An impact of COVID-19 on savings: A rising sense of financial insecurity

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Contents

Foreword

Many of the effects of COVID-19 are all too apparent: schools closing, businesses shuttering, working from home and, of course, the devasting number of lives lost. The pandemic has been an unprecedented and wide-ranging interruption of our normal lives, but it didn't affect everyone equally. This was certainly true of COVID-19's financial impact. While many lost their jobs or were furloughed, others benefited from a booming stock market.

To gain insights into the financial consequences the pandemic has had on individuals globally, we set out to answer a series of questions, including:

- How has the pandemic affected the savings of different demographic groups?
- Which groups have been impacted worst?
- How have attitudes to savings changed?
- How are people changing their financial behavior in response to these changes?
- In what ways did these phenomena vary across countries?

For answers, Deloitte Global commissioned a survey of individuals in eight countries: Australia, Canada, China, France, Germany, Japan, the United Kingdom and the United States . The results of our survey yield useful insights into the ways that the pandemic has changed individuals' financial attitudes and behaviors. It also contains lessons for all those who seek to help people manage their finances in uncertain times. We welcome your feedback and would be pleased to discuss the findings and their implications in more detail.

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Key messages

The COVID-19 pandemic has had wide-ranging effects on individuals' finances creating financial anxiety far beyond the direct impacts. Regardless of how their own savings were affected, many have sought to protect themselves against future shocks.

To combat this heightened sense of financial insecurity, savers are looking to financial services providers for guarantees, advice, and transparency. A guaranteed income is the most sought-after feature for retirement savings. Savers also want advice and transparency through online dashboards, an ability to transact online, and retirement-savings prompts to give them greater visibility and control over their savings.

We expect this shift in attitudes and behavior to persist. While the pandemic is a health crisis, the biggest motivator for saving more is "in case I have large, unexpected costs," reinforcing the evidence that individuals now want to be prepared for unwelcome contingencies.

Executive summary

Has the COVID-19 pandemic changed people's perspectives on savings? To find out, Deloitte commissioned a survey of individuals in Canada, the United States, the United Kingdom, France, Germany, Australia, Japan, and China. The survey reveals a pervasive sense of pandemic-related financial anxiety, regardless of how the pandemic affected participants.

This anxiety has led many to put money aside for short-term financial needs, with 26% saving more toward large, unexpected costs since the pandemic began. Savings balances are rising generally, say respondents, although those with higher incomes report saving more to a slightly higher degree than those on low or middle incomes. This indicates a shift in attitudes and behavior, rather than a simple attempt to replenish savings to prior levels.

Respondents across the world lack confidence in their ability to provide for a comfortable retirement. The pandemic has exacerbated this lack of confidence. Forty percent of survey participants intend to save more for their retirement because of COVID-19, with many highlighting retirement savings as a priority for any post-pandemic surplus cash.

As one would expect, financial anxiety goes hand in hand with a desire for financial security. Survey participants are looking for guarantees, advice, and transparency. The most wished-for product attribute is a guaranteed fixed income in retirement, selected by one-third of respondents. Respondents also want their savings and investment choices to be guided by financial advisors or websites with useful information.

We expect these trends to persist. Previous generations have seen attitudinal shifts caused by shocks like the Great Depression and the Second World War. After more than a decade of relative stability in the nations surveyed, it appears that COVID-19 has caused a similar shift toward a more cautious approach to life and savings.

Savers indicate that, post-pandemic, they intend to save more both for the short and long terms. More than a third say they want to hold more savings for unexpected shocks. Asked how they want to use a post-pandemic surplus; respondents' most common response is to keep it as liquid cash for immediate access. Another priority is retirement. Furthermore, a significant minority also want to save more for their retirement in the wake of the pandemic.

Savers in the post-pandemic world are anxious about their financial future. They have seen that an unexpected crisis can upend the world, and their lives along with it. The financial services industry has a role to play in helping savers prepare in case a similar crisis should strike again.

