4. Savings

It has been seen that many credit union members, especially those with low incomes, were more attracted by the opportunities for regular savings than by the offer of loans. Savings are therefore an important aim in their own right, as well as providing the capital out of which loans can be made.

Although the main interest is in members' savings with the credit union, it is important to start with an analysis of their general budgeting position, and of their savings with other institutions.

Budgeting

The interviews with credit union members included some general questions designed to indicate how members and their families were getting on with their budgeting from week to week and from month to month. People with high incomes and/or middle class jobs tended to budget by the month (if they had any regular system), while people relying on social security mostly worked by the week or fortnight. The proportion adopting weekly or two-weekly cycles ranged from nine out of ten in the two poorest unions (Northern and Scotland), to none at all in the richest (Suburb): a clear illustration of the variation in 'class' between one union and another. Similarly, the number of people with an ordinary current bank account, ranged from all the members of the richest, to only one in seven at the two poorest.

People taking part in the survey were asked three questions which would give an indication of how they were getting on financially.

- Do you ever manage to put money away at the end of each week/month?

Yes, most weeks	37%
More often than not	9%
Sometimes	14%
Hardly ever	13%
No, never	28%

- Do you ever run out of money before the end of the week/month?

Yes, most weeks	13%
More often than not	17%
Sometimes	23%
Hardly ever	16%
No, never	31%

- How are you managing on your money?

Managing quite well	36%
Just getting by	55%
Getting into difficulties	9%

In order to make comparisons between people in different circumstances, we have combined the answers to these three questions, so as to identify those families which found it relatively easy to budget (the 29 per cent of the sample who most often gave ‘good’ answers to these questions); and the those with difficulties (the 25 per cent who most often gave answers suggesting problems). As one would expect, people found it easier to budget the more income they had to budget with (Table 4.1). The same sequence of questions had been asked in another PSI survey which had covered a sample of supplementary benefit claimants: using the same definitions of ‘easy to budget’ and ‘difficulties’, the right hand column of the table shows that supplementary benefit claimants in general had similar budgeting experiences as the credit union members with incomes round about the supplementary benefit level (ie with an available income of less than £10) So there is little sign of credit union members having more or less of a problem than other people with similar resources.

It is to be expected that people’s ability to budget would depend on two things: first, on the family’s income in relation to its needs; and second, on a variety of individual circumstances including their particular style of management. Table 4.1 confirms that the family’s income has a strong influence, though there were some people who

Table 4.1 Budgeting experience, by available family income

Percentages of member-families

Available family income	Below £10 pw	£10 to £49	£50 to £109	£110 or more	(Sup Ben Clmts[1])
Easy to budget	14	17	42	41	15
Neither easy nor difficult	44	56	42	45	43
Difficulties	42	27	16	14	42
(Sample size)	(55)	(59)	(59)	(57)	

Note: 1. See R. Berthoud, *The Reform of Supplementary Benefit*, Policy Studies Institute, 1984.

found it 'easy to budget' even on very low incomes, and others who experienced 'difficulties' even with high incomes. Any measure of the success with which people handle their money clearly has to take account of the amount of money they have in the first place. We looked carefully to see whether credit union members who experienced more or less budgeting difficulties than others with a similar level of income would save or borrow more or less than others. But no strong influences were to be found.

Savings with other institutions

Credit unions exist within a general market of savings and credit opportunities provided by other institutions, which members are free to use.

- 34% of member-families had savings with a building society;
- 33% in a bank deposit account;
- 10% in a post office account; and
- 7% in other institutions, including unit trusts, stocks or shares.

Some families, of course, used more than one of these types of account. Looking at all four types of institution:

- 28% were making regular payments towards non-credit union savings;
- 33% had outside savings but were not making regular contributions;
- 15% had used one of these types of saving in the past, but no longer did so; and

- 23% said that they had never saved apart from with the credit union.

So three-fifths of members had outside savings at the time they were interviewed. The amounts ranged from less than £100 to well over £5,000. In fact all but one of the people with more than £5,000 outside savings were members of the same credit union (Suburb), the one whose members had also reported relatively high incomes. This one union averaged nearly £4,000 per head, and accounted for more than half of the non-credit union savings in the whole sample. In contrast the two 'poorest' unions had averages of only just over £100 each. The four unions which might be considered to be more typical averaged about £450 in outside savings per member.

Table 4.2 Savings outside the credit union

Percentage of member-families

	Richest union	Four middle unions	Two poorest unions
None	15	40	58
Up to £200	13	17	20
£201 to £1000	15	27	23
More than £1000	58	17	nil
Average	£3,730	£460	£110
(Sample size)	(33)	(132)	(66)

Note: The averages take into account those members who had no savings at all.

