Living Lagom – challenging perceptions of wealth

A report by Cebr with Barclays

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Cebr

Authorship and acknowledgements
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Contents

Executive Summary

There are a multitude of potential factors beyond financial wealth that feed into people's overall sense of well-being, including health, relationships and age group. This report examines the degree to which money can – or cannot – buy happiness, by looking at the complex relationships between various aspects of people's lives and their overall happiness or life satisfaction. In particular, it explores whether saving could be an overlooked mechanism to increase happiness.

The report further investigates whether the Swedish concept of "lagom" – meaning "just the right amount" – is also applicable to our financial lives. For example, "living lagom" could be interpreted as finding the balance between enjoying a good quality of life today while not letting longer term savings goals slip away. The research finds that applying these principles to our financial lives has the potential to significantly boost happiness and well-being.

The first part of the analysis uses data from the UK Household Longitudinal survey to establish the statistical relationships between reported life satisfaction and a range of financial variables. The key findings from this part of the research include:

- Average levels of reported life satisfaction rise consistently with the household savings ratio. **A 10 percentage point increase in the monthly savings ratio increases the probability of reporting a high life satisfaction score by 1.4 percentage points.** This is comparable to the effect of having "good, very good or excellent" health on your life satisfaction as opposed to "fair or poor" health, and is larger than the positive effect of being married;

- **For an individual without a savings account, opening such an account increases the probability of reporting a high life satisfaction score by 1.3 percentage points.** In the long term, those who consistently have a savings account are 6.2 percentage points more likely to report higher life satisfaction scores;

- Household income has a positive impact on life satisfaction, for both poorer and wealthier households. However, **savings ratios are found to have a much stronger effect on life satisfaction than income**. This suggests that households of all income levels can achieve a high level of life satisfaction through increased savings ratios.

- **Individuals who are 'living comfortably' or 'doing alright' in financial terms are 11 percentage points more likely to report being either mostly satisfied or completely satisfied with their life overall.** When subjective assessments of financial well-being are included in the model, the effect of income on life satisfaction diminishes. This highlights that what you have in monetary terms is a less important determinant of life satisfaction than how you feel about your financial situation;

- The demographic with the highest level of reported life satisfaction are individuals aged under 35 in Northern Ireland who save more than 10% of their income each month;

- The group with the lowest average life satisfaction are individuals in the North West who save less than 2% of their monthly income and are aged between 35 and 54.

To supplement the above analyses, a survey of 4,000 adults was commissioned to examine attitudes to wealth, savings and income, and how these feed into individuals' overall life satisfaction. Notable findings in this chapter include:

- **Social factors such as the quality of home life or social life are the most significant drivers of overall life satisfaction, although financial circumstances do remain important. This highlights that money is by no means the only key to a happy and fulfilled life.** Home life is also the category that respondents were on average the most satisfied with, while they were least satisfied with their financial situation.

- The vast majority of respondents do not see themselves as being financially wealthy. Indeed, just 7% said that they consider themselves to be wealthy. Among those who do not see themselves as wealthy, the majority (58%) said that they would need their income to rise by more than 50% for them to be on track to becoming wealthy. However, financial wealth is just one of many factors that impact happiness. **The findings from the preceding section highlight that improved life satisfaction can be achieved through saving more, without necessarily having to earn more**;

- **Life satisfaction is significantly higher among individuals who perceive themselves as wealthy.** On average, these respondents provided a life satisfaction score of 7.4, compared to an average of 6.0 among respondents who do not see themselves as wealthy.

1 Introduction

In the United Nations' 2019 World Happiness Report, the UK ranks as the 15th happiest country in the world.[1] The vast majority of the countries occupying the top 20 places in these rankings are relatively wealthy countries in Europe, North America and Australasia. The exception to this is Costa Rica, where rising incomes, accessible health care and political stability have helped the country place 12th in the global rankings.

It is widely acknowledged that factors such as access to healthcare, social safety nets and personal freedoms are of key importance in determining happiness. The fact that wealthier countries generally dominate the top of the global happiness rankings also shows that the financial circumstances of a country's inhabitants are a significant driver of reported wellbeing. While the relationship between household income and happiness has been studied extensively, this is just one of numerous factors that feeds into households' overall financial situation and their more general life satisfaction. Others include savings ratios, wealth, and spending patterns.

The share of income that households are able to put away could impact happiness in a number of ways. Firstly, the act of saving itself could conceivably deliver a boost to psychological wellbeing arising from the positive feeling associated with taking steps to prepare for the future. Meanwhile, the increased financial security and comfort associated with higher levels of saving are likely to deliver a significant boost to wellbeing further down the road.

In 2017, UK households' collective outgoings exceeded incomes for the first time since 1988. This shortfall was funded through a combination of drawing down savings and borrowing, and equated to a net savings ratio of -0.9%. By contrast, households' in Sweden collectively saved nearly a fifth (17%) of their disposable income in 2018. The large discrepancy in savings ratios between households in the UK and those in other advanced economies represents a potential driver of the gap in happiness ratings.

This report examines how various facets of households' financial circumstances influence reported life satisfaction in the UK, using data from the UK Household Longitudinal Survey (UKHLS). Factors examined include household income, subjective financial well-being, savings ratios, wealth and the types of savings accounts held. The research is supplemented by a survey of 4,000 adults in the UK, which explores how savings and wealth influence happiness, and how important these financial variables are relative to other factors such as health, relationships and social life. The results of these analyses will shed light on the potential benefits arising from the spread of a culture of "living lagom", whereby individuals can increase their well-being by achieving a balance between setting aside money for future savings goals and maintaining standard of living in the present.

[1] Rankings are based on surveys asking individuals to evaluate the quality of their current lives on a scale of 0 to 10.