Survey findings

The rise of financial insecurity

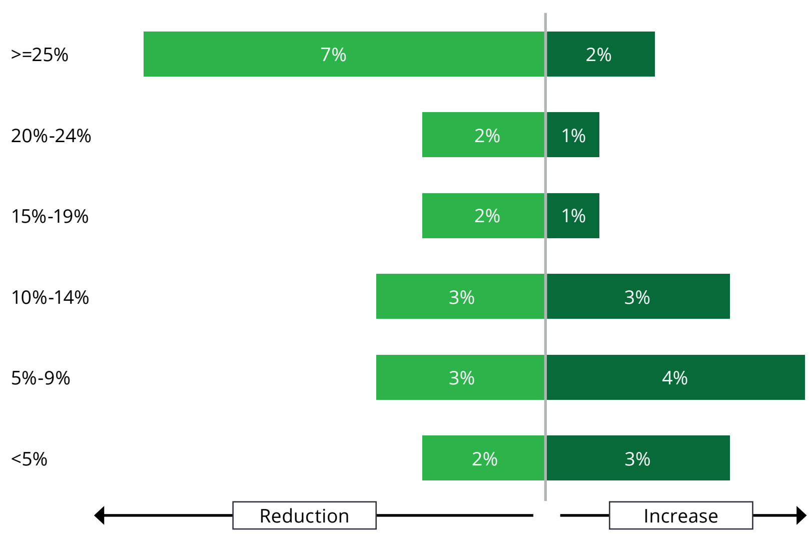
The COVID-19 pandemic has generated a sense of financial insecurity—even among the well-off. Despite significant efforts of governments worldwide to mitigate the pandemic's financial impact, a notable share of respondents believe the crisis has caused their cash savings to decline. Against this backdrop, most respondents have stepped up their savings, with many—regardless of income—choosing to prioritize short-term protection from shocks over longer-term goals. At the same time, only a third of respondents say they're confident of a comfortable retirement and two-fifths feel they need to save more for retirement due to the pandemic. Let's unpack each of these findings, one at a time.

For many, cash savings took a hit

Just over one-third of respondents saw a change in their cash savings that they believe is due to the pandemic. This group has notably more losers than winners: 19% saw a reduction in their savings over the past year while 15% saw an increase (see Figure 1).

Seven percent of those who saw a COVID-related change suffered a very significant drop of 25% or more. Only 2% of respondents enjoyed a rise in savings on that scale.

Figure 1. Size and direction of changes in cash savings levels over the past year due to the COVID-19 pandemic



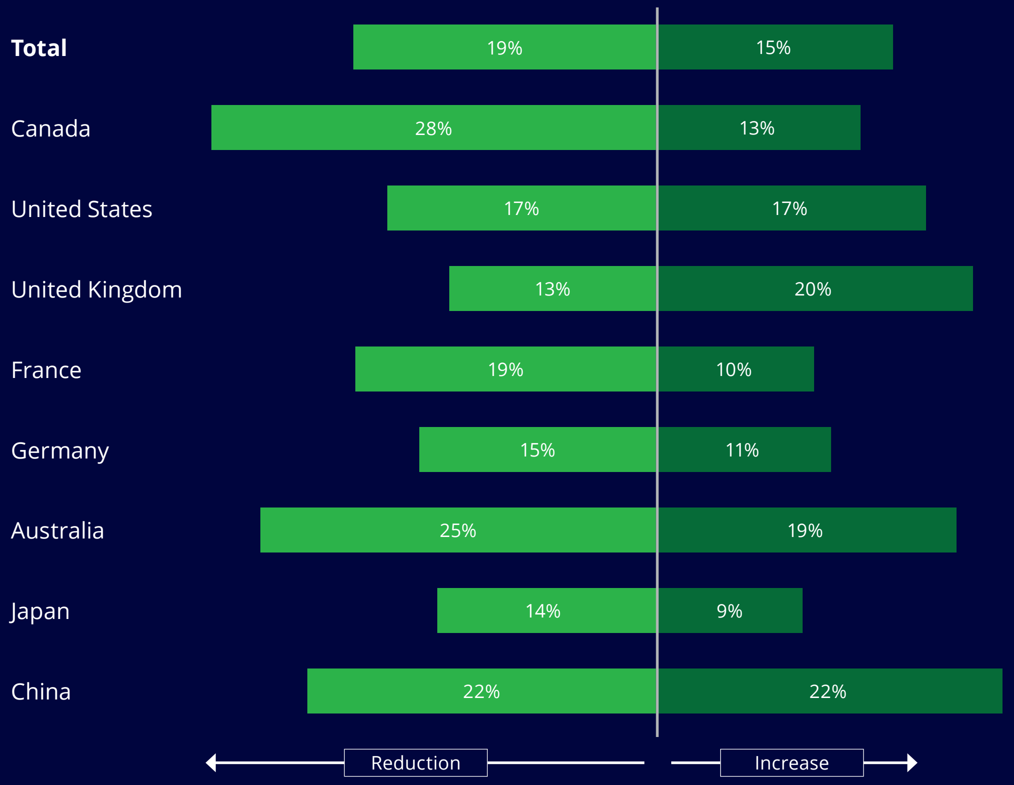
The pandemic's lopsided effect also becomes evident when comparing the figures for those whose savings fell by 10% or more to those whose savings increased by the same amount. Only 7% of respondents enjoyed a rise in their savings of a tenth or more while double that number, 14%, suffered a fall of 10% or more. This shows that those who saw balances fall often felt a great shock, while those who saw increased tended to experience a less dramatic shift.

Regional spotlight

The pandemic's impact on savings was far from uniform worldwide. In most countries—five of the eight surveyed—the net balance of savings fell, with the largest net declines in Canada (-15%), France (-9%), Australia (-6%), and Japan (-5%). In two countries, the United States and China, the proportions of winners and losers were the same (see Figure 2).

