceived difficulties, reducing slightly to 16% for the £1,000-1,999 group and further to 11-12% for those with £2,000-9,999 in savings. It isn't until the £10,000 mark, however, that we see that subjective financial difficulty reduces to just 5%. The discrepancy between the objective and subjective measures may imply that it takes a lower level of savings to avoid the most severe consequences of financial difficulty but that it takes more to actually feel better-off. It also may mean that some households take a variety of steps to avoid falling behind with their bills or falling into debt, such as cutting back on their spending (for example, buying cheaper groceries or using less energy to heat their home). These mitigation strategies—which are often hidden or under-acknowledged—may avoid the harshest financial difficulties but still leave households feeling the pinch.

What if we control for other factors?

The aforementioned charts present a simple relationship between prior saving and future financial difficulty, but in reality, these relationships are often more complex. For example, the charts do not take into account the fact that future financial difficulty is often linked to past financial difficulties. Indeed, while Figure 2.2a shows a rate of 24% of those with low savings in 2016-17 falling behind with their bills in 2021-22, this rises to 44% among those with low savings who had also already missed a bill payment in 2016-17. The rate for those who *hadn't* previously missed a bill but had less than £200 in savings was 10%, substantially lower. Nor do these analyses take into account other life events or socio-economic characteristics, such as age or income. For this reason, we build on the above analyses using regression analysis; this allows us to explore the relationships between past savings levels and future financial difficulties, when controlling for these other factors.

We conducted a range of different regression models, each of which use a different combination of variables, either in the way we calculate prior savings levels or in the other factors that we control for in the model. For each of the ways that we measure savings, we conduct four regression models: Model 0, which has no other control variables added; Model 1, which controls for prior financial difficulties; Model 2, which also controls for age and income; and Model 3, which also controls for a series of other variables, including economic status, tenure, disability/illness, and ethnicity. This allows us to see how the relationship between prior savings and future financial difficulty changes depending on what else is controlled for in the models. Collectively, the models allow us to understand the broad story of what level of savings 'matters' for preventing future financial challenges.

Figure 2.3 gives an overall summary of the results—showing what level of savings may help to avoid each type of future financial difficulty. This is based on our assessment across all of the regression models conducted. In some models (usually those without other control variables included), we see that holding £200-499 is associated with a statistically significant reduction in the odds of financial difficulty (relative to someone with less than £200 saved);

however, the size and significance of these effects reduces substantially when other factors are controlled for. For the two more objective measures of financial difficulty, it is only when we get to the £2,000-4,999 savings band that we start to see a statistically significant effect persist across all or almost all models, regardless of what else is controlled for. For this reason, we propose that holding at least £2,000 in savings is key in avoiding these types of future financial difficulty. For subjective financial wellbeing, however, it is not until someone has access to at least £10,000 in savings that their risk of perceived difficulty reduces significantly. Even then, this is not statistically significant in our Model 3s, when all of the other factors are taken into account. This tallies with the results shown earlier, that the perception of difficulty reduces more slowly as savings increase than for the other objective measures of difficulty.

Figure 2.3 – Overall, what level of savings is associated with significantly reduced risk of each type of financial difficulty (when controlling for other factors)?

Measure of financial difficulty:	Level of savings needed to significantly lower the risk:
Falling behind with bills	£2,000
Having high levels of borrowing	£2,000
Having poor subjective financial wellbeing	£10,000

Figures 2.4-6 give examples of some of the regression models on which these findings are based. The results shown are odds ratios, which show the change in the odds of later financial difficulty occurring for each level of savings, relative to the reference group of those with no savings or savings less than £200. A value of less than 1 indicates a reduction in odds, while a value over 1 indicates an increase in odds. Green cells and asterisks indicate statistically significant results. Model 3—controlling for all of our other factors—for falling behind with bills shows that holding £2,000-4,999 has an odds ratio of 0.42; this means that, all else being equal, the odds of later falling behind with bills are reduced by nearly 60% for those with access to this level of savings in earlier years. A similar figure (of 0.40) is obtained for the high levels of borrowing variable for those with £2,000-4,999 in savings.

We find that holding at least £2,000 in savings is linked to a nearly 60% reduction in the risk of falling behind with bills several years later.

As mentioned, when looking at subjective financial difficulty, holding at least £10,000 is most commonly the level in our models where we start to see statistically significant effects. That being said, it is not statistically significant when we control for all of our other relevant factors (Model 3, Figure 2.6). Controlling only for prior (perceived) financial difficulty, age and

income, however, we do find that holding £10,000 in savings is associated with a 57% reduction in the odds of later subjective financial difficulty.

Figure 2.4 – Regression results showing odds ratios between each level of savings and the likelihood of falling behind with your bills. Each column represents a different model, each of which control for different other factors. Green cells indicate statistically significant results.

Level of savings (Ref = <£200)	Model 0 (no controls)	Model 1 (controlling for prior fin. diff)	Model 2 (also controlling for age & income)	Model 3 (also controlling for other variables)
£200-499	0.30**	0.50	0.58	0.77
£500-999	0.63	0.75	0.81	1.00
£1,000-1,999	0.11***	0.21**	0.24*	0.37
£2,000-4,999	0.13***	0.22***	0.27**	0.42*
£5,000-9,999	0.09***	0.16***	0.19**	0.32*
£10,000-49,999	0.08***	0.19***	0.27**	0.61
£50,000+	0.04***	0.08**	0.15*	0.31
Pseudo R-squared	0.110	0.220	0.263	0.343

Figure 2.5 – Regression results showing odds ratios between each level of savings and the likelihood of having high levels of borrowing. Each column represents a different model, each of which control for different other factors. Green cells indicate statistically significant results.

Level of savings (Ref = <£200)	Model 0 (no controls)	Model 1 (controlling for prior fin. diff)	Model 2 (also controlling for age & income)	Model 3 (also controlling for other variables)
£200-499	1.28	1.22	1.21	1.19
£500-999	0.70	0.63	0.56	0.48
£1,000-1,999	1.08	1.02	0.87	0.83
£2000-4,999	0.43**	0.48*	0.42**	0.40**
£5,000-9,999	0.77	0.80	0.69	0.64
£10,000-49,999	0.28***	0.37**	0.35**	0.35**
£50,000+	0.16**	0.25*	0.26*	0.31
pseudo R-Square	0.023	0.098	0.125	0.146

Notes for Figures 2.4 and 2.5: asterisks indicate statistically significant results where * = p<0.05, ** = p<0.01 and *** = p<0.001. Level of savings in this chart is determined using savings in both 2012-13 and 2016-17, whereby someone has to have access to at least that level of savings in both survey years; for example, someone with £1,000-1,999 in 2012-13 but £500-999 in 2016-17 would be included within the £500-999 category. This is just one of a range of ways that we calculated level of savings. Smallest sample sizes for each chart are 7,216 (Model 3, 2.4) and 6,151 (Model 3, 2.5).