2 Review of existing literature

Historically, GDP – the monetary value of the finished goods and services produced in a country each year – has been the primary metric against which economic success is measured. However, governments around the world are increasingly exploring the possibility of using residents' happiness as an alternative or supplementary measure of their country's success. For instance, in 2010 British Prime Minister David Cameron unveiled a new well-being measure for the UK with the aim that this would be used to inform public policy making. Meanwhile, Bhutan has famously measured its prosperity by tracking 'gross national happiness'. In order to provide a context for the statistical analyses and primary research presented in Sections 3 & 4 of this report, this section discusses some of the key insights from the rich body of research that has been developed over the past fifty years on the relationship between financial circumstances and happiness.

2.1 Measuring happiness

To analyse the impact of various factors on an individual's happiness, it is first necessary to have a reliable measure of that person's happiness. This is potentially problematic, as happiness is not a precisely defined concept that is easily observable or quantifiable. One solution to this is to ask individuals to rate their own happiness or life satisfaction. Self-reported life satisfaction has been found to be positively correlated with the activation of regions of the brain associated with processing pleasure, as well as with observable indicators of happiness such as the frequency of smiling, quality of sleep, peer assessments of individuals' happiness and positive changes in circumstances.[2] Therefore, most studies in the field are based on individuals' assessments of their own well-being or life satisfaction, derived from survey questions.

2.2 Relationship between income and happiness

A fairly consistent finding in the existing literature is that within countries at a given point in time, those with higher incomes report higher levels of life satisfaction or happiness than those with lower incomes, even after controlling for factors such as age, gender or region.[3] This would suggest that, as a country develops and incomes collectively rise, there would be an overall increase in happiness throughout the country. However, studies have shown that while there is a positive association between income and happiness among individuals within countries, average levels of happiness do not systematically increase as countries become richer.[4] This phenomenon can be observed throughout modern economic history. For instance, between 1958 and 1991, Japan experienced a six-fold increase in real GDP per capita. However, in the midst of this Japanese 'growth miracle', average levels of life satisfaction remained mostly stable. Similarly in the US, researchers have found a negative trend in average happiness between 1972 and 1998, despite significant growth of real incomes.[5] A possible explanation for this observation is that individuals' relative standing in society is a key determinant of life satisfaction.[6] This implies that as a country develops economically and incomes rise, people will not necessarily become happier if their relative standing in society remains unchanged.

More recent research draws a distinction between emotional well-being – which reflects the nature of an individual's emotional experiences – and life evaluation, which is related to how individuals assess

[2] Daniel Kahneman and Alan Krueger 2006: Developments in the measurement of subjective well-being

[3] Michael McBride, 2001: Relative-income effects on subjective well-being in the cross section

[4] Richard A Easterlin, 1974: Does Economic Growth Improve The Human Lot?

[5] David Blanchflower & Andrew Oswald, 2004: Well-being over time in Britain and the USA

[6] Erzo Luttmer, 2005: Neighbors as negatives: Relative Earnings and well-being

their own life upon reflection. Research on US households has found that while higher income consistently leads to improvements in life evaluation, it does not have a positive impact on emotional well-being once household annual income reaches $75,000 (or just over £59,000[7]).[8]

2.3 Relationship between savings and happiness

It is important to note that while most research does indeed find a positive association between income and happiness within societies, the overall effects of income relative to other non-monetary factors such as age or health are modest.[9] Data on annual income at a household level is widely available in numerous countries. For this reason, a large proportion of research has focussed on the relationship between income and happiness. However, annual income is just one aspect of a household's economic circumstances. This would imply that studies which limit their analysis to income underestimate the effect of economic circumstances on happiness. Research on Australian households has shown that wealth is at least as important a determinant of subjective well-being as household income.[10] This finding makes sense intuitively, since the value of a household's assets is closely related to its level of economic security and material well-being – arguably more so than household income.

Another dimension to the relationship between wealth and happiness is the impact that money can have on the ability to enjoy everyday moments or experiences. Indeed, research has found that increases in wealth may limit individuals' ability to savour positive emotional experiences, for instance when they recall the event in the future or share descriptions of the experience with others.[11] The hypothesis behind this is that greater material well-being may lead to a higher frequency of pleasurable experiences, lessening sensitivity to everyday positive experiences. Once the effect of wealth on the ability to savour experiences is controlled for, the relationship between wealth and life satisfaction becomes far more significant. The implication of this finding is that the impact of wealth on happiness can be strengthened if this material well-being does not cause individuals to stop appreciating everyday experiences.

Existing research on the relationship between savings ratios – i.e. the share of monthly income that households put away – and happiness is considerably more limited. Surveys have shown that increasing savings does have a positive impact on individuals' mood or state of mind.[12] However, this type of research does not control for the plethora of other factors that shape life satisfaction or happiness. To isolate the impact of savings ratios on happiness, it is necessary to conduct econometric analyses. Section 3 of this report presents the findings of such analyses, which represent a significant addition to the current understanding of the relationship between saving and life satisfaction.

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[7] Based on USD – GBP exchange rate on May 22nd 2019

[8] Daniel Kahneman & Angus Deaton, 2010: High income improves evaluation of life but not emotional well-being

[9] Sonja Lyubomirsky, Kennon Sheldon & David Schkade, 2005: Pursuing Happiness: The Architecture of Sustainable Change

[10] Mark Wooden, 2004: The Effects of Wealth and Income on Subjective Well-Being and Ill-Being

[11] Jordi Quoidbach, Elizabeth Dunn, K.V. Petrides & Moira Miklajczak, 2010: The Dual Effect of Wealth on Happiness

[12] https://www.bbc.co.uk/news/business-20004611

3 Econometric analyses on relationship between financial situation and life satisfaction

3.1 Methodology

In order to establish the relationship between individuals' financial circumstances and their happiness, data has been used from the UK Household Longitudinal Survey (UKHLS), a survey of each member of around 30,000 households carried out between 2010 and 2018. This survey contains data on numerous aspects of households' financial situations, including household incomes, savings ratios, the types of savings accounts held, and overall levels of wealth. It also contains information on non-monetary characteristics of each respondent, such as age, region, gender, marital status and health.

