

Introduction

With Britain facing an economic downturn and with conditions set to become more challenging, many people are struggling with their finances.

Consequently, Lloyds TSB has commissioned this report to help identify the key issues affecting people's spending and saving habits and to gauge consumer opinion on the many different aspects of their financial affairs - as well as their financial literacy.

The research was conducted amongst 5000 people of all ages and socio-economic groups. They were consulted about their unsecured debts, levels of savings, spending habits, together with their ability to manage their money and what their financial fears were.

The results were clear households are clearly feeling the pinch in the wake of the credit crunch and, with the impacts of rising food, fuel and mortgage costs, it's becoming increasingly difficult for people to make ends meet. But at the same time, it has never been more important to save.

Indeed, in the current uncertain economic climate, a healthy savings balance could prove to be a financial lifeline for families. But with mounting pressures on household incomes, many are finding it harder and harder to put money aside.

Lloyds TSB believes that taking the right steps to make the most of your money will ensure saving is well within the grasp of most people.

The UK - saving enough for a rainy day?

As a nation, we know that we should be saving more – but with bills to pay and food to put on the table, setting money aside for savings may well be easier said than done. Research shows that the amount and frequency people save across the country vary immensely:

- Over half of people are saving for a rainy day. And even better news, a quarter of people we questioned said that they were also saving for their retirement.
- However, some families have left themselves dangerously exposed to financial difficulty should one or both breadwinners be made redundant – with nearly a quarter having less than £500 put by. And over 4 million people have no savings at all.

The credit crunch has made it harder to save

The credit crunch is dominating most news stories, making the average Brit sit up and take notice of their financial situation. The current climate has meant that people have less disposable income. Which, in turn, makes it much harder for people to save money, even if they wanted to.

- Almost 4 in 10 people have stopped saving in the last 6 months due to the steep rise in food and fuel prices.
- In fact, a third of people we talked to admit to never having saved regularly. And over a fifth of consumers spend all their monthly income, not saving a penny.

Additional research¹ shows consumers are aware that they need to save, but the majority are looking for advice and guidance on how to save more – and save better.

Who you are can influence your savings habit

Strangely enough, who you are and where you live seem to play a prominent role in how much you save:

For instance, age plays a part

But not in the way you might expect – interestingly, many young people are actually saving more than their older counterparts: almost a third of under 25's are squirreling money away despite having tighter budgets. In comparison, over 40% of 45-54 year olds admit that they've neglected their savings pots.

Where you live influences how much you save

People in the South East, it seems, are by far the country's best savers, with average savings of £15,493. The Scots, are the worst, with an average stash of £9,939 compared to around £12,703 in the rest of the country.

We found that in general men save more than women

And women tend to be worse than men at saving – 4 in 10 women do not save regularly, compared to 3 in 10 of men.

We need incentives to save

The ongoing uncertainty in the financial markets means that now, more than ever, people need tangible reasons and motivations to save – be they monetary incentives or personal goals:

- A quarter of those interviewed wanted more tax incentivised saving schemes, such as increased individual savings accounts (ISA) limits.
- 40% of people felt they would need a pay rise before they could save more.
- Nearly 3 in 10 women said a personal goal, such as a wedding or a new house would encourage them to save, compared to 2 in 10 men.

For many in the UK though, it's clear that too much debt is a much bigger issue than insufficient savings - and they feel they need to tackle this problem first. In fact, nearly a third of people say they need to pay off their debts first before they can even think about saving.

Britain's changing attitude to debt

Who you are can influence your debt level

Again, age is a big factor

The young (25-34's) owe the most with an average amount outstanding of £3,128. So it's not surprising that half of this age group are very concerned about their levels of debt - student loans especially. 4 in 10 of those we questioned have dramatically cut back their spending in an effort to reduce their debt.

Region also plays a part

We found that people in the North East have the highest level of debt, while those in the East owe the least.

Consumers are reining in their spending

- Clearly, the current financial climate has forced the vast majority of Brits to change their attitude towards credit. It seems that the days have gone when people were more than happy to get into debt to buy the things they wanted. Now, we find that consumers have been reining in their spending over the past six months – and this is consistent in every region across the UK.
- Over a third of people are spending less as they struggle to meet monthly bills.
- Mortgage-holders have been even more severely affected by the hikes in their interest rates and the rising cost of council tax.
- Many have realised that they need to curb their spending as earnings fail to keep up with inflation – with 7% of consumers paying out more than half their income just to pay off their unsecured loans.

Attitudes towards debt have changed

Where once people used credit to spend beyond their means, people are now taking debt much more seriously:

- 4 in 10 people are concerned about the debt they've built up, with a third increasing the amount they pay off each month and a fifth paying off their high interest debts (such as store cards) first.
- However, a percentage are still spending beyond their means – with 1 in 10 spending more than they earn. This rises to 16% in the North East.

What do we know about the nation's finances?

Our research shows that although consumers are behaving more sensibly to some degree - with many putting the brakes on their spending and attempting to save despite tougher conditions - there are still signs that people don't always do the right thing when it comes to looking after their finances.

Some of those interviewed still need to take a closer look at their finances in light of the credit crunch, with many yet to curb their spending habits and still not making any efforts to save.

We also wanted to find out to what extent people understood financial terms and language, and if more 'education' was required to help consumers make better financial decisions.

With that in mind, Lloyds TSB set a simple test to assess how financially literate we are as a nation, including questions about mortgages, standing orders and what the letters 'APR' stand for.

The average score was 8 out of 10. However, the report revealed that there are still gaps in people's financial knowledge:

Financial literacy varies across age groups - with young people struggling more with financial terms.

The under-25 age group came out lowest with only a quarter scoring at least 9 out of 10, compared to an overall average of nearly half.

Of those aged 25, only 7 in 10 knew the meaning of "depreciation", while less than half were aware that buildings insurance is compulsory when taking out a mortgage.

Implications

The number of respondents answering one or more of the simple questions incorrectly indicates that even though the credit crunch and cost of living has dominated the front pages for many months, people still do not understand personal finance matters sufficiently and find financial terms confusing.

So what does it all mean?

Our report shows that a lot of people are being sensible by reducing their levels of spending and debt. It's also clear that Brits in general know they should be saving more and would welcome some expert advice on how to become a savvy saver. But by the same token, lower amounts of disposable income means that people feel they aren't able to set aside sufficient funds for a rainy day – and many households need a hand to start saving.

Despite the Governor of the Bank of England predicting harsher times ahead, and the Chancellor warning that Britain is facing "arguably the worst economic downturn in 60 years," people may not realise that the situation could deteriorate further and are not preparing themselves accordingly. Indeed, some are leaving themselves seriously exposed due to lack of savings.

Against this backdrop, Lloyds TSB's Savvy Saver website provides practical ways for consumers to make their money go further - even when their finances are being stretched. There's an easy to use saving planner too, which will work out personalised savings plans to match people's particular circumstances and goals. So with a bit of luck, that rainy day may end up feeling more like a light shower.

¹Research carried out by Wardle Mclean, April 2008