

**Individual Attitudes to Saving: Effect of ISAs on
People's Saving Behaviour**

**Research into Attitudes and Motivations for Saving in
ISAs**

put any money into their ISA since they made the initial payment when opening the account.

- Sixty per cent of respondents with an ISA had never made a withdrawal from their ISA. At the other end of the scale, 10 per cent of ISA holders had made four or more withdrawals.
- The main reason that respondents gave for owning an ISA was the fact that the interest earned is tax-free (24 per cent). A large proportion of respondents were saving in their ISAs for non-specific reasons; 22 per cent said they were saving for a rainy day/emergencies whilst a similar amount (21 per cent) were saving for the future/no specific reason. 10 per cent said they were saving specifically for retirement and six per cent referred to saving in order to buy a house or pay for home improvements.
- Around a third of respondents said that had ISAs not existed, they would not have saved as much – or have saved at all. Of these, 14 per cent said they would have spent some and saved some, whilst another 14 per cent said they would have spent all the money now currently saved in an ISA. Seventy per cent of respondents said that had ISAs not existed, they would have saved or invested the money elsewhere.
- Of those that would have saved, the overwhelming majority said they would have saved in a standard savings account with a bank or building society (68 per cent) and 14 per cent said they would have invested in stocks, shares, bonds or trusts.

Non-ISA holders

- 63 per cent of respondents did not own an ISA.
- 52 per cent of respondents without an ISA said this was because they had no spare money to save in an ISA.
- Other reasons included not knowing enough about ISAs (14 per cent); preferring an alternative form of savings (13 per cent) and not earning enough to save (10 per cent). Seven per cent had yet to get round to applying for an ISA, whilst only 6 per cent had not heard of them. Fewer still said that the reason they didn't own an ISA was because ISAs were too complex to understand (three per cent).
- Having more money available was the main factor given by respondents when asked what would encourage them to save in an ISA in the future. Twenty-eight per cent said that earning more would encourage them to save. Knowing more about ISAs specifically (17 per cent) and savings generally (12 per cent) were also factors given by non-ISA holders that would encourage them to save in the future.
- Fourteen per cent of non-ISA holders said that nothing would persuade them to save in the future.

earned £19,760-£33,799 and 95 per cent of those who earned in excess of £33,800 had a current account.

The popularity of savings accounts was clearly related to income; as income rose, so did levels of ownership. Amongst those in the lowest income band, half (51 per cent) had a savings account. This rose to 57 per cent amongst those who earned £9,360-£19,759, 68 per cent of those who earned £19,760-£33,799 and 79 per cent of those whose income exceeded £33,800.

Stocks and shares were owned by only 14 per cent of those who earned less than £9,360, rising to a fifth (21 per cent) of those who earned £9,360-£19,759 and a third (29 per cent) of those who earned £19,760-£33,799. Amongst those in the highest income group, stocks and shares were held by a half (49 per cent).

Table 2.3: Types of savings and investments owned by income (cell percentages)

	Under £9,360	£9,360- £19,759	£19,760- £33,799	£33,800 plus
Current account	78	88	94	95
Savings account	51	57	68	79
Property/ home	30	39	59	81
Pension	20	36	60	75
Life insurance	20	28	48	68
Stocks/shares/bonds/trusts	14	21	29	49
National Savings	9	10	15	19
PEPs	4	7	7	16
None	11	4	2	1
<i>Base (n)</i>	<i>1,208</i>	<i>1,039</i>	<i>619</i>	<i>333</i>

NB: Base lower as a number of respondents refused to provide their income.

The link between income and what types of savings and investments they held was discussed above. A similar picture emerges when results were analysed by taxpayer status (Table 2.4). Higher rate tax paying respondents led the way in every type of savings category there was available, followed by basic rate payers, lower rate payers and non tax payers.

Respondents who did not pay tax were least likely to possess savings or investments; indeed, around one in eight (14 per cent) non-tax paying respondents said that they had no savings or investments at all, compared to six per cent of lower rate payers, three per cent of basic rate payers and only one per cent of higher rate payers.