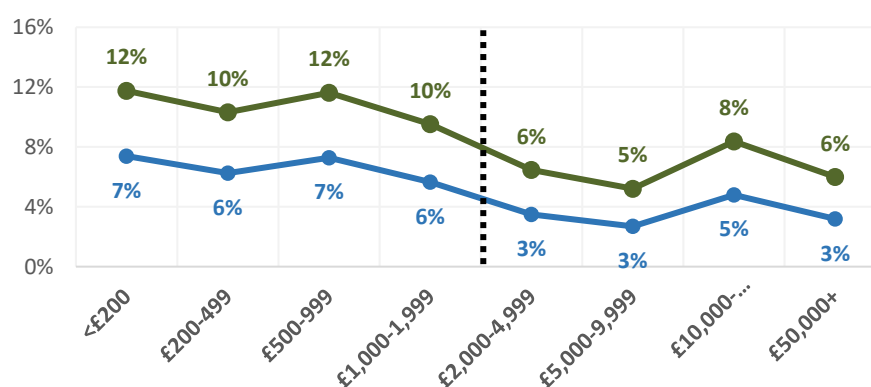
Figure 2.6 – Regression results showing odds ratios between each level of savings and the likelihood of subjective financial difficulty. Each column represents a different model, each of which control for different other factors. Green cells indicate statistically significant results.

Level of savings (Ref = <£200)	Model 0 (no controls)	Model 1 (controlling for prior fin. diff)	Model 2 (also controlling for age & income)	Model 3 (also controlling for other variables)
£200-499	0.48*	0.56	0.63	0.71
£500-999	0.74	1.20	1.37	1.73
£1,000-1,999	0.75	0.91	1.06	1.45
£2000-4,999	0.62	0.82	1.13	1.58
£5,000-9,999	0.43**	0.69	0.87	1.27
£10,000-49,999	0.17***	0.30***	0.43**	0.71
£50,000+	0.10***	0.19***	0.33**	0.55
pseudo R-Square	0.053	0.112	0.159	0.213

Notes: asterisks indicate statistically significant results where * = $p < 0.05$, ** = $p < 0.01$ and *** = $p < 0.001$. Level of savings in this chart is determined using savings in both 2012-13 and 2016-17, whereby someone has to have access to that level of savings in either survey years (not both as above); for example, someone with £1,000-1,999 in 2012-13 but £500-999 in 2016-17 would be included within the £1,000-1,999 category. This is just one of a range of ways that we calculated level of savings. Smallest sample size is 7,466 (Model 3).

The regression results shown above are given in odds ratios, but what does this look like in terms of the actual risk of financial difficulty? In Figure 2.7, we present the risk of falling behind with bills in 2021-22 based on level of savings in 2012-13, but adjusted for the other factors that we have controlled for. It demonstrates that the risk of falling behind reduces from 12% for those with no savings (or under £200) to 6% for someone with access to at least £2,000 in savings. For someone who has not previously been behind with bills, these adjusted risk figures change to 7% and 3% respectively.

Figure 2.7 – Adjusted risk of falling behind with bills in 2021-22, based on savings in 2012-13, for all respondents and those not previously behind with bills. From regression analysis, controlling for other relevant factors (Model 3).

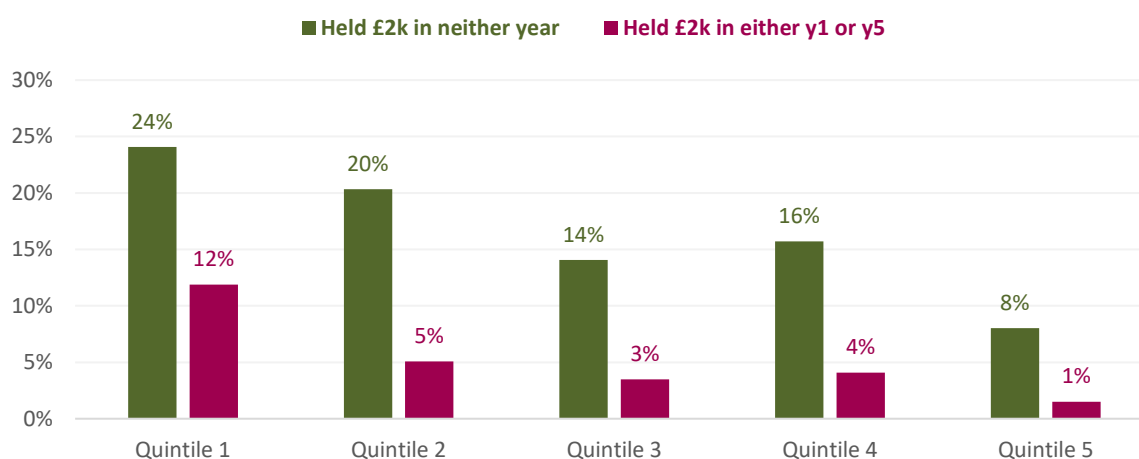


Notes: shows values predicted by the regression at each level of savings when all other variables in the model are average.

How are different income and age groups affected?

Clearly it is to be expected that those from lower income groups are more likely to fall into financial difficulty on average. We therefore also explore the risk of falling behind with bills by income quintile and previous savings. As sample sizes within each quintile are smaller, we cannot control for all of the other variables previously controlled for; however, we are able to also control for age and prior financial difficulty. Figure 2.8 therefore demonstrates the expected risk of falling behind, by income group but depending on whether or not they had access to at least £2,000 in savings. This shows that for those in the lowest income quintile, the risk of later falling behind with bills was 24% if they never had access to £2,000 in savings. This halves to 12% if they held at least £2,000 in either prior survey wave. The reduction is actually proportionally greater for the second income quintile (from 20% to 5%), but all of the higher income groups also were less likely to end up in difficulties if they previously held savings.

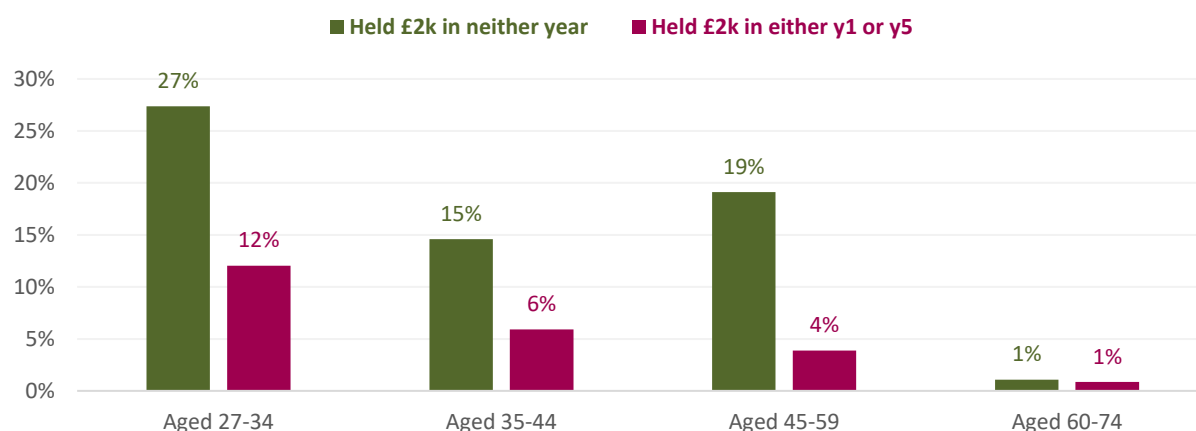
Figure 2.8 – Adjusted risk of falling behind with bills in 2021-22 by income quintile, based on whether or not they had access to £2,000 in savings in earlier survey waves. From regression analysis, controlling for age and previous financial difficulty.



