The Links between Saving Rates, Income and Uncertainty: An Analysis based on the 2011 Household Budget Survey*

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Should households perfectly anticipate their future income, their saving rate would theoretically depend only on their permanent income, i.e. the total income they expect to receive over their lifetime. In reality, household incomes are subject to many uncertainties, the most important of which is the risk of unemployment. To compensate for this risk, households accumulate precautionary savings: what is the extent of precautionary savings in the face of the risk of unemployment? Does it depend on household income?

Methodology

Using data from the 2010-2011 Insee Household Budget Survey (*enquête Budget de Famille*), the article first seeks to empirically test the homogeneity of saving rates in accordance with income level. The extent of precautionary savings is assessed using an indicator inspired from Lusardi (1998), the variance of future income. This indicator is based on the subjective probability of unemployment for the coming year, reported in the survey by the household reference person, for him/herself and his/her spouse if any.

Main results

- The saving rate of the richest households increases with permanent income: they save more over their lifecycle than other households.

- Precautionary savings linked to unemployment risk result in a surplus of savings flow of approximately 6% for working households.

- The proportion of precautionary wealth linked to uncertainty over future income is around 6% of overall household's wealth.

- All households accumulate precautionary wealth, but its share in total wealth depends on the level of income; it is the highest among households in the third and fourth quintiles of permanent income.

- For households of the lower income quintiles, it may reflect a "hand-to-mouth" form of behaviour, those households facing difficulty in accumulating wealth; for the 20% of households with the highest incomes, the greater ability to find employment allows a "calmer" view of the risk of unemployment

Conclusions

Household savings depend on permanent income, but the saving rate is also linked to the risk of unemployment, for a precautionary motive which existence is confirmed in the article. An extension of this result would be to test an objective indicator of the probability of unemployment, instead of subjective as in this study, using detailed data on the type of employment contract and job held. Another interesting extension of this study would be to compare the extent of precautionary savings between countries, to determine to what degree labour market flexibility influences households' saving behaviour.

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