

UNIVERSITY OF KWAZULU NATAL

**Socio-economic Factors Affecting Households' Savings Rate in
South Africa**

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Abstract

High level of savings and investment increase the country's capital inflow and potential for growth. This makes the country look attractive to foreign investors, which is great for economic growth. Therefore, the importance of savings as a contribution to a country's economic growth cannot be over emphasised. Statistically, if the national savings rate falls to a low level, a sustained inflow of capital into the country turns into a net outflow of capital from the country. The growth potential and employment-creating capacity of the economy deteriorates badly. It is therefore not surprising that South African policy-makers and economic analysts have from time to time, expressed increasing concern about the low levels of domestic investment and savings ratios. The aim of this study was therefore to research socio economic factors contributing to the fall of the country's savings rate and attempt to come up with recommendations on how to mitigate these factors to improve households' savings level in South Africa. A response rate of 62 respondents (62%) was received from a sample size of 100 was drawn from a population of possible 94 050 targeted Old Mutual Personal Financial Advise clients, narrowed down to only KwaZulu Natal. Quantitative method used for data collection in an online or web based questionnaire.

Results from participants revealed that a good percentage of South Africans rather worry about debts than savings. This is due to South Africans being some of the most indebted people in the world. There is just too little at the end of the month to save. Results also revealed that most people in South Africa are not able to save because households have a higher dependency ratio than they should. Most South Africans use their children as substitutes for their retirement policy. This has huge negative implications on future savings by the present youth and end up being an endless cycle of non-saving South Africans. One of the main recommendations was therefore to reform the financial sector, a more stringent process before credit is granted in addition to the national credit act, to ensure appropriate granting and usage of credit. Credit application process should be stringent to ensure that households can reasonably afford the obligation.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

A country's economic growth is strongly dependant on its savings habits. High level of savings and investment increase the country's capital inflow and potential for growth. This makes the country look attractive to foreign investors, which is great for economic growth. This study investigates Socio-Economic Factors Affecting Households' Savings Rate in South Africa. The importance of savings of all population classes cannot be overly emphasised because of their pivotal role in the economy. The purpose of this study was to investigate the socio economic factors that contribute either positively or negatively to the households' ability to save. Industry analysts have voiced concerns and questions why households of developing countries such as South Africa performs so badly in terms of developing its human and social capital (National Planning Commision,2012). This research deals in-depth with this matter looking at these factors and how they can be mitigated.

This chapter provides the background of the study, the objectives as well as research questions. It further highlights the research methodology, the structure of the research in addition to its limitations.

1.2 Background of the Study

National savings is very crucial, as it is often regarded as instrumental in attaining high economic growth at a country level (Amusa, 2013). According to Investec (2014), the key role that savings plays in the country's sustained economic growth has not always been appreciated. To understand it's significance, one must first understand a country's economic growth objectives. Elevated economic growth, ranging between 5% and 5.5% of the Gross Domestic Product (the monetary value of all the finished goods and services produced within a country's borders in a specific time period) growth, has been a theme in SA's economic policy proposals for the last two decades, including the most recent

National Development Plan outlining SA's long-term socio-economic development roadmap to 2030.

Sub-Saharan Africa has the lowest savings rate in the developing world. While figures vary from country to country, the gross domestic savings (gross domestic savings are calculated as GDP less final consumption expenditure or total consumption) in the region averaged about 18% of gross domestic product (GDP) in 2005, compared with 26% in South Asia and nearly 43% in East Asia and Pacific countries, according to World Bank estimates (Statistics SA, 2015). While Investec (2014) accurately argues that economic research evidences that, the long run economic growth of the advanced and emerging economies is largely dependent on investment spending, which is determined by the savings rate.

In some developing countries, those rates are even on the decline. South Africa alone accounts for almost 40% of sub-Saharan Africa's total GDP. Yet the country's gross domestic savings rate declined from 26.7% in the early 1980s to 13% in 2006 [Also see the figure 1.1 below on gross domestic savings (%GDP):1960 -2014]. "This downward trend has been persistent for over two decades," (South African Savings Institute, 2015/39) commented in June of that year.

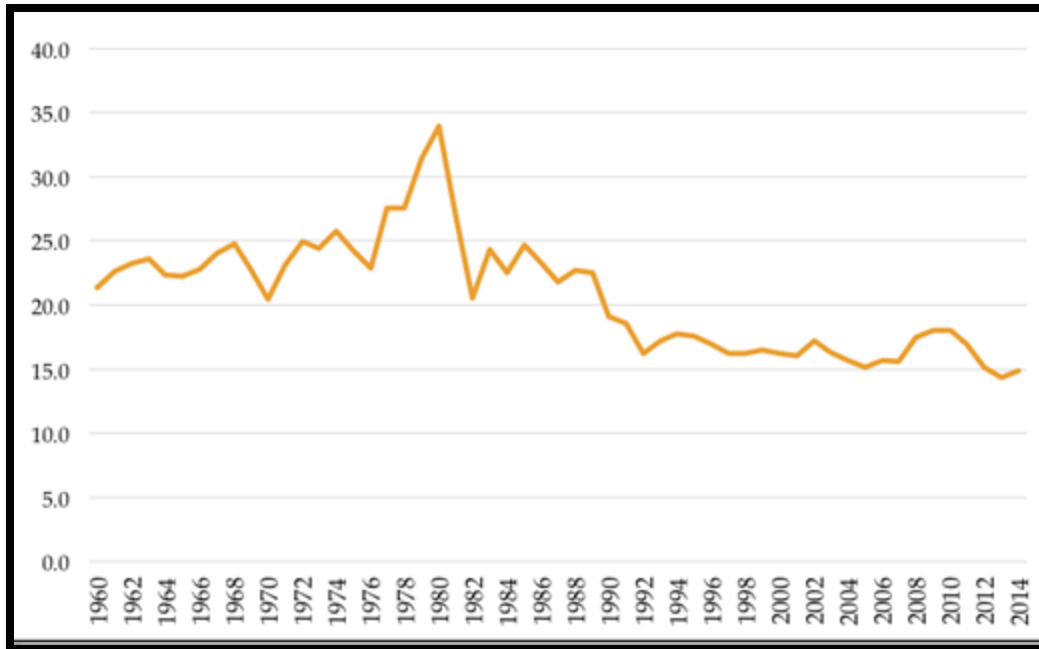


Figure 1.1 Gross domestic Savings by households, firms and government (% GDP) 1960-2014

Source: Thulani Madinginye (2015); data derived from South African Reserve Bank (2015)

According to Statistics SA (2015), statistics released by the Reserve Bank, South Africa has one of the worst saving rates in the world and it is getting worse. Financial Services Board (FSB), added that it's not just that South African's salaries are low in addition to the country's high cost of living; but South Africans are in a better position in comparison to countries like China where the lower income earners earn less than South Africans, nevertheless they manage to save over 50% of their GDP compared to South Africa's 15.4%, India; Brazil and Australia about 30%; 25% and 22.5% respectively (Erasmus, 2015).

Statistics SA (2015) continued to say that South Africans are borrowing more money than they earn or are saving. Household debt as a percentage of household income stand at approximately 80% (this includes loans, credit cards debt, home loans, overdrafts and accounts).

The South African Savings Institute (2015) also gave number of reasons for the low saving rate in SA. Some mentioned were low disposable income growth; low employment growth; a rising risk burden; inflationary environment; and lack of confidence in the future. According to Old Mutual (2017) the financial services sector stated that only 6% of SA retirees are financially independent at retirement. The rest are dependent on their families, friends, or the government. This is a growing concern that has led to the sandwich generation (those supporting ageing parents and their own children).

Though there is a number of studies done on the subject, they only touch on a number of limited elements and overlook factors such as race (i.e. the growing sandwich generation phenomenon mostly among the black South Africans), history and other socioeconomic factors, hence this study.

1.3 Problem Statement

Prinsloo (2000), says that if the national savings rate falls to a low level, a sustained inflow of capital into the country turns into a net outflow of capital from the country. The growth potential and employment-creating capacity of the economy deteriorates badly. It is therefore not surprising that increasing concern has, from time to time, been expressed by South African policy-makers and economic analysts about the low levels of domestic investment and savings ratios.

According to the study conducted by the Bureau of Marketing Research at the University of South Africa (2012), the total number of households in South Africa was estimated at just over 14 million in 2011. These households had a combined income of about R2 trillion in 2011. About 22.4% of total household income accrued to the emerging middle class, namely households with an annual income that ranges between R151 728-R363 930 per annum. The lowest income group (R0-R54 344 per annum) earned R196 billion in 2011, accounting for nearly 10% of total household income. The affluent group's total household income amounted to just over R200 billion. This represented just 10% of total household income in the country. The middle class formed 28.5% of the population versus 60.9% and 10.6% of the lower and upper classes respectively (Investec, 2014).

As can be seen in figure 1.2 below, the components of saving, namely household savings, firms' savings and government savings, it is apparent that firms are the only substantial contributors to the national savings, with government and households in negative territory or showing negligible contributions.

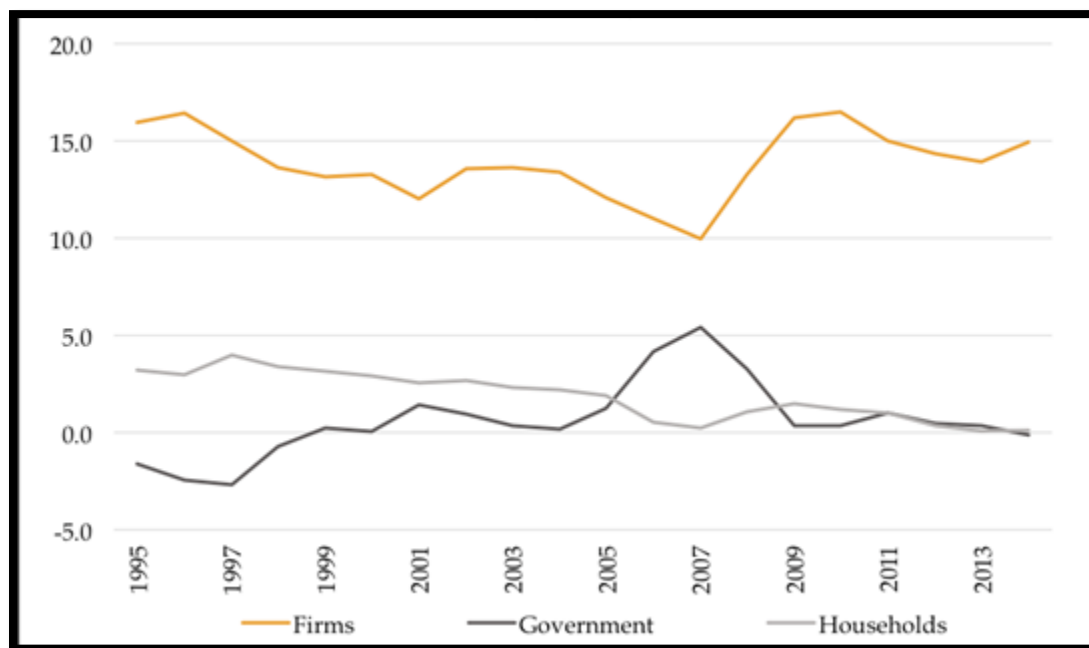


Figure 1.2 Gross domestic Savings by households, firms and government (% GDP) 1995-2013

Source: Adrian Saville, Citadel and GIBS (2015); data derived from South African Reserve Bank (2015)

Adding to above questions as to where the country is in terms of development?

Between 2008 and 2010, South Africa's economy shed over 800,000 jobs while real GDP grew at an annual average rate of 0.8%. Although the economy has absorbed more labour in 2011, the absolute number of people employed in 2011 was still well below 2008 levels. Statistics SA, (2012).

Ideally the National Treasury plan to increase level employment by decreasing unemployment rate from 25% to 14% in 2020 and to 6% by 2030. Also, increase the labour force participation rate from 54% to 65% by 2030 and 11 million additional jobs by 2030. Also highlighted are the low overall savings rate as a key contributor to South

Africa's reliance on volatile, foreign investment flow. Ideally, the country would like to have the high levels of savings and investment, and to attract foreign investment (National Planning Commission, 2012)

It has become apparent that savings is crucial for a nation to strive economically, and for an emerging economy like ours (South Africa), there are many factors affecting our progress in terms of savings, which this study is researching.

1.4 Objectives of Study

1. To identify some of the socio-economic factors faced by households in South Africa and their relations to the savings rate.
2. To determine whether these socio-economic factors affect the savings rate.
3. To identify the implications of these factors and make alternative recommendations

1.5 Research Questions

1. What socio-economic factors faced the households in South Africa?
2. How do these socio-economic factors affect the individual household savings rate?
3. How can these factors be mitigated to improve the savings?

1.6 Research significance

This study seeks to identify socio-economic factors faced by South African households and how these affect their ability to save, which is crucial for economic growth. Every country strives for a financial sector that is attractive to foreign investors, mostly because its own community sees the important of savings and investments which in turn is great for economic growth.

The outcome and recommendations made in this study will contribute in increasing the South Africans' financial knowledge as well as the mitigation or management of the socio-economic factors. It also serves as an opportunity for an organisation like Old Mutual to further understand their clientele as newly formulated survey questionnaire was used.

Other researchers will be able use my survey questionnaire in their studies or formulate their based on it.

The researcher will personally benefit significantly from the findings in a job as a financial planner to better understand the daily challenges of clients and be able to provide proper financial needs analysis and recommendations.

Lastly, the expected outcome of this research will contribute to the existing body of work in the subject and will help policy makers to better adopt policies and enable the financial sector to use the findings to encourage a culture of savings and to help foster financial literacy in South Africa.

1.7 Research design and methodology

Methodology applied is quantitative research method, which puts emphases on the objectives measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques (Creswell, 2014).

Questionnaires were used for data collection, with intent to generalise from sample to population. (Fowler, 2008).

Research designs chosen was Nonexperimental designs because it includes survey research, which provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Studies for this research are conducted using survey questionnaires (Fowler, 2008).

1.8 Delimitations of Research

This research is specifically targeted to households in the Old Mutual Personal Financial Advice(PFA) Niche market in KwaZulu Natal; therefore, Might not be fully representative of the whole South African households. In addition, although I am only seeking to find socio-economic factors affecting their savings rate, there may be political, psychological, technological and social factors, however these will require a complete different study on their own. This research is also not exhaustive, what it seeks to do is

stimulate research and serve as a background study for similar research in South Africa.

1.9 Limitations of Research

This study was limited by budget and time constraints that did not permit the researcher to cover the scope that is required amount of study of this nature, however with above-mentioned techniques the researcher was able to get enough data to cover an MBA study. Another limitation is that the sample is not totally representative of the total view of the South African population, however, the collection of data from other sources allowed that enough information be obtained and analysed properly.