Notes: shows values predicted by the regression at each level of savings when all other variables in the model are average.

We also do a similar thing for different age groups, given the way that financial situations often change across the life-course (Figure 2.9). This shows a very low risk of falling behind with bills for those aged 60-74 (in 2021-22), regardless of whether or not they previously held at least £2,000 in savings (1% for both groups). For younger age groups, the risk of falling behind is clearly higher: for those aged 27-34, there was a 27% risk of difficulty if they hadn't held £2,000 in savings, reducing substantially to 12% if they had. For the 35-44, these figures were 15% and 6% respectively, while for the 45-59 age group, they were 19% and 4% respectively.

Figure 2.8 – Adjusted risk of falling behind with bills in 2021-22 by age group, based on whether or not they had access to £2,000 in savings in earlier survey waves. From regression analysis, controlling for age and previous financial difficulty.



Notes: shows values predicted by the regression at each level of savings when all other variables in the model are average.

How many months' income should households save?

We've focused thus far on a households' absolute level of savings, but we can also consider money saved relative to their income. This is similar to the way that much of the money advice world talks about savings in terms of number of months' essential outgoings; MoneyHelper, for example—run by the Money and Pensions Service—advises that:

***“A good rule of thumb to give yourself a solid financial cushion is to have three to six months' essential outgoings available in an instant access savings account.*”**

“So, if you spend £1,000 a month on mortgage or rent, food, heating bills and other things you can't live without, you might aim for £3,000 to £6,000 in emergency savings.”

The figure of at least three months' expenditure is commonly advised; although it is not entirely clear where this figure originated from—beyond being financial 'common sense'. While we cannot reproduce it exactly, as we don't have detailed data on household expenditure, we can explore savings in terms of months' income.

Doing similar analyses to those shown before, this finds that holding at least one month's income in savings is associated with a statistically significant reduction in the likelihood of later financial difficulty. Having this level of savings in either 2012-13 or 2016-17 is found to reduce the odds of falling behind with bills in 2021-22 by nearly 75% (relative to someone who didn't have one month's income saved in either

Holding at least one month's income in savings is linked to a nearly 75% reduction in the odds of falling behind with bills several years later.

year). The adjusted risk of falling behind in 2021-22 is found to be just 5% for those with their monthly income saved in both previous survey waves, whereas it rises to 12% for someone with this level of saving in neither wave. (For someone with one month's income saved in just one of the two survey waves, the adjusted risk was 10%, which was not a statistically significant result.)

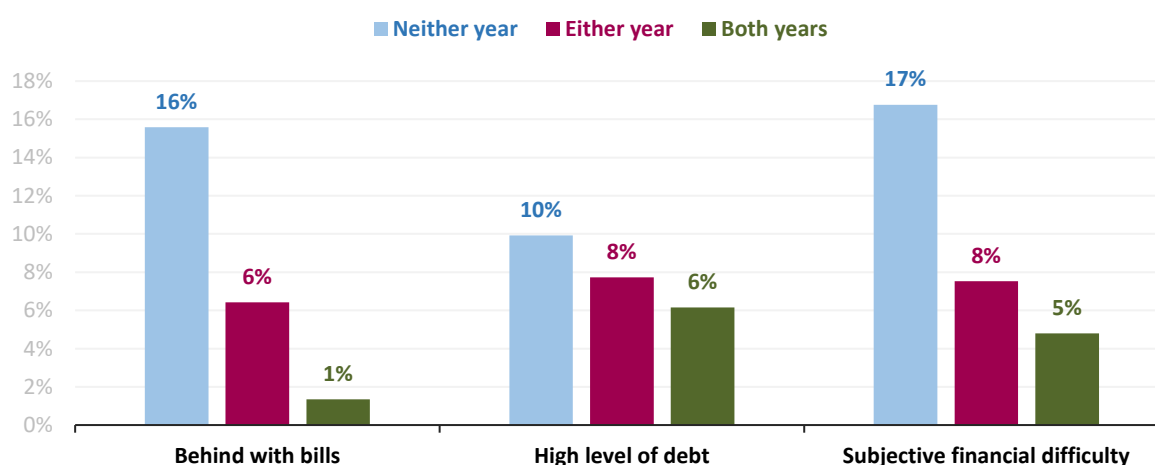
How important is the savings habit?

While having the ability to save larger sums of money clearly helps avoid future financial difficulties, it is not necessarily something that everyone is able to do—especially within the context of the high cost of living. For this reason, we also explored whether the habit of saving, regardless of the amount saved, can be important.

We found that those who were regular savers in both of the earlier survey waves (2012-13 and 2016-17) had over 70% lower odds of falling behind with their bills in 2021-22 than those who were not regular savers in either year, even after controlling for a range of other factors (as in our earlier 'Model 3' regressions). Those who were regular savers in one of the two waves also had 36% lower odds of falling behind (than non-regular savers).

These effects remain significant even when we control for the *level* of savings that they have access to. The reduction in odds of difficulty for regular savers remains similar (-69% for regular savers in both years and -31% for regular savers in one year), whereas each savings band becomes statistically non-significant. The £2,000-4,999 savings band, for example, has an odds ratio of 0.38 (equivalent to a 62% reduction in the odds of difficulty) but with a p-value of 0.068, it narrowly misses out on statistical significance at the 95% confidence level ($p < 0.05$). Regularity of saving and level of saving are, of course, fairly closely correlated. While 65% of those who never identified as a regular saver had access to less than £2,000 in savings, this falls to just 21% among those who were regular savers in both years.

Figure 2.10 – Percentage of adults experiencing each type of financial difficulty in 2021-22, by how many previous survey waves they were a regular saver in.



Notes: weighted sample sizes as follows: behind with bills – neither = 3,543, either = 2,172, both = 1,433; high level of debt – neither = 3,609, either = 2,242, both = 1,467; subjective financial difficulty – neither = 3,783, either = 2,311, both = 1,493.

Figure 2.10 also demonstrates these patterns, showing that one-in-six (16%) of those who were never regular savers had fallen behind with their bills by 2021-22. This drops to 6% among those who had been saving regularly in one of the two previous survey waves and reduces further to 1% among those who had regularly saved in both years. We see a similar trend for subjective financial difficulty, but a less stark contrast for high levels of debt. When controlling for other factors in regression models, this confirms that regular saving has a statistically significant association with reduced odds of subjective difficulty (even controlling for level of savings) but no significant relationship appears to exist with our debt outcome.

Comment from Susan Allen, Chief Executive Officer, Yorkshire Building Society:



“Understanding what level of savings protects households from financial difficulty is more than a research question—it’s a matter of national resilience. In challenging economic times, this report offers vital insights into the importance of savings - and shows that even modest savings can dramatically reduce financial risk. Where individuals can save more over time, findings identify key thresholds, such as £2,000 for stability and £10,000 for wellbeing, which can be used to better support individuals, shape policy, and design products that truly make a difference. As the CEO of a business which is focused on helping people build financial resilience, I am pleased to support this important work, which helps us move closer to a financially secure future for all.”