Table 2.4: Types of savings and investments held by taxpayer status (cell percentages)

	Higher rate	Basic rate	Lower rate	Don't pay tax	Don't know
Current account	96	91	86	73	88
Savings account	78	62	61	46	50
Property/home	81	48	38	24	27
Pension	74	45	32	15	23
Life insurance	65	37	23	17	21
Stocks/shares/bonds/trusts	50	25	21	11	13
National Savings	23	11	14	8	7
PEPs	18	7	6	3	2
None	1	3	6	14	6
<i>Base (n)</i>	<i>320</i>	<i>1,855</i>	<i>232</i>	<i>991</i>	<i>139</i>

**Note that base does not total 3,549 as there were 12 refusals to the question concerning taxpayer status*

Financial Circumstances

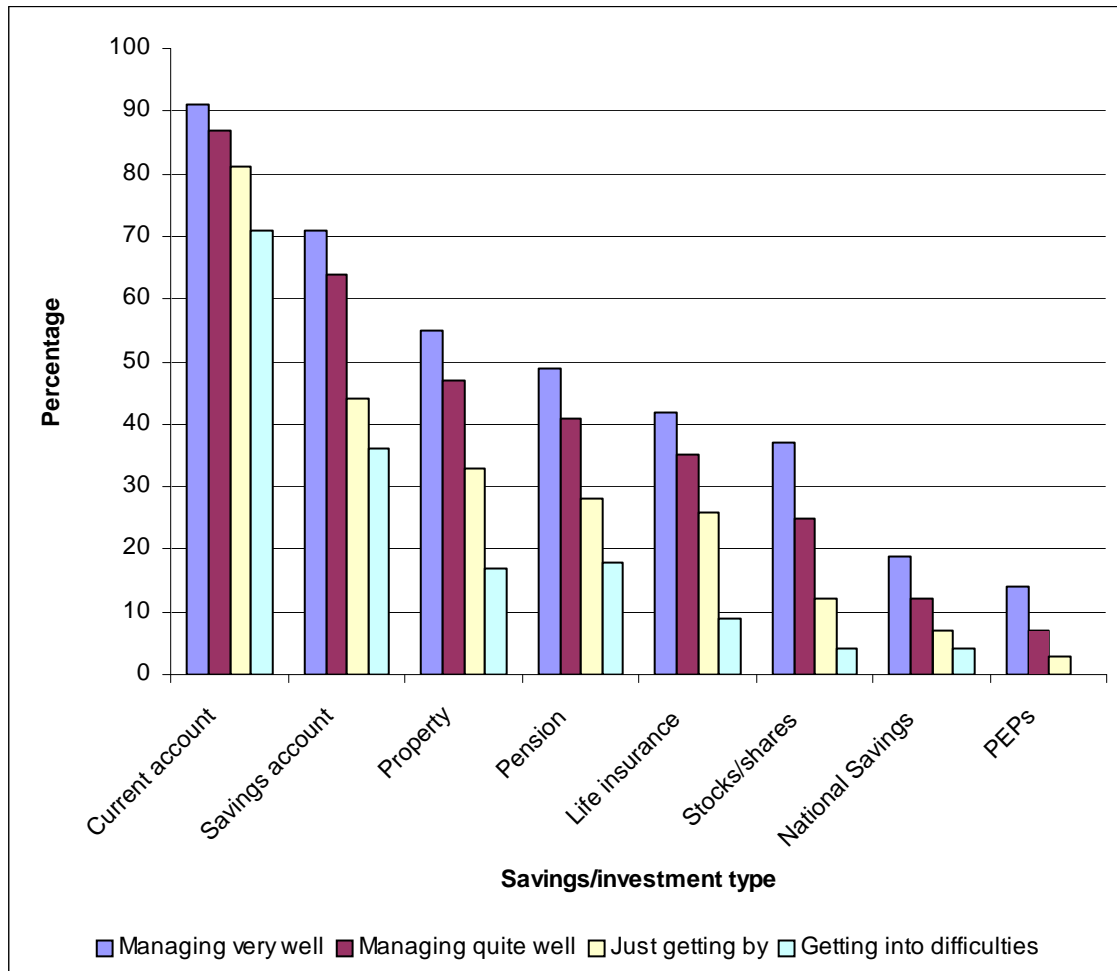
Linked to people's incomes, their perception of their financial circumstances was also related to whether they had any savings or investments, and the types of savings and investments that they owned. Respondents were asked how well they were managing financially³. Figure 2.2 shows the findings of this analysis.