The United Kingdom is the only country with people whose cash savings went up versus down. This may reflect the extensive support that individuals and businesses in the United Kingdom received through government furlough and debt forbearance schemes. Perhaps even more significant is that the United Kingdom has some of the highest commuting costs in the world. Therefore, the shift to remote work may have delivered windfall savings to many.

Figure 2. Size and direction of changes in cash savings levels over the past year due to the COVID-19 pandemic, by country

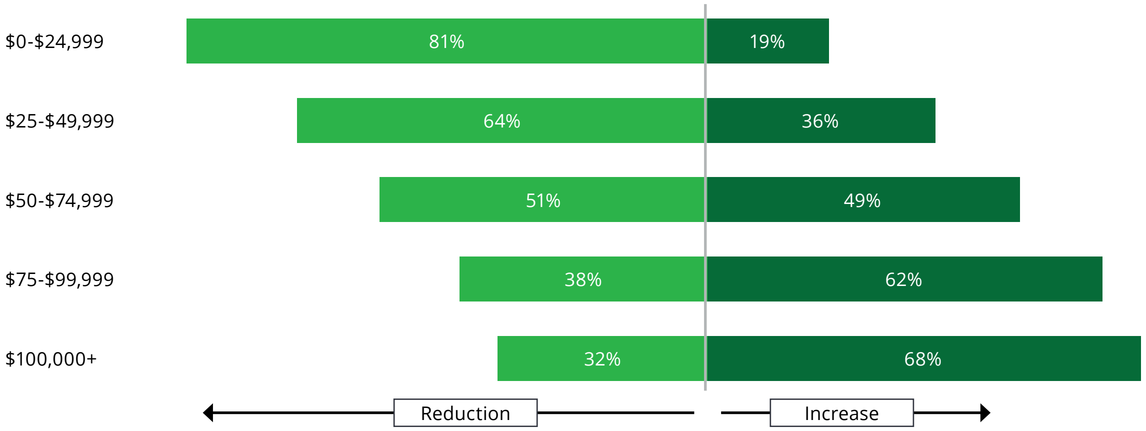


In Australia, a divide emerged between different wealth and income groups. While some 19% of Australians saw a rise in their savings, a larger percentage—25%—suffered. This may be because one in four Australian respondents are employed in temporary or part-time jobs, which is much higher than the 16% average across all eight countries in the survey. These workers may have been left exposed when many different categories of work, not least in hotels, restaurants, and bars, ceased to be available.

Japan's experience was more muted at both ends of the scale. More risk-averse investment strategies reduced the opportunity to benefit from the stock market rebound, but stable employment and government subsidies limited the downside risk too.

In addition, the pandemic disproportionately harmed lower-income savers. As Figure 3 shows, 81% of those with household incomes under $25,000 per year saw their cash savings fall while only 19% enjoyed an increase. For those with incomes between $25,000 and $49,999, the gap was less marked but still showed 64% suffering a fall against 36% experiencing an increase.

Figure 3. Change in cash savings over the previous year due to the COVID-19 pandemic, by annual household income