3 DOES BASIC SAVING LEAD TO OTHER PRODUCT-HOLDING?

We now move onto the second research question, looking at whether those who hold basic savings products end up taking out more complex savings and investment products in future.

Again, we use data from Understanding Society to explore how people's product-holding evolves over three separate survey waves: 2012-13, 2016-17 and 2021-22. The survey captures a range of information about products that are held by individuals within each household; some products were asked about at an individual-level, while others were asked about at the household-level. For this reason, we derived household-level variables, showing if anyone in the household held each of the product types. The products shown in Figure 3.1 are included within this analysis.

Figure 3.1 – Product types included in the analyses

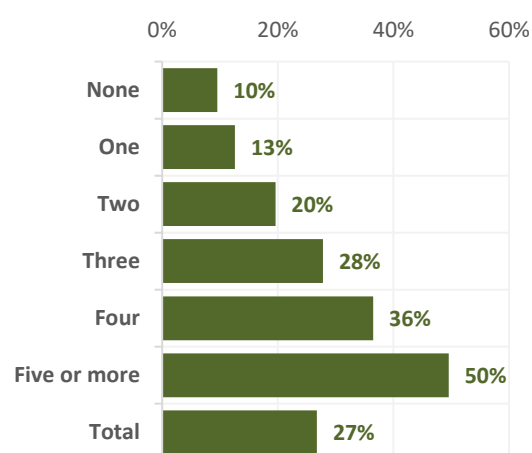
- **Basic savings** – savings or deposit accounts (with banks, building societies or the post office)
- **NS&I products** – National Savings accounts, premium bonds or NS&I certificates or bonds
- **Cash ISAs** – of any kind, including Help-to-Buy ISAs
- **Other savings** – any other savings, not previously mentioned
- **Investments** – including stocks and shares, stocks and shares ISAs or PEP, Unit Trusts/Investment Trusts, or other investments (gilts, bonds, stock options)
- **Private pensions** – either paying into a private pension or receiving income from one.
- **Homeownership** – if main home is owned with mortgage or owned outright
- **Rental income** – receiving any rental income from any other property

How are product-holding and financial security linked?

To begin with, we show that those who hold more savings and investment products are typically more financially secure than those who hold fewer. As Figure 3.2 shows, those living in households holding a greater variety of products¹⁵ in 2021-22 tended to be much more financially secure than those who held fewer: whereas just 10% of those holding none of the savings or investment product types (shown previously in Figure 3.1) described their financial situation as ‘living comfortably’, this rises to 50% of those who held five or more types of products. This is, of course, as we would expect, given that those with a greater variety of products are likely to have higher overall assets distributed between each of their products.

In Figure 3.3, we look at the link between financial security and each of our product types in more detail. Here, we focus on specific product types and also use regression analysis to control both for a range of other household characteristics—including age, income and household composition—and also to control for other product-holding. In other words, we explore the relationship between a given product type and the likelihood of ‘living comfortably’, regardless of other products that they may or may not hold. This showed that several product types were associated with statistically significant increases in the odds of perceived financial security: basic savings/deposit accounts (Odds Ratio=1.29, $p=0.003$), cash ISAs (O/R=1.20, $p=0.015$), investments (O/R=1.83, $p=0.000$), homeownership (O/R=1.78, $p=0.000$) and rental income (O/R=1.51, $p=0.002$). Holding investments and then homeownership were associated with the greatest increases in the odds of feeling financially comfortable. We found no significant association for NS&I product-holding (O/R=1.14, $p=0.109$), other savings accounts (O/R=1.27, $p=0.114$) or private pension-holding (O/R=1.07, $p=0.415$).

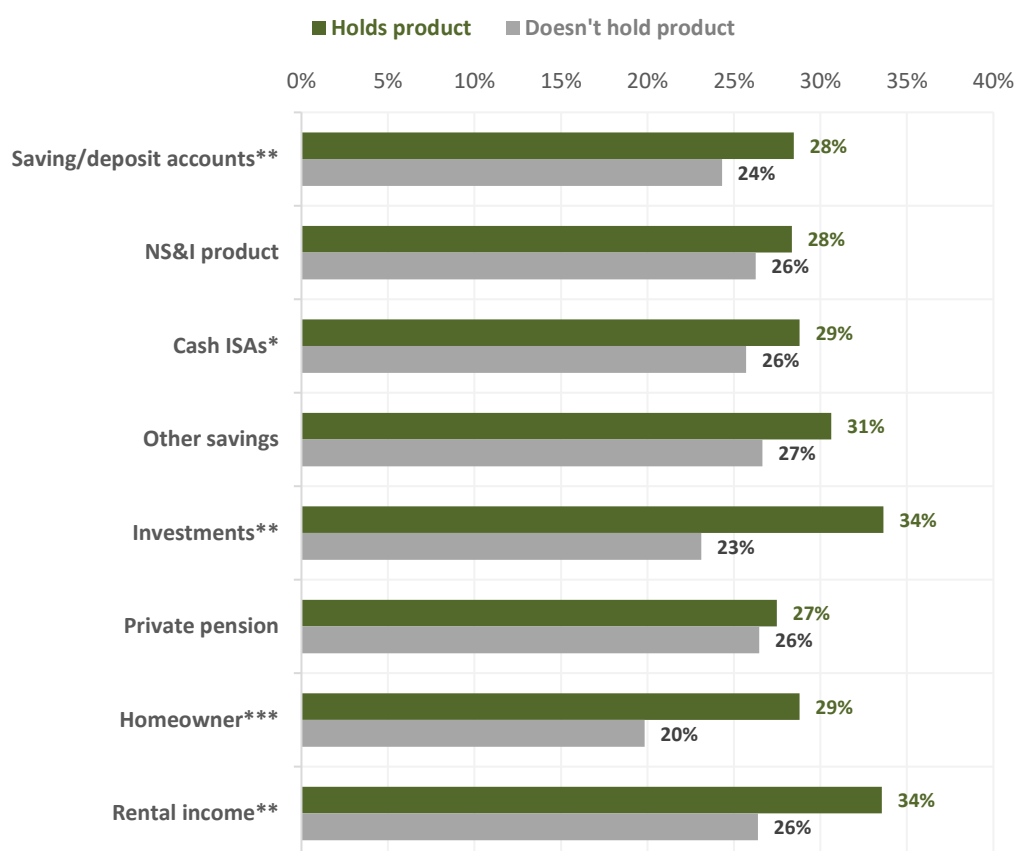
Figure 3.2 – Percentage of adults ‘living comfortably’, by number of savings and investment product types held by their household.



Notes: raw, unadjusted percentages shown. Data only from 2021-22 shown. Sample size = 7,645 with sub-groups ranging from 968 (none) to 1,506 (three). ‘Living comfortably’ here refers to instances where the respondent said they are ‘living comfortably’ when asked how they are managing financially.

¹⁵ Please note that throughout this section we include homeownership as a ‘product’, though we recognise that it is not in itself a financial product.

