

## What Determines How People Save?

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A literature review identifying factors that determine people's saving behaviour has just been published by the Office of the Retirement Commissioner.

The "Determinants of Saving Behaviour" report was undertaken for the Office by Infometrics, and is intended to contribute both to public debate on retirement income issues and to the Government's social policy decision-making.

The report states that personal savings are vital to New Zealand's long term interests in relation to national economic performance, the setting of government policy, and our personal welfare.

It also claims that if Government policy is to be aimed at encouraging saving, it must be informed by an understanding of what makes people save, or not save. However the literature reviewed clearly states that there is no single model which fully explains people's approach to savings.

The most powerful influence on saving behaviour is income (whether current or lifetime). Most differences in the saving behaviour of specific population groups can therefore be explained by income. For example, women save less than men, and Maori and other ethnic minority groups save less than Europeans. However it is unclear if there are also other contributing psychological and social factors resulting in their lower saving levels. Further research is required to fully understand how these factors contribute to the savings behaviour of these groups as an input to social welfare, superannuation and tax policy.

"Currently, it is difficult to develop a comprehensive and useful model on which to base policy decisions, as there are no reliable measures of household and national saving, and there is no accepted definition of savings", says Retirement Commissioner Colin Blair.

"Given the national and individual importance of saving, we must look to generating a consensus on how to define and measure savings," he says. "Otherwise there will be no reliable way of gauging the success of policies designed to encourage saving."

Statistics New Zealand is currently undertaking a survey of household saving for the Office to provide reliable input to the debate on our household saving performance.

The Determinants of Saving Behaviour report states that if New Zealand had a reliable way to measure saving it is expected that it would show an increase in saving over the last decade or so – the result of:

- the rising proportion of New Zealanders in their prime-earning middle years of life
- the decreased importance of direct taxes in government revenue
- the decreased level of state welfare benefits
- rising household incomes and household wealth
- financial education campaigns.

However, while one measure of saving – the change in household net worth – has risen over the last decade, the official income-based saving measure has fallen.

The review makes a number of observations relevant to policy-makers. They include:

- general tax and welfare policies (including public pensions) affect household and (probably) national saving. Specifically, lower general tax rates and lower welfare entitlements enhance household saving
- specific tax incentives designed to raise private saving seem to have a positive effect at least for a short time. However, national saving does not appear to rise, suggesting that tax incentives simply transfer existing savings from one sector to another (i.e. the government runs deficits because of its reduced tax revenue)
- a significant proportion of the population (30% or more according to overseas literature) does not or cannot implement a long-term saving plan
- better economic performance that lifts New Zealanders' socio-economic status will lift their saving because of its close relationship with income. There is no clear consensus on what governments can do to influence savings decisions and performance, beyond this.

The review states that education is an important factor in determining saving behaviour. Workplace seminars, public advertising and school-based education have all been shown to be effective.

Useful education programmes can help people to decide on an adequate level of saving, to make more responsible choices about their spending and saving, and to improve the quality of their investment decisions. Some people need to recognise that they lack self-control. They require education programmes about the pitfalls of easy credit, and the merits of regular locked-in saving activity. Education can also help with the selection of appropriate savings products.

The report also suggests that given the influence of income on savings behaviour it would also appear useful to educate people about ways to improve their socio-economic status.

"We need to understand all the factors that influence people to save", says Colin Blair. "While the Office's education programmes encourage people to save for their retirement, retirement planning is but one part of the savings issue", he says.

"The Office will use this report to strengthen our understanding of what can and cannot be achieved with public education programmes, and to improve the targeting of these activities," says Colin Blair.

For copies of the report, please call the Office of the Retirement Commissioner, 04 499 7396 or email us or you can order from the Reading Room on our website.

**For further information:**

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