Why Do Europeans Save? Micro-Evidence from the Household Finance and Consumption Survey

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One of the key variables in economics is saving, and what is important is not just the amount of saving households do but also why households save (i.e., the relative importance of the various motives for which households save). Nonetheless, although a voluminous amount of work has been done on the determinants of the amount of saving, relatively little work has been done on why households save. This paper attempts to fill this gap in the literature by analyzing the saving motives of European households using micro-data from the Household Finance and Consumption Survey (hereafter referred to as HFCS), which is conducted by the European Central Bank. Assessing the relative importance of the various motives for which households save will shed light on which model of household behavior applies in the real world.

Looking first at the descriptive statistics for the variables used in the econometric analysis, and if saving motives are ranked by the proportion of respondents saving for each motive, the precautionary motive is by far the top saving motive with 29.0% of respondents saving for this motive. The retirement motive ranks second, the travel/holiday motive ranks third, the inter vivos transfers motive ranks fourth, and the major purchases motive ranks fifth.

Turning to the estimation model that we use for our econometric analysis, the dependent variable we use is the natural logarithm of the wealth-to-income ratio, defined as the ratio of household net worth to annual household income.

The key explanatory variables we use are dummy variables for each of 11 saving motives. Since the dependent variable is in log form, the coefficient of the dummy variable for a given saving motive indicates the percentage amount by which the wealth-to-income ratio of a household saving for that motive exceeds the wealth-to-income ratio of an otherwise identical household not saving for that motive.

Finally, we include a number of variables relating to age, gender, and educational attainment as control variables.

The estimation results for the determinants of the wealth-to-income ratio show that the coefficients of the saving motive dummies pertaining to business, bequest, retirement, and inter vivos transfers are the only ones that are positive and statistically significant. Moreover, the coefficients of these four dummies are of considerable magnitude. The business motive dummy has the largest coefficient (0.435), which implies that, ceteris paribus, those saving to start a business have wealth-to-income ratios that are a full 43.5% higher than the wealth-to-income ratios of those who are not saving for this motive. This result is not surprising because starting a business typically requires a considerable investment. Moreover, the bequest motive dummy has the second largest coefficient

(0.358), which implies that, ceteris paribus, those saving to leave a bequest have wealth-to-income ratios that are 35.8% higher than the wealth-to-income ratios of those who are not saving for this motive. The corresponding figures for the retirement and inter vivos transfers motives (19.3% and 14.9%, respectively) are also quite large.

Finally, we present estimates of the share of household wealth for each saving motive in total household wealth, which is the most comprehensive measure of the importance of each saving motive. The results show that the most important saving motive is the retirement motive with a share of almost one-half (48.4%). The inter vivos transfers motive is second with a share of 29.3%, followed by the precautionary motive (22.0%) and the bequest motive (18.3%).

We also present a full set of results for the under-60 sample and the 60-or-older sample and show that the results are similar for both age groups, with the biggest difference being that the retirement motive is much more important for older households, as expected.

To summarize our main findings, we found that the precautionary motive is the most important saving motive of European households and that the retirement, inter vivos transfers, and travel/holiday motives are also important when the proportion of households saving for each motive is used as the criterion. However, we found that the business and bequest motives are the most important saving motives of European households and that the retirement and inter vivos transfers motives are also important when the extent to which each motive elevates the wealth-to-income ratio is used as the criterion. Finally, we found that the most important saving motive of European households is the retirement motive, followed by the inter vivos transfers, precautionary, and bequest motives, if the share of wealth for each motive in total wealth (the most comprehensive measure of the importance of each saving motive) is used as the criterion and that the retirement motive is especially important for older households, as expected.

Since the retirement and precautionary motives are primarily consistent with the selfish life-cycle model and since the bequest and inter vivos transfers motives are primarily consistent with the altruism model (unless, of course, the bequests and inter vivos transfers are motivated by strategic considerations), we are forced to conclude that both the selfish life-cycle model and the altruism model are applicable to some extent in Europe world and that both types of households coexist or that both motivations coexist within the same household in Europe.

Turning to the policy implications of our findings, our finding that the bequest and inter vivos transfers motives are so important suggests that wealth disparities are passed on from generation to generation via intergenerational transfers and that it might be desirable for governments to raise estate, gift, or wealth taxes to prevent this from occurring.

Secondly, our finding that the retirement motive is so important suggests that social safety nets for the elderly (such as public pensions, public health insurance, and public long-term care insurance) are inadequate, requiring households to save on their own in preparation for their life after retirement. This, in turn, suggests that it might be desirable for governments to beef up social safety nets for the elderly.