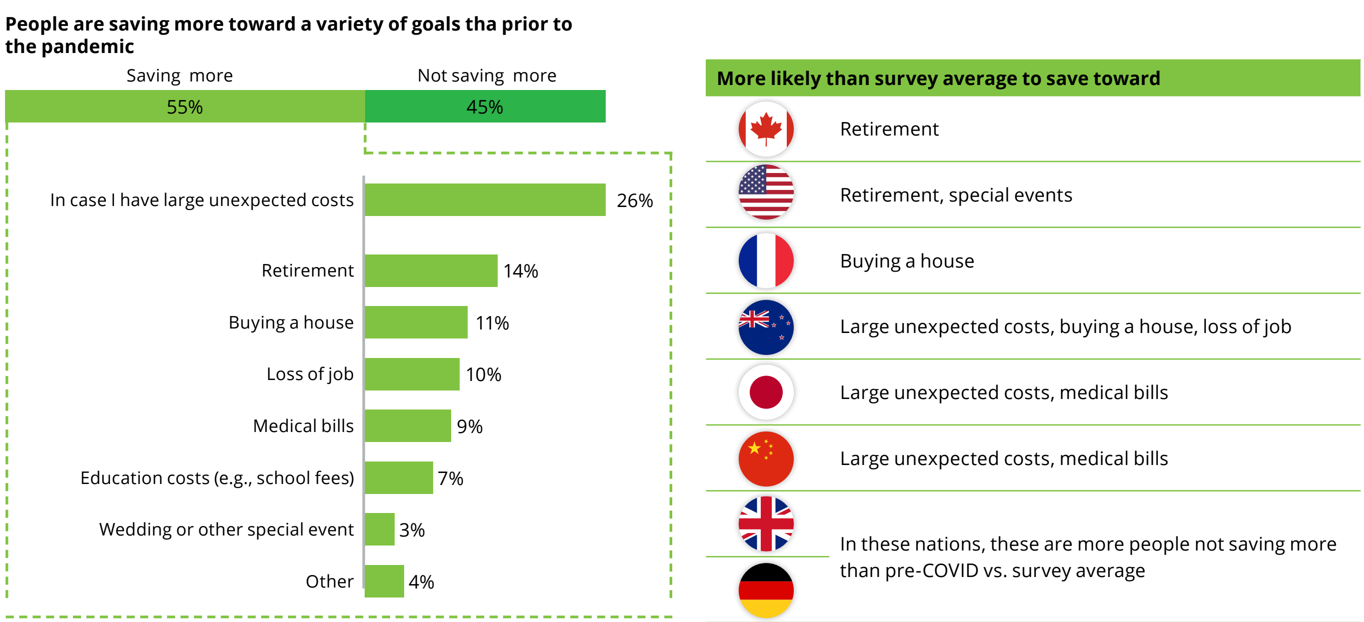


By contrast, in the US$75,000 to $100,000 income bracket, 62% report a rise in their savings during the pandemic while 38% report a decrease. At US$99,999 and above, 68% report a rise in savings while 32% report a fall. This may reflect the fact that those on higher incomes were prevented from spending some of their money on vacations and other leisure activities, such as going to restaurants.

Most respondents are boosting their savings

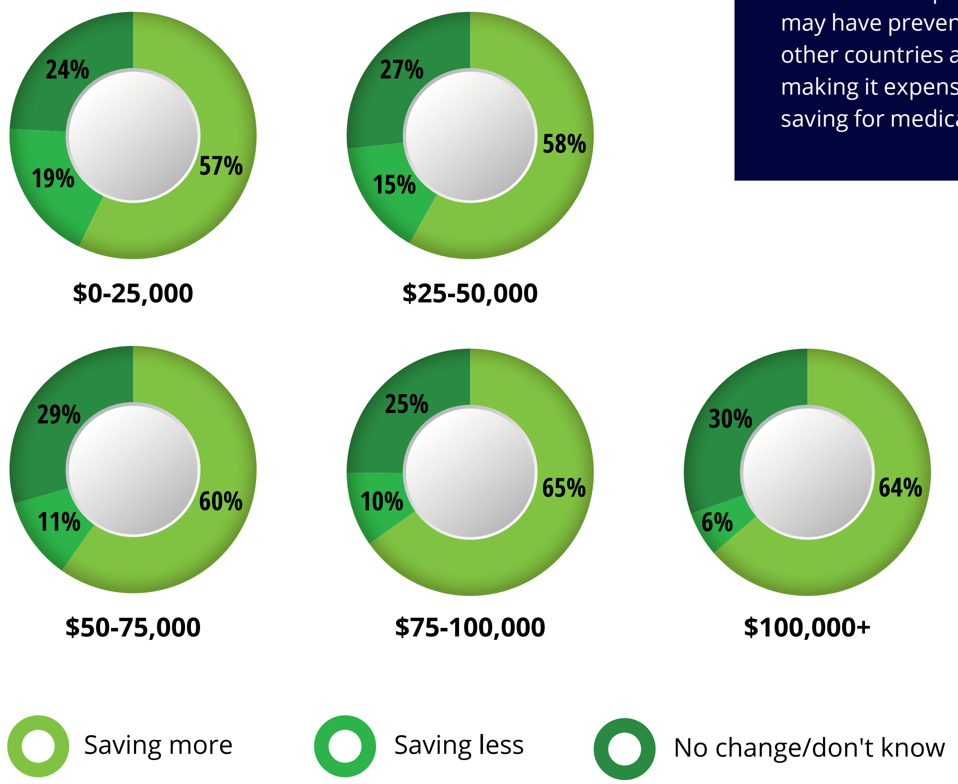
More than half (55%) of respondents indicate that they have begun to save more since the arrival of the pandemic. Preparing for large unexpected costs is, by a significant margin, the most common priority. Retirement and buying a house take second and third place, respectively (see Figure 4).

Figure 4. Changes in savings priorities since COVID-19



Most respondents say they're saving more, regardless of income. The percentage of those boosting their post-pandemic savings ranges from 57% of those earning less than US$25,000 a year to 64%-65% of those earning at least US$75,000 a year (see Figure 5).