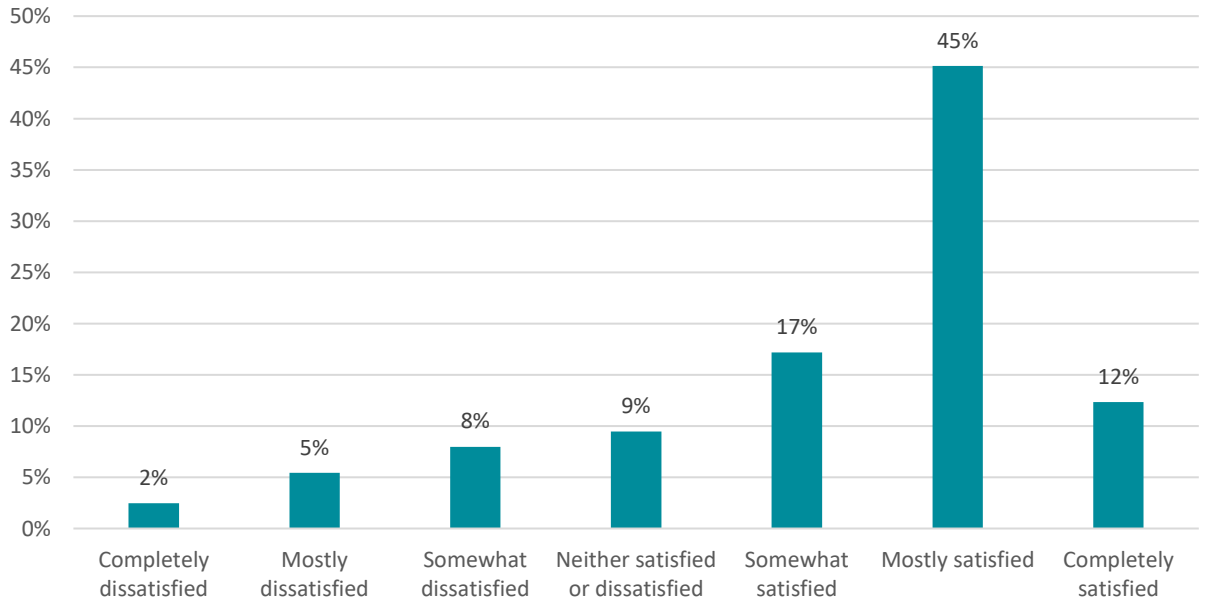
The main variable of interest for the analyses is the response to the following question:

How satisfied are you with your life overall?

1. *Completely dissatisfied*
2. *Mostly dissatisfied*
3. *Somewhat dissatisfied*
4. *Neither satisfied or dissatisfied*
5. *Somewhat satisfied*
6. *Mostly satisfied*
7. *Completely satisfied*

The majority of respondents in the survey indicate that they are either mostly satisfied (45%) or completely satisfied (12%) with their life overall. However, there is still a sizeable minority of individuals who report very low levels of satisfaction. Indeed, more than one in seven (15%) report being dissatisfied with their life overall. The analyses presented in the remainder of this section will seek to explain some of the causes of this variation in life satisfaction across the population.

Figure 1 Distribution of reported life satisfaction



Source: UKHLS, Cebr analysis

Due to the ordered and non-continuous nature of this variable, an ordered probit model has been selected for the analyses. An advantage of the UKHL dataset is that it contains observations for the same individuals at different points in time. This significantly increases the accuracy of the relationships estimated, since it controls for unobservable individual characteristics that are constant over time that may also affect life satisfaction, such as innate intelligence or certain personality traits.

Separate analyses have been conducted to estimate the relationship between reported life satisfaction and the following aspects of respondents' financial circumstances:

1. **Household savings ratio** i.e. the share of monthly income that is saved;

2. **Household income** – past research has found that the relationship between income and life satisfaction is best captured by considering percentage changes in income rather than absolute changes in income.[13] Therefore, income has been included in logarithmic form to reflect this relationship;

3. **Subjective financial situation** - there are numerous complex factors beyond income and savings that affect individuals' material well-being, that cannot always be captured in numerical variables. Individuals' qualitative assessments of their own financial situation can therefore potentially provide a more comprehensive and accurate picture.

4. **Household savings** i.e. the value of households' financial assets;

5. **Types of savings accounts held** e.g. savings accounts, ISAs, bonds etc.

Financial circumstances are by no means the only factor that influences life satisfaction. To reflect this, each analysis has controlled for gender, age, marital status, employment status, health status, and whether the respondent has children.