Those who felt they were managing very well and quite well were more likely to have a number of products and investment products than those who felt they were just getting by or getting into difficulties. With regards to savings accounts, 71 per cent of those who said they were managing very well had one, compared to 64 per cent amongst those who said they were managing quite well, 44 per cent of those who said they were just getting by and 36 per cent of those who said they were getting into difficulties.

This trend was replicated across all other types of savings.

³ Note that financial circumstance is based on respondent's perceptions. Respondents were asked how well they thought that they were managing financially at the time of the survey. Responses to this question are respondent's own perspective as to how they are faring, regardless of their income and levels of asset ownership.

Figure 2.2: Overall level of savings and investments held by perception of financial circumstances



Base (n) = 3,540

Working Status

Working status played a part in determining the ownership of different types of savings and investments, as shown in Table 2.5. Being employed was strongly associated with savings and investment ownership, particularly with current and savings accounts. For example, nine in ten (91 per cent) of employed respondents had a current account, compared to three-quarters (77 per cent) of economically inactive respondents.

Similarly, ownership of property, pensions and life insurance and endowment policies were much more prevalent amongst employed respondents than amongst both unemployed and economically inactive respondents.

Table 2.5: Overall level of savings and investments held by working status (cell percentages)

	In employment	Economically inactive ⁴	Unemployed
Current account	91	77	[60]*
Savings account	61	54	[29]*
Property/home	49	34	[13]*
Pension	47	24	[8]*
Life insurance	42	17	[6]*
Stocks/shares/bonds/trusts	24	20	[7]*
National Savings	11	12	[11]*
PEPs	6	8	[4]*
Other types of saving/investments	3	2	[0]*
None	4	10	[20]*
<i>Base (n)</i>	<i>2,011</i>	<i>1,464</i>	<i>[69]*</i>

**Caution –base size too small for analysis*

⁴ The definition of economically inactive includes the retired, students not in paid employment, people looking after the family/home and the long-term sick & disabled. For a more detailed explanation, refer to <http://www.statistics.gov.uk/about/data/harmonisation/downloads/P4.pdf>

Table 3.2: Variation in levels of ISA ownership across the population

	Percentage with an ISA	Unweighted Base
All	37	1,279
Age		
18-24	[21]	[50]*
25-34	30	161
35-44	30	200
45-54	40	200
55-64	51	278
65+	44	390
Respondent Income		
Under £9,360	33	371
£9,360 - £19,759	35	366
£19,760 - £33,799	44	268
£33,800+	50	159
Employment Status		
In employment	37	734
Economically inactive	37	535
Unemployed*	[13]*	[10]*
Perception of Financial circumstances		
Managing very well	54	291
Managing quite well	44	722
Just getting by	21	239
Getting into difficulties*	[19]*	[26]*

*Note that income bases sizes do not total 1,279 due to refusals

**Caution: base size too small for analysis

Income⁸

Income was a major factor that determined whether a respondent had an ISA or not, as shown in Table 3.5.

Table 3.5: Income profile of ISA owners (column percentages)

ISA ownership	
Under £9,360	31
£9,360 - £19,759	31
£19,760 - £33,799	24
£33,800 plus	14
<i>Base (n)</i>	<i>1,164</i>