Figure 5. Savers across all income brackets are saving more



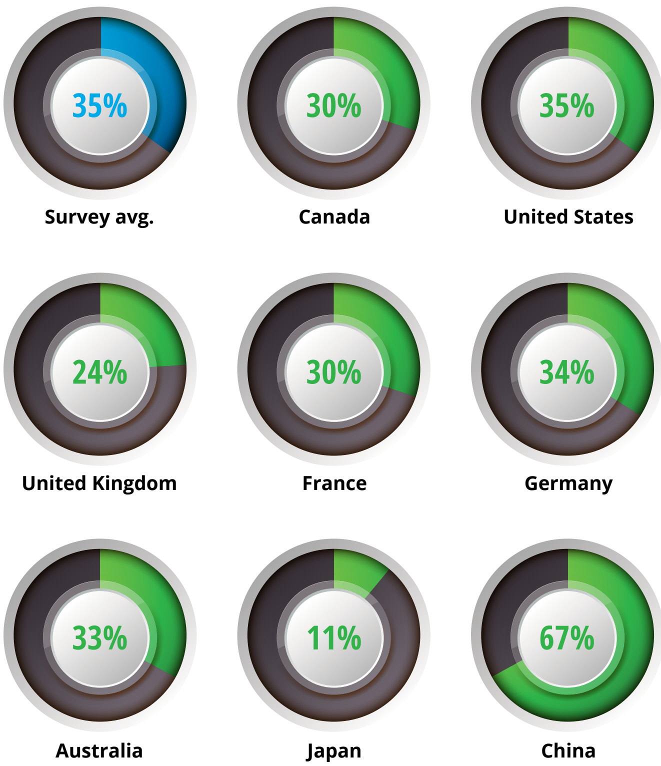
Regional spotlight

In China, respondents report that they're saving more than before, and for several goals, not only unexpected costs. Education is a particular focus. Restrictions on travel abroad may have prevented some Chinese students from studying in other countries and the domestic system is close to capacity, making it expensive. Chinese savers are also prioritizing saving for medical bills.

Two-thirds are worried about their retirement

Earlier, we observed that retirement is the second most common savings priority for respondents. Figure 6 shows why. Only 35% are confident that they have saved enough for their retirement, and that share would be even lower if Chinese respondents were omitted (see sidebar).

Figure 6. Retirement savings: Only a third have enough, with China the confident outlier [percentage confident]



Did the COVID-19 pandemic inspire respondents to save more for retirement? For 40%, the answer is yes. And 13%—approximately one-third of those who want to save more—feel they should save much more. At the other extreme, just 6% of respondents feel they need to save less for retirement. Only 2%, or one-third of these more confident individuals, say they intend to save much less (see Figure 7).

Regional spotlight

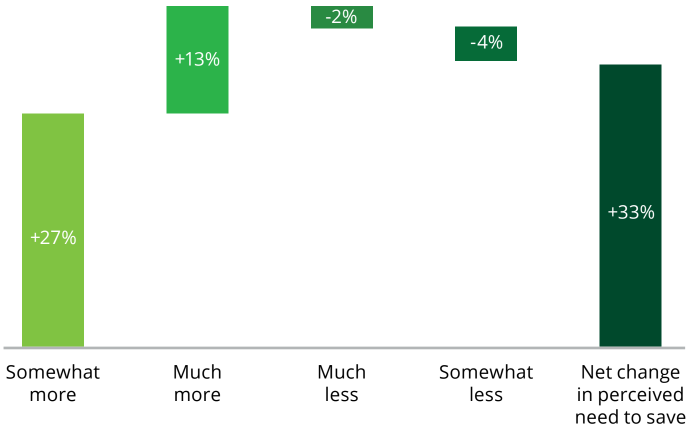
The response from Chinese survey participants is unique: 67% do feel confident about their retirement savings. Special factors apply, however. China has enjoyed nearly four decades of strong economic growth and, until recently, a booming real estate market. State employees benefit from a low retirement age and generous pension.

On the flip side, just 11% of respondents in Japan are confident that they have enough saved to fund a comfortable retirement. Japan's high (and rising) life expectancy is a factor behind this. By 2019, 60-year-olds were expected to live an average of 26 more years, the highest figure worldwide according to the World Health Organization.[1] Fifteen percent of Japanese respondents say that their lack of confidence reflects the long retirement they expect (just 9% across all the other countries we surveyed say the same.) Japan also has the highest labor force participation rate among countries surveyed: 86% for those 25 to 64 years old, and 26% for those over 65, according to the Organization for Economic Cooperation and Development.[2] This reflects both low unemployment and a perceived need to self-fund a long life.

But even respondents in countries with strong government-sponsored pensions, such as France or Germany, lack confidence in a comfortable retirement. Part of this could be linked to different interpretations of what "comfortable" means; all nations surveyed except China chose "I can't afford to" as the number-one reason for not feeling able to fund a comfortable retirement. This suggests that respondents may consider state support sufficient to cover the basics, but not to fund the standard of living they desire in retirement.