3.2 Results

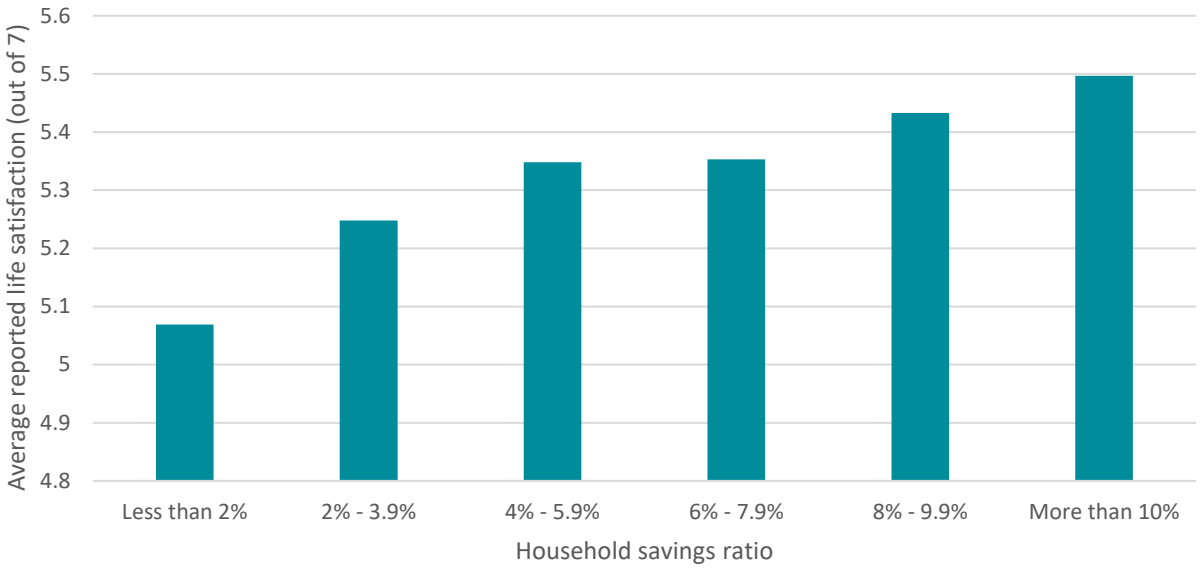
Household savings ratio

Household savings ratios have been computed by aggregating the monthly amount saved by individuals within each household, and dividing this by the aggregate post-tax household income.[14] Each month, households in the sample saved on average 5.5% of their net monthly income. Figure 2 shows that average levels of reported life satisfaction consistently rise with the household savings ratio. Households that save at least 10% of their monthly income have an average life satisfaction score of 5.50, while those with a savings ratio of less than 2% have an average score of just 5.07. To put this difference into context, an average score of 5.50 implies that the group of individuals who save 10% or more of their monthly income are halfway between somewhat satisfied and mostly satisfied with their life overall, while those that save less than 2% are on average only somewhat satisfied.

[13] Ada Ferrer-i-Carbonell, 2005: Income and well-being: an empirical analysis of the comparison income effect

[14] Households with extremely high savings ratios in excess of 75% have been omitted from the sample, as these often appear to be erroneous and distort the results if left in the sample.

Figure 2 Average reported life satisfaction, by household savings ratio



Sources: UKHLS, Cebr analysis

However, in order to establish causal effect of savings ratios on life satisfaction, econometric analysis is necessary to control for the various other factors that affect happiness. The regressions with savings ratios have also included household income as a separate variable. This ensures that the impact of the savings ratio on life satisfaction is isolated, and not distorted by the fact that higher income households also typically have higher savings ratios.

For a given individual, the regression results indicate that a 10 percentage point increase in the monthly savings amount increases the probability of reporting a life satisfaction score of either 6 (mostly satisfied) or 7 (completely satisfied) by 1.4 percentage points. To put this into context, the impact of a 10 percentage point increase in the savings ratio on life satisfaction is comparable to the effect of having "good, very good or excellent" health as opposed to "fair or poor" health, and is larger than the positive effect of being married.

The benefits of saving are significantly more pronounced among younger age groups. Indeed, for those aged under 35, a 10 percentage point increase in the monthly savings ratio increases the probability of reporting a life satisfaction score of 6 or 7 by 2.6 percentage points. Moreover, among those with a monthly savings ratio of less than 10%, this impact rises to 3.0 percentage points. This shows that the potential benefits from higher savings are greater among individuals who currently do not save a large portion of their income.

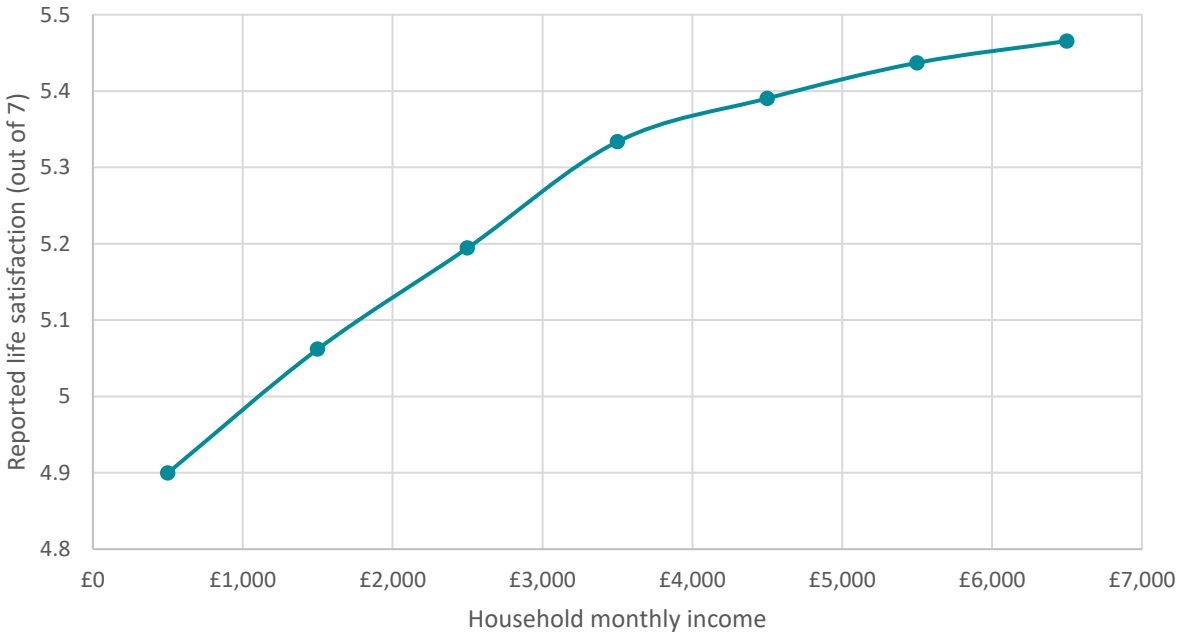
Many of the impacts of higher savings on life satisfaction are likely to be felt in the longer term, such as the higher standard of material well-being or financial security provided by the accumulation of savings. The results of the analysis suggest that the boost to life satisfaction delivered by higher savings is considerably stronger if this is sustained for a longer period. A 10 percentage point increase in the long term savings ratio of a household is estimated to increase the probability of reporting a life satisfaction score of 6 or 7 by 4.3 percentage points.[15]

[15] Long-run estimates of the impact of savings ratios on life satisfaction are based on the between estimator from the econometric analysis. The coefficient on the variable for individuals' mean savings ratio over time is interpreted here as the long term impact of increasing savings ratios for a sustained period of time, thus raising the mean savings ratio. However, it is

Household income

Figure 3 below illustrates the relationship between household monthly income and reported life satisfaction among respondents in the UKHLS. This indicates that the relationship is positive and fairly constant up to monthly household incomes of around £4,000. However, after this point, the relationship becomes notably weaker, although it remains positive. This appears to confirm that proportional changes to income are more closely linked to life satisfaction than absolute changes to income. For instance, a £100 boost to monthly income would represent a larger proportional increase for lower income households, leading to a larger increase in life satisfaction than would be the case for a higher earning household where the proportional rise in income is lower.