Figure 3.3 – Adjusted rate of ‘living comfortably’, by product-holding. From regression analysis, controlling for other household characteristics and other product-holding.



Notes: asterisks indicate statistically significant results where * = $p < 0.05$, ** = $p < 0.01$ and *** = $p < 0.001$. Chart shows values predicted by the regression for each product-holding when all other variables in the model are average. Model controls for each type of product-holding and also: age, household income quintile, sex, ethnic group, migrant status, parental social class, illness/disability, household composition and economic activity.

We then added i) *level* of savings in basic savings and ii) regularity of saving to our analysis to test whether holding a product improves financial security independently of the amount saved or how regularly money is saved. We found that both of these variables override the effect of simply holding the product, even at modest savings levels. All else being equal, regularly saving any amount of money or holding even a small amount in basic savings is associated with a significant uplift in the likelihood of perceived financial security. This is perhaps as we would expect: that it is not solely about holding an account, but about contributing to it regularly and in sufficient amounts which makes the difference for longer-term financial security. That being said, opening the account is of course an important first step.

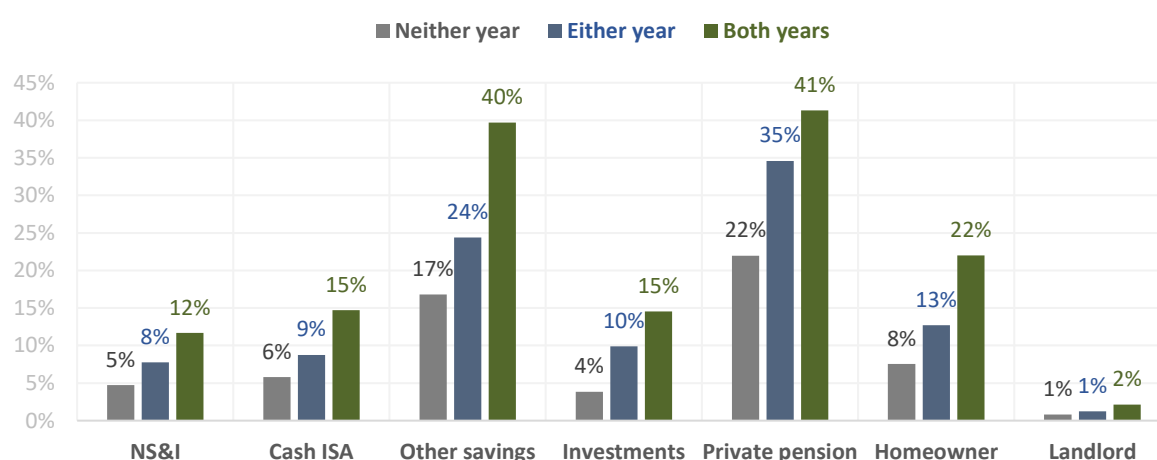
Does basic saving lead to other product-holding in future?

We conducted a range of analyses to explore the relationship between holding each product in one or both earlier years (2012-13 or 2016-17) and holding other products in 2021. We

predominantly focus on those who didn't previously hold the latter product in either 2012 or 2016; so, for example, when looking at the likelihood of taking out investments by 2021-22, we look only at those who didn't previously hold these in either 2012-13 or 2016-17.

Figure 3.4 gives the raw (unadjusted) percentages, showing that those who held basic savings products in one or both of the previous two waves generally had a greater likelihood of taking out other savings products by 2021 (among those who didn't previously hold these other products). For example, 15% of those who didn't have a cash ISA in 2012 or 2016 but did have a basic savings account had taken out a cash ISA by 2021, compared to just 6% of those who had neither product previously.

Figure 3.3 – Percentage of people who started holding each product for the first time by 2021-22, depending on whether they held a basic savings product in neither, one or both of the previous survey waves.



Notes: as this analysis only looks at respondents living in households that didn't previously hold the named product in the first two survey waves, the sample is reduced (especially if it is a commonly-held product). Total sample sizes for each product analysis therefore are: NS&I = 4,207; Cash ISA = 2,839; Other savings = 5,463; Investments = 3,583; Private pension = 5,455; Homeowner = 1,372; Rental income = 6,843.

When controlling for other factors in separate regression models—where new uptake of each product type is the outcome variable—we find significant relationships between prior basic savings and subsequent uptake of four other types of product (Figure 3.5): Cash ISAs, 'other' savings, investments, and private pensions. For example, an individual living in a household holding a basic savings account in both 2012-13 and 2016-17 has 82% higher odds of then taking out a cash ISA by 2021-22 ($O/R=1.82$, $p=0.022$), compared with someone living in a household who didn't hold a basic savings product in either year. For investments, we see just over a doubling (+133%) of the odds for someone holding basic savings in both years ($O/R=2.33$, $p=0.002$), and just under double the odds for someone holding basic savings in only one of the two previous survey waves ($O/R=1.92$, $p=0.012$). This of course does not necessarily imply causality, i.e. that holding basic savings causes someone to take out investments, but it does show that those who hold basic savings products are generally more likely to go on to take out investment products (even controlling for other characteristics, such as household income).

Figure 3.5 – Regression results showing odds ratios between previously holding a basic savings product (in 2012-13 and/or 2016-17) and later holding other products (in 2021-22). Includes only those not previously holding the product. Regression controls for other individual- and household-characteristics. Green cells indicate statistically significant results.

Years held basic savings product (Ref = Neither year)	NS&I products	Cash ISAs	Other savings	Investments	Private pensions	Home ownership	Rental property
Either year	1.12	1.26	1.88*	1.92*	1.36*	1.45	0.85
Both years	1.17	1.82*	2.63***	2.33**	1.50***	1.46	0.98
pseudo R-Square	0.091	0.076	0.112	0.100	0.107	0.190	0.081
Sample size	4,207	2,839	5,463	3,583	5,455	1,371	6,843

Notes: asterisks indicate statistically significant results where * = $p < 0.05$, ** = $p < 0.01$ and *** = $p < 0.001$.

These odds ratios can also be presented as adjusted percentages, controlling for the other factors in the regression model. This shows that we would expect the rate of opening a cash ISA to increase from 7% to 12% if someone otherwise average held a basic savings account in both previous years. For other savings, we see an increase from 4% to 8%; for investments, 6% to 12%; and for private pensions, an increase from 29% to 37%. For homeownership, we see an increase from 11 to 14% but this is not statistically significant. This is not to say that saving *per se* is not associated with increased homeownership, just that holding a basic savings account (as opposed to other savings accounts) is not significantly associated with it. Indeed, our previous report found that 82% of young adults who were regular savers for a number of years became homeowners after 10 years, compared to just 15% of those who never described themselves as regular savers.¹⁶

We do, however, find a relationship between prior holding of Cash ISAs and subsequent homeownership. Controlling for other factors and other product-holding, we find that someone with access to a Cash ISA in 2012-13 and/or 2016-17 had around twice the odds of becoming a homeowner by 2021-22 (O/R = 2.03 if held in both previous years, $p = 0.031$). Translated to an adjusted percentage, someone without a Cash ISA in either of the two previous survey waves had a 10% likelihood of becoming a homeowner by 2021-22, whereas this increases to 18% for someone with a Cash ISA in both waves. Those with Cash ISAs in both waves were also significantly more likely to hold 'other savings', a private pension, investments, or NS&I products by 2021-22. Interestingly, however, those with NS&I products in the two previous survey years were significantly *less* likely to later take out a Cash ISA. This appears to suggest that some products may act as a gateway to other products, while others do this to a lesser extent. People's product choices may also be affected by factors such as limits on how much can be saved in ISAs (or in premium bonds), so if someone exhausts their savings limit on one product type they may then move to another in future.

