Survey of the Savings and Financial Decisions of Italians - *2012*

Summary of the survey

The *Survey of the Savings and Financial Decisions of Italians – 2012* is a joint project conducted by the Centro Einaudi and Intesa Sanpaolo, based on a Doxa survey carried out between January and February 2012, involving interviews with 1,053 heads of families with bank and/or post-office current accounts. The sample is representative in terms of the various age categories, professions, educational qualifications and geographical areas. The survey allows comparisons to be made between different points in time from 1983 to the present day. Each year the survey deals with a **specific theme**: this year it is the turn of the so-called '**baby boomers**', that is, those people born between 1951 and 1976. An additional sample of 402 people has been added for this purpose - which together with the 600 present in the general sample, constitutes a representative sample of 1,002 people - each of whom has been asked 13 specific additional questions.

The impact of the crisis on people's standard of living and savings capacity

The balance between those who deem their current income to be sufficient and those who deem it to be insufficient, which in 2002 - the year the Euro was introduced - reached its peak (71.7%), **has fallen to its lowest ever level (45.7%)**, from a figure of 53.4% in 2011 resulting from the mild economic recovery witnessed in 2010. Those hardest hit by the income crisis are people in their twenties (21.4 percentage points down on 2011), women (-8.9), merchants and trades people (-10.3). Moreover, in 2011 the percentage of those who declared their own income to be totally incapable of maintaining their standard of living, reached a peak (12.5%, that is, one in eight of the interviewees, three percentage points more than 2011).

However, the crisis has also hit the 87.5% who declared their income to be sufficient or more than sufficient. In fact, **only 15.2% of those interviewed declared that they had felt no effects of the crisis**. The reduction in consumption has particularly affected spending on holidays (67.2%), and on leisure time and weekend pursuits (68.3%). **46.2% of people dipped into their savings**, while 36.9% renounced or postponed the purchase of a car. 24.3% looked for another job or an additional source of income, but only one in three (6.7% of the sample) managed to find one.

The majority of the sample (61.5%) declared saving to be an extremely useful, or an indispensible, form of behaviour, but this was almost 10 percentage points down on the 2011 figure (71.1%), probably because there has been an increase in the number of people who simply cannot manage to save, and who psychologically react to their plight in this manner. Saving has reached an all-time low in 2012: **non-savers now constitute 61.3% of the total sample (compared with 52.8% in 2011**). Among the various different groups, those most in difficulty were people in their twenties (69.4% of whom were non-savers), people in the South of Italy (67.5%) and in Italy's large cities (66.7%), and families with a monthly income of less than 1,600 euro (77.3%). As a result of the 8.5 point drop in the percentage of savers, **the average weighted percentage of the propensity to save also fell, from 4.2% in 2011 to 4.1% in 2012** (this same figure stood at 7.2% in 1994).

Reasons for saving

The crisis has also led to a change in the **reasons why people save**. Among those reasons, **the purchase of a home** has lost considerable ground: in 2004 it accounted for 25.7%, in 2007 16.2%, in 2011 12.7%, and in 2012 it accounts for a mere 5.5%. **On the other hand, reasons of inheritance or leaving part of one's wealth to one's children have peaked: 19.5%** of people save in order to help their children, to pay for their studies or to bequeath something to them. There has been a gradual rise in the number of people saving in order to supplement their pensions (12.8% in 2012 compared with 9.3% in 2005).

The economic crisis and recent pension reforms have also led to **a reduction, from 26% to 20.5%, in the balance between those who expect their pension income to be sufficient and those who expect it to be insufficient** (the question was asked of non-pensioners; the result in 2012 was 37.5 percentage points lower than the all-time high seen in 2002). The pension reform is understood (49.5% believe that people should work longer), although 48.9% declare that it is a mistake to change the rules too often. Positive judgments, nevertheless, are more common among young people. The reform appears to be incorporated into individual expectations. **43.1% expect a pension of €1,000 or less**, while only 9.6% expect to receive a pension of more than € 1,500.

Despite this awareness, **still only 10.5% of our interviewees subscribe to an open or closed pension fund**. Subscription to a pension fund is highest among those in their thirties (13.6%), those in their fifties (14.3%), those living in the North-West (15.1%), and those earning more than €2,500 a month (19.6%). 53.2% opt for cash funds, in order to safeguard their capital. One half of employees (50.2%), however, continue to opt for severance indemnity, **which is most often earmarked to be used to support an employee's children (in 38% of cases)**, or to ensure a supplementary source of income (19.2%), or to be used for travel purposes or for leisure-time pursuits (10.3%).

The choice of savings investment: difficulties and levels of satisfaction

Almost half the sample (47.3%) declared that investing has become more difficult than it had been the previous year: the principal difficulty (25.7%) expressed is that of understanding the risks associated with different forms of investment. Thus **the main objective is now security** (**53%**, compared with 34% in 1988), followed by immediate returns (16.6%, a sign of the need for coupons and dividends in difficult years) and liquidity (15.8%). **Far less importance is given to the medium/long-term growth of one's capital (7%),** both because such growth is subordinate to prudential objectives, and because in the past the promises offered by long-term investments have not always been maintained.