Figure 3 Average life satisfaction score, by household monthly income



Source: UKHLS, Cebr analysis

The econometric analysis finds that income has a positive impact on life satisfaction, for both poorer and wealthier households. However, the strength of this relationship is considerably weaker than the impact of savings ratios on life satisfaction.

Household savings

Household level wealth has been calculated by summing up all the savings of each household member. As expected, the results of the analysis show that there is a significant positive relationship between household wealth and reported life satisfaction. Interestingly, the inclusion of wealth in the model specification causes the significance of income to fall away. This is consistent with the fact that it is usually wealth, rather than income that shapes individuals' material levels of comfort and security.

The UKHLS also gathers data on the types of savings products held by individuals in each household. The results of the econometric analysis show that this plays a significant role in determining reported life

important to note that between effects do not control for unobserved time constant individual-level characteristics, and therefore are subject to potential endogeneity bias.

satisfaction. Indeed, for an individual without a savings account, opening such an account increases the probability of reporting a life satisfaction score of 6 or 7 by 1.3 percentage points. In the long term, the analysis suggests that those who consistently have a savings account are 6.2 percentage points more likely to report higher life satisfaction scores.

Another key finding is that individuals with a greater variety of savings products (e.g. savings accounts with a bank or building society, cash ISAs, stocks & shares ISAs, or treasury bonds) tend to have higher levels of life satisfaction. Each extra account type that an individual holds is estimated to increase the probability of reporting a higher life satisfaction by 1.1 percentage points in the short run and by 2.8 percentage points in the long run.

Subjective financial situation

A unifying aspect of the various monetary variables analysed thus far is that they each describe a distinct element of an individual's financial circumstances. In some senses, all of these factors are encapsulated by responses to the following question in the UKHL survey:

How well would you say you yourself are managing financially these days?

1. *Living comfortably*
2. *Doing alright*
3. *Just about getting by*
4. *Finding it quite difficult*
5. *Finding it very difficult*

It is unsurprising therefore, that responses to this question are significantly correlated to overall assessments of life satisfaction. The econometric analysis suggests that those who are either 'living comfortably' or 'doing alright' are 11 percentage points more likely to report being either mostly satisfied or completely satisfied with their life overall. Interestingly, when individuals' subjective assessment of financial well-being is included in the model, the effect of income on life satisfaction diminishes. This highlights that perceptions of financial circumstances are a far better predictor of life satisfaction than actual levels of household income.

With that being said, the inclusion of subjective financial well-being in the model does not temper the impact of savings ratios on life satisfaction. This shows that, even among individuals who feel that they are struggling financially, those who save a greater share of their income are likely to report higher levels of overall life satisfaction.

3.3 Average levels of life satisfaction among different groups

On average, the demographic with the highest level of reported life satisfaction are individuals aged under 35 in Northern Ireland who save more than 10% of their income each month. This group has an average reported life satisfaction of 5.75. Meanwhile, the least satisfied group are individuals in the North West who save less than 2% of their monthly income and are aged between 35 and 54.

Breaking the survey down by region of residence, the highest average life satisfaction scores are found in the South West, the East of England and Northern Ireland. Meanwhile, residents of the North West, Yorkshire & the Humber and London all reported levels of life satisfaction significantly below the national average of 5.22 (out of 7).

Table 1 Average reported life satisfaction, by UK region

Region	Average reported life satisfaction
South West	5.29
East of England	5.28
Northern Ireland	5.27
South East	5.27
Scotland	5.25
North East	5.24
East Midlands	5.23
United Kingdom	5.22
Wales	5.21
North West	5.20
Yorkshire and the Humber	5.19
West Midlands	5.17
London	5.06