¹⁶ Evans & Davies (2024) '[Understanding the role of savings in promoting positive wellbeing](#)'. University of Bristol: Personal Finance Research Centre.

Comment from Vicky Wales, Chief Savings Officer, Principality Building Society:

“Saving has never been more important or more challenging. As households across the country navigate the cost-of-living crisis, the mutual sector plays an important role in making saving possible. For some, savings are about big life goals like a home deposit or retirement, but just as important is resilience in day-to-day living, where even small amounts can make a big difference. What’s really encouraging is that the research shows those first steps into saving can open the door to much more. Households with a basic savings account were 82% more likely to move on to products like a Cash ISA just a few years later, compared with those who didn’t save at all. It proves that saving, however small or simple, builds confidence and good habits.”



Does basic saving lead to more diverse product-holding?

We also sought to understand whether basic savings products lead to holding a more diverse portfolio of savings and investment products in future. In other words, we want to look not just at individual products held by someone, but at the combination of different products that they hold.

Through a series of analyses (including latent class analysis), we begin by creating a segmentation of people based on their product-holding in 2021-22. We exclude basic savings products from the creation of this segmentation—as we are interested to see to what extent earlier basic savings would lead to being in different segments later on in someone’s life—but we include all of the other product categories previously looked at, with the exception of rental income (as this was very uncommon).

This analysis results in five groups, which essentially each have slightly different combinations of products, as shown in Figure 3.6:

Figure 3.6 – Typical product-holding of each of the five groups in 2021-22

Group	%	Homeowner- ship	Cash ISA, NS&I or other savings	Investments	Private pension
1 – No distinct product-holding	29%	X	?	?	?
2 – Homeowners with limited product-holding	24%	✓	X	X	?
3 – Homeowners with some other saving products	21%	✓	✓	X	?
4 – All but pensions	12%	✓	✓	✓	X
5 – Advanced product-holders	13%	✓	✓	✓	✓

Notes: Question marks indicate no obvious pattern of product-holding within this group, meaning that some in the group may hold the product, while others don't.

Secondly, using regression analyses, we explore to what extent holding basic savings products in earlier survey years predicts someone's group membership in the final survey year. This confirms that—even controlling for other personal and household characteristics—those who held such products in 2012-13 and/or 2016-17 typically were more likely to end up in groups 2-5 and less likely to end up in group 1 (with limited other product-holding). This allows us to understand links between group membership in previous years and subsequent group membership, finding that households often move upwards (from groups 1 to 5) but with the potential to move in one of many directions. We see, for example, that some people become homeowners before accessing more advanced savings products (like cash ISAs, NS&I products and other savings products), while others access these prior to becoming homeowners—perhaps as a vehicle for doing so; for example, in the case of Help-to-Buy ISAs. This confirms our earlier findings related to the links between Cash ISAs and later homeownership.

Who holds different combinations of products?

The segments also help us to understand the socio-demographic and economic profile of those with more and less diverse product-holding in 2021-22. In Figure 3.7, we identify which characteristics are disproportionately prevalent within each of the five groups. As one would expect, age, income, disability, economic status, and ethnicity—among other factors—differ substantially between groups, reflecting many forms of inequality seen elsewhere.

Figure 3.6 – Disproportionate socio-demographic and economic characteristics of each of the five groups in 2021-22

Group 1 – No distinct product-holding • Aged under 45 • Lower income (<Q3) • Black ethnicity • No professional parent • Disabled • Sole adult household • Non-retired • Out of work	Group 2 – Homeowners with limited product-holding • Aged 60-74 • Not high income (<Q5) • Asian/Arab ethnicity • No professional parent • Non-disabled • Not a single parent • Non-retired • Not out of work
Group 3 – Homeowners with some other saving products • Non-migrant status • Pensioner, couple, or 'other' household type • Not out of work	Group 4 – All but pensions • Aged 60-74 • Mid-higher income (>Q2) • White British • Professional parent(s) • Non-disabled • Pensioner couple or couple with children • Retired
Group 5 – Advanced product-holders • Aged 45-59 • Mid-higher income (>Q2) • Male • White British • Professional parent(s) • Non-disabled • Couple with children + working age couple without children • Retired and not out of work	

4 WHAT CAN BE DONE TO ENCOURAGE SAVING?

In this concluding section, we summarise our findings and explore their implications for policymakers and those working in financial services, based on roundtables held with key stakeholders.

One of the two key aims of this research was to update the 2014 figure that holding £1,000 in cash savings is associated with a 44% reduction in the odds of ‘problem debt’. We found that holding a minimum of £2,000 in cash savings is associated with a ~60% reduction in the odds of ‘falling behind’. After accounting for inflation, these figures are relatively comparable. The fact that £2k is the figure needed to be more likely to avoid financial difficulty reflects the high level of inflation and general increase in the cost of living that has typified the last few years. Secondly, the research also evidences that having a basic savings account can be a pathway to further and more advanced product-holding—which is in turn associated with increased financial security—although they do not appear to directly lead to homeownership.

The implications of the first finding in particular, however, need to be considered carefully, in the context that around one-in-five have less than £1,000 saved and around one in ten people in the UK have no savings at all.¹⁷ This rises to one-in-four of those who are in financially vulnerable circumstances¹⁸, for whom, as our research shows, savings are even more critical in building financial resilience. Consequently, there are concerns that a target of £2,000 may seem unobtainable and potentially demotivating to those on low incomes. Nonetheless, the message to government and policy makers is a strong one: having £2k savings has a protective effect to help households avoid financial difficulty, and in boosting financial resilience. Yet, while the case for supporting people to build savings is evident, how to achieve this aim is more difficult, and requires a number of considerations.

Understand and address barriers to saving

Firstly, gaining a better understanding of the main barriers to savings is vital. While income is clearly related to savings held^{19,20}, there are people not currently saving who likely could afford to put some money aside—previous research found that around two thirds of people are in a position to start saving a small amount (or increase existing savings).²¹ Exploring why they might want to save and what prevents them from saving is the first step to designing products or implementing policies that facilitate savings.

¹⁷ FCA (2025) [One in ten have no cash savings](#)

¹⁸ Fair4All Finance (2025) [Over 10m people in the UK are saving less than they used to](#)

¹⁹ FCA (2025) ‘Financial Lives 2024 survey: Cash savings. Selected findings.’

²⁰ Fenton-O’Creevy and Furnham (2022) ‘Money attitudes, financial capabilities, and impulsiveness as predictors of wealth accumulation’. *PLoS One*, 17(11).