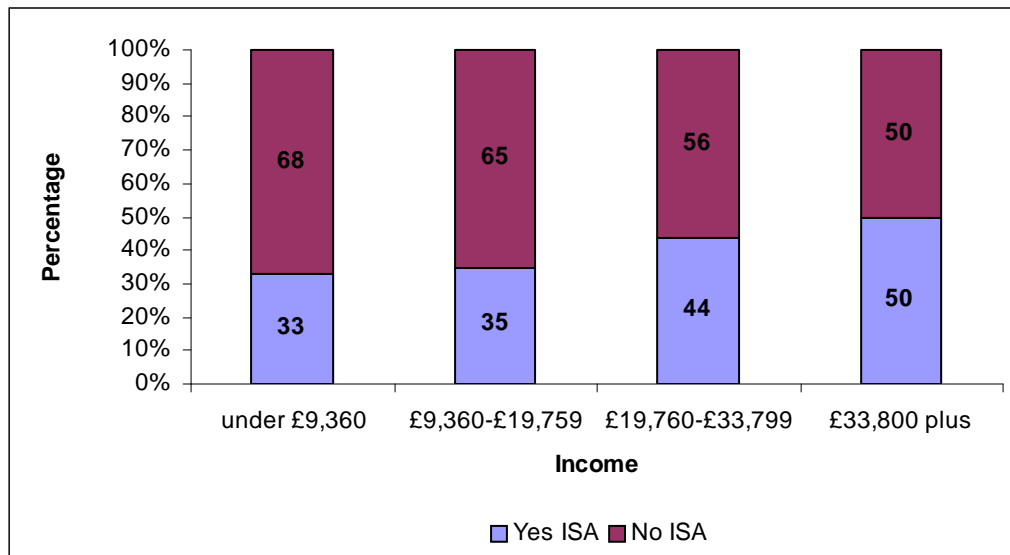
**Note that income bases sizes do not total 1,279 due to refusals⁷*

As will be the age profile it should be noted that the results in table 3.5 are broadly representative of the income profile of the GB population as a whole.

The majority of ISA holders earned less than £19,760. Only a minority of ISA holders (14 per cent) earned in excess of £33,800, where one in four (24 per cent) earned between £19,760 and £33,799.

When we examined ISA ownership within income band, a different pattern emerged, however. As figure 3.3 shows, instances of ISA ownership increased with income.

Figure 3.3: ISA ownership by income



Base (n) = 3,143

Respondents in the lowest income group (i.e. those who earned less than £9,360) had the lowest level of ISA ownership. A third (33 per cent) reported owning an ISA.

⁸ Note that all income questions relate to gross income, i.e. income *before tax*

Amongst those who earned £9,360-£19,759, a similar amount owned an ISA (35 per cent). ISA ownership increased to 44 per cent amongst those whose income was £19,760-£33,799 and peaked at a level of 50 per cent amongst those who earned in excess of £33,800.

A number of important caveats must be taken into account when considering the findings obtained in relation to income. Questions related to individual income did not take into account the fact that respondents may have had low incomes but high asset wealth, or lived in households with a high earner but where the respondent themselves had a low or non-existent income. For example, perhaps a respondent could have been the spouse of a wealthy earner. Alternatively, respondents who were pensioners and/or retired were likely to have low incomes but, equally, they may have acquired wealth and savings from a variety of sources which were then used to fund their lifestyle. In other words, low individual income did not necessarily equate to low household wealth, or a lower standard of living.

Taxpayer status

The majority of ISA owners paid tax at the basic rate (58 per cent). Around one in five ISA owning respondents did not pay tax (19 per cent), whilst only 14 per cent were higher rate tax payers. One in ten (8 per cent) of ISA holders paid tax at the lower rate.

Table 3.6: Profile of ISA owners by taxpayer status (column percentages)

	ISA ownership
Higher rate	14
Basic rate	58
Lower rate	8
Don't pay tax	19
Don't know	[2]*
<i>Base (n)</i>	1,278

**Caution: base size too small for analysis*

As already noted for the results in tables 3.5 and 3.5, the profile of ISAs owners by taxpayer status is broadly similar to that of the GB population as a whole.

Financial circumstances

Generally speaking, respondents that perceived themselves to be managing well financially recorded higher levels of ISA ownership. The majority of respondents who were ISA owners felt they were managing quite well or very well (80 per cent). A fifth (18 per cent) of ISA owners described themselves as just getting by. Only a very small proportion of ISA owners felt they were getting into difficulties (two per cent).

Table 3.8: ISA ownership by perception of financial circumstances (column percentages)

	ISA ownership
Managing very well	23
Managing quite well	57
Just getting by	18
Getting into difficulties	2
<i>Base (n)</i>	<i>1,278</i>

Employment status

Respondents in employment made up the bulk of ISA holders when ownership was examined according to employment status. Six in ten (62 per cent) of respondents who own ISAs were in employment, with four in ten (38 per cent) economically inactive.