So availability of savings in building societies, banks and so on varied strongly from one credit union to another. Table 4.3 clearly shows how the extent of outside savings was determined by the economic position of the family, with averages ranging from more than £2,000 for senior non-manual workers, down to virtually nothing at all for the unemployed and lone parents. There is, in fact, little sign that the differences between the unions in their members' savings has anything to do with the unions themselves; the variation is entirely due to the differences in the circumstances of their members.

The existence of a pool of fairly substantial savings in building societies, banks and a few other places has important implications for

Table 4.3 Average non credit union savings, by economic position of 'chief earner'

Pounds

In full-time work		Others	
Managerial and professional	£2,080	Retired	£2,010
Clerical	£900	Sick/disabled	£240
Skilled manual	£570	PT work	£120
Semi-skilled	£530	Unemployed/ lone parents	£4
Unskilled	£90		

the evaluation of credit unions. It is just possible that some of these savings have been assisted by the credit union itself: it might have developed the saving habit in its members; the availability of loans may have helped people to avoid withdrawing their outside savings to meet short-term needs. But there is little direct evidence that members' outside savings were more or less than they would have been if they had never joined, and it is probably safest to assume that the pattern is similar to what would have been observed in any case. If so, credit unions had attracted many people who apparently had no need of a new method of saving. At the same time, they failed to attract all of the savings of those people.

Table 4.4 summarises the relative advantages and disadvantages members ascribed to the credit union, compared with a building society, as a place to save. There were two general advantages of a credit union: convenience (such as the regular weekly paying-in sessions organised by most unions); and the link between savings and borrowing. Relatively few of the better-off members considered their credit union a convenient method of saving, and this was only partially off-set by a belief in credit unions as a 'good thing' deserving of their support. The chief disadvantage of the credit union, of course, was the relatively low rate of return on your investment. This (and other disadvantages of the credit union) was mentioned with increasing frequency the higher up the income scale people were.

For people with relatively large incomes and high savings potential, the credit union seems to have had a rather limited appeal, compared with the wide range of alternative institutions competing for

Table 4.4 Advantages and disadvantages of saving with a credit union, by available family income

Percentages of member-families

Available family income	Total	Under £10 pw	£10 to £49	£50 to £109	£110 or more
Advantages					
Convenience	39	42	52	42	19
Opportunity to borrow	45	43	46	38	53
CU good in principle	16	6	21	14	24
Various other advantages	17	15	9	25	18
No advantages	8	9	5	7	10
Disadvantages					
Lack of/low dividend	23	8	22	31	30
Inconvenience	8	4	4	9	13
Various other disadvantages	14	7	19	14	25
No disadvantages	53	79	49	46	39
(Sample size)	(231)	(55)	(59)	(59)	(57)

Note: Answers to these questions were recorded in full and summarised in the office. Totals add to more than 100% because each respondent could list more than one advantage or disadvantage.

their business. For families with lower incomes, on the other hand, the credit union was seen to be a convenient method of saving, without many drawbacks.

Savings with the credit union

Leaders of the credit union movement emphasised the ideal of the participating member as someone who made a regular weekly (or monthly) contribution to savings. This increased the member's shareholding, and with it his or her options for taking out a loan; it also built up the union's stock of capital out of which to offer loans. Regular savings were encouraged by the arrangements for collecting payments. The workplace credit union (Borough) deducted all payments direct from wages and salaries. About half the members of two unions said that payments were collected from their own home (though neither of these unions had told the researcher that such a service was available, and the finding is therefore unclear). But the great majority of credit union members took their regular instalments to a collection point in person. With the exception of the largest union (N. Ireland, with its permanently staffed premises), collecting sessions were organised one evening a week and were considered to provide a strong social focus for the membership.

But only about two-thirds of members (70 per cent) were making regular payments into their savings/share accounts at the time of their interview. Many of the others had made regular payments in the past, or paid in money from time to time, or at least had some money in their account, but they nevertheless form a core of members not contributing regularly into the pool. Most of the non-savers were not repaying a loan either, and therefore can be said to be sleeping members of their unions. At the Borough union, where payments were deducted from earnings at source, all but 6 per cent were regular savers, and this is evidently an effective way of encouraging good

Chart 4.5 Proportion of members making regular weekly savings

discipline among members. But the proportion of non-regular savers ranged between 13 per cent and 48 per cent at the other six unions covered by the survey (Chart 4.5); on the whole the richer unions were more successful at encouraging regular payments than the poorer ones.

Table 4.6 shows that regular contributions were most common among members with large resources of savings elsewhere; they were least common for people with very low independent savings. But people with no outside savings at all were quite likely to be making

Table 4.6 Regular contributions to credit union savings, by level of outside savings

Percentage of members

Outside savings	None at all	Up to £200	£201 to £1000	More than £1000
Makes regular contributions	74	44	69	85
(Sample size)	(94)	(38)	(54)	(44)

regular payments; this group may include people who had decided to transfer the whole of their savings activity to the credit union.