²¹ Toynbee Hall (2019) [Beyond Age and Income: Encouraging saving behaviours](#)

Previous research had identified a number of barriers to people saving, including those on low incomes: the complexity of products, the suitability or attractiveness of products, trust in the provider or paralysis of choice can all prevent people from saving.^{22,23} Behavioural factors also play a part in why people may or may not save: competing priorities, a desire to spend, low self-control, a belief that only saving a small amount isn't worth it, or simply not seeing themselves as a saver.^{24,25,26} Initiatives to address some of the factors—both design and behavioural—have had success in increasing savings rates. Our previous research exploring the link between savings and wellbeing noted that product design features, tools and incentives, both behavioural and financial, can encourage people to save.²⁷ The findings of a trial of opt-out payroll savings are particularly promising in getting people to save.²⁸

Widen and clarify the purposes of saving

However, our 2024 research also highlighted the importance of recognising that different people save for different reasons, and in different ways.^{29,30} Much of the discussion in the policy and provider workshops focused on the multiplicity of meaning that 'saving' can have, and how confusion around this may, itself, be a barrier to encouraging people to save.

With this in mind, and by drawing on previous studies exploring how variable needs that can be met through savings^{31,32}, we propose a taxonomy or model of savings throughout life (Figure 4.1), to help clarify what is meant when talking about saving. The taxonomy moves through the different stages of saving, although it should be emphasised that people may hold many different types of savings at the same time and that money may be mentally or physically transferred from one type to another, depending on need, and in doing so fulfil dual roles.

²² Nest Insight (2023) [Workplace sidecar saving in action](#)

²³ Kempson and Finney (2009) [Saving in lower-income households](#)

²⁴ Finney and Davies (2011) [Towards a nation of savers](#)

²⁵ Toynbee Hall (2018) [Savings for the Future](#)

²⁶ Toynbee Hall (2019) [Beyond Age and Income: Encouraging saving behaviours](#)

²⁷ Evans and Davies (2024) [Understanding the role of savings in promoting positive wellbeing](#)

²⁸ Nest Insight (2025) [Easier to save](#)

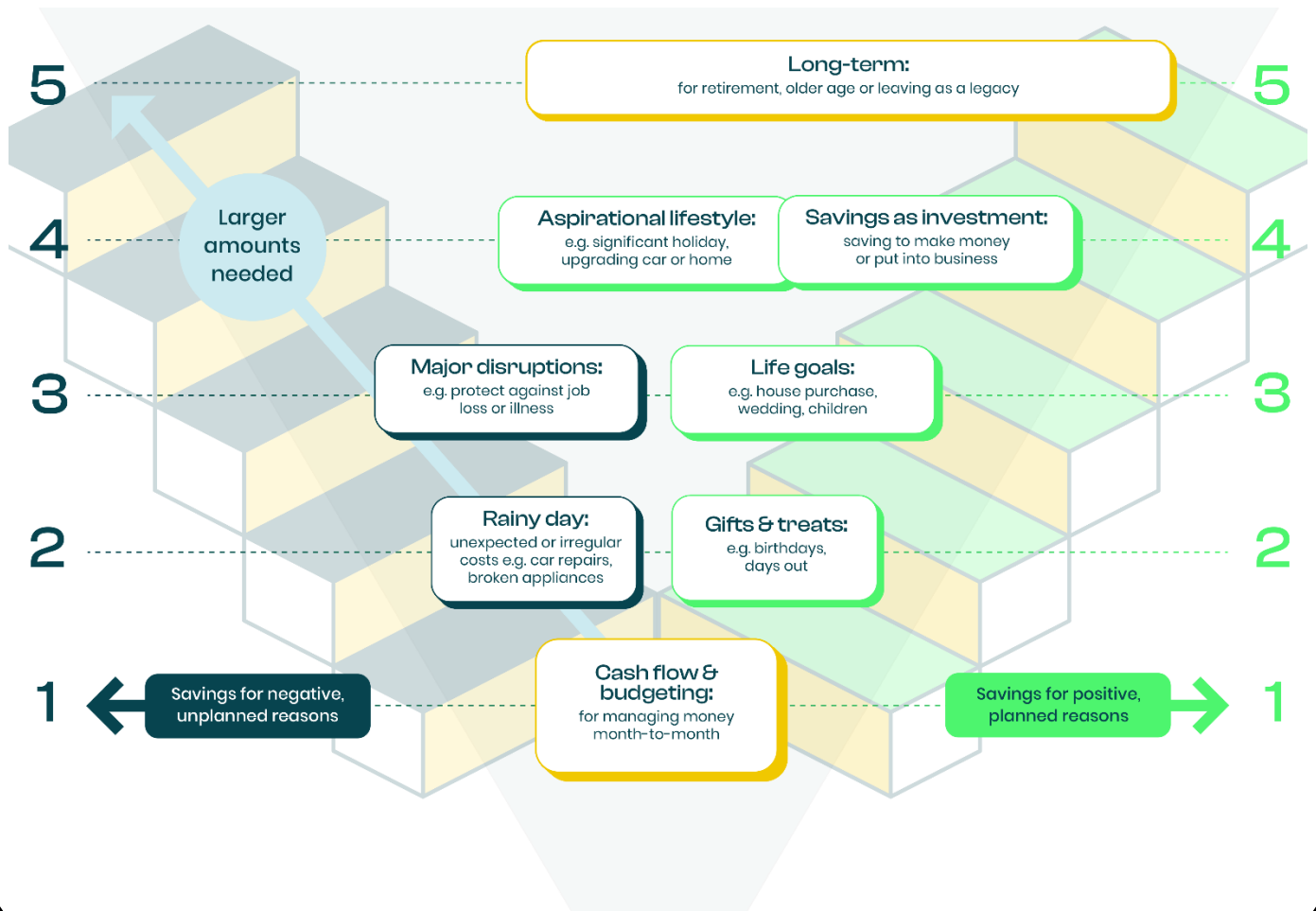
²⁹ Evans and Davies (2024) [Understanding the role of savings in promoting positive wellbeing](#)

³⁰ Kempson and Finney (2009) [Saving in lower-income households](#)

³¹ Nest Insight (2023) [Workplace sidecar saving in action](#)

³² Jumena et al (2022) [Saving Behaviour: Factors That Affect Saving Decisions](#)

Figure 4.1 – Proposed taxonomy of savings



In more detail, the different levels are:

1. Cash flow or budgeting: money put aside to manage fluctuations in income or expenses; help to maintain stability month to month.

2a. Rainy-day savings: this is for unexpected or irregular costs, such as car repairs, vet bills, or broken appliances. This is arguably the savings pot where holding £2,000 has a protective threshold—a sum big enough to cover more than one cost at the same time, if needed.

2b. Gifts & Treats: Money from the rainy-day pot may be used for small, irregular purchases such as an outfit for a special occasion, or a day trip, for example. Gifts for birthdays, Christmas or other special events may also come from this pot.

3. Life event savings: this is a larger pot of money for use on major planned or unplanned events:

3a. Major disruption: These savings can be used in the event of major life disruptions, such as job loss, long term illness, or serious income shocks.

3b. Life goals: the money will also be used for expected events such as a house deposit, paying for a wedding, covering maternity leave costs, or supporting children at university .