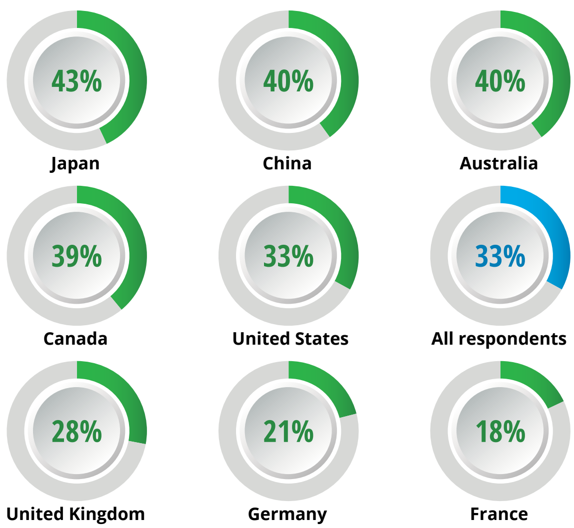
Another reason for low confidence? The belief that "it is too soon, and I am too young to know whether my retirement savings will be enough to fund a comfortable living when I retire." Arguably, this uncertainty is well-founded, even in countries that currently have good retirement provisions. For example, in 2019 French public sector workers struck against government proposals to amend pension rules.[3] With populations aging in many developed economies, governments may be forced into making policy changes that affect today's workers.

Figure 7. COVID-19 has greatly increased respondents' desire to save for retirement



Note: Excludes "Don't know" (6%) and "No change" (49%)

Net change in perceived need to save



Regional spotlight

There are some regional differences in people's saving for retirement, with the jump in desire to save for retirement being most evident in Asia and least evident in Europe.

Forty-three percent of Japanese respondents, and 40% of Chinese and Australian ones, say they wish to save more for retirement. These are closely followed by Canadians, at 39%.

In the United States, 33% feel the need to save more, which is the same as the global average.

Germany, with 21% intending to save more, and France, at 18%, show the least tendency to want to save more for retirement, though these increases, too, are substantial. The less anxious response of the French and Germans might reflect generous government support. Thirty percent of French respondents—versus 21% across all surveyed countries—point to payments from the government as their primary source of retirement income.

Taking stock of financial preparedness

The COVID-19 pandemic has shown people around the world that the unexpected can and does happen. And when it does, household finances are likely to suffer significantly even with government assistance available. Although the financial impacts of the pandemic have varied by country and income bracket, the desire to protect against sudden economic shock exists across the board.

The result is that much of the respondent group, whether they suffered financial harm or not, want to put more money aside. Short-term savings, home ownership, and the retirement nest egg are the top three priorities for savers today. In each case, after a period of exceptional and unexpected insecurity, savers seem to be looking for solidity, safety, and reassurance.

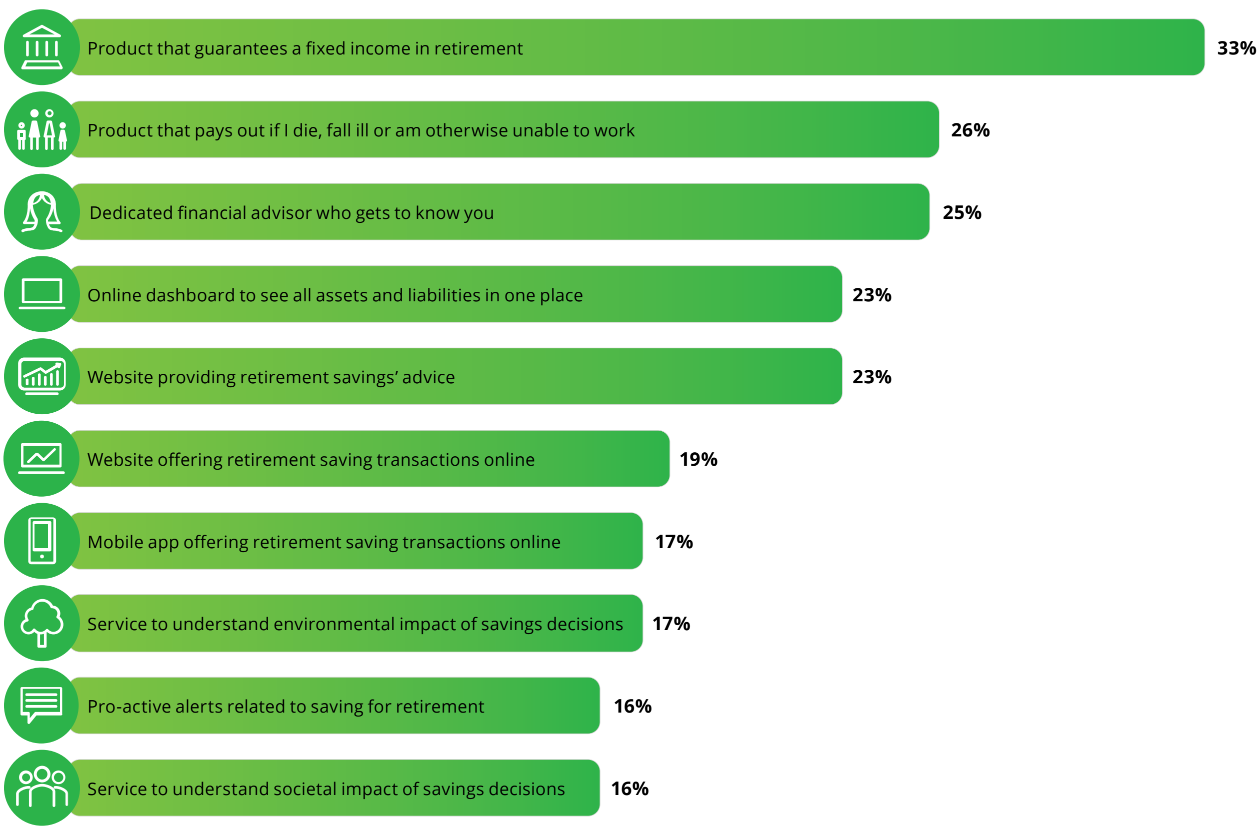
A desire for guarantees, advice, and transparency