1.10 Organisation of the study

1.10.1 Introduction

Chapter one introduces the topic of this study. It further outlines the background of study, problem statement, study objectives and questions, significance the study, research method and design, as well as delimitation and limitations of the study.

1.10.2 Literature review

Chapter two reviews available literature relating to the study. It gives definition to key terms, looks at available literature on the socio-economic factors and their relations to savings as well as other factors affecting households' savings rate in South Africa.

1.10.3 Research methodology

Chapter three outlines the research methodology that was applied in conducting the research. The discussion includes research approaches, applied method and design, data sources and data collection techniques. The sample size, pilot study, reliability and validity of study as well as data analysis and ethical considerations were also discussed.

1.10.4 Presentation of results

Chapter four is a presentation of collected data analysis. The discussion includes full details of the overview of the survey including the sample size and the response rate,

data analysis and interpretation of data as well as the discussion of the results with reference to available literature and in relation to the study objectives.

1.10.5 Recommendations and conclusions

Chapter five is where conclusions and recommendations are presented. Recommendations for further research are also discussed in this chapter.

1.11 Summary

High level of savings and investment increase the country's capital inflow and potential for growth. This makes the country look attractive to foreign investors, which is great for economic growth. Therefore, the importance of savings as a contribution to a country's economic growth cannot be over emphasised.

This chapter outlined above as the overview of the whole study after introducing the topic. The background and researched problem were identified. The investigated phenomenon and intended outcome explained, while describing the issue the research is trying to address and highlighting the purpose statement.

Further, research objectives and questions were discussed. Lastly, delimitations and limitations of the study were highlighted as well as the summary. The next chapter deals with literature review from previous conducted studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Financial institutions in South Africa as in many other countries are recognised to be the primary source of credit to households. Greater access to credit makes it easier for households to spend. This easy access to credit encourages consumers to purchase immediately rather than in the future.

The financial sector in South Africa seems to be in contrast with itself with banks encouraging debts while insurance companies are encouraging savings. However, one must acknowledge that there are many factors contributing to that savings rate in South Africa. This added hereto, limited empirical studies conducted in respect of the subject matter.

This chapter gives definitions of key terms, identifies and discuss the socioeconomic factors and their relation to saving in South Africa as well as other factors contributing to the low savings rate and how these can be mitigated.

2.2 Definition of Savings

According to Prinsloo, (2000) savings is retained Income resulting from the postponement of consumption. It is a common practice in economics to categorise savings at a national level into two sub-categories, the public savings and private savings (Mankiw, 2001; Gedela, 2012 and Kudaisi, 2013). Mankiw (2001) also mentions that public savings are mainly associated with the government, while private savings are linked to the private sector (individuals or corporate) of the economy. Du Plessis, 2008 points out that though the government and the corporate sector are often major role players in national savings, at least in terms of amount of money, households remain not only the largest contributors of savings at a national level, but also a significant beneficiary of these saving.

Savings is also defined according to Businessdictionary.com, 2016(online), as the portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.

“Putting money into savings accounts, policies and investments. It also includes holding back on spending and using that money to pay off debt faster, in particular putting extra into your home loan if you have one.” Says Old Mutual(2017).

Darley, (2011) summaries gross national saving as a combination of savings levels across the government, corporate and household sectors and therefore contributes largely to the country’s savings as a whole.

2.3 Type of savings

South African Reserve Bank defines savings by the household sector as that part of current income, after the payment of direct taxes, which is not spent as part of household current consumption. In addition, Prinsloo (2000) says personal saving includes regular and recurring employer and employee contributions to pension and insurance funds and the interest earned on those funds.

Table 2.1 some of the popular savings plans

Some popular savings plans by households include:
Unit Trusts: A flexible way to grow one’s savings if one can afford to take a medium to long-term view. There is a wide range of fund choices, each with own risk profiles and return levels.
Endowment Policies: This is a long-term commitment – with best results coming through after five years or longer and can potentially provide certain tax advantages to you. One should endeavour to keep the investment active until maturity to maximize returns.
Retirement Annuity Fund (RA): This is a great way to build up retirement savings to live off when one retires. There are a number of tax concessions accessible when investing in a Retirement Annuity (RA) fund. The proceeds of an RA are normally available only from the age of 55 years.

Source: Old Mutual, 2017

Economists say projected sum of the gross operating profits of companies minus net dividend, interest, rent and royalties payable by company to other sectors of the economy and to the rest of the world. From this then, less direct tax on income and wealth and other net transfer payments made to the general government, the household sector and the rest of the world; is defined as corporate saving. While Government savings is the total of, the retained profits of public enterprises and retained taxes and other current receipts not disbursed on current outlays by government (Prinsloo, 2000: 4).

Savings as a whole is the flows in the current account and excludes any capital gains and losses that might occur during the mention period, as well as the retained income of independent business enterprises and the retained income of non-profit institutions serving households (Simlet, Keeton and Botha, 2011).

For the purpose of this study, the focus is on savings by the household sector, or personal saving, which is usually divided into two categories, namely contractual and discretionary saving. Contractual saving involves individuals committing themselves to a series of payments such as premiums on insurance policies, contributions to pension funds and the capital amount payable on households' mortgage loans. Discretionary saving, by contrast, refers to types of saving where households are not bound by any fixed commitments (Fritz-Krockow, 2007:36).

Contractual saving normally stems from discretionary saving to the extent that contractual obligations are made on a voluntary basis. An exception is where the employee is bound by a contract of service to contribute to a pension fund (Simlet, Keeton, and Botha, 2011).

The national-accounts estimates of personal saving do not distinguish between contractual and discretionary saving, but tentative estimates of contractual saving are often prepared from the consolidated income statements of pension funds and long-term insurer (Amusa, 2013). Although differentiation between contractual and discretionary saving is not important from a macroeconomic point of view, increases in contractual-type saving accompanied by a corresponding increase in the financial liabilities of the household sector will leave total personal saving unchanged. It will only cause a rearrangement in the saving portfolio of the household sector (Kudaisi, 2013).

2.4 Importance of Savings

Saving provides the means for capital formation, which, in turn, is essential for economic development (Prinsloo, 2000). Investment is widely accepted as a goal of economic policy because it allows manufacturers to take advantage of technological progress, increases the productivity of workers and consequently real wages and thereby allows for the permanent improvement of the standard of living of the population. Similarly, Simlet, Keeton, and Botha (2011) argues that low savings acts as a barrier on economic growth and development and further put pressure on the country's current account. As the low savings are resolute to the households' sector.

“Domestic saving acts as a shield against the financial turbulence, which may arise through dis-investment decisions of the international investment community” Du Plessis, (2008:8) suggested. This is after reiterating that the significant rand-devaluation in 2008 was mostly attributed the fact that South African current account deficit (at 8.1% of GDP at the time) had been financed by liquid investments easily withdrawn over a short period. Such deficit had resulted from capital investment spending and import consumerism in the absence of matching domestic savings and export income.

Some of the benefits embedded on savings include hedging against unforeseen circumstances, building of assets, investments opportunities, provision for retirements, purchase or improve dwellings, debt settlements and acquisition of social services (Choedup, 2013). Furthermore, household savings improve the quality of life of a household, as accumulated savings lead to the ability to acquire luxury goods and, ultimately, investment assets, according to Du Plessis (2008).

On the same thread, the research conducted by the Commission of Growth and Development in the 2008, found that “there is no case of a sustained, high investment route not backed up by high domestic savings” (The World Bank, 2008: 102).

The World Bank (2008: 103) stipulated that the overall investment rate equal to 25% of GDP or higher was required to achieve and sustain high growth. Upon closer

examination, South Africa's domestic savings rates have weakened increasingly over the last 50 years from an average of 24% of GDP between 1960 and 1990 to 16.5% from 1991 to 2015. According to the World Bank, gross domestic savings (percentage of GDP) in South Africa was at 19.7% in 2017.

Meanwhile, Investec, (2014) stipulated that higher savings, mobilising greater investment and increased economic growth create a virtuous cycle benefiting the country as well as the average person on the street.

Sithebe (2014) conclude by stating that savings is important as it increases economic growth opportunities and provide stability at country level against economic shocks and unpredictable foreign direct investment flows. In addition, at household level, savings is important for retirement security, making home purchases as well as coping with emergencies.

2.5 Socio Economic Factors and their relation to savings

Du Plessis (2008:3) mentioned that previous studies done on the subject brought about the recognition of the importance of household savings as a contributor to a country's domestic savings; and that the low South African household saving rate is of significant concern. Therefore, an understanding of the socio economic factors driving savings behaviour is a critical component in designing policies aimed at promoting savings.

According to Naureen (2009), socio-economic factors are lifestyle components and measurements of both financial viability and social standing. They directly influence social privilege and levels of financial independence. Lifestyle measurements such as inflation, personal debt, unemployment, income, other environment factors as well as education can affect human behaviors and circumstances. As lifestyle measurements, these are believed to have a direct correlation with how a person spends or save their money.

2.5.1 Inflation

According to Gilleppe (2011), inflation occurs when there is a constant increase in the general price level over a given period. If the annual inflation rate is 6 per cent, for example, this means that the average price level increased by 6 per cent during that specific period.

Comparable to many developing markets, South Africa is not immune to major inflationary hikes. In South Africa, the Consumer Price Index (CPI) commonly measures inflation. CPI compares the price of a typical basket of consumer goods and services with the price of the same basket the year before. For instance, in 2015 the consumer price index (CPI) went from a low of 3.9% in February to 5% in July. In September of the same year, the rate stood at 4.6%. Inflation rate peaked at 20% in the late 1980s and the average rate was 9.33% between 1968 and 2015. Relatively speaking, inflation is now largely under control according to oxfordbusinessgroup.com (2015).

However, Old Mutual (2017) described inflation as 'South African enemy number one', as it eats into any attempts for the general public to save money – which affects everything from the spending power of the money you have, to the real value of the money you put away for retirement or emergencies, basically savings of any form.

“It is also incredibly difficult to track, with even government’s target inflation rates not painting the whole picture for everyone in the country. Despite the fact that SA’s inflation measurement and calculation is among the best in the world, it is an average of all the consumers in the country,” (Old Mutual, 2017).

Figure 2.1 below shows how much prices have changed in the past 30 years.

We can look back in time to see how much some South African favourites cost compared with today's prices.

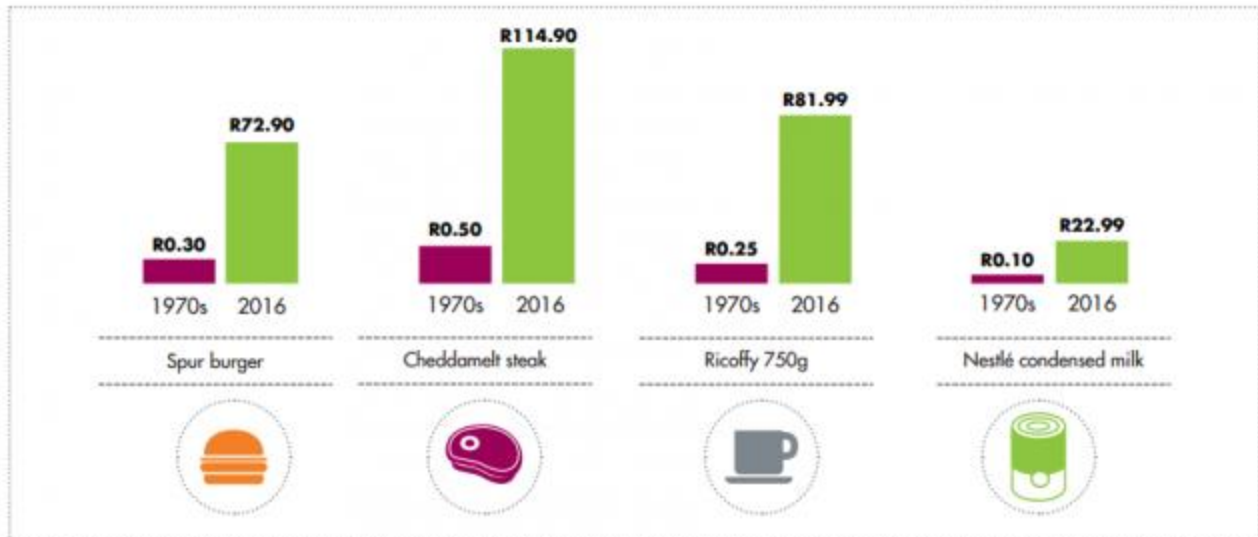


Figure 2.1 Prices of a burger, steak, coffee and condensed milk comparisons from 1970-2016

Source: Businesstech.co.za, data derived from Old mutual (2017).

Figure 2.2 takes into account historic inflation, i.e. 10 years ago from 2016, South Africans would have paid almost half of what it costs today for a R1,000 basket of consumer goods.

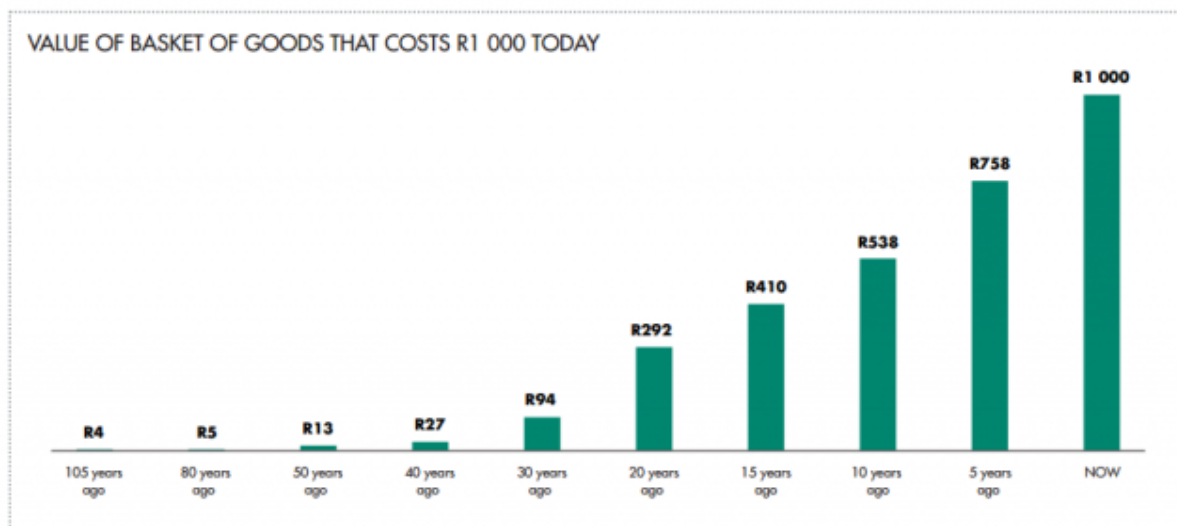


Figure 2.2 Prices of a food basket from 105 years ago from to 2016

Source: Businessstech.co.za, data derived from Old mutual (2017).