4a. Aspirational lifestyle: for those who are able to save and invest larger sums of money, and are happy that it is not needed for retirement, this can be used for upgrading housing, or taking a luxury holiday to celebrate a significant occasion.

4b. Saving as investment: some people may have savings that are not necessarily there to be spent but are there instead purely to increase wealth. This money may be invested in traditional investment products, in newer forms of investment (such as crypto-assets), in business ventures or in property. For some, this may involve substantial sums of money, while others may have more modest funds in this category.

5. Longer-term savings: These are savings and investments primarily put aside for retirement, although may be used for aspirations, if secure in the adequacy of the amount saved. Money may also be left as a legacy or for inheritance.

Even recognising that overpaying energy bills can be a form of saving may help make saving become more normalised. Public discourse around saving would be more effective if policymakers and savings providers agreed on the terminology to be used when discussing savings and how to communicate this.

Clearer communication and messaging around savings

By categorising savings in this manner, a greater clarity will be possible to communicate *why* and *how* people may want to save, and what they are saving for. For example, one of the key insights from insight from the workshops was the need to shift public perception from saving as some long-term goal to saving as enabling the smoothing of spending in the near term as well; “save to spend”. Messaging should highlight the save → use → replenish cycle, and how those who have saved should be able to spend those savings without guilt. The fact that savings weren’t only there for an emergency, but can be spent is a particularly important message for those who may be on a variable income. Furthermore, recognising that it’s possible to have debt while also holding savings, and this may be a valid money management strategy could also encourage people to think differently about saving.

The importance of clarifying how having savings interacts with other parts of financial life was also raised, particular in relation to those on low incomes. There remains confusion around whether people on Debt Management Plans (DMP) or claiming Universal Credit (UC) are allowed to save, or to what level. In both cases, an allowance for savings has been built into the rules: a small allowance for savings is allowed when producing the budget for repayment levels under a DMP, and savings below £6,000 do not impact on eligibility for UC.

Clearer communication around these rules could reduce fear of penalisation, and could also be framed in such a way that emphasised the importance of having savings. Intentionally or not, there can be contradictory messages inherent in the rules on eligibility for benefits, or on debt repayment, and acknowledgement of this, while also ensuring that saving is possible, if not desirable, under these regulations, would make the message more positive. Until April

2027, all working UC claimants are eligible for a Help to Save (H2S) account³³. It was suggested that automatic enrolment into H2S at the start of UC would improve savings among those on low incomes, as well as demonstrate the wider importance placed on having savings.

Start the savings habit earlier

It was also felt important that we do more to encourage children to think about savings from an earlier age: initiatives such as the Child Trust Fund or Junior ISAs are potentially important avenues for helping children to achieve a buffer of £2,000 by early adulthood. Talking to and educating children about savings was also viewed as important; although it was noted within our workshops that education alone is not necessarily a panacea for families on low incomes, and any tools or campaigns should be carefully considered so that product and process design was inclusive and free from barriers.

Improve product design and incentives, particularly for those on low incomes

Providers also have a major role to play in encouraging savings. Many initiatives, high-interest regular savings accounts, for example, can end up being taken up by those who are already saving, and don't necessarily need the encouragement. Again, a better understanding of how non-savers think may help providers design more suitable products. Nationwide's Start to Save account was specifically aimed at those who were financially struggling or squeezed, by offering a prize draw as well as interest.³⁴ Explaining the amount to be put aside in terms easily understood i.e., in terms of skipping buying a coffee out, or buying a treat at the checkout, and having penalty-free withdrawals were also agreed to be encouraging to those struggling. It was noted, however, that sometimes regulation, or fear of breaking regulations, could hamper providers from innovating better, more appropriate products. More clarity could be provided on how incentives for savings can be structured and still be within regulation. Government savings schemes could also consider whether there are design changes that make support uptake and ongoing engagement. Calculating the bonus on Help to Save every six months rather than annually may be more motivating, for example, or rethinking the level of flexibility in Lifetime ISAs might increase uptake and usability.

Engage employers and community partners

Encouraging more people to save, particularly those on low incomes, will involve meeting people where they are, both physically and financially. As already noted, there is emerging evidence on the effectiveness of payroll savings accounts in increasing savings rates, so further partnerships with employers, or charities could improve take-up of savings accounts, rather than launching products in isolation. Not only do employer-based initiatives give easy access to potential savers, it allows access to the data necessary to trial and judge the effectiveness of new products. Further innovation in the field of payroll savings is already testing the 'laddered' approach to saving: Sidecar savings offers a hybrid solution to

³³ Gov UK [Get help saving on a low income](#)

³⁴ MaPS (2022) [Developing saving habits through prize linked savings accounts](#)

covering short- and long-term savings.³⁵ Savings are taken directly from wages and put into a savings account until an agreed savings limit is reached, after which the money goes to the workplace pension pot instead. If withdrawal of money means the savings account dips below the target, then the savings start going back in that account.

Debt-savings hybrid models are a further innovation that could be beneficial for those in a low income. These are products where people put money into savings while repaying a loan, could also provide a further route to encourage savings. Some Credit Unions already offer products that allow for this^{36,37} and further research in this area will increase understanding of their potential impact. And while digital access is convenient and effective for many, there are still some who will need face to face support, so it is important to retain this where needed.

What next?

Finally, this research also opens further questions and highlights research gaps: What does the £10,000 threshold for increased subjective wellbeing mean for savings policy? Can we expand further on the savings pathway? We found strong links between having a basic savings account and later investment behaviour: those who save are twice as likely to hold a cash ISA. This may then lead to even greater asset building - cash ISAs can be a pathway to home ownership. Additionally, a greater understanding of transitions would benefit those who are trying to increase savings levels; how and why people transition between different savings types, and better knowledge on the thresholds that can trigger a shift from saving to investing.

Comment from Tom Riley, Director of Group Retail Products, Nationwide Building Society:



“Encouraging saving, and building financial resilience, underpins Nationwide’s mutual purpose and is at the heart of how we support our customers. Our goal is that, by 2028, we will have supported an additional 500,000 customers in the least well-off parts of the UK to develop positive savings habits. This is essential for encouraging a healthier relationship with money and promoting financial wellbeing. The proposed whole-life taxonomy of savings identified in this chapter can enable us to better talk about savings, tailoring the right message to the right life stage, and help more people to achieve their savings goals.”

³⁵ Nest Insight (2023) [Workplace sidecar saving in action](#)

³⁶ Clockwise Credit Union [Save while you borrow](#)

³⁷ London Mutual Credit Union [Saving as you repay a loan](#)

APPENDIX I – LIST OF ROUNDTABLE ATTENDEES

The following organisations attended our stakeholder roundtable discussions:

- HM Treasury
- Money and Pensions Service
- Nest Insight
- Resolution Foundation
- Inclusive Outcomes
- Stream (formerly known as Wagestream)
- StepChange Debt Charity
- Yorkshire Building Society
- Nationwide Building Society
- West Bromwich Building Society
- No1 CopperPot Credit Union
- Skipton Building Society
- Nottingham Building Society



University of
BRISTOL

/ **PFRC**