Determinants and Motivation for Savings & Investment of Middle Class Income Households In Nagpur

Dr. Aparna Samudra*

Dr. M.A.Burghate**

Key Words:

1. Saving income ratio
2. Determinants of savings
3. Motives of savings
4. Middle class

Abstract

Savings is defined as the difference between income and consumption. The importance of savings cannot be underestimated particularly for a developing economy like India, as it is this part of total income which contributes to the much needed capital formation. A study on the motives & determinants of savings of the population particularly with an annual income between Rs. 90,000 to Rs. 10,00,000, also considered as the population middle income class would help a great deal in achieving the objective of financial inclusion in India. The paper discusses in length about the savings rate, motives of savings & determinants of savings of the households of the sample selected from Nagpur which falls in the above stated income category. The analysis so done by grouping the population in three age groups along with a cross section analysis would help to comment on how the savings & saving behaviour changes with age & income of the household.

INTRODUCTION

The inherent truth of that the future is uncertain & the fear of unknown looms large over all of us. The fear of unknown can at all times be considered as to why people wish to save some portion of what they earn. The amount of savings & how this money is used to further generate more income is dependent on many factors. It is not only that the uncertainty of future which motivates people to save but also how much they earn, what is their own outlook for the future, number of dependents & type of profession can also be enumerated as some of the motivations to save & invest.

This paper identifies the reasons for savings of the selected middle class income households, the determinants of savings, impact of determinants on savings of households, adequacy of savings of these households & the reasons for the same.

RESEARCH OBJECTIVES:

The paper has the following research objectives:

1. To determine the savings income ratio of the middle class income households in Nagpur.
2. To identify the motives for savings of the middle income households in Nagpur.
3. To find out the factors that has determine the savings of the middle income households in Nagpur.
4. To assess the savings behavior of the middle income households in Nagpur.

The following hypothesis has been formulated for the research purpose:

1. The average savings of the household increases as the household income increases.

SAMPLE DESIGN

According to the National Council of Applied Economic Research in the Market Information Survey of households in association with Business Standard in August 2005, the term "middle class" applies to those earning between Rs.90,000 to Rs.10,00,000 a year. The households are further divided into aspirers, middle- middle class & upper middle class. The households with an annual income between Rs.90000-Rs. 200000 have been defined as aspirers, income between Rs. 2,00,000 to Rs. 5,00,000 are middle -middle class & income between Rs.5,00,000 to Rs. 10,00,000 are classified as upper middle class.

The same definition would be used for this research purpose and the three strata of the population would be divided on the above criteria. The sample was also divided on the basis of age in each sample to income group. Primary data was collected from 300 households which were selected from each of the three income slabs as defined by NCAER.

* Dr. Panjabrao Deshmukh Institute of Management Technology & Research, Nagpur and can be reached at cs_samudra@yahoo.com

** Dr. Panjabrao Deshmukh Institute of Management Technology & Research, Nagpur and can be reached at mukulburghate@rediffmail.com

ISSN : 2229-6514 (Print),2230-8237(Online)

The sample has also been divided on the basis of the age of the head of the household as - under 35 years, 35-54 years & above 55 years. This classification of the sample would help in an in-depth analysis of the motivation & determination to save of the sample.

REVIEW OF LITERATURE

From a psychological point of view, savings can be considered the result of a deliberate decision making process and to save as the act of regularly putting away some resources for a goal (a pension fund, to buy something, to give a present) (Lewis, Webley, & Furnham, 1995; Warneryd, 1999).

In economics, savings has been the object of intense theoretical and empirical consideration (i.e. Keynes's, Modigliani's, Friedman's and Duesenberry's theories); in psychology it has been treated from a variety of points of view.

One of the most important economic theories regarding savings is the life cycle hypothesis proposed by Modigliani and Brumberg (1954). According to this theory, individuals save some of their earnings to provide for purchases in the final stages of life, when they will no longer be earning an income. In this context, the main motivation which drives an individual to save is the wish to accumulate money to use when he or she is retired (Modigliani, 1986) In an extension of the life cycle hypothesis, the permanent income hypothesis (Friedman, 1957), a further motivation appears: savings to leave an inheritance ("Bequest motive").

Some studies have investigated the importance of different motivations to save. Katona's (1975) work for example, showed that in the United States in 1960s, people saved, in order, for emergencies (ill-health, unemployment), to have funds in reserve for necessities, for retirement or old age, for their children's needs, to buy a house or durable goods and for holidays. Few claimed to save to earn future income (in the form of interest or dividends) or to leave money to their heirs.

More recently, Kotlik off (1989) revealed that about 30% of family savings in the United States can be explained by motives of a precautionary nature, in particular by anxieties about old age. From other studies conducted in Holland (Alessie, Lusardi, & Aldershof, 1997) and in Sweden (Lindqvist, Julander, & Fjaestad, 1978), it emerges that the precautionary motive is one of the most important reasons for savings. Johnson (1999), in a study carried out on refugees of Asiatic origins, revealed that this group saves mainly for emergencies and their children's education.

A survey conducted in Japan (Horioka & Watanabe, 1997), revealed that the Japanese families interviewed put away savings mainly for retirement and for precautionary reasons, which is consistent with the life cycle hypothesis. Harris, Loundes, and Webster (2002) conducted a study on the determinants of savings in Australian families. The study, carried out on a random sample of 1200 families who were interviewed by telephone, shows that the three most frequently indicated reasons are "Retirement", a motivation linked to the life cycle, "Holidays" and "Rainy days" (a precautionary motive). The next four motives are, in order: investing for a house, paying back debts, providing for children's education, and purchasing durable goods. The bequest motive is relatively less important.

In a cross-cultural study, Webley et al. (2000) compared the savings motivations of Italians, English and Israeli respondents. In comparison to the English and Israeli group, Italians were more inclined to save as much as possible. They controlled their expenditure more easily and preferred to have more substantial reserves put aside. The important savings motives for them were to save for their children's education and for medical care. For the English respondents, on the other hand, savings for future purchases was more important.

Other researchers have also taken psychological constructs into account