The rate at which members contributed towards their savings depended on the policy or practices of individual credit unions:

- the union (Suburb) whose members had much the highest regular incomes, and overwhelmingly the largest pool of outside savings, was receiving easily the smallest regular contributions. The most common contribution was £1 per month (23p per week); the average was 80p per week. The credit union was therefore responsible for an extremely minor proportion of its members' savings-and-investment package.
- the workplace credit union (Borough), in contrast, used payroll deductions to encourage a much higher rate of savings. Hardly any members paid as little as £3 per week, and the average was £12.30.
- four unions (Yorkshire, N. Ireland, Northern and Scotland) fell between these extremes. Regular subscriptions often lay in the range of £1 to £3 per week; their averages were between £1.90 and £3.30.

Chart 4.7   Average rates of regular savings payments, by union

Note: Chart confined to members who reported regular savings

- but Belfast's most common subscriptions were in the £5 to £10 per week range. Its average was £10.30. But there is no indication of a reason why this union should be different from the other four just described.

The variation between unions is illustrated in Chart 4.7.

These differences are clearly caused by the policies of each union. They could not be simply the natural pattern of contributions offered by the people who happen to be members. Because of the influence of the individual unions, it is difficult to use the survey to work out what other aspects of people's circumstances help to decide the rate at which they save. But if we look only at the four unions with similar average contributions, the signs are that better-off members contributed at a higher rate than poorer ones (Table 4.8).

Table 4.8 Average weekly rates of regular savings, by available family income

Pounds per week

Available family income	Less than £10 pw	£10 to £49	£50 to £109	£110 or more
Average payment	£1.80	£2.40	£3.50	£4.30
(Sample size)	(29)	(21)	(20)	(11)

Note: Table based on those members of the Yorkshire, N. Ireland, Northern and Scotland credit unions who made regular savings payments.

These regular savings build up to form credit unions' capital base. In each of the unions studied, there was a clear link between individual members' total shareholding and the length of time since they had joined. This meant that the oldest union (N. Ireland) had easily the largest average shareholding and the other long-established union (Suburb) had a much larger stock of capital than its very low rate of contributions might have led one to suppose. Looking at savings from the point of view of individual members, however, it is more appropriate to express their shareholdings in terms of how much they had built up for each year since they joined. Looked at in this way, Suburb and Borough stood out as having the slowest and fastest rates of savings accumulation, and this was consistent with their contribution rates (Chart 4.9). On the other hand Belfast's high contributions did not seem to be reflected in rapid accumulation of assets, and it may suffer high rates of withdrawal. The Northern union's savings pool was growing pretty slowly, partly because of relatively small contributions, and partly because many members were not contributing at all. It was doing significantly worse in this respect than the Scotland union, whose members were at least as poor.

The details of each union's savings pattern may be of direct interest mainly to the leaders of those unions. The point of general interest is the range of the variation between them. To a certain extent it may be up to each union to determine the rate of accumulation it wants to aim for. Suburb and Borough appear to have taken decisions leading to relatively small and large savings respectively. On the other hand, Belfast's attempt to build up its pool quickly does not seem to have

Chart 4.9 Annual accumulation of savings, by union

Note: The chart excludes members who joined during the same year as they were interviewed.

paid off. And Northern's performance (so far – it is the most recently established of these groups) is disappointing.

These big differences between unions and between long- and short-term members make it rather difficult to show what other factors affect savings, and how credit union savings compare with savings in building societies and other institutions, discussed earlier in this chapter. Table 4.10 has been calculated in the following way:

- the table excludes members of Suburb and Borough, because their savings were so heavily influenced by the union's policy;
- the table also excludes people who had joined during the same year as they were interviewed, because 'savings per year' were so difficult to calculate;
- savings-per-year were multiplied by six to make an estimate of savings-per-six-years; this gives a better impression of the actual level of savings people had accumulated, because they had belonged to a union for about six years on average.

Table 4.10 Credit union and other savings, by available family income

Regression points

Available family income	£10	£60	£110
Credit union savings (six years)	£300	£380	£460
Other savings	£120	£380	£640

Note: See text for explanation of table.

- the credit union savings of husbands and wives were added together, to make them comparable with the family's savings elsewhere;
- a calculation was made of the relationship between family income and the family's level of savings inside and outside the credit union; the calculation enabled us to say how much savings a family with a given income tended to have saved.

This table says that a typical family with an income £10 above the supplementary benefit level had accumulated an average of £300 in the union after six years; the same family also had an average of £120 saved in a building society or bank. A second family, earning £100 more than the first, typically had about £460 in the credit union, and £640 elsewhere. Thus well-off people were contributing more to the union than their poorer neighbours. But it was shown earlier that people with relatively low incomes had a more favourable impression of the credit union, compared with a building society; it is now clear that the poorer members were placing a much higher proportion of their limited savings with their credit union.