Table 3.6: ISA ownership by employment status (column percentages)

	ISA ownership
In employment	62
Economically inactive	38
Unemployed	[1]*
<i>Base (n)</i>	<i>1,279</i>

**Caution: base size too small for analysis*

When ISA ownership within each employment group was examined, both the economically inactive and employed respondents showed similar levels of ownership.

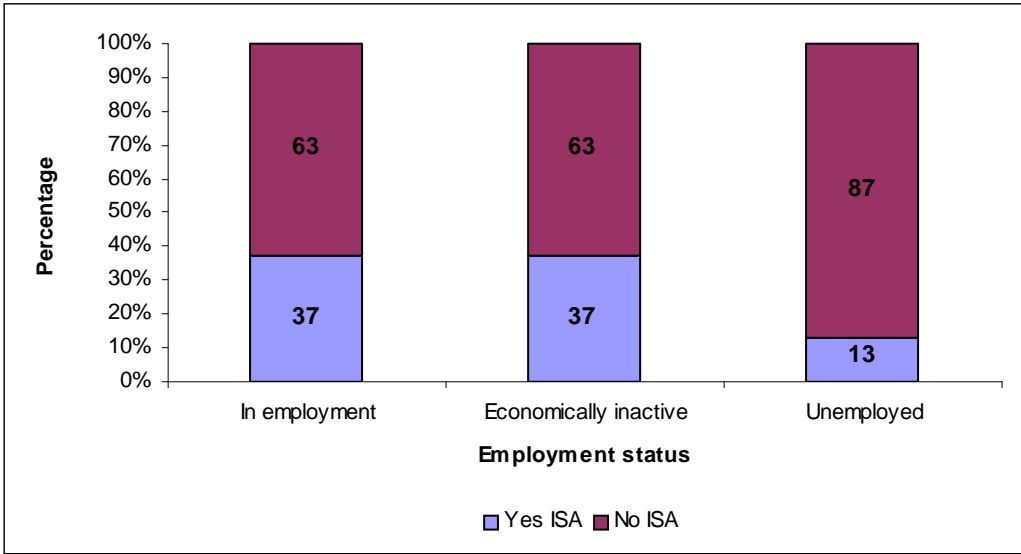


Figure 3.4: ISA ownership by employment status
Base (n) = 3,480

£8,000						
£8,001 -	5	17	21	28	26	25
£16,000						
£16,001	7	9	12	16	25	22
plus						
<i>Base (n)</i>	<i>[51]*</i>	<i>168</i>	<i>190</i>	<i>204</i>	<i>269</i>	<i>355</i>

**Caution: base size too small for analysis*

Younger respondents were more likely to hold less in their ISAs than older respondents. For example, Four in ten (42 per cent) of respondents aged 18-24 had between £0 and £2,000 in their ISAs, compared to a quarter (24 per cent) of 25-34 year-olds, a fifth (22 per cent) of 35-44 year-olds, and around one in ten of respondents aged 45-54 (12 per cent), 55-64 (11 per cent) and 65-plus (eight per cent).

As shown in Table 4.7, amounts held in ISAs also varied by respondent income.

Table 4.9: Sources of ISA funds (cell percentages)

	Percentage
Income/wages	53
Transferred money from taxable savings	28
Transferred money from non-taxable savings	16
Inheritance/gifts	14
Sale of assets	5
Payment from partner/spouse	2
Other	7
Don't know	1
<i>Base (n)</i>	<i>1,705</i>

Half (53 per cent) of ISA holders stated that the main source of their ISA funds was from their wages or income. Around a third (28 per cent) stated that they had transferred money into their ISAs from other taxable savings, whilst 16 per cent had transferred money from non-taxable savings¹². Fourteen per cent of respondents stated that money in the form of gifts or inheritance had constituted the main source of their ISA funds. Income from the sale of assets was the source for only five per cent of ISAs whilst payments from partners accounted for even less (two per cent).

Table 4.10 provides a useful insight into the sources of ISA funds broken down according to income.