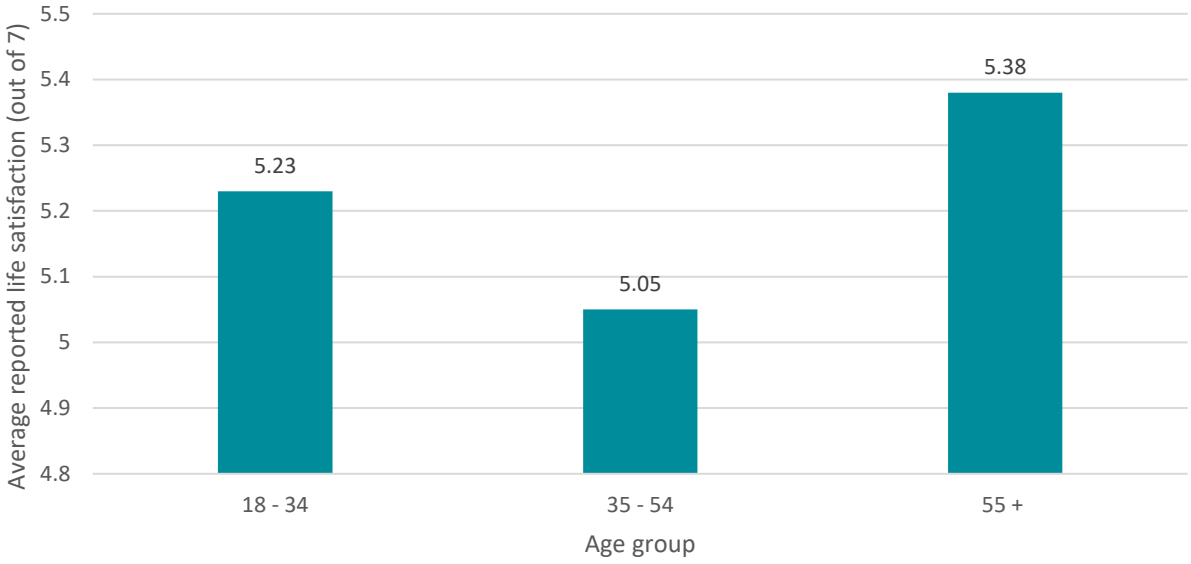
Sources: UKHLS, Cebr analysis

Analysing data from the ONS' Living Costs and Food survey on average levels of spending across different regions shows that the share of expenditure that goes towards housing is higher in London than in any other part of the UK, and by a considerable margin. Indeed between 2016 and 2018, 19% of expenditures in London went towards housing, compared to a national average of 13%. The high cost of housing in London means that less money is available for recreation and culture. 9.8% of expenditures went towards recreation & culture in the capital – the lowest share in the UK and well below the UK average of 13%. These factors could go some way to explaining London's position at the bottom of the life satisfaction rankings.

Meanwhile, in regions with higher levels of reported life satisfaction – such as the South West and the East of England – housing typically accounts for a smaller share of total spending while recreation & culture account for a larger than average share. These results provide some evidence that high housing costs restrict households' abilities to spend on leisure items, potentially impacting levels of well-being in affected areas.

Turning to different age groups, individuals aged 55 or older on average report a life satisfaction score of 5.38, while those aged under 35 have an average a score of 5.23. The age group reporting the lowest levels of life satisfaction are those aged between 35 and 54, for whom the average score is just 5.05 out of 7.

Figure 4 Average reported life satisfaction score, by age group



Sources: UKHLS, Cebr analysis

The Living Costs and Food survey shows that older households allocate a larger share of their total spending towards recreation & culture. Indeed, among those aged between 65 and 74, 16% of spending goes towards this category, compared with a national average of 13%. This goes some way to explaining the high life satisfaction scores among older respondents. A potential factor contributing to the low life satisfaction scores among middle-aged individuals is that this age group often face an array of financial and non-financial pressures, ranging from the demands of balancing work and family life, to paying down mortgages and saving for children's education. These pressures tend to abide in old age, which could have the effect of lifting average levels of reported life satisfaction among this demographic.

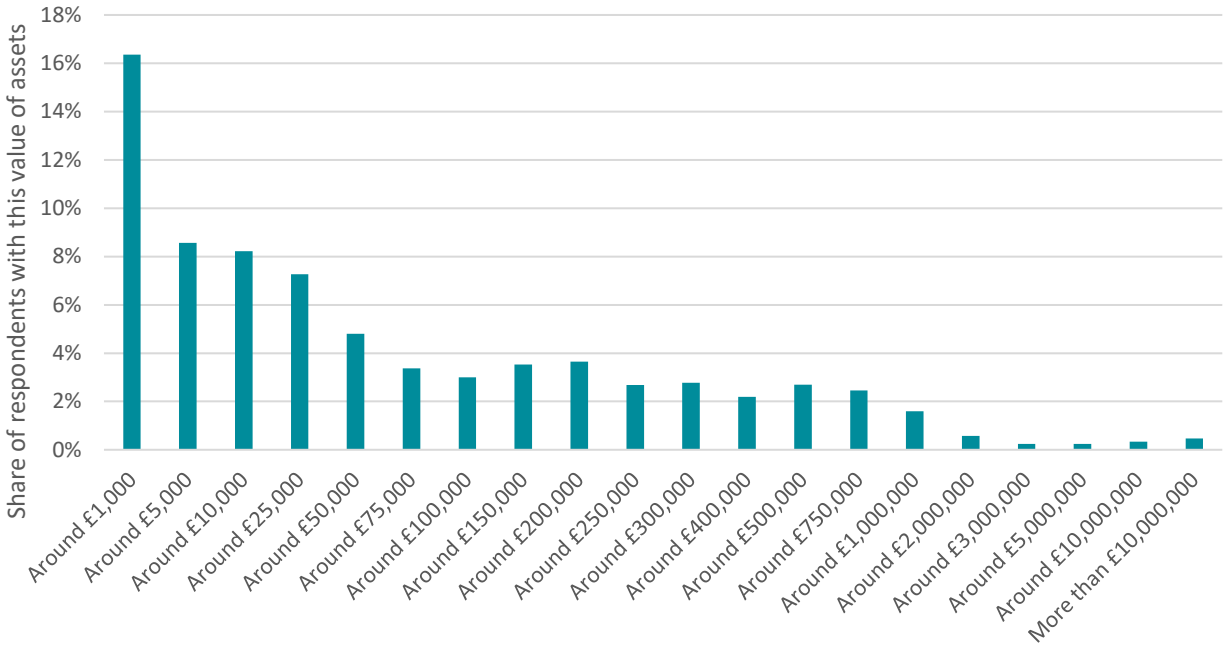
4 Consumer survey

To supplement the econometric analyses presented above, a survey of 4,002 adults in the UK has been conducted,[16] exploring attitudes to savings, wealth, and the impact that this has on their life satisfaction.

4.1 Perceptions of wealth

A third (33%) of survey respondents indicated that the total value of their assets (including all savings accounts, investments, retirement savings and property wealth) was £5,000 or less. Meanwhile, more than a third (35%) reported that the value of their assets was around £100,000 or more, and 5% stated it was around £1 million or higher.

