

Shrinking safety nets

More people set to dip into emergency funds

Having money set aside can help to provide protection against any abrupt financial changes. A new report has identified one in four working households with savings (28%) have started dipping into them to meet rising living costs^[1]. A further 30% anticipate they will need to do so in the next year.

Of those without an emergency fund, the most common reason for not having one was due to wages barely covering the cost of living, and therefore being unable to afford to save.

MONEY TUCKED AWAY

With consumer prices higher than the year before, and with annual household energy costs set to rise, many households will likely have to rely even more on the money they have tucked away. This could see household savings built up during the pandemic reduced.

The report highlighted the average working household currently has £2,400 in savings.

However, this equates to less than a month of basic expenditure for the average family if they lost their income and were pushed to rely on their savings.

CURRENT SAVINGS PATTERNS

To feel financially secure, households estimate they need £12,100, or nearly five months' worth of basic household expenses, set aside. However, only three in ten working households (30%) have this set aside, and pressure to dip into savings will likely see this number fall.

Based on current savings patterns, with the average working household saving just over £300 a month, it would take three years to reach the desired financial safety net, and nine years to put aside a year's worth of essential spending.

INCREASED LIVING COSTS

However, two-thirds (64%) of all households that currently save have either already decreased or stopped their savings habit altogether (31%), or expect to have to do so (34%), due to increased living costs.

There are also a growing number of people who cannot put aside any money; nearly 1.9 million households have no money left at the end of the month, an increase of 330,000 since 2020. This is likely why 16% of households have no savings at all in case of emergency.

DIPPING INTO SAVINGS

With the cost of basic essentials on the rise, many households will find themselves having to make difficult choices and dipping into savings is likely to become more common. This is a far cry from the five-month financial safety net that people hope for.

It can be concerning for people to feel that they have nothing to fall back on in times of difficulty. While dipping into savings is inevitable for some, there are also steps people can take to try to control their costs as much as possible by checking their regular outgoings and subscriptions, and shopping around for discounts and deals. ■

IT'S GOOD TO TALK

If you are considering dipping into your savings, it might be necessary, but there may be options which have been overlooked. Getting guidance to avoid eating away at your hard-earned savings is essential. If you require any guidance, to find out more, please contact us.

Source data:

[1] Online survey among 5,021 UK consumers using Savanta's proprietary consumer panel between the 28 June and 5 July 2022. The survey covered employed and self-employed consumers aged 18 to 65 only, approximately nationally representative but ensuring a minimum sample in every region of the country. This extrapolates to approximately 31.228 million adults in the UK. Results were re-weighted to represent the UK population in terms of age/gender, region and employment status. All averages that are shown are median values. References to income refer to household income. Basic expenses are housing costs, loans/ credit card repayments, utility bills and food