Table 4.10: Income by sources of ISA funds (column percentages)

	Under £9,360	£9,360 - £19,759	£19,760 - £33,799	£33,800 plus
Income/ Wages	35	47	57	62
Transferred money from taxable savings	25	17	15	14
Transferred money from non-taxable savings	7	8	6	5
Inheritance/gifts	15	14	13	8
Sale of assets	6	5	4	5
Payment from partner/spouse	4	1	0	1
Other	8	8	4	4
<i>Base (n)</i>	<i>393</i>	<i>392</i>	<i>281</i>	<i>173</i>

¹² Unfortunately, the questionnaire does not explore the sources of funds in greater detail, so we are unable to shed any light as to what these taxable and non-taxable sources might be.

but not every year						
Make many payments into ISA each year	[7]*	11	14	21	24	25
Pay one lump sum into ISA each year	[52]*	41	36	22	19	11
Don't know	[3]*	2	1	2	3	4
Base (n)	[53]*	173	210	219	294	418

*Caution: base size too small for analysis

Instances of respondents who paid in one lump sum each year decreased as respondent age increased. Respondents aged 18-24 were most likely to report this (52 per cent), though it should be noted that the sample size for this age group is small, and so this figure ought to be treated with caution. Forty-two per cent of 25-34 year-olds paid one lump sum into their ISAs each year; 36 per cent of 35-44 year-olds did likewise. This figure fell to 22 per cent amongst those aged 45-54, 19 per cent amongst those aged 55-64, whilst just 11 per cent of ISA holders aged over 65 made only one lump payment into their ISAs annually.

In contrast, respondents that made multiple payments into their ISA in any given year were more likely to be older. Eleven per cent of 25-34 year-olds made multiple payments into their ISA each year. This increased slightly to 14 per cent of those aged 35-44. Amongst the 45-54 age group, 21 per cent made multiple payments, whilst 24 per cent of 55-64 year-olds and 25 per cent of those older than 65 made multiple payments.

Income also played a role in determining the regularity of payments made into an ISA (Table 4.13).

Table 4.13: Frequency of payment into ISA by income (column percentages)

	Under £9,360	£9,360 - £19,759	£19,760 - £33,799	£33,800 plus
Put money in when setting up ISA but not since	33	25	24	23
Put money into ISA but not every year	26	24	25	23
Make many payments into ISA each year	17	21	18	28
Pay one lump sum into ISA each year	21	28	32	26
Don't know	3	2	2	1
Base (n)	394	392	281	173

A third (33 per cent) of respondents on lower incomes had not put any money in their ISA since their initial payment. Amongst other income groups, the figure was around the one-in-four mark.

Multiple payments into an ISA were most commonly made by respondents who earned over £33,800 each year (28 per cent) and less commonly amongst respondents who earned less than this amount.

Table 4.14: Frequency of payment into ISA by amount saved in ISA (column percentages)

	£0 - £2,000	£2,001 - £5,000	£5,001 - £8,000	£8,001 - £16,000	£16,001 plus
Put money in when setting up ISA but not since	39	42	31	16	10
Put money into ISA but not every year	24	22	23	33	23
Make many payments into ISA each year	3	7	18	26	49
Pay one lump sum into ISA each year	33	27	27	23	19
Don't know	2	2	1	2	-
<i>Base (n)</i>	190	321	228	288	209

Regularity of payments into an ISA increased with the amount invested in the ISA. Only three per cent of ISAs that contained less than £2,000 had regular payments made into them; this increased to seven per cent amongst ISAs with £2,001-£5,000; 18 per cent of ISAs with £5,001-£8,000; 26 per cent of ISAs with £8,001-£16,000 and 49 per cent of ISAs with over £16,000 invested in them.

There is a slight anomaly in the data produced above, since 10 per cent of those with over £16,000 saved in their ISAs said that they had put the money in their ISAs when they opened it but had not put any additional funds in since. However, it is impossible under ISA regulations to invest a sum of this size in one go. Even allowing for interest gained, it would not have been possible to have in excess of £16,001 saved in an ISA. One explanation for this is that respondents may have converted their TESSA account into an ISA account. Unfortunately, however, the data available did not allow this to be investigated further. It is also worth considering that the actual number of respondents who made this claim was very small (circa 20) and so it was not possible to obtain robust, significant results.