In their bid to reestablish financial security, savers are looking to financial institutions for guarantees, advice, and transparency. A guaranteed income in retirement is the number-one product feature savers desire, ahead of digital solutions and environmental and societal concerns. Advice—human or digital—is also front of mind, with more respondents in search of financial guidance following COVID-19. Individuals are also looking for tools that give them greater visibility and control over their retirement savings. Here are the survey results behind each of these findings.

The most-wanted products are ones with guarantees

We showed survey participants 10 financial products and services, then asked which ones they would most likely use again. The top pick is a product that guarantees a fixed income in retirement, with 33% of respondents making it their first choice. Second on respondents' wish list was a product that pays out should they die, fall ill, or become unable to work (see Figure 8).

Figure 8. The financial products and services that savers want

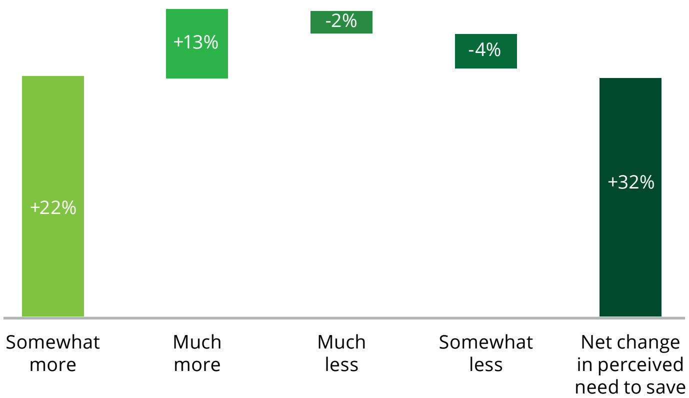


Savers seek advice on what to do

Following guarantees, savers want advice on how to manage their savings, either from a dedicated advisor or self-serve online guidance. Figure 8 shows these as the third and fifth most common number-one choices respectively.

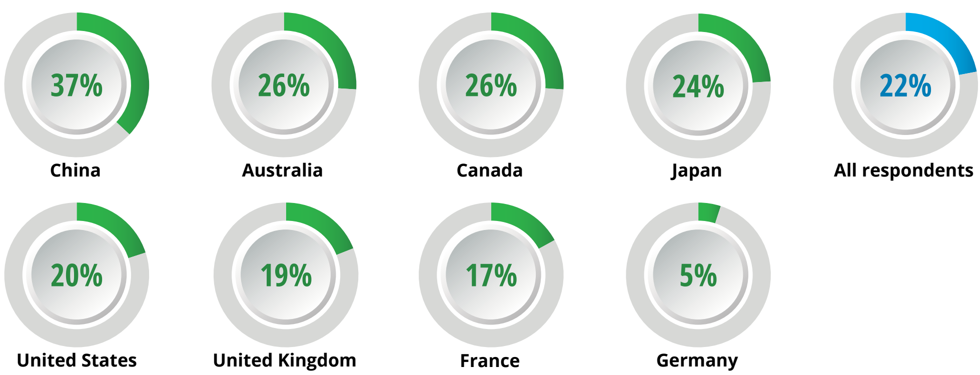
Breaking it down, 28% of respondents want more advice on their retirement savings while only 6% believe they can manage with less advice. This represents a 22% jump among savers who are seeking advice post-COVID-19 (see Figure 9).

Figure 9. Savers want more advice



Note: Excludes "Don't know" (6%) and "No change" (49%)

Net change in need for advice



Regional spotlight

Among the nations in our study, China stands out for its 37% net change in the need for advice. Chinese savers have traditionally focused on property for strong investment growth, so a slowdown in this market may have stimulated a desire to learn about other options. Europe is less eager for advice than other regions, with Germany a distinct laggard: There, the net change in the need for advice stands at a mere 5%.

Transparency features prominently among top service picks

Savers may value advice, but they're not prepared to hand over control. As Figure 8 shows, nearly one in four respondents say their most-wanted financial offering is an online dashboard that lets them see all assets and liabilities in one place. Roughly one in five say that a website offering retirement savings transactions is their first choice, and 17% say their first choice is a mobile app offering the same thing. For 16% of respondents, proactive alerts related to retirement savings tops the financial offering wish list.