Figure 5 Distribution of the total value of assets among survey respondents



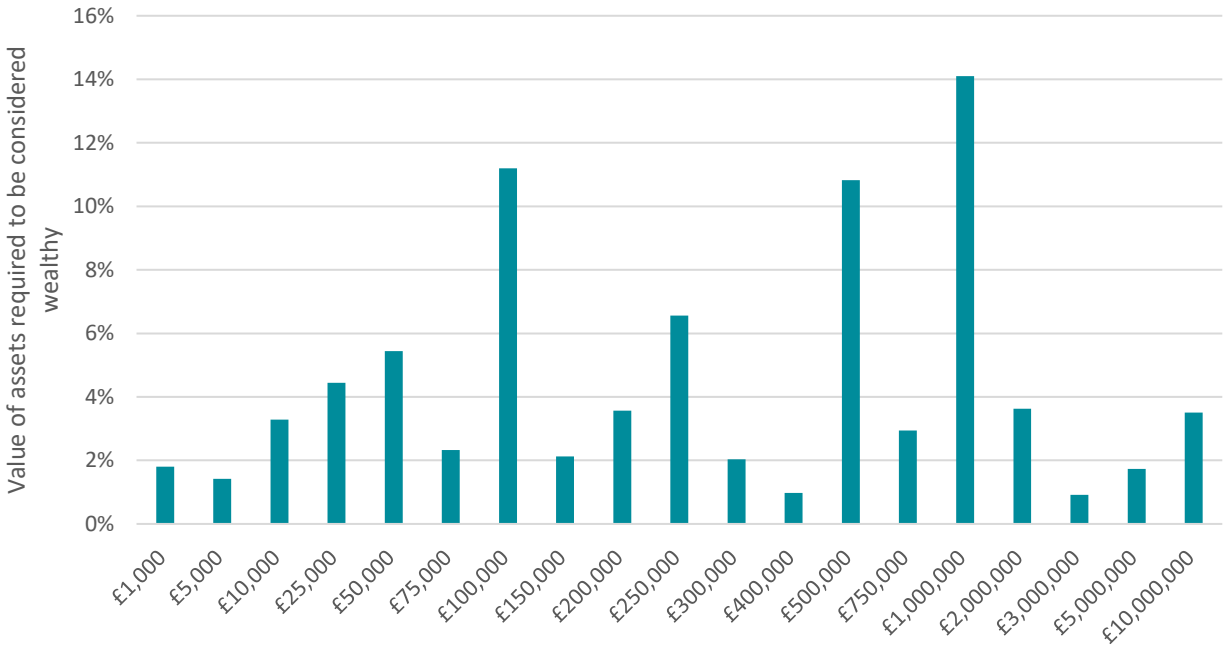
Source: Opinium Research, Cebr analysis

For the sample as a whole, the average level of personal assets is £281,343. This varies considerably across the UK, with survey respondents in London indicating an average level of personal assets of £589,456, while those in Northern Ireland have an average of £111,800. The high property prices in London – which often make up a large share of total assets for home owners – partly explains this large discrepancy.

The survey also examines the respondents' attitudes towards wealth. Across the sample, respondents on average said that they would consider a person with at least £1 million in assets to be wealthy. This is significantly above the value of assets reported by most of the survey respondents, which averaged £281,343 across the sample.

[16] Survey conducted by Opinium Research between 12th April 2019 and 15th April 2019.

Figure 6 Minimum level of assets required to consider a person wealthy



Sources: Opinium Research, Cebr analysis

Figure 7 Difference between average reported financial wealth and level of financial wealth required to be considered wealthy

Source: Opinium Research, Cebr analysis

A natural implication of the discrepancy between the average value of assets held and the level required to be considered wealthy is that the majority in the survey do not see themselves as being wealthy. Indeed, just one in fourteen (7%) respondents said that they consider themselves to be wealthy, compared to 85% who do not see themselves as wealthy. Moreover, among those who do not judge themselves to be wealthy, the majority (58%) said that they would need their income to rise by more than 50% for them to be on track to becoming wealthy. This finding highlights that not only do the vast

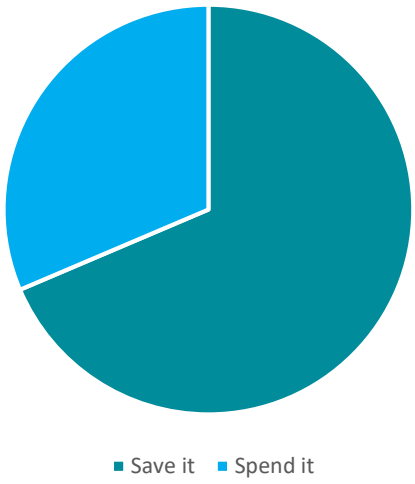
majority of individuals not class themselves as wealthy, but that most also feel like they are a long way off from becoming financially wealthy.

Interestingly, despite having lower levels of personal wealth than older generations, 11% of individuals aged 18 – 34 stated that they see themselves as wealthy, while just 5% of those aged 55 and over indicated the same. This points to a generational gap in perceptions of wealth. It also suggests that individuals judge their level of financial wealth against that of others in their age group, rather than against the population as a whole.

4.2 Attitudes to saving

36% of survey respondents indicated that they save regularly, while a further 35% save occasionally and less than a quarter (24%) never or very rarely save. The parts of the UK that save the most are London, the South East and the South West, while in Northern Ireland, just 29% of respondents stated that they saved regularly. There is a weak positive correlation of 0.2 between being a regular saver and reported life satisfaction scores, which supports the results of the analysis presented in Section 3 of the report. Respondents were also asked whether, if given £5,000 in cash, they would be happier spending it or putting it in savings. More than two thirds (69%) indicated the latter, again highlighting the role that savings have on happiness and life satisfaction.