21.7% of our interviewees are bond holders, and bonds remain Italians' preferred form of investment (albeit less so than in the past, as only 24.6% of interviewees held bonds in 2011). Moreover, the sovereign debt crisis has left its mark: **those who believe bonds are always a safe form of investment has fallen from 23.7% to 17.8%,** while the proportion of interviewees who consider them to be highly risky has risen to 28.5%. The share of capital invested in bonds is 24.2%, with no significant differences between the various age groups.

Bonds are small-scale savers' preferred form of investment (32.2%), and overall satisfy the majority of investors (73.7%). The difference between satisfied and unsatisfied (57.3%) investors is the largest of those differences pertaining to financial investments.

12.5% of our sample have invested in shares over the last five years (the same percentage as in 2011). These people are experts who personally and actively administer their own exposure to risk; this proportion is highest among graduates (32%), business and professional people (31.2%), and people with a monthly income of over € 2,500 (30.8%). **10.9% of our sample invest in asset management, slightly down from 2011**: the dynamics of this sector has always felt the effect of market fluctuations, and this has been the case once again this year. 18.3% of holders are new subscribers. The two main reasons given for subscribing to a managed savings account are:

entrusting one's savings to experts (27%); and reducing the risks associated with investment (26.1%).

Home ownership and purchasing

77.1% of those interviewed live in their own homes. This percentage is relatively unaffected by income level (67.6% of those families with a monthly income of less than €1,600 are owner occupiers), and is also high among those in their twenties (52.8%) who probably receive help to buy their homes from their parents. **8.9% of the sample have bought a property in the last twelve months, and 6.4% have bought the principal residence**. Moreover, 21.7% are repaying a mortgage loan taken out on a property. Despite increased taxes, **the difference between those satisfied and those unsatisfied is +80.8%,** the largest such difference among all types of investment.

Consumer credit and relations with the banks

Consumer credit is an instrument that a not inconsiderable number of families (albeit not the majority) resort to: **18.5% of those interviewed are paying instalments on an item bought on credit**, although only 2.6% are paying instalments on more than one such item. The propensity to buy on credit increases with income, which is a sign of sustainability. Cars are bought on credit (49%), as are the renovation or furnishing of the home (16.5%). 70% of those taking out a personal loan require **one year's income** at the most to repay the loan.

82.1% of our interviewees avail themselves of the services of just one bank, while 6.1% use two or more banks. In general, the relationship with the bank is characterized by a strong degree of loyalty. The percentage of financial capital held in «liquid» form in a bank account rose once more in 2012 as a result of the crisis. **Those who leave their entire capital in a current account rose from 9.1% to 15%; those who hold at least half of their own current assets in the form of liquid balances rose from 9.3% to 12.3%.** 23.6% use the bank as an investment advisor. 92.9% possesses at least one debit card, and **those services utilized online have risen from 26.3% (2011) to 30.7% of the sample**. 9.9% declare that they are «very» satisfied with their own bank, while **the vast majority (74.6%) declare that they are «fairly» satisfied with their bank**.

Who are the baby boomers, and how do they live?

In 2012, the annual in-depth analysis concerns a sample of 1,002 "baby boomers", that is, people who were born between 1951 and 1976, subdivided, in turn, into early (born between 1951 and 1960), median (1961-1970) and late (1971-1976) baby boomers. One in five is a graduate. **On average they have 1.8 children (and, on average, 1.3 children to support).**

Only 4.5 of boomers declare that they were not financially independent during the twelve months prior to the interview. 89.2% said they were totally independent, while 6.3% declared that they were partially independent.

Men are more often independent than women (94.7% against 79.6%), which confirms the continued existence of a significant gender gap of 15.1 percentage points. **On average, the baby boomers have 1.7 stable sources of income**. **83.1% have earned income**, and almost one in two (45.5%) cases, the family also benefits from the income of the spouse or partner. **11.3% declare income from property or investments**, while 4.1% earn corporate income. More than 19% of baby boomers are business or professional people. 8.2% are retired.

The current income balance (+47.8%) is slightly better than the balance expressed by the general sample (+45.7%). The early boomers boast a balance of 52.9%, due to their entry, many years ago, into what was still a basically remunerative labour market.

The baby boomers compare themselves with their parents' generation, and express their concern for their own children

In comparing their own situation to that of their parents' generation, **there are more boomers who believe that they have regressed (40.9%) in terms of income, than there are those who feel they have improved (20.2%).** This holds for all aspects of their material existence with the exception of their state of health, which they declare has improved.

17.3% of the early boomers declare that they have not been affected by the crisis, compared with 17.1% of the median boomers and 15.6% of the late boomers (the percentage of the general sample is slightly lower, at 15.2%). **The least affected are single people with no children (21.2% declare they have been unaffected), while the worst hit are single people with children (8.6% unaffected by the crisis). 1.1% of the baby boomers have lost their jobs in the last 12 months**.