The desire for transparency extends beyond financial activity. Seventeen percent of respondents say that what they want most is to understand the environmental implications of their investment decisions. Nearly as many (16%) say the same about the social implications.

Revisiting priorities for a new era

Security is clearly the major desire of our respondents. This is evident in what they want from their products and services. By far the lead desire in product design is something that provides a guaranteed income in retirement, providing savers with certainty about their financial future.

The uncertainty and confusion caused by the pandemic has also left respondents wanting help in making good financial choices. A guiding hand from their financial service providers could make the difference in achieving a comfortable retirement, particularly in a bumpy economy. At the same time, savers also want a clear line of sight into where they stand and the impact of their financial decisions on society and the environment.

Savers' future demands

But what of the future? Will COVID-19, like the 1918 influenza pandemic, usher in a Roaring Twenties? Some clues may be found in what survey respondents aim to do with their surplus cash (see Figure 10).

Half of respondents say a top priority for surplus cash is to hold it in an account that can be accessed immediately. This is consistent with savers' post-pandemic aim for protection against unexpected shocks. Retirement savings is another top priority, mentioned by 36% of respondents. A quarter of respondents say they would like to invest their surplus cash, while 16% say they would like to use it to buy a house (which can be another form of investment).

Consumer spending, however, is not entirely off the menu. Forty percent say they want to spend more on leisure and entertainment, while others (30%) say they want to spend on goods. Purchasing a car is a low priority, mentioned by only 13% of respondents. Overall, consumption is a lower priority than saving and investment.

Figure 10. Top three priorities for surplus cash once the pandemic is over

50%	Save in an account where the money can be accessed immediately if needed	40%	Spend on leisure and entertainment	36%	Save for retirement
30%	Spend on goods (e.g., new purchases, home improvements, etc.)	25%	Invest (e.g., in the stock market)	16%	Buy a house
13%	Buy a car	5%	Other	11%	Don't know

The upshot is that before the pandemic, individuals might have been expected to dedicate the bulk of their surplus cash to consumption. Now they have pivoted to saving and investment. This may signal a lasting shift in attitude and consequent behavior.

Navigating a sea change in saver attitudes and behaviors

According to our survey, the pandemic has created a universal feeling of financial insecurity. Those with lower incomes are feeling the financial squeeze the most. Many have been forced to draw down savings to cope with the partial or total loss of their income.

But financial insecurity has affected even those with higher incomes and savings that increased during the pandemic. More than half of respondents say they're saving more than they did before the pandemic. Savers would like to prioritize short-term protection, yet not give up on their longer-term savings goals, like retirement. This suggests that their overarching aim is to insulate themselves against future crises.

Respondents are looking to financial providers to help them regain a sense of financial security in three key ways: guarantees, advice, and transparency. Firstly, the top product attribute that they are looking for is one "that guarantees a fixed income in retirement." Second, they want advice to help them with their retirement savings. Finally, they're looking for greater transparency, be that through an online dashboard showing assets and liabilities, apps prompting them to save more for retirement, or the ability to make transactions using digital tools.

We believe these results signal a lasting shift in attitudes and behaviors. Individuals have realized that life can be unpredictable. Since COVID-19 struck, the biggest net increase in savings motivation is to deal with large, unexpected costs. Respondents want to build a buffer against the next crisis.

In addition to increasing the desire to save for the here-and-now, the financial shock of the pandemic accentuated a lack of confidence in current savings levels and the ability to retire. Looking to the future, two-fifths of respondents want to save more toward their retirement than they did before the pandemic. This is much greater than the proportion who feel less of a need to save, with a net increase of one-third feeling the need to save more.

The pandemic has upended so many aspects of our lives. How we feel about our personal finances is one of them. Our survey unveils the scale of the impacts on individuals' sense of financial security. At the same time, it also points to the opportunities that await financial services providers as they navigate their way through a long-term change in savers' attitudes and behaviors.

Survey methodology

Deloitte commissioned a survey of 8,000 consumers from eight countries: Australia, Canada, China, France, Germany, Japan, the United Kingdom and the United States. The survey took place in July and August of 2021. Respondents were screened to represent long-term savers. Ages range from 22 to 75 years old, with a mean age of 45, and a 50% split between men and women. Gross household incomes are nationally representative, with a mean of US$94,000. Finally, the study includes a mix of employment statuses: 64% full time, 16% part time, 8% self-employed, and 5% retired.

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Endnotes

1. "Life expectancy at age 60 (years)," The Global Health Observatory, World Health Organization.
2. "Labor force participation rate," Organization for Economic Cooperation and Development.
3. Benjamin Dodman, "Why France's 'unsustainable' pension system may well be sustainable," France 24, December 23, 2019.

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