Figure 8 Share of respondents who would save £5,000 in cash, vs share who would spend it



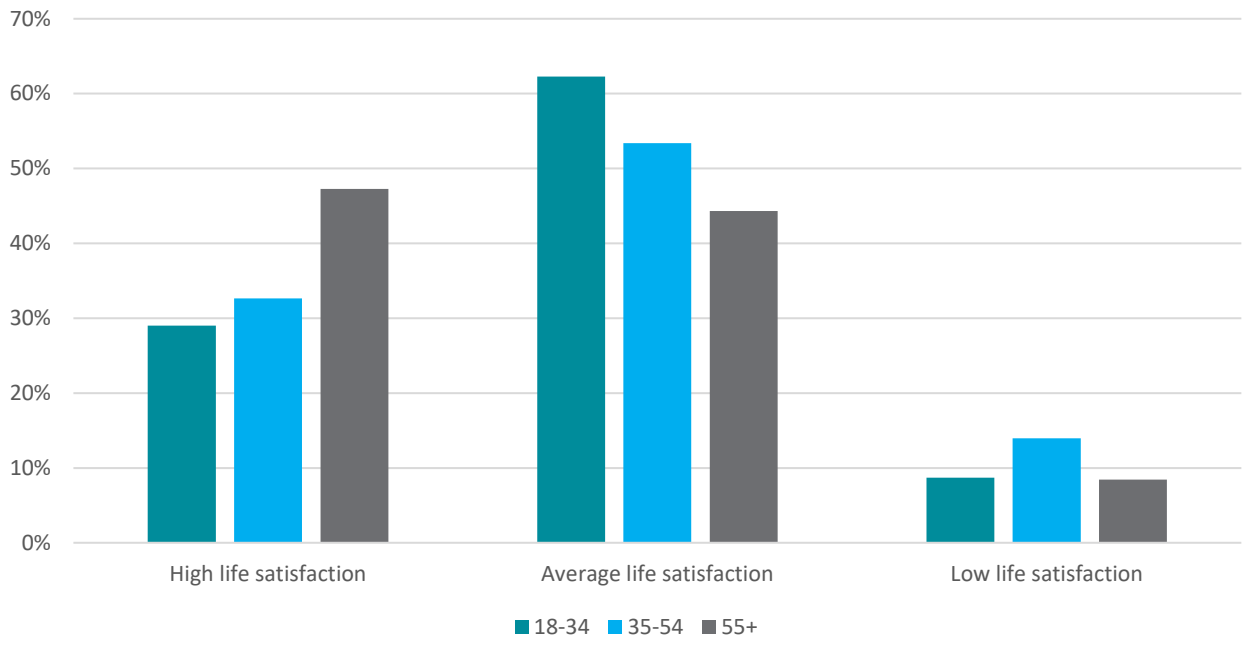
Sources: Opinium Research, Cebr analysis

4.3 Determinants of overall life satisfaction

The survey also asked respondents to rate – on a scale of 1 to 10 – how satisfied they are with various aspects of their life. When it comes to overall life satisfaction, more than a third (37%) indicated a high life satisfaction (scores of 8 or above), while one in ten (10%) reported a low life satisfaction (scores of 3 or lower). Scotland was the part of the UK with the largest share of respondents indicating a high life satisfaction (41%), while the largest shares of respondents reporting low life satisfaction scores were found in London and Northern Ireland.

Another key finding is that life satisfaction scores increased with age. Indeed, among those aged 18 – 34, just 29% of respondents provided a life satisfaction score of 8 or higher. This share rises to 33% and 47% among respondents aged 35 – 54 and 55+, respectively.

Figure 9 Reported life satisfaction scores, by age group



Sources: Opinium Research, Cebr analysis

In order to assess the importance of financial factors in determining overall life satisfaction relative to other variables, respondents were asked to assess how satisfied they were with their home life, their social life, their job, and their health and well-being. For each of these factors, the correlation with reported life satisfaction was computed. A correlation score of +1 implies a perfect positive correlation with life satisfaction, a correlation of 0 implies no relationship with life satisfaction.

Table 3 shows that satisfaction scores in all elements of respondents' lives are positively correlated with the overall life satisfaction score. The results suggest that social factors i.e. the quality of home life or social life are the most significant drivers of overall life satisfaction, although financial circumstances do remain important. This highlights the broad spectrum of factors that shape people's wellbeing, and that money is by no means the only key to a happy and fulfilled life. Indeed, the high correlation between overall life satisfaction and non-monetary factors such as home life, social life and health suggests that money is neither a necessary nor a sufficient condition for happiness.

Home life is also the category that respondents were on average the most satisfied with, with an average score of 7.0 out of 10. Meanwhile, the average score for satisfaction with financial situation was just 5.6. Moreover, less than a quarter (24%) of respondents reported a high satisfaction score for their financial situation, compared with nearly half (47%) who reported a high satisfaction score for their home life.

Table 2 Correlation between life satisfaction and various determinants of quality of life

	Average satisfaction score	Correlation with life satisfaction score
Home life	7.0	0.78
Social life	6.1	0.72
Health and wellbeing	6.1	0.70
Financial situation	5.6	0.65
Job	6.1	0.59

Sources: Opinium Research, Cebr analysis

5 Conclusions

A key and consistent finding that emerges from this report is that promoting a culture of "living lagom" – characterised by finding the right balance between enjoying a good quality of life today while also setting aside savings for future goals, providing the comfort of a financial buffer for a rainy day – has the potential to deliver significant improvements to life satisfaction in the UK. The amount that households save is found to be a more reliable predictor of life satisfaction than other financial variables such as income. Furthermore, the goal of saving more is one that is attainable – to some extent at least – for the vast majority of households, meaning that it is possible to increase life satisfaction without necessarily having to transform incomes.

The importance of perceptions of financial well-being is another theme that comes through in this study. Indeed, individual's qualitative judgement of their own financial situation is found to have a significantly stronger relationship with reported life satisfaction than objective monetary variables such as income. This highlights the complex nature of each individual's financial circumstances, which are shaped by numerous factors beyond income or levels of assets, for instance spending commitments or savings habits.

The results of the consumer survey confirm how saving can often make people happier than spending. Indeed, more than two thirds of respondents indicated that they would be happier saving a £5,000 cash windfall than spending it. The survey also highlights that while financial circumstances are an important driver of overall life satisfaction, these are just one of many variables that feed into quality of life. The results suggest that non-monetary factors such as the quality of home life, social life or health have a closer relationship with life satisfaction than one's financial situation.

Overall, this research suggests that people do not necessarily need to be rich or spend a lot of money in order to be happy. Living within your means through higher savings, while taking a holistic approach to life that gives attention to both financial and social elements, has the potential to deliver a sizeable boost to life satisfaction in the UK.