In figure 2.2 above, what costed R4, 105years ago, would now cost R1000. It is even more shocking to see that in the last 5 years (from 2011 – 2016) the basket price increased by R242 (R1000 - R758).

“Inflation affects the real purchasing power and it is almost clear that if your income does not at least grow in line with inflation, you will either experience a decline in your standard of living or you will run out of money” Old Mutual (2017).

2.5.2 Personal Debt

Prinsloo (2000:22) states that an inverse relationship between debt and savings exists. An increase in the credit commitments of households will consequently cause a decline in the saving of households, unless matched by similar or higher increases in assets accumulation.

Manyama (2007) revealed that there have been strong campaigns in South Africa, which encourage buying on credit, which indirectly contribute to the dissaving within the household sector.

Darley (2011) quoted Prinsloo, (2000:21) saying that ‘debt is the realisation of the growing level of dissaving occurring in South African households’. Darley continue to emphasise that the financial sector’s financial liberalisation unlocked the financial markets to all individuals and given access to credit to households in South Africa across all income spectrum, which lead to an increase in consumer personal debt.

South Africans are some of the most indebted people in the world. According to the World Bank (2015), 86% of South African population took out a loan in 2013/14, compared to the global figure of 40%. Of those who are credit-active in the country, around half are in arrears. The level of personal debt has been growing in recent years and poses a challenge for policymakers (oxfordbusiness.com, 2015).



Figure 2.3 South African Household Debts-to-GDP

Source: SARB Quarterly Bulletin, May 2018

Depicted in Figure 2.3 Households Debt in South Africa decreased to 33.50 percent of GDP in the third quarter of 2017 from 33.80 percent of GDP in the second quarter of 2017. Households Debt to GDP in South Africa averaged 38.86 percent of GDP from 2008 until 2017, reaching an all-time high of 43.90 percent of GDP in the first quarter of 2008 and a record low of 33.50 percent of GDP in the third quarter of 2017

Meanwhile in a consumer-driven economy – household final consumption is over 60% of GDP in South Africa – can only grow so fast if people cannot spend. Those who have borrowed have very little free cash flow, as much of their income is committed to paying down their loans. Other factors – such as the weak rand and inflation – also weigh on the country’s consumers. Consumer confidence has been falling since 2010, and in June 2015 it hit a 14-year low (Statistics SA, 2015).

2.5.3 Education

Bonal (2007) and Tarabini (2010) suggests that investing more on higher-level education is logical because of the effect of globalisation, which has increased the level of competition in the labour market resulting into lower skilled labour being easier to replace.

Schiller (2008) further states that lower level education results into lower skilled individuals who are less likely to find jobs and if they do, they are normally more vulnerable to being retrenched during economic downturns, therefore having a higher-level educational qualification increases access to a larger pool of jobs. However, factors such as quality, access and cost of education impacts on the education system negatively usually resulting into lower skilled individuals.

Thesnaar (2014) agrees by adding that education is not just the means through which knowledge and skills are developed, but also enables one to get a job and perform with a fair degree of knowledge and competence. It is regarded as the determining factor for welfare of people and level of economic contribution and prosperity.

Statistically, higher paying jobs tend to require advanced or specialized education. Education, however, also determines social status and allows people to trust those who are educated in their fields of employment (Statistics SA, 2015).

According Budlender, Leibbrandt and Woolard (2015), the importance of tertiary education, as a predictor of income has increased considerably whereas individuals with low or incomplete secondary (high school) education were worse off in 2008, compared to 1993. A further indication of a decrease in demand for workers with low level of education.

Table 2.2: 1993 Conditional Probabilities from Ordered Probit

Quintile	1	2	3	4	5....
No Edu	14.51	34.65	34.36	14.95	1.53
Primary	10.39	30.79	36.84	19.48	2.5
Inc Sec	6.22	24.63	38.14	26.39	4.62

Matric	1.86	12.91	33.21	39.23	12.79
Tertiary	1.11	9.47	29.43	42.48	17.51

Source: PSLSD 1993 data. Own calculations.

Table 2.3: 2008 Conditional Probabilities from Ordered Probit

Quintile	1	2	3	4	5....
No Edu	21.46	32.53	29.38	14.41	2.22
Primary	20.59	32.20	29.82	15.01	2.38
Inc Sec	14.84	29.10	32.37	19.75	3.93
Matric	5.27	18.04	32.27	32.57	11.86
Tertiary	0.52	4.20	16.36	38.34	40.59

Source: NIDS 2008 data. Own calculations.

Comparing table 2.1 and table 2.2 above we see that there was a huge “probability migration” out of quantities 1 to 4 into 5 between 1993 and 2008 for this group. In fact, the probability of tertiary-headed household being the richest quintile jumped from 17.51% to 40.59% in 15 years.

Cronje (2009) highlighted that India’s emphasis on tertiary education has transformed the manufacturing sector into a skills-intensive industry. India’s Human Development Index (HDI) increased from 0.513 at the beginning of the 1990s to 0.571 at the end of the 1990s and further to 0.618 by 2005-06. The education focus has resulted in an abundance of skilled labour at low cost, which enables the delivery of a better value-to-cost ratio than in other comparable countries like South Africa.

2.5.4 Unemployment

Statistics South Africa (2014) defines the unemployed as those who are economically active population who did not work during the seven days prior to the interview. Statistics

SA continues to describe unemployed as those who want to work and are available to start work within a week of interview, and have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

One of the most worrying factors in the South African economy is unemployment. The rate had dropped considerably, from above 30% in 1991 to 21.5% in 2008. However, since the global financial crisis, it has risen again. In 2017 unemployment rate of 27.7% in the first quarter was up 1.2 percentage points from the fourth quarter of 2016. (Quarterly Labour Force Survey, Statistics SA, 2017)

The report by Statistics SA (2017) further stated that Unemployment was high, at 33.1%, among people who had less than a matric, 5.4 percentage points higher than the national average. Unemployment among graduates remained at 7.3%. Of the people who did not have work, 9.3-million wanted work in the first quarter; while those who wanted work but did not look for work increased by 391,000 people.

Gcwabaza (2013) mentioned that one of the most important contributors to the dire savings culture in South Africa is the persistence of high rate of unemployment, which means people may not be earning enough income to save or might have to use up their savings during lengthy spells out of work. Old Mutual (2017) reiterated that High unemployment has a negative impact on economic growth and productivity that cannot be ignored. There is a risk of loss of talent and skills, since a great amount of university graduates are unable to find a job and put their knowledge and capabilities into producing innovation and contributing to economic growth.

The Old Mutual (2017) continued to say that “having a large share of the young workforce unemployed, not only leads to reduced productivity and gross domestic product (GDP), it also increases the economic costs for the country, since there is a need for more money to be paid out on social grants and less money coming in from taxes”.

2.5.5 Income

According to Prinsloo (2000), there is still a high dependency ratio among lower-income earners in South Africa. Meaning that we have a large amount of households who solely

rely on the income of a single breadwinner. The situation is intensified by rising unemployment and the extended family relationships among a large segment of South African society. These characteristics inevitably reduce households' capacity to save.

Old Mutual (2017) agreed with this by stating that households (especially lower income households) continued to look to family and friends for financial assistance to get them out of a tight corner. Yet the pressure is felt everywhere of late and whereas before, paying back loans to family could happen "as and when", conditions now demand that these too are paid back as quickly as possible.

The South African Reserve Bank (2012) in its economic report mentioned that in many situations in South Africa, people are not able to save because households have a higher dependency ratio (the number of people who depend on the state for assistance) than they should. Most South Africans use their children as substitutes for their retirement policy. They expect their children to finance their needs during retirement and this burden on children has huge negative implications on future savings by the present youth and end up being an endless cycle of non-saving South Africans.

According to Cronje (2009), a high dependency ratio has a negative effect on private savings rate. In comparison with India where a large pool of the younger population has gradually entered the labour market, especially in the production sectors. This has not only shown a larger national income, but has also decreased the dependency ratio. Cronje also made comparison to China, which has young and old age dependency ratios that are currently low by international standards. This is largely caused by the one child policy of the 1970s, which in turn increased the proportion of working adults to young dependants. With both countries' savings levels significantly higher than that of South Africa.

Hess (2010) distinguished between age dependency trends, stating that a higher percentage youth (those 35 years and younger in South African context) dependency ratio of the total population would necessitate higher consumption expenditures in the form of education, health care, food and clothing. Whereas, a high proportion of elderly dependents would tend to decrease savings because of increased healthcare expenses in mature years.

Income trends also indicate that South Africans are not living within their means; since the income is never sufficient to sustain their lifestyles, there is a tendency to 'borrow to spend'. According to Manyama (2007), the life cycle hypothesis indicated in previous studies, showed that the aggregate household saving rate would be higher in a country with a predominantly young population because the young typically work and save, whereas the elderly typically retire and dis-save.

Sithebe (2014) argues that trends indicated that there is an inverse relationship between income and savings. Income growth expectations suggests that as South Africa's GDP increases, household consumption increases due to optimism, which in turn drops savings rate. The emphases were that higher GDP, which implies higher economic growth, led to households and creditors respectively being more confident to take on and issue more debt.

Du Plessis (2008) agrees in conclusion on income as one of the determinants of savings, stated that based on the findings by Carroll and Weil (1994), savings theory based on predictions of standard forward-looking models of consumption and saving, future income expectations can contribute considerable on the savings rate. The notion was that higher future income expectations lead to higher immediate consummation as households increase their spending to keep up with rising income profile therefore lower savings. Meanwhile, lower future income expectations lower spending and increase savings as a precaution.

The number of people who are supporting their children as well as their parents, otherwise known as a 'Sandwich Generation' is growing. Which continues to put a financial pressure on these individuals who, according to Old Mutual (2017) reported that 28% confessed to being overdue with debt repayments, compared with 15% for the 'Non-Sandwiched'.

Old Mutual (2017) continues to say that increased demands on income in the form of escalating expenses remains the primary barrier to saving, even more so than in 2016 – it is clear that inflationary pressures hit harder. Those citing debt management (having more debt to service) as a reason for saving less have dropped back to pre-2016 levels, as has deteriorating income.

2.6 Other external factors

According to Oxfordbusinessgroup.com (2015), South Africa benefits from several comparative advantages, such as a robust financial services industry and a strong private sector. It is Africa's second-biggest economy, its most globally integrated in terms of capital and trade flows, and it has sound fundamentals. Indeed, while South Africa's growth rate has not fully recovered, it is still in positive territory and doing better than many other similar markets.

Despite its strengths, local issues have also weighed on growth. Labour disputes (2.6.2), power supply problems, high levels of household debt (2.5.2), inflation (2.5.1), and low business and consumer confidence are all exercising downward pressure on the economy.

Horioka (1990) claims: "demographic factors may also interact with corporate behaviour to increase saving." A demographic effect may exist when longer life expectancy can change life-cycle behaviour, thus leading to a longer working life and possible higher saving for retirement

Faruqee and Husain (1998) adds that demographic changes in 1960s, in Asia for instance, the working-age population (58%) consisted of individuals aged from 15 to 64 years. This ratio increased from 58 percent to 70 percent in the early 1980s, and continued until the next decade. This is also a factor as a number of people that can contribute in a country's economy keep increasing.

According to Oxfordbusinessgroup.com (2015), concerns about the country's future direction were raised, as it appears to be gradually moving from an open and liberal society to a more nationalistic one. In 2012, South Africa started to terminate bilateral investment treaties with several European countries. Like several other developing nations, it felt that the treaties gave investors too much power, and that they potentially conflicted with the country's laws and constitution (Statistics South Africa, 2015).

2.6.1 Government Goals

According to the South African Saving Institute (2010), the government is concerned about the low savings ratio (18% of GDP) and lack of a savings culture and is considering introducing compulsory savings to improve the situation. The SANLAM Retirement Benchmarks (2010) suggest that only 1 in 10 people will retire financially independent and noted that the working class of nowadays wants instant gratification and is not willing to wait and save (accumulate funds required) to fulfil their *wants* and needs. Those who retire with less income tend to rely more on social grants to sustain their livelihoods when they retire. According to Le Roux (2012) with many governments around the world needing to focus heavily on reducing their budget shortfalls and containing their outstanding debt levels, an early casualty of fiscal tightening has been social security cutbacks such as pension benefits and lifting the retirement age.

Manyama (2007) mentioned that the role of government in encouraging saving is to allocating its own spending appropriately, while providing a suitable policy and political environment for private sector investment. The governor during the budget presentation argued that employees normally cash in their pensions, pay a significant portion of this in tax and spend the rest, which results in the burden of adequate pension provision left to the government.

Fisher-French (2007) added that the South African government suggested a forced savings proposal in an attempt to help create a savings culture in the country. This included in the National Development Plan realised in 2011. The forced savings comes in a form of pension reform, which require mandatory contributions by all people employed. The scheme provides pension payments as well as death and disability cover.

In 2011, the government released the 2030 National Development Plan (NDP). Reduction of inequality, job creation and the promotion of inclusive growth are central to the NDP. The government's economic development strategy has been articulated through initiatives laid out by the National Planning Commission, which was set up in 2010. Among its economic targets are minimum annual GDP growth of 5%, creating 5 million jobs by

2020 and 11 million jobs by 2030, and bringing unemployment down to 6%. Socio-economic goals by 2030 include reducing the poverty rate from around 40% to zero, improving the Gini coefficient (a measure of inequality of a distribution) from 0.7 to 0.6, doubling per capita incomes and improving electricity access from 70% to 95%. (Statistics SA, 2014).

As part of the National Plan Development, Retirement Reform Process was introduced, as a way of encouraging employees to save and provide sufficiently for retirement to ensure that they retire comfortably and have income that lasts for their lives in retirement. On 1 March 2016, the tax deductions for retirement savings increased from 15% to 27.5% - which means you can now save more for retirement and get back more from South Africa Revenue Services (Old Mutual, 2017).

The government has also played its part in enabling alternative savings and investment products. Commonly known to South Africans are Stokvels. According to the National Association of Stokvels of SA (NASASA.co.za), stokvels are “voluntary groups of natural persons [members] bound by a common cause who pool financial resources for the benefit of the group” (National Treasure, 2017:18).

According to Old Mutual, (2017) 42% of households are dependent on stokvels as a savings tool. Stokvels are commonly known South African investment society consisting of members’ pooled contributions. It is mostly an informal savings vehicle. Typically, stokvels consist of between 5 and 20 members who contribute an agreed periodic amount to the central pot. Each member gets to receive a lump sum of combined contributions, at least once during the stokvel's lifetime. In 2016 about 11.5 million people participated in South Africa's 80 0000 stokvels, saving about R49bn a year.

Cronje (2009: 101) gestured that government can address savings by encouraging individuals to enrol in financial education programs as a means to improving households’ educational awareness of the benefits and necessities of adequate savings contributions. SASI (2010) concurs and adds that the role of saving should be encouraged from an early age.