The main purpose of the baby boomers' saving is to help their children, who in the case of the early and median boomers are beginning to live independent lives. Starting with the early boomers, 3.2% save in order to leave something to their children, while 6.3% save for their children's education, and 9.5% in order to help their children during the initial years of the latter's independence: **thus the idea of leaving an inheritance to, or supporting, their children as a saving reason accounts for 19% for this sub-group**; this percentage rises to **20.9% among the median boomers**, but falls to 9.3% among the late boomers, who save principally to pay for the education of their children, who are still of school age.

Among the baby boomers, 60.1% do not save at all (against 61.3% of the sample as a whole). Thus 39.9% of baby boomers are savers. **The number of children to support affects saving capacity: 43.7% of those who do not have children are savers. The birth of a child reduces this percentage by around 3 percentage points (from 43.7% to 40.3%); a second child leads to a loss of a further 4 points (36.2%); but the really dramatic reduction – by more than 21 percentage points - comes when a third child is born (14.6%).**

The uses made of savings, and people's pension expectations

Asset management represented the investment choice of 11.7% of baby boomers, compared with 10.9% of the general sample. The three generational cohorts have invested in funds for partly different reasons. **The early boomers bought them in order to control risk (63%);** the median boomers bought them in order to delegate the management of their savings to professional experts (44%), diversify risk (46%). **The late boomers invested in the funds also in order to improve returns compared with those resulting from a DIY approach, and in order to reach otherwise inaccessible markets (32%)**.

The proportion of baby boomers holding bonds was, on average, 21.5% (compared with 21.7% in the case of the general sample), with peaks in the North-West (28.2%) and North-East (29.2%), and a much lower percentage in the South (11.4%).

People tend to be much more cautious when it comes to investing in the Stock Market, on the other hand. 12.6% of baby boomers have bought or sold shares in the last five years, and the same percentage of the general sample have done likewise. This figure is higher among early boomers (14.8%), and among residents of the North-West (17.3%) and North-East (17.9%), whereas it is considerably lower among those living in the South (4.4%).

The duration of transactions varies from three months (8-16%), to one year (13-19%) or three years (36-54%); it rarely exceeds such limits, which would point to the baby boomers' little interest in long-term investments.

6.6% of boomers bought their first home in the twelve months prior to the interview (compared with 6.4% of the general sample). Property purchases overall, however, were made by 9.4% of the baby boomers, if we consider not only their principal home but also second homes (2%), **those purchased for investment purposes (1.3%) and those bought for their children (1.4%).** In the baby boomers' opinion, buying property is the safest form of investment (62%), or indeed the best possible way of utilizing their savings (42%), despite the fact that they believe that the value of their properties has fallen by 0.8% over the last year as a result of the crisis.

The baby boomers **hold 33.8% of their financial assets in the bank, either in liquid form or as on-term deposits**. Liquidity is held in the main for everyday payments (88.6%). In the year of the «great crisis», however, other reasons for doing so have emerged which at other times were of negligible importance. For example, **12.6% declare that they prefer settling for what the bank offers them, while 11.7% hold cash in the bank whilst waiting to invest it** (perhaps in period of lower volatility). **33% declare that they hold money in their accounts because "it's safe there",** while 17.3% leave money in the bank because "they wouldn't know where to invest it".

Following the most recent pension reform, **boomers foresee retiring at 65.4 years of age (in the case of the early boomers), at 65.5 (in the case of the median boomers), or at 66.8 (in the case of the late boomers).** They also declare an expected rate of replacement of their earned income which varies from 58% (the early boomers) to 56% (median boomers) and to 53% (late boomers): these figures point to a rather clear perception of reality. **Following the aforesaid reform, 23.8% of baby boomers declare that they have saved more. 17.6% have subscribed to a supplementary pension scheme, while 3.2% have increased their contributions to their existing supplementary pension scheme.** The holders of fund units, however, account on average for only 13.5 of the total (ranging from 14.5% of early boomers to 11.1% of late boomers).

A turning point

- The *2012 Survey* shows that the **financial crisis affecting families is not over yet**: however, there are signs of an active response in terms of both control over spending and the search for new forms of income.
- Saving is less readily accessible than before. The main reasons people save is to protect their **children's futures** and to **supplement their future pensions**. There is less interest in property investment, although it is still considered a good form of investment.
- Families are adopting a **wait-and-see approach to investment**. They are waiting for the worst of the crisis to end before contemplating anything more than the safest forms of investment, such as current accounts.
- **Bonds are now considered a more risky proposition than was the case in the past**, when they were a favourite form of financial investment.
- **Baby boomers constitute 80% of the labour force**, and 60% of our sample. Their expectations, as members of the «consumer generation», have been disappointed: this is particularly so in the case of the early and median boomers. They tend to have steady jobs, and they save for their children's sake.

We are at a turning point. While Europe is obliged to invent a new form of governance for the Euro, Italy must make better, more productive, investments, and its families need to face up to a return to consumer austerity, to working more and for an increased number of years, and to paying, on average, higher taxes. The year 2011 marked the end of an epoch, lasting several decades, of what were probably excessive levels of consumption, and the beginning of a new period necessarily based on the making of sacrifices, in order to turn the corner and **restore a correct rate of saving** in relation to both the lives of individuals and to current macroeconomic requirements.