Darley (2011) also makes mention that SASI has had a huge progress in promoting savings measures through their “teach children to save” and “varsity financial literacy” campaigns. These campaigns aim to promote the concept of personal saving from a young age. SASI established this education drive in 2008 under the slogan: “ligotswa lisase manzi”, which is a Zulu idiom meaning, “if you want to bend a stick, you must do so while it is still moist.” They have also created savings workbooks for schools to introduce and educate school kids. SASI’s aim through these campaigns is to promote increased personal saving, greater financial literacy and as well as to grow and develop a culture of saving.

2.6.2 Industrial Action

According to the Department of Labour (2014: VIII), South Africa experienced at least 88 strikes in 2014. Although such action is not exceptional in the country, these lasted far longer than normal and the demands were greater. It is estimated that these strikes in 2014 cost the economy R6.1bn (\$527m).

These national strikes had an enormous effect on the economy because most of them were due to remuneration increment demands. The one-month long strike in the manufacturing industry by Metalworkers saw steel and engineering companies cutting production and virtually bringing the country’s economy down. Motor manufacturers had to shut down production in order to manage disruptions due to the strike action (Solomons, 2014).

In the same year, South Africa saw the longest mining strike that lasted five months. Mining sector is fundamental to the strength of South Africa’s economy and thus, with a strike of this magnitude, many consumers across industries had to endure the most of the situation. Leaving very little money for consumption, let alone savings (Independent Online, 2014).

In addition, Singh (2014) said that Industries such as petroleum, basic chemicals and iron ore were also directly affected. Sluggish economic growth resulted in the unchanged repo rate for two successive meetings at 5, 5% by the Reserve Bank. Inflation was recorded

higher than bank's 6% upper target. Organisations reported a loss of R9, 2-billion rand (\$850-million) revenues.

2.6.3 Interest Rate

Interest rate changes indicate the terms of the trade-off between current and future consumption, and are identified as a potential cause of changes in consumer behaviour, which affects savings (Prinsloo, 2000).

Prinsloo (2000) continues to say that in a number of developing and especially in low-income developing countries; researchers have been unable to detect a significant effect that changes in real interest rates have on domestic saving. Empirical evidence in developing countries suggests that in the majority of cases the outcome of consumption growth after changes in real interest rates came close to zero, which implies a negligible response in aggregate saving to the real rate of interest.

Ogaki, Ostry and Reinhart (1996) states that in the international monetary fund research on the interest-sensitivity of saving in the 1990s' findings showed that for the poorest countries, a one-percentage point increase in real interest rates should elicit an increase of only about one-tenth of a percentage point increase in the saving rate. Whereas, in the middle-income countries (Including South Africa) the rise in the saving rate in response to a one percentage point increase in the real rate of interest should amount to about half a percentage point. However, for the wealthiest countries the increase in the saving rate relative to a similar change in the real interest rates was about two-thirds of a percentage point.

Manyama (2007) argued that an environment of low interest rates normally fuels consumer spending, and has a negative implication on savings behaviour, as the returns are minimal. Lower interest rates make the cost of credit cheaper and more affordable, which influences the demand for credit, thus creating an environment conducive to spending as opposed to saving.

Du Plessis (2008) states that in summary, a decrease in interest rates makes savings less attractive for households and stimulates consumption. In addition, that this leads to an increased value of housing, equity and bonds, which an increase in asset values accelerates consumer spending.

2.6.4 Taxation

Manyama (2007:29) mentioned how the South African Government was heavily criticized for not creating a favourable savings environment, through policy interventions, to encourage a savings culture within the household and corporate sectors. With the focus mainly on tax incentives whereby economists argued that government is skewing the taxes against top earners from whom the bulk of personal savings comes.

Cronje (2009:100) found that the government-imposed tax on retirement benefits has reduced households' confidence in retirement plans and further contributed to a decline in national savings levels.

Nedgroup Investments (2017) highlighted that the 2017 South African Budget announced a maximum marginal tax rate of 45% – the highest for South Africans since the 1999–2000 tax year. Although the Treasury pointed out that it had not increased the inclusion rate for capital gains tax, the effect of increasing the marginal rate of tax still resulted in an increase in the effective rate of capital gains tax from a maximum of 16.4% to 18% for individuals and from 32.8% to 36% for trusts. The Treasury also increased the dividend withholding tax rate from 15% to 20%. Whether the effect is immediate or not, this has a real impact on South African's tax burdens.

However, Nedgroup (2017) reiterated that in the light of ever-increasing taxes and bracket creep, it is crucial for investors to make use of the two main tax-efficient investment vehicles, retirement funds and tax-free savings. The annual contribution limit for tax-free savings is still R33 000 per tax year and R500 000 over your lifetime. Any contribution above these limits will be taxed at 40%. In addition, investors can invest 27.5% of their total annual income (salary plus other income) in retirement products every tax year and receive tax relief from SARS on those contributions.

2.6.5 The Financial Sector

Momoniati, Havemann and Masoga (2017) define The Financial Sector as an “intermediary” that mobilises savings; allocates credit; provides payment services and facilitates trade. In South African context, access to finance and financial services are key to achieve economic and social transformation.

Momoniati et al. (2017) continue to describe South Africa’s financial sector as large and sophisticated, consisting of banking and non-banks (insurers, pension funds, unit trusts, cash injection savings). Financial sector assets make up three times GDP. The ratio exceeds most emerging market economies

Structure of the financial sector

	Number of companies		Assets of sector
Banks	55	10 locally controlled 6 foreign controlled 36 Foreign bank reps 3 mutual	R4.87 trillion*
Long-term Insurers (life)	82		R 2.58 trillion*
Short-term Insurers (non-life)	99		R 0.12 trillion*
Pension Funds	5150 (incl. GEPF and official funds)		R 4.04 trillion*
Collective Investment Schemes	1284		R1.953 trillion**
Asset Managers	130		Manage on behalf of sector


 national treasury
* End 2016 ** April 2014

Figure 2.4: Assets structure of the Financial Sector

Source: National Treasury. 14 March 2017

As depicted in figure 2.4, Banking assets comprise over 100% of GDP while Non-banks account for about two thirds of financial assets, also unusually large for an emerging market. Pension funds’ assets of 110% of GDP, almost equal to banking. Long-term

insurers (mostly life) hold most of insurance assets of 64% of GDP, with only a small share for short-term insurers (nonlife). Unit trusts or cash injection savings, the fastest growing segment in the financial sector, hold assets of nearly 50% of GDP.

Lusardi (2008) states that the financial sector facilitates planning. Studies done in South Africa by Peter (2014) revealed that this sector impacts all South African citizens as it facilitates daily economic transactions enabling people to save and preserve wealth for future goals. Luthuli (2015) agreed that the financial services industry is the core pillar of the real economy.

The Financial Planning Standards Board (FPSB) (2009) defines financial planning as a process of developing plans for consumers to manage their financial affairs to achieve financial goals. Lusardi (2008) said planning is an important determinant of household wealth as depicted in the study done in the United States of America, those that planned turned to be wealthier as Individuals are increasingly taking charge of their own financial security after retirement. The findings showed that even a little planning generates large wealth differences, as compared to those who did not think about retirement at all. Therefore the financial sector has a huge role to play in helping individuals plan for retirement or providing a planning aid may help foster wealth accumulation.

Singh (2013) states that due to the complexity of financial systems, its instruments, its broad product offerings and its terminology, the need for effective financial education is critical, as this would equip households to understand the complexities of the system, thus supporting the taking of wiser long-term and short-term financial decisions.

Financial literacy (knowledge and understanding of financial concepts, the outcome being the ability to make informed, confident and effective decisions regarding money) is identified as one of the key tools used to aid financial planning (Singh, 2013). This is done through financial education, which refers to various methods used to increase an individual's financial knowledge. Some of the examples include a retirement seminar in the workplace or within the community or an information website, as well as education in

a school's curriculum. The purpose is to improve financial capability of individuals to make correct financial choices and decisions (Gcwabaza, 2013).

The financial services industry employs financial advisors to give financial advice to clients when making decisions relating to financial planning and making provision for retirement. A financial adviser or planner is expected to command expert knowledge of the financial sector and how it operates and is thus best suited to offer a fair and proper professional advice to guide the client in making decisions relating to investments, saving and retirement matters as stipulated in Financial Advisory and Intermediaries Services (FAIS) Act, Act 37 of 2004.

Gcwabaza (2013) stated that financial institutions are often accused of communicating less or deliberately withholding critical information necessary for clients to make sound and informed retirement investment decisions. He also puts emphasis on the importance of acquiring certain levels of skills and knowledge by clients, which would help them to understand and interpret financial information available for use as a basis for making their financial planning decisions.

2.6.5.1 The issues of credit vs savings

Prinsloo (2000) states that the liberalisation of financial markets during the 1980s', practically "created countless fresh lending opportunities for the financial sector" and states that "the changes also stimulated financial institutions' appetite for household lending". Prinsloo views that this has led to a rapid rise in unsettled credit and the concurrently high level of household debt, resulting in a lower rate of household saving.

Du Plessis (2008) indicated that previous studies blamed financial liberalisation and South Africa's sophisticated financial system for having a negative impact on saving, by encouraging borrowing through easily obtained credit. Researchers associated the declining savings ratio in part to the availability of credit and the individuals' willingness to incur debt. Du Plessis continues to say that the liberal financial markets provides wider range of investment opportunities, but that does not necessarily lead to more saving, as

opportunities to save are overshadowed by even greater opportunities to borrow. Finding showed that the more highly developed a country's retail financial services, the less that country saves.

Darley (2011) agrees with this and cited in South African Reserve Bank (2006) having identified negative levels of household saving for the first time in 2006 due to key factors such as extensive credit allowance and excessive spending. Darley continue to highlight other recent studies that suggested that the role that financial liberalisation have on the average South African household and how the access to credit has created an indebted society through consumerism and an attempt to keep up with the Joneses and Kunene's.

In comparison to China, Cronje (2009) states that China's financial sector is under-developed. In a certain sense, this keeps consumers' credit constrained, a factor that largely contributes to higher savings rates. Thus, instead of being able to borrow against future income, Chinese households have to save to purchase items such as houses and cars and other durables normally purchased on credit. In China, consumer loans make up only 13% of the total outstanding debt in the banking sector.

2.7 Summary

Statistics clearly indicate that South Africa has one of the worst saving rates in the world and it is getting worse. South African policy-makers and economic analysts have from time to time, expressed increasing concern about the low levels of domestic investment and savings ratios.

This chapter reviewed the definition and types of savings as well as its importance as a contributing factor to the country's economic growth. Further looked at the socio-economic factors and their relationship to the level of savings. Highlighted in particular, inflation; personal debt; education; unemployment and household income. Reviewed other external factors i.e. government goals; industrial action; interest rate; taxation and the financial sector's role in household savings.

Based on the review, it is clear that separately economic factor has a subsequent effect on household savings; however, the effect on savings is felt greatest as a result of a combination of the factors.

The question remains: How can these factors be mitigated to improve the savings rate in South Africa. The next chapter presents the methodology applied in conducting this research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter before dealt with reviewing existing literature on the subject of this research and the evidence presented proposes that separately socio-economic factor have a subsequent effect on household savings; however, the greatest effect on savings might be as a results of a combination of the factors.

This chapter discusses method used in conducting the research. Research methodology is the process of collecting information and data for the purpose of decision-making. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information (Businessdictionary.com, 2016).

This chapter outlines different methods of conducting research as well as the research method used in this study. The discussion includes the different methods, proposed method, data sources, data collection techniques, sampling techniques, as well as the population size and sample size.

3.2 Research Approaches (Methods)

There are three approaches of conducting research namely (1) qualitative, (2) quantitative, and (3) mixed methods. Research study is normally either qualitative, which involves experimental studies or qualitative, which involves case studies. If it involves both methods then it is mixed (Creswell, 2014).

3.2.1 Qualitative Research

This approach is ideal when collecting information on the meanings that people attach to their experiences and on the ways, they express themselves; suited to exploring feelings, opinions and values of people and groups (Burnett, 2009).

It seeks to answer questions that stress how social experiences are created and given meaning. Qualitative research are considered by many social and behavioral scientists

to be as much a perspective on how to approach investigating a research problem, as it is a method (Creswell, 2014).

3.2.1.1 Strengths of Using Qualitative Methods

The main focus of qualitative research is to understand and explore situations, feelings, perceptions, attitudes, values, beliefs and experiences. Examples of qualitative designs include ethnography, narrative research, phenomenology, grounded theory (Burnett, 2009).

Another advantage of using qualitative methods is that they generate rich, detailed data that leave the contributors' viewpoints uncompromised and give a number of contexts for understanding the phenomenon under study. In this way, qualitative research can be used to intensely probe phenomena or to conduct cross-case comparisons and analysis of individuals or groups (Maxwell, 2012).

3.2.2 Quantitative Research

Quantitative methods highlight unbiased measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. Quantitative research focuses on gathering numerical data and generalizing it across groups of people to explain a particular phenomenon (Businessdictionary.com, 2016).

The goal in conducting quantitative research study maybe to determine the relationship between one thing (an independent variable) and another (dependent or outcome variable) within a population. Like in qualitative research, those who engage in this form of enquiry have assumptions about challenging theories deductively, building in protections against bias, controlling for alternatives, and generalise and replicate the findings (Creswell, 2014)

3.2.2.1 Strengths of Using Quantitative Methods

This method tries to identify and separate precise variables contained within the study framework, seek connection, associations and interconnection, and attempt to control the

environment in which the data is collected to avoid the risk of variables, other than the one being studied, accounting for the connections identified (Morgan, 2013).

3.2.3 Mixed Methods Research

Mixed methods research encompasses the intentional gathering of both quantitative and qualitative data and the combination of the strengths of each to answer research questions. The main assumption of this form of enquiry is that a combination of qualitative and quantitative methods delivers a more comprehensive understanding of a researched problem rather than either approach alone (Creswell, 2014).

Mixed method is usually used when a researcher wants to triangulate (if qualitative or quantitative on its own is inadequate); when a researcher wants to integrate a variety of theoretical perspectives or when a researcher want to enhance the conclusions of a quantitative study (Burnett, 2009).

Mixed research method allows for gathering or examination of both qualitative and quantitative data in a single study as data are collected simultaneously or successively and are later integrated (Burnett, 2009).

3.3 Proposed Methodology

For this research, Quantitative Research Method was used, which puts emphases on the objectives measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. This research method provides a quantitative description of trends, attitudes, or opinions of a population by studying a sample of that population, which was perfect for intended participants' i.e. Old Mutual potential client in the Black Middle Income (BMI) (Creswell, 2014). It uses questionnaires or structured interviews for data collection, with intent to generalise from sample to population (Fowler, 2008).

3.3.1 Rational for choosing the quantitative methodology

According to Creswell (2014), quantitative research method is a means of testing objectives philosophies by examining the relationship among variables. Qualitative methodology was chosen because this study aimed to test a relationship between economic factors and the level of savings in South Africa. Variables measured so that data is analysed using statistical procedures.

Quantitative data is gathered through survey research that are easily convertible to online format, which make targeted audience easy to reach. Data is analysed using statistical process and conclusion that may or may not support a researcher's hypothesis are drawn (O'Leary, 2010)

3.4 Research Designs

The researcher does not only select qualitative, quantitative, or mixed methods research to conduct, but must also decide on the type of study within these three choices (Creswell, 2014)

Research designs are types of inquires that provide specific direction for procedures within qualitative, quantitative and mixed methods approach (Denzin & Lincoln, 2011).

3.4.1 Qualitative Designs

Under Qualitative designs, we find five traditional styles of research namely: narrative, Phenomenology, Grounded theory, Ethnographies, and Case study (Creswell, 2014).

3.4.1.1 Narrative Research

Narrative research has as its basis, the assumption that narratives provide an important means by which human beings understand and make sense of their lives and actions. Researcher studies the lives of individuals and asks one or more individuals to provide stories about their lives (Burnett, 2009).

The researcher into a narrative chronology then often retells this information. Therefore, it is important for the narrative analyst to have an awareness of language, its meaning and use in describing experience, as is the use of social context and how people draw on cultural resources in telling their stories (Riessman, 2008).

3.4.1.2 Phenomenological Research

Approach to qualitative research, which it aims to offer insights into how a given person in a given context makes sense of a given phenomenon. Usually these phenomena relate to experiences of some personal significance -such as a major life event, or the development of an important relationship. They typically involve conducting interviews (Creswell, 2014).

3.4.1.3 Grounded Research

Grounded theory is a design of inquiry from sociology in which the research derives a general, abstract theory of a process, action, or interaction grounded in the views of participants. This process involves using multiple stages of data collection and the refinement and interrelationship of categories of information (Creswell, 2014)

3.4.1.4 Ethnography Research

Ethnography is a theory of inquiry coming from anthropology and sociology in which the researcher studies the shared patterns of behaviours, language, and actions of an intact cultural group in a natural setting over a prolonged period. Data collection often involving observations and interviews (Burnett, 2009).

3.4.1.5 Case Studies Research

Yin (2014) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not evident.

Case studies are especially found in studies of evaluation, where a researcher develops an in-depth analysis of a case, often a programme, event, activity, process, or one or more individuals (Creswell, 2014).

3.4.2 Quantitative Designs

Quantitative designs consist of either Experimental Research, which can be true experiments (random assignment), or quasi-experiments (nonrandomised assignment) that seeks to determine if a specific treatment influences an outcome. The researcher

measures this by providing a specific treatment to one group and withholding it from another and then determining how both groups scored on an outcome (Creswell, 2014).

Alternatively, Nonexperimental designs, which includes Survey Research that provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Studies for this research are conducted using survey questionnaires or structured interview questions (Fowler, 2008).

3.5 Employed Design

For this particular research, Nonexperimental designs was chosen as it includes Survey Research, which gives a researcher a right to produce 'real' knowledge. This design allowed the researcher to explore the population (build an understanding of a particular population's knowledge, attitude, and practices on a particular topic or issue) through larger scale, survey based research (O'Leary, 2010).

3.6 Data Sources

Data is collected using journals, books and other electronic sources on the subject, as well as questionnaires to individuals within the identified target market for the subject matter.

3.7 Data collection techniques

According to Fowler (2009), quantitative research uses survey questionnaires and structured interview questions intended to help researchers understand people, and the social and cultural environments within which they live.

A **questionnaire** is a written list of questions, the answers to which are recorded by respondents. Thus, respondents read the questions, interpret what is expected and then write down the answers. A questionnaire can be directed in a number of ways. One's selection of a precise method depends on the ease in assessing your respondent population and your impressions about how they would prefer to participate in your study (Kumar, 2014).

Table 3.1 Ways to administer a questionnaire

The mailed questionnaire – The most common approach to collecting information is to send the questionnaire to prospective respondents by mail. Understandably, this approach presumes that the research has access to their addresses. Typically, it is a good idea to send a prepaid, self-addressed envelope with the questionnaire as this might increase the response rate. A covering letter must accompany a mailed questionnaire. One of the key issues with this method is the low response rate. In the case of a tremendously low response rate, the findings have very limited applicability to the population studied.

Collective administration – One of the greatest ways of administering a questionnaire is to obtain a captive audience such as students in a classroom, people attending a function, participants in a programme or people assembled in one place. This ensures a very high response rate as you will find few people refuse to participate in your study. In addition, as you have personal contact with the study population, you can explain the purpose, relevance and importance of the study and can clarify any questions that respondents may have. It is considered the quickest way of collecting data, ensures a very high response rate and saves you money on postage.

Administration in a public place – Sometimes you can administer a questionnaire in a public place such as a Shopping Centre, Health Centre, Hospital, School or even a Bar. Of course, this depends upon the type of study population you are looking for and where it is likely to be found. Usually the purpose of the study is explained to potential respondents as they approach and their participation in the study is requested. Apart from being slightly more time consuming, this method has all the advantages of administering a questionnaire collectively.

Source: Adopted from Kumar, (2014:179)

Online Questionnaire. Communication technology is advancing; hence, the use of online questionnaire to collect information has become a norm. It is developed the same way as normal survey with the main difference being that instead of personally delivering, collectively distributing or individually mailing, you post it on website or provide a link in

your email for potential respondents to access it and respond. Collected data is then analysed using appropriate program (Kumar, 2014).

A questionnaire was used to collect data as it was the most suitable for this type of research and can be monitored with ease to ensure that a huge number of respondents is reached. It also ensured that responses are collected timeously. I have chosen the online questionnaire for my research since my target audience are Old Mutual target markets within the Personal Financial Advice (PFA) Division, which have access to emails and use it as a method of communication on a daily basis. Access to the Old Mutual target market database was granted through the issue of gatekeeper.

Table 3.2 Structure of Questionnaire

Objective No	Objective	Question No
	Demographics	1-3
1	To identify some of the socio-economic factors faced by households in South Africa and their relationship to the savings rate	4-8
2	To determine whether these socio-economic factors affect the savings rate	4-8
3	To identify the implications of these factors and make recommendations	9-11

3.8 Sampling techniques

The sampling technique used in this research is random sampling, in which each individual in the population has a chance of being selected; a representative sample from a population provides the ability to generalise to a population (Fowler, 2009). For instance, the total number of the population in South Africa as of 2015 Census is 54 million, the population eligible for employment is 10 million, and of that only 74% is working, realistically only 66% are working, and the middle class (which the PFA division is targeting) is made of 28.5% of the working population (Grobler, 2015).

According to Old Mutual (2017), PFA in KwaZulu Natal is approximately targeting 5% of these population (approximately 94 050 people) and therefore since less than 100 000 population, a sample size of 383 with a 95% confidence and 5% margin of error. The time constrain and geographical limited the sample to 100 for the purpose of this study using random sampling.

Simple random sampling is the cleanest and the most candid probability sampling strategy. It is also the most popular method for choosing a sample among population for a wide range of purposes. In simple random sampling, each member of population is equally likely to be selected as part of the sample (Dudovskiy, 2018). It has been stated “the logic behind simple random sampling is that it removes bias from the selection procedure and should result in representative samples” (Gravetter and Forzano, 2011).

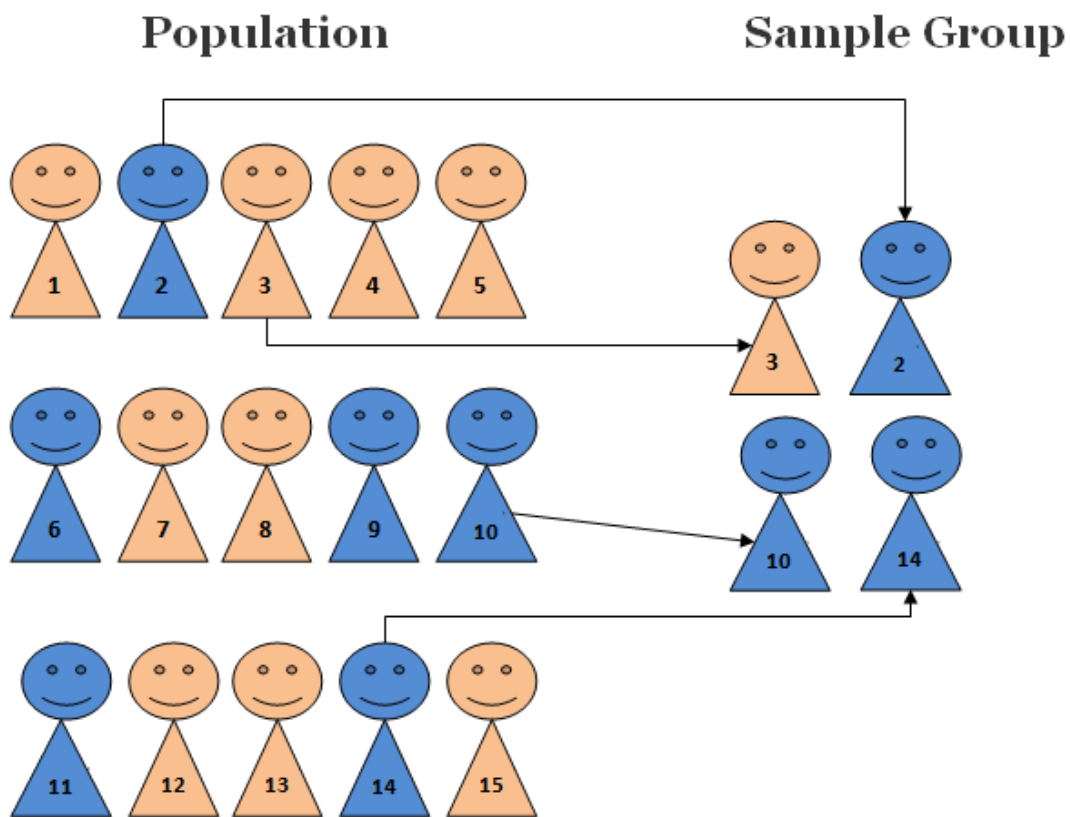


Figure 3.1 Simple random Sampling

Source: Dudovskiy, 2018.

Figure 3.1 above shows that in a population of 15 numbers or individuals we randomly selected numbers 2, 3, 10 and 14. In this approach, the research chooses a random start on a list and selects every X numbered people on the list. The X number based on the fraction determined by a population (e.g. 4 out of every 15 people).

According to Saunders, Lewis and Thornhill (2012) “Ideally, the sample size of 383 from a population of 100 000 is required in order to be able to apply simple random sampling in an appropriate manner”.

Table 3.3 Advantages and Disadvantages of Random Sampling

Advantages of Simple Random Sampling	Disadvantages of Simple Random Sampling
<ol style="list-style-type: none"> 1. If applied appropriately, simple random sampling is associated with the minimum amount of sampling bias compared to other sampling methods. 2. Given the large sample frame is available, the ease of forming the sample group i.e. selecting samples is one of the main advantages of simple random sampling. 3. Research findings resulting from the application of simple random sampling can be generalized due to representativeness of this sampling technique and a little relevance of bias. 	<ol style="list-style-type: none"> 1. It is important to note that application of random sampling method requires a list of all potential respondents (sampling frame) to be available beforehand and this can be costly and time-consuming for large studies. 2. The necessity to have a large sample size can be a major disadvantage in practical levels 3. This sampling method is not suitable for studies that involve face-to-face interviews covering a large geographical area due to cost and time considerations

Source: Adopted from Dudovskiy, 2018.

3.9 Pilot Study

Sample of 30 people were selected for the pilot study, of which 50% respondents completed the questionnaire. The purpose of the pilot study was the appropriateness of

the questions and to determine the average time it takes the respondents to complete the questionnaire.

Pilot studies are crucial as they assist in identifying inadequacies and rectifying them therefore eliminating biasness and ensuring simplicity of questions to respondents (Sekaran & Roger, 2013).

The researcher had to do away with open-ended questions after the feedback since those questions presented a few challenges in analysis as well as had to improve on some questions to make them simple and related to the study objectives.

3.10 Reliability and validity of study

According to Creswell (2014) Validity in quantitative research is whether one can draw eloquent and beneficial interpretations from scores on the instruments used. Conventionally three forms of validity are content (does it measure intended content); concurrent (do results correlate with other results) and construct validity (do items measure hypothetical concepts).

While reliability concerned with internal consistency, i.e. whether results collected, measured, or generated are the same under repeated trials (O'Leary, 2010).

The feedback received on the pilot survey enhanced both the reliability and validity of this study. Corrections were done on all questions that presented ambiguity based on feedback as well as the responses that were easily analysed.

3.11 Data Analysis

Data is collected using instruments such as survey questionnaires, interviews and observations. This is then organised, sorted and interpreted to uncover and discover findings. This is known as data analysis, and it done using a computer software programme (O'Leary, 2010). Fowler (2009) supports this by suggesting that data collected will only make sense once sorted and analysed to useful information for decision makers.

An online professional software management company called QuestionPro assisted data collection and capturing. In addition, for data analysis, I used sophisticated and user friendly SPSS. Data is presented in form of graphs and descriptive statistics.

3.12 Ethical considerations

As a researcher you have an unequivocal and essential obligation towards the 'researched'. The dignity and welfare of the respondents, both mentally and physically, is critical. Understanding how this responsibility is best conveyed at legal, moral and ethical levels is essential for any potential researcher (O'Leary, 2010).

Table 3.4 Legal, Moral and Ethical Obligations

<p>Legal obligations – Researchers are not above the law. The law of society stands even in the world of research. If it is illegal for the general public, the same law applies to the researcher. The common legal dilemma is faced by researcher who wish to either study illegal activities or come across illegal activities in the course of their investigation i.e. investigating corporal punishment in private schools. Do you then maintain confidentiality or are you obligated to report the abuse? Legal precedents suggest that researcher assurance of confidentiality do not hold up in court as they can subpoena your data and files.</p>
<p>Moral obligations – Researcher should not be offensive, degrading, humiliating or dangerous. Three elements of moral obligation are 1) Conscientiousness by ensuring the well-being of those involved in your research project, 2) Equity by ensuring proper segmentation and equal opportunity to participants, and 3) Honesty by being open and honest and ensuring that the details of the research process are made transparent.</p>
<p>Ethical obligations – Ethics refer to principles or rules of behaviour that act to dictate what is actually acceptable or allowed within a profession. Ethics covers ensuring respondents have given informed consent; ensuring no harm comes to respondents; as well as ensuring confidentiality and, if appropriate, anonymity.</p>

Formulated from O'Leary (2010: 40-41)

Creswell (2014) agreed that since research involves collecting data from people, about people, which automatically raises ethical issues. For example, prior to the study, researchers need to obtain approval of individuals in authority (e.g. gatekeepers) as well as permission from the university.

In ensuring compliance with the ethical and other obligations, the following was undertaken:

- 1) The gatekeeper was obtained from the Old Mutual Personal Financial Advice Division Area manager in Drakensberg Area together with the KwaZulu Natal regional manager to conduct research within the business and access database (Appendix1).
- 2) The ethical clearance application was submitted and approved by the University of KwaZulu Natal ethical office (Appendix2).
- 3) An informed consent was obtained from each responded before answering a questionnaire (Appendix3).

3.13 Summary

Outlined in this chapter was the methodology used to conduct the research project. Also covered research objectives and design. Data sources, which are where information was gathered from as well as the collection techniques.

Details on the validity and reliability of the research were discussed as well as the ethical considerations. The instruments (survey questionnaires) used as well as the population and sample size. The pilot study details and feedback received and how that affected the principal research.

Lastly how data collected was managed and analysed, which bring us to the next chapter with full detailed discussion on data analysis and presentation of the findings.

CHAPTER FOUR

PRESENTATION OF RESULTS

4.1 Introduction

This study examined socio-economic factors and their effect on the savings rate of South African households. Due to the very great evidence of low savings rate in South Africa, it sought to inspect how these factors contribute to this as well as how these can be mitigated to improve the dire savings situation. The financial sector, specifically Old Mutual Personal Finance can use the findings to improve their offering directed to the investigated potential clients.

This chapter is a presentation of data from the survey. Collected data seeks to offer answers to the questions set out in chapter three and therefore identify solutions to help improve household savings rate in South Africa.

4.2 Response rate

Out of the 100 randomly selected respondents, 62 completed the survey questionnaire. Which equates to 62% response rate. Sekaran and Bougie (2013) cited (Krejcie and Morgan, 1970), according to which this an acceptable figure to draw inferences to the whole population. Due to the questionnaire being in an online survey format, the percentage of respondents is acceptable to draw conclusions in respect of the population. The average time to complete the questionnaire was 13 minutes. These statistics are shown in graphs and tables in 4.2.1 below.

4.2.1 Survey Overview

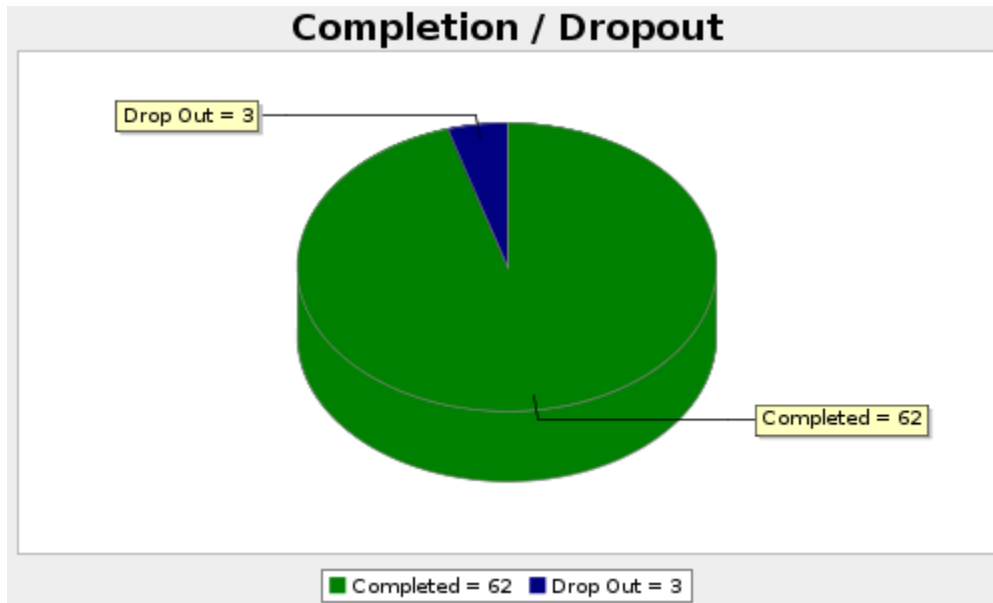


Figure 4.1 Survey Overview of the response rate

Figure 4.1 shows that out of the 65 people who started the survey 3 dropped out and 62 completed

Table 4.1 Complete overview of survey response rate

Started	Completed	Completion Rate	Drop Outs (After Starting)	Average Time to Complete Survey
65	62	95.38%	3	13 minutes

Table 4.1 shows the complete overview of survey response rate. Out of the 65 people who started the survey, 62 completed which makes 95.38% complete rate; 3 dropped out after stating and the average time it took each respondent to complete the survey was 13 minutes.

4.3 Sample demographics

Sample demographics gives the general characteristics of the participants in terms of gender, age, race and remuneration scale.

4.3.1 Ethnicity

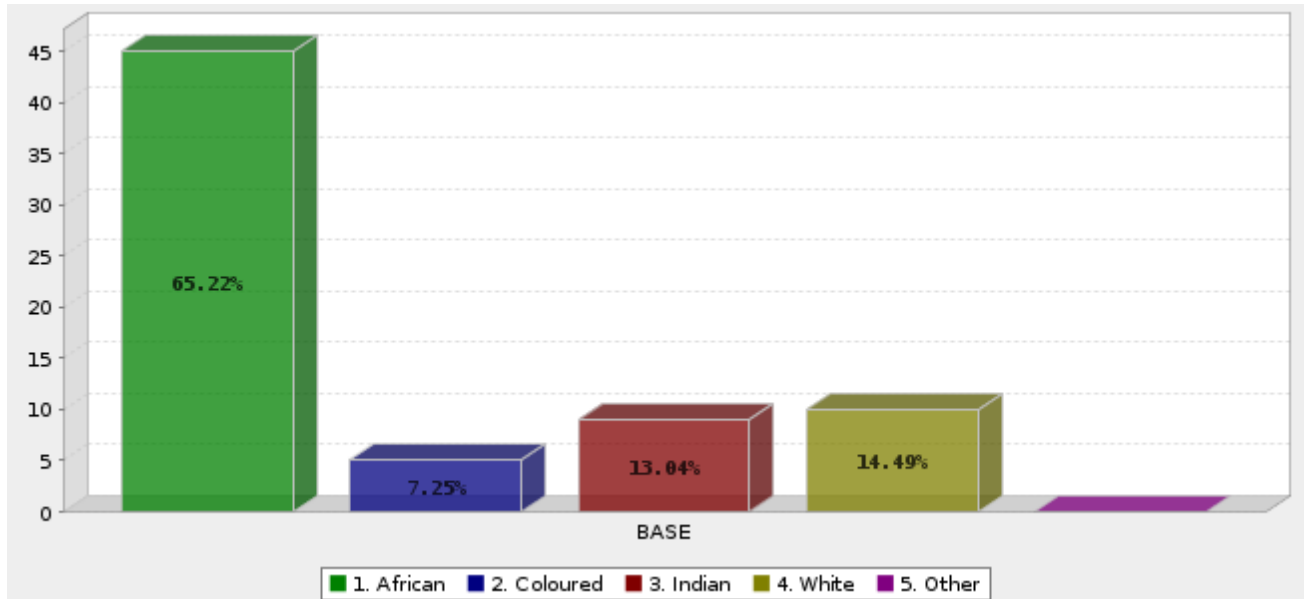


Figure 4.2 Respondents' Ethnicity

Figure 4.2 shows that 65.22% of respondents were African, 7.25% Coloured, 13.04% Indian and 14.49% were White.

4.3.2 Gender

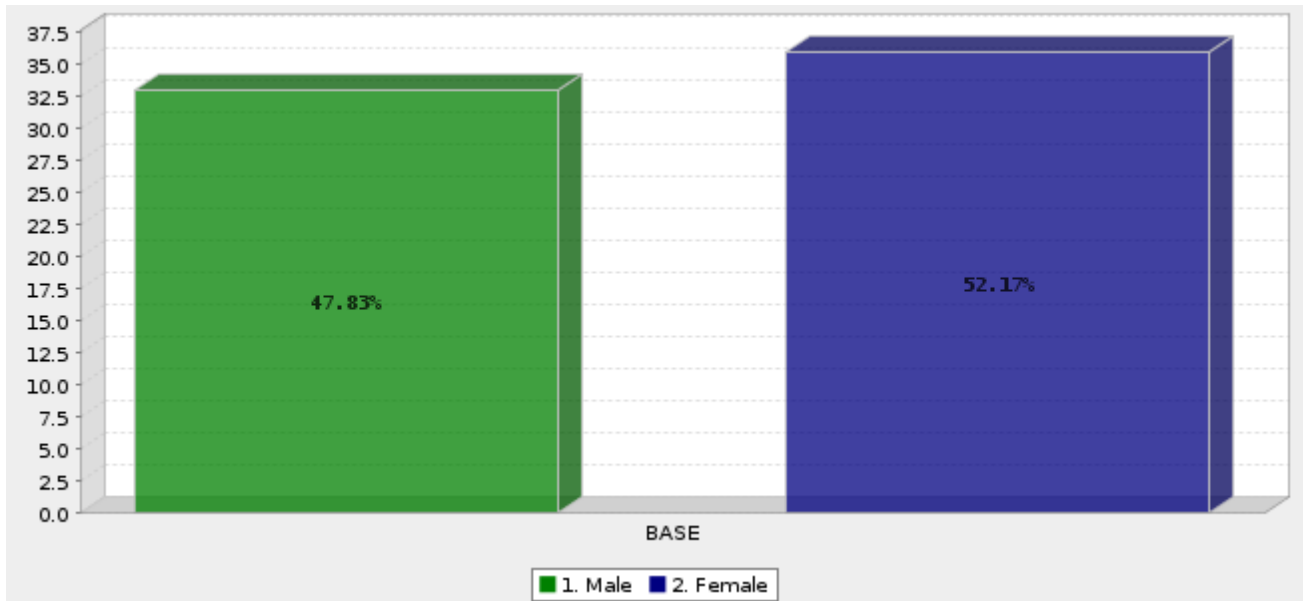


Figure 4.3 Respondents' Gender

Statistically 47.83% of respondents were male and 52.17% were female.

4.3.3 Age

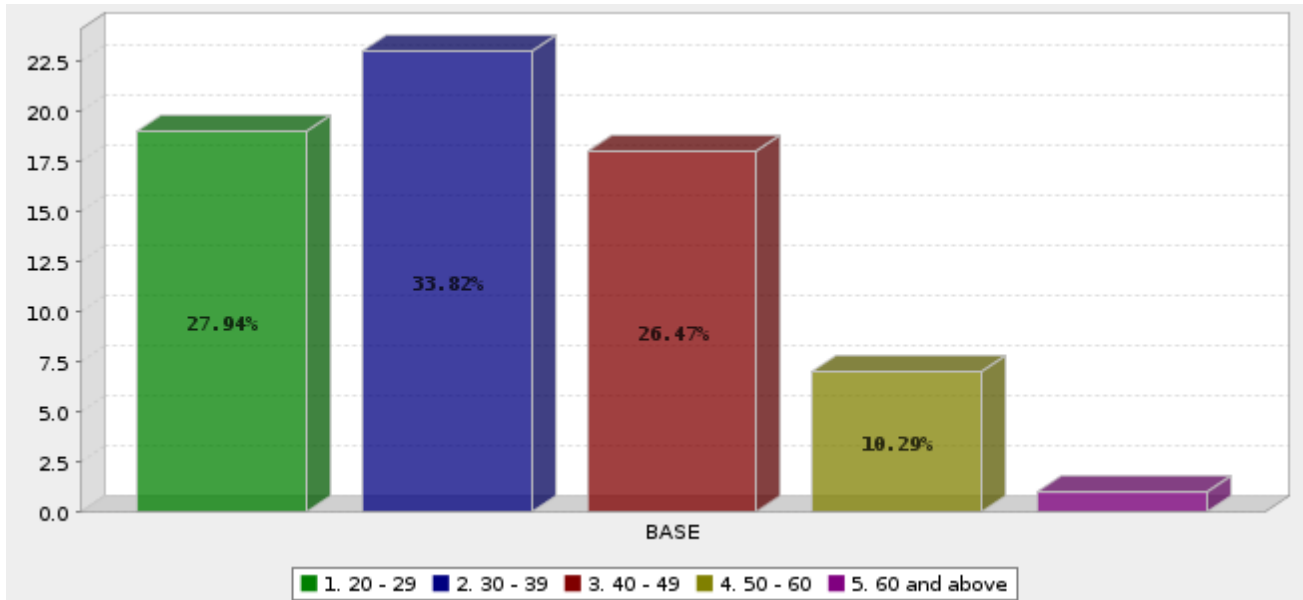


Figure 4.4 Respondents' age range

Figure 4.4 shows that 27.94% of respondents were between the ages 20 -29; 33.82% were between ages 30-39; 26.47% between ages 40-49; 10.29% between ages 50-59 and 1.48% were 60 years old and above.

4.3.4 Remuneration per annum

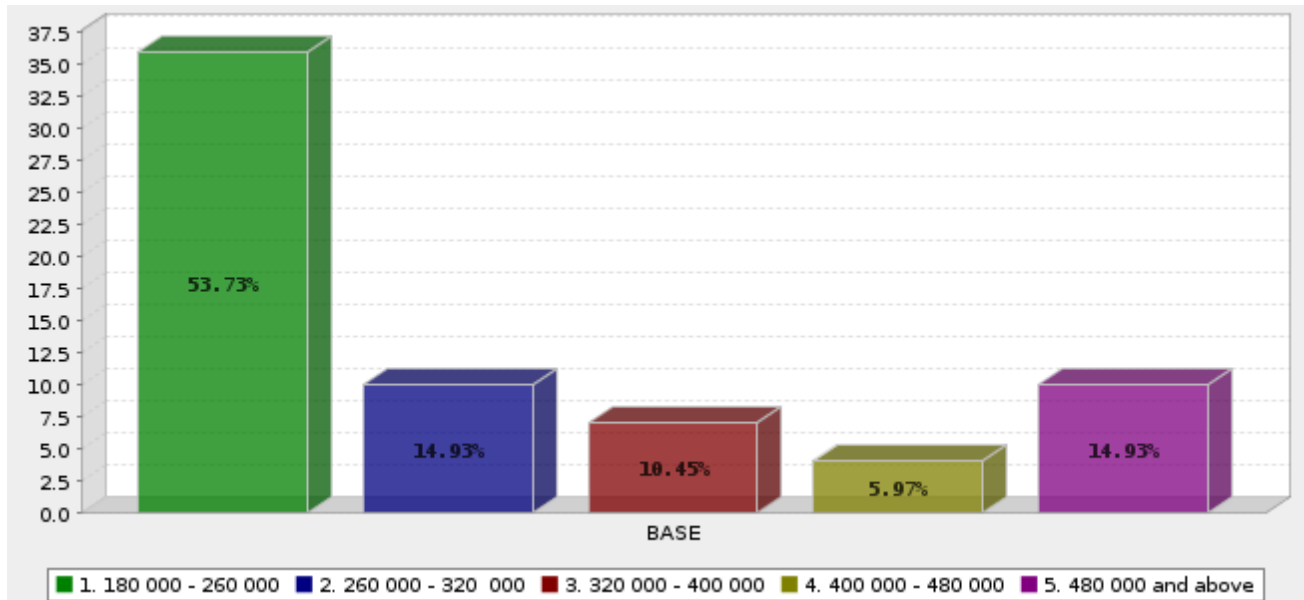


Figure 4.5 Respondents' Remuneration per annum

These remuneration categories according to Old Mutual PFA target market. Statistically 53.73% of respondents earned between R180 000 to R260 000 per annum; 14.93% earned between R260 000 to R320 000 per annum; 10.45% earned between R 320 000 to R 400 000 per annum; 5.97% earned between R400 000 to R480 000 per annum and 14.93% earned R480 000 and above per annum.

4.4 Data analysis for research objectives

4.4.1 Objective one: To identify some of the socio-economic factors faced by households in South Africa and their relations to the savings rate.

The objective sought to identify the socio-economic factors faced by households in South Africa and their relationship to savings. Ten questions were designed to address the objectives with findings on each question provided.

Table 4.2 Descriptive analysis: Objective one and objective two.

Question	Answers	Count	Percentage
3. How much percentage of your income do you save monthly	5% - 10 %	46	70.77%
	10% - 20%	14	21.54%
	20% - 30%	4	6.15%
	30% and above	1	1.54%
4. Are you saving for retirement	Yes	49	71.01%
	No	20	28.99%
5. If you answered yes above, how much percentage of your income do you save for retirement monthly	5% - 10%	36	73.46%
	10% - 20%	13	26.53%
	20% - 30%	0	0.00%
	30% and above	0	0.00%
6. If you answered 5% - 10% in question 3 and 5, please select one of the following reasons	I have very little at the end of the month	46	70.77%
	I don't have any encouragement to save	0	0.00%
	I don't know where to save	0	0.00%
	I haven't really given it any thought	7	10.77%
	Other	12	18.46%
7. Please select one of the following with regards to your understanding or attitude towards savings	Savings is an inconvenience and I have other immediate needs to deal with	3	4.17%
	Savings is an important discipline, but I cannot afford to put any money aside	19	26.39%
	Savings is important as it helps one put	29	40.28%
		21	29.17%

	<p>money aside for future needs</p> <p>Savings is something I cannot live without, as I am very aware of the importance of wealth creation for future needs</p>		
<p>8. Factors that might affects your ability to save: 8.1 Inflation. Please select one of the following options with regards to your financial situation</p>	<p>The standard of living has just become too high in South Africa</p> <p>Food and other household responsibilities take up all my money</p> <p>I have sufficient at the end of each month and put enough towards savings</p> <p>I can only afford to save 10% or less of my monthly income</p>	<p>30</p> <p>20</p> <p>8</p> <p>14</p>	<p>41.67%</p> <p>27.78%</p> <p>11.11%</p> <p>19.44%</p>
<p>8.2 Personal Debt. Please select one of the following options with regards to your financial situation</p>	<p>I have many debts that takes up all my monthly income</p> <p>I have debts but my monthly salary is sufficient to sustain my monthly expenses</p> <p>After I have paid all my debts commitments, I still have money to put towards savings</p> <p>I have no debts and I am able to save at least 10% each month</p>	<p>9</p> <p>34</p> <p>18</p> <p>10</p>	<p>12.68%</p> <p>47.89%</p> <p>25.35%</p> <p>14.08%</p>
<p>8.3 Education. Please select your highest level of education</p>	<p>No Matric or Grade 12</p> <p>Grade 12</p> <p>Tertiary certificate but not a diploma or degree</p> <p>Diploma or degree</p>	<p>0</p> <p>6</p> <p>10</p> <p>42</p> <p>14</p>	<p>0.00%</p> <p>8.33%</p> <p>13.89%</p> <p>58.33%</p> <p>19.44%</p>

	Post Graduate Qualification		
<p>8.4 Unemployment. Please select one of the following options with regards to your experience</p>	I have experienced unemployment within the last 12 months	9	12.50%
	I was affected by unemployment (someone in my household was unemployed) in the past 12 months	12	16.67%
	I have had an extended family member who was unemployed within the last 12 months	29	40.28%
	I have not been affected at all by unemployment in that last 12 months	22	30.56%
<p>8.5 Income. Please select one of the following options closest to your situation</p>	I had no salary or remuneration increase in the past 12 months	19	26.76%
	I have had a salary increase less than that of inflation (5%) in the past 12 months	20	28.17%
	I have had a salary increase equal to inflation rate in the past 12 months	26	36.62%
	I have had a salary increase equal to 10% or above in the past 12 months	6	8.45%

Table 4.2 above indicates that 70.77% of respondents in response to question three: “How much percentage of your income do you save monthly?” said that they save between 5% to 10% of their monthly income. While 71.01% said in question four that they are saving for retirement. Of those who save for retirement 67.92% said, they are saving only 5% to 10% of their monthly income towards retirement.

Table 4.2 above respondents who responded to question six: ‘If you answered that you only save 5% - 10% in question 3 and 5, please select one of the following reasons?’ indicates that 70.77% of respondents said “I have very little at the end of the month”. Still in question six 18.46% of respondents gave other reasons such as: ‘financial situation has only recently improved; there are other financial needs to be taken care of; what if I die and don’t enjoy my hard saved money; etc.’.

Question seven: “Please select one of the following with regards to your understanding or attitude towards savings?” 40.28% of respondents acknowledged that ‘savings is important as it helps one put money aside for future needs’, with only 4.17% responding that ‘savings is an inconvenience and I have other immediate needs to deal with’.

According to Statistics SA (2015), South Africa has one of the worst saving rates in the world and it is getting worse. The South African Savings Institute, (2015) agreed with this adding that there are a number of reasons for the low saving rate in SA. Some mentioned were low disposable income growth; low employment growth; a rising risk burden; inflationary environment; and lack of confidence in the future. Questions three to seven aimed to prove household’s low savings rate in South Africa as well as identify whether people are willing to save. If so then why aren’t they saving? Hence, identified socio-economic factors dealt with in question 8.1 to 8.5. Their relation to savings has become apparent with statistics provided in table 4.2 and provided details in 4.4.2

4.4.2 Objective two: To determine whether these socio-economic factors affect the savings rate

The purpose of this objective was to determine whether socio-economic factors faced by households in South Africa affect their savings rate. Ten questions were designed to address this objective and findings presented.

Respondents who responded to question 8.1: "8.1 Inflation. Please select one of the following options with regards to your financial situation?", 41.67% said that 'The standard of living has just become too high in South Africa' with only 11.11% of respondents saying that 'I have sufficient at the end of each month and put enough towards savings'. This corresponds with the statement by Old Mutual (2017) that "Inflation affects the real purchasing power and it is almost clear that if your income does not at least grow in line with inflation, you will either experience a decline in your standard of living or you will run out of money". This after describing inflation as South Africa's enemy number one that eats into any attempt by the public to save.

In response to question 8.2: "Personal Debt. Please select one of the following options with regards to your financial situation?" 85.92% of respondents admitted to having debts. Only 14.08% said they do not have debts and therefore able to save at least 10% of their income monthly. This matches with the statement by the World Bank (2015) that South Africans are some of the most indebted people in the world, as 86% of South African population took out a loan in 2013/14, compared to the global figure of 40%.

Prinsloo, (2000:22) reiterate that an inverse relationship between debt and savings exists as an increase in the credit commitments of households consequently causes a decline in the saving of those households.

In response to question 8.3: "Education. Please select your highest level of education?" 77.77% of respondents indicated that they have at least a diploma or degree. This showed that South Africa is becoming competitive when it comes to being educated and skilled. Statistically, higher paying jobs tend to require advanced or specialized education. Education, however, also determines social status and allows people to trust those who are educated in their fields of employment (Statistics SA, 2015).

Evidence provided in Table 2.1 and 2.2 conditional probabilities showed that the probability of tertiary-headed household being the richest quintile jumped from 17.51% to 40.59% in 15 years.

In response to question 8.4: “Unemployment. Please select one of the following options with regards to your experience?” 69.44% of respondents indicated that they either have experienced; were affected or had a family member who experienced unemployment in the last twelve months. Proving right the evidence according to Quarterly Labour Force Survey by Statistics SA (2017), that unemployment rate in the first quarter of 2017 was up 1.2 percentage points from the fourth quarter of 2016 to 27.7%.

Gcwabaza (2013) stated that the persistent high unemployment rate was one of the most important contributors to the dire savings culture in South Africa. People may not be earning enough income to save or might have to use up their savings during lengthy time of unemployment.

In response to question 8.5: “Income. Please select one of the following options closest to your situation?” 36.62% of respondents said they have had a salary hike matching the inflation rate in the last twelve months with 26.76% saying they have had no salary increase in the last twelve months.

Du Plessis (2008) stated that income is one of the determinants of savings. Based on the findings by Carroll and Weil (1994), savings theory based on predictions of standard forward-looking models of consumption and saving, future income expectations can contribute considerable on the savings rate. The notion was that higher future income expectations lead to higher immediate consummation as households increase their spending to keep up with rising income profile therefore lower savings. Meanwhile, lower future income expectations lower spending and increase savings as a precaution. Sithebe (2014) agreed and provided evidence of trends indicating an inverse relationship between income and savings. Income growth expectations suggested that as South Africa’s GDP increases, household consumption increases due to optimism, which in turn drops savings rate.

4.4.3 Objective three: To identify the implications of these factors and make recommendations.

This objective sought to identify implications of the socio economic factors and make recommendations. Five questions were designed to address this objective with findings on each questions provided.

Table 4.3 Awareness and implications

Question 9.1 Are you aware that you can get up to 27.5% of Retirement contributions on your tax returns.

	Answer	Count	Percent
1	This is news to me. I had no idea	26	36.62%
2	I am aware, but this does not help because I have other financial commitments	18	25.35%
3	I am aware and trying to save as much as I can	16	22.54%
4	I am aware and making full use of the benefit i.e. contributing to RAs and Pension or Provident fund	11	15.49%

Question 9.2 Are you aware that only 6% of South Africans retire comfortably.

	Answer	Count	Percent
1	No I was not aware and yet am I not concern	6	8.45%
2	No I was not aware and I am concern that this is the case	20	28.17%
3	I am aware, but there is nothing I can do about it	20	28.17%
4	I am aware and I am trying to save as much as possible towards my retirement	25	35.21%

Question 9.3 Are you aware that government pensioners only earn R 1 700 a month (as of April 2018). Can you afford to adjust your living expenses to R1700 a month at retirement?

	Answer	Count	Percent
1	Yes, I can live with that as my pension income	1	1.41%
2	It would be difficult but I can make the living adjustments	5	7.04%
3	I cannot live with a pension income of R1 700 and yet I cannot do anything about it	25	35.21%
4	I cannot live with the pension income of R1 700 and I am saving for retirement.	40	56.34%

Question 10. Your level of exposure to saving, investment and financial planning. Please select one of the following options concerning your financial literacy.

	Answer	Count	Percent
1	I have a financial planner who helps me with my financial planning	37	52.86%
2	I have a private banker who is dedicated to my financial planning	2	2.86%
3	I have no Financial Planner or Private banker who helps with financial planning	25	35.71%
4	I see no need to have a financial Planner or Private banker and for financial planning	6	8.57%

Question 11. Studies show that benefits of savings include security against unforeseen circumstances, building of assets, investments opportunities, provision for retirements, purchase or improve dwellings, debt settlements and acquisition of social service. Did you know this about savings?

	Answer	Count	Percent
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1	No. and I cannot do anything about my situation	2	2.78%
2	Yes. However, it is very hard to find extra money to save	35	48.61%
3	Yes and I feel encouraged to carry one saving and increase my retirement contributions	22	30.56%
4	Yes and I feel encouraged to maximise on my savings and retirement contributions	13	18.06%

The aim of questions 9 to 11 was to state implications of identified factors and make recommendations, as well as answer the question ‘How can these factors be mitigated to improve the savings?’

Table 4.3 above shows that in response to question 9.3 on the information about the implications of not saving for retirement and depending on the state’s R 1 700 monthly pension. 91.55% (35.21% who are not saving for retirement and 56.34% who are saving for retirement) of respondents said that they would not be able to make a living with that income. Question 9.2 responses on the statistics that only 6% of South Africans retire comfortable, and 36.62 % of respondents admitted that they did not know this information.

According to Le Roux (2012), those who retire with less income tend to rely more on social grants to sustain their livelihoods when they retire. Concurred by Cronje (2009), South Africa’s high dependency ratio (a number of people who depend on the state, their relatives or children for financial assistance) has a negative effect on private savings rate. The South African Reserve Bank (2012) in its economic report agreed that most people in South Africa are not able to save because households have a higher dependency ratio than they should. Most South Africans use their children as substitutes for their retirement policy. This has huge negative implications on future savings by the present youth and end up being an endless cycle of non-saving South Africans.

In response to the information of a possible rebate up to 27.5% from the South African Revenue Service on retirement savings, 36.62% of respondents admitted to not being

aware of this information. This is part of the government's on-going retirement reform process designed to encourage South Africans to save and make adequate provision for their retirement. The South African Savings Institute (SASI) started a campaign intended to create financial literacy and savings awareness in schools and universities in 2008. The aim was to promote the concept of personal savings from a young age. Government should fund more campaigns like this as they prove to yield great results in providing fertile ground for behaviour change.

Question 10 aimed at identifying those with a financial plan. 55.72% of respondents admitted to having either a financial planner or a private banker helping with their financial planning.

Question 11 identified some of the advantages of saving. Only 48.62% were encouraged by the statement with 48.61% stating that it is very hard to find extra money to save after their other financial commitments. (Sithebe, 2014:11) stated some of the importance of savings as retirement security, making home purchases as well as coping with emergencies. The ideal situation is for every South African to realise this and start making provision.

4.5 Summary

The findings of the research are significant for the South African households; the financial Sector and government. This chapter presented findings and analysis of data. The research overview, response rate, demographics presented in gender, age, race and remuneration scaling of respondents were discussed. Questions from the survey were clustered according to research objectives for analysis and the results presented in graphical presentation, table format and descriptive statistics.

The following and last chapter outlines the implications, conclusions and recommendations for mitigating socio-economic factors based on the findings of the research. Recommendation for future research will be discussed as well in the next chapter.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

South Africa has one of the most sophisticated financial sectors, consisting of banking and non-banks (insurers, pension funds, unit trusts, cash injection savings); and yet ranked amongst the worst savings nations in the world. This chapter discusses the results of the research as reported in Chapter Four concurrence with the literature review in chapter two; also addresses research questions raised in chapter one and followed by recommendations.

5.2 Findings from study objectives

The study was guided by the following objectives as stated in chapter one:

- To identify some of the socio-economic factors faced by households in South Africa and their relations to the savings rate
- To determine Whether these socio-economic factors affect the savings rate
- To identify the implications of these factors and make recommendations

Results indicated the following per objective:

5.3 Conclusions based on study objectives

5.3.1 Objective one: Identifying some of the socio-economic factors faced by households in South Africa and their relations to the savings rate

The study showed that there are many factors contributing to South Africa's dire savings rate. Specific socio-economic factors were identified for our respondents. Those being: inflation, personal debt, education, unemployment and income. The study revealed that each of these are affect South Africans in many ways in their daily lives. Evidence showed that there seems to be an inverse relationship that exists between these economic factors and savings i.e. with most respondents admitting that times are hard as the standard of living, believed to be inflation driven, has become very high for many to keep up with.

Table 4.2 had one of the highest scoring response of 70.77% of respondents claiming to have very little at the end of the month due to their financial commitments and an overwhelming 85.92% of respondents (made up of three answers in response to question 8.2) admitting to having debts.

Those other factors like education proved that South Africa is on the right path with all respondents having finished high school and 77.77% having completed at least a diploma or a degree, of these 19.44% having a postgraduate qualification. Evidence provided in literature review revealed that the importance of tertiary education, as a predictor of one's earning ability has increased considerably over the years. Globalisation has made it easier to replace low-skilled labour. South Africa's counterpart, India put emphasis on tertiary education, which has transformed the manufacturing sector into a skills-intensive industry. India's savings rate being significantly higher than that of South Africa.

Unemployment proved to be a factor that had a great presence with 69.44% of respondents, as reflected in table 4.3, admitting to have either experienced, being affected or have had a family member experience unemployment in the last twelve month. Unemployment was identified as one of the most worrying factors in the South African economy. The great concern was that having a large number of the young personnel unemployed, not only leads to reduced productivity and gross domestic product (GDP), it also increases the economic costs for the country, since there is a need for more money paid out on social grants and less money coming in from taxes.

5.3.2 Objective two: Determining whether these socio-economic factors affect the savings rate.

Evidence provided in table 4.2 showed that most respondents only save between 5% - 10% of their income and most of that directed to retirement savings, no savings for emergencies and lifestyle enhancers. Some of the most notable reasons were that there is simply no money left at the end of the month to put towards savings due to the factors making it very difficult for most South African households.

Evidence provided in literature review revealed that inflation affects everything from the spending power of the money you have, to the real value of the money you put away for

retirement or emergencies, essentially savings of any form. Table 4.2 showed that only 11.11% of respondents said they could still manage to put away a reasonable percentage of their monthly income towards saving after the effects of inflation.

With over 85% of our respondents admitting to having some debts, evidence provided in literature review revealed that as more South African are becoming indebted, more are dissaving, hence the inverse relationship that exists. 'There is simply no money to save after paying all my debts' admitted about 14% of respondents that have debts in the survey questionnaire.

There are other factors mentioned in literature review such as those unique to South Africa, one being industrial action. Evidence provided showed that in 2014 alone South Africa experienced at least 88 strikes. This was not exceptional in the country, however, these lasted far longer than normal and the demands were greater with the longest mining strike that lasted five months. The effect of these strikes were dire for South African economy as it is estimated that they cost the economy R6.1bn (\$527m) that year. Effects at personal level were that households were left with very little money for consumption, let alone savings.

One other factor raised in literature review was taxation. The South African government is tilting the taxes against top earners from whom the bulk of personal savings comes. The 2017 South African Budget announced a maximum marginal tax rate of 45% – the highest for South Africans since the 1999–2000 tax year. There is also government-imposed tax on retirement benefits, which has reduced households' confidence in retirement plans and further contributed to a decline in national savings levels.

5.3.3 Objective 3: To identify the implications of these factors.

South Africa is said to have 'robust financial services industry and a strong private sector'. South Africa has the second-biggest economy in Africa, it is most globally integrated in terms of capital, and trade flows. Yet, statically South Africa is rated amongst the worst savings nations in the world. Evidently savings level are attributed to mentioned factors. The implications of these socio-economic factors proved devastating for South Africa and the economy of the country.

With an annual inflation rate of six (6) percent, ordinary South Africans without an equal or above increase in income, either experience a decline in standard of living or run out of money.

Statistically South Africans are also over indebted, and due to an inverse relationship between debt and savings, most households subsequently end up not being able to save or they disinvest. It is said that employees generally cash in their pensions, pay a significant portion of this in taxes and uses the rest to cover inflated debts, which results in the burden of providing sufficient pension left to the government.

The high rate of unemployment is one of the great contributors to the low savings rate in South Africa. Consequently, most households face a low quality of life and which leads to poverty. The implication of these factors are detrimental for a developing country like South Africa.

5.4 Recommendations.

Inflation. The government needs to apply inflationary curbing measures such as Monetary Policy. The South African Reserve Bank can increase interest rates, which makes borrowing and spending more expensive, and saving a better option. Economically higher interest rate reduce inflationary pressure, therefore foster a decrease in spending and incentivise savings. This can also affect the value of a country's currency, which makes it attractive to foreign investors, and therefore good for the country's economic growth. In addition, the financial sector needs to come up with ways that makes easy access to savings instruments, which are affordable and rewards investments. Organisations like Old Mutual Personal Finance can tailor makes these targeted to the emerging black middle class whose contribution to South African economy cannot be underestimated. The black middle-income earners were a majority of the survey respondents.

Personal debt. The robust financial sector has made it easy for individuals to access credit, which evidently has led to many South Africans being over indebted. The government introduced the National Credit Act as a way to curb restless lending and protecting consumers from over committing themselves in debts, fundamentally regulating the financial sector. This needs to be improved upon to ensure appropriate

granting and usage of credit. For example, credit application process should be stringent to ensure that households can reasonably afford the obligation.

Income. Job creation to ensure that skilled labour remains in the country is one of the goals mention in the government national development plan 2030. This will positively affect the economy as most young South Africans are entering the job market. However, individuals essentially need to take responsibility for their personal savings by getting the right information i.e. get a financial planner to start a financial plan as soon as possible. This will increase economic growth and employment. Income levels are intrinsically tied to economic growth, and as the economy grows so too will jobs and income levels. This will ultimately influence savings.

Lastly taxation. 45% tax on personal income is excessively high and the government needs to find other meaningful ways of generating revenue that are positively affecting both the economy and South Africans. Retirement Reform Process was a great way to encourage employees to save and provide sufficiently for retirement to ensure that they retire comfortably and have income that lasts for their lives in retirement. The news that employees can now get back up to 27.5% on retirement contributions as a rebate from SARS, is encouraging. The introduction of Tax Free Savings Accounts (TFSA) was also well received by most South Africans. Yet a lot needs to be done to ensure that South Africans know this. One other suggestion is for the government to create financial education programs meant to bring awareness and importance of savings as well as options available for them. It is critical that individuals are suitably equipped to make informed decisions about financial choices.

In summary the recommendations are:

- Monetary Policy, an increase interest rates, which makes borrowing and spending more expensive, and saving a better option.
- The financial sector needs to come up with ways that makes easy access to savings instruments, which are affordable and rewards investments.
- Financial sector reform, there needs to be a more stringent process before credit is granted in addition to the national credit act

- Individuals need to take personal responsibility for their personal saving by getting started on a financial plan as soon as possible.
- The promotion of retirement reform and tax free savings

5.5 Limitations of the study

The researcher encountered the following limitations during the course of the study:

- **Sample Size.** Respondents aimed for were 100 and we ended with 62 completed due to time constraints. Respondents had to be reminded numerous times to get to the response rate of 62%.
- **Literature.** There was limited literature available especially for studies at MBA level. However, with help from old mutual online material, sufficient literature was obtained.
- **Time constraints.** This research had to be done in within a period of six months, which presented many challenges, i.e. data collection. Due to busy schedules people had to be reminded numerous times to respond and many were concerned about the confidentiality of their responses. Which they were assured of, and the use of QuestionPro provided certainty in that area.
- **Representation.** This study, though well represented and a small number of respondents reached(normal sample size of 383 for 100 000 population could not be reached for a confidence of 95%and error margin of 5%), was also only intended for a specific audience and is therefore not fully representative of all the working classes in South Africa.

5.6 Recommendations and suggestions for further research

This only focused on the target market for Old Mutual Personal Finance, which is the emerging black income earners (BMI). More studies on the subject can be done looking at different Living Standard Measurements (LSMs) and challenges faced in their attempt to save. Industry experts can investigate further into the subject matter to come with more ways of encouraging savings in South Africa. An MBA research is a mini dissertation and therefore other studies on a masters or PhD level to expand on this study can be conducted.

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Appendix 1 Gate Keepers letter



The Registrar
University of KwaZulu-Natal

Date:
08 February 2018

Enquiries:
Tel +27 31 267 5606

**ETHICAL CLEARANCE: CONFIRMATION OF OLD MUTUAL
INTELLECTUAL PROPERTY RIGHTS AND SECURITY CLEARANCE FOR
MBA RESEARCH – MR THOBELANI THWALA**

This memorandum serves as an ethics clearance; confirmation of Old Mutual intellectual property rights and security clearance for the continuation of MBA level research and write-up by Mr Thobelani Thwala. The research topic is **Socio-economic Factors Affecting Households' Savings Rate in South Africa.**

Mr. Thwala followed due internal processes in terms of gaining permission for this research.

It must be noted that this general clearance is for limited period only, which will be for the rest of the financial year 2017 till end of 2018 and in no way waives Old Mutual's intellectual Property Rights.

DALE NADASAN
AREA MANAGER



Appendix 2: UKZN Ethical clearance



02 July 2018

Mr Thobelani Innocent Thwala (215072261)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Thwala,

Protocol reference number: HSS/0359/018M
Project Title: Socio-economic factors affecting households' savings rate in South Africa

Approval Notification – Expedited Application

In response to your application received 02 May 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Appendix 3: Informed consent letter

Informed Consent Letter 3C

UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP

Dear Respondent,

MBA Research Project

Researcher: Thobelani Thwala (+27 63 254 7318)

Supervisor: Dr. Emmanuel Mutambara (+27 31 260 8129)

Research Office: Ms P Ximba 031-260 3587

I, **Thobelani Innocent Thwala** an MBA student, at the Graduate School of Business and Leadership, of the University of KwaZulu Natal. You are invited to participate in a research project entitled **Socio-economic Factors Affecting Households' Savings Rate in South Africa**. The aim of this study is to explore and attempt to understand why south African Households are not saving, and those who do, why is the rate so low? And then determine the means of bridging this gap.

Through your participation I hope to understand what are some of the socio-economic factors faced by the South African households; how do these factors affect their saving rate why the saving rate and how can these factors be minimised.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about **15** minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature _____ Date _____

This page is to be retained by participant

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

MBA Research Project

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CONSENT

I..... (full names of participant)

hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....

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Appendix 4: Questionnaire

Questionnaire on saving habits

1. Demographic questions

1.1. Ethnicity?

African Coloured Indian White Other

1.2. Gender?

Male Female

1.3 Age?

20 – 29 30-39 40-49 50-59

2. Remuneration per annum?

180 000 – 260 000 260 000 – 380 000 380 000 – 420 000 420 000 and above

3. How much percentage of your income goes towards savings?

5-10% 10-20% 20-30% 30% and above

4. Are you saving towards retirement?

Yes NO

5. How much percentage of your Income goes towards retirement savings?

5-10% 10-15% 15-20% 20-27.5%

6. If you answered 5%-10% in question 3 and 5, please select the following reasons?

1. I have very little at the end of the month
2. I don't have any encouragement to save
3. I don't know where to save
4. I haven't really given it some thought
5. Other:

7. Please select one of the following with regards to your understanding or attitude towards savings?

Savings is an inconvenience and I have immediate needs to deal with

Savings is an important discipline, but I cannot afford to put any money aside

Savings is important as it helps one put money aside for future needs

Savings is something I cannot live without, as I am very aware of the importance of wealth creation for future needs

8. Factors that might affect your ability to save

1. Inflation

The standard of living has just become too high in South Africa

Food and other household responsibilities take up all my money

I have sufficient at the end of each month and put enough towards savings

I can only afford to save 10% or less of my monthly income

2. Personal Debt

I have many debts that takes up all my monthly income

I have debts but my monthly salary is sufficient to sustain my monthly expenses

After I have paid all my debts commitments I still have money to put towards savings

I have no debts and I am able to save at least 10% each month

3. Education

I do not have matric or grade 12

I only studied up to matric

I have a tertiary qualification but not a diploma or degree

I have a tertiary qualification that is equivalent to a diploma, degree or above

4. Unemployment

I have experienced unemployment within the last 12 months

I was affected by unemployment (someone in my household was unemployed) in the past 12 months

I have had an extended family member who was unemployed within the last 12 months

I have not been affected at all by unemployment in that last 12 months

5. Income

I had no salary or remuneration increase in the past 12 months

I have had a salary increase less than inflation (5%) in the past 12 months

I have had a salary increase equal to inflation rate in the past 12 months

I have had a salary increase equal to 10% or above in the past 12 months

9. Other factors

9.1 Awareness of implications

9.1.1 Are you aware that you can get up to 27.5% of Retirement contributions on your tax returns?

This is news to me. I had no idea

I am aware but this does not help because of my financial commitments

I am aware and trying to save as much as I can

I am aware and making full use of the benefit i.e. contributing to RAs and Pension or Provident fund.

9.1.2 Are you aware that only 6% of South Africans retire comfortably?

No I was not aware and yet am I not concern

No, I was not aware and I am concern that this is the case

I am aware, but there is nothing I can do about it

I am aware and I am trying to save as much as possible towards my retirement

9.1.3 Are you aware that government pensioners only earn R 1 700 a month (as of April 2018)?

Can you afford to adjust your living expenses to R1700 a month at retirement?

Yes, I can live with that as my pension income

It would be difficult but I can living adjustments

I cannot live with the pension income of R1 700 and yet I cannot do anything about it.

I cannot live with the pension income of R1 700 and I am saving for retirement.

10. Your level of exposure to saving, investment and financial planning

I have a financial planner who helps me with my financial planning

I have a private banker who is dedicated to my financial planning

I have no Financial Planner or Private banker who helps with financial planning

I see no need to have a financial Planner or Private banker and for financial planning

11. Studies show that benefits of savings include security against unforeseen circumstances, building of assets, investments opportunities, provision for retirements, purchase or improve dwellings, debt settlements and acquisition of social service. Did you know this about savings?

No and I cannot do anything about my situation

Yes. However, it is very hard to find extra money to save

Yes and I feel encouraged to carry one saving and increase my retirement contributions

Yes and I feel encouraged to maximise on my savings and retirement contributions

Appendix 5: Turnitin Report

Turnitin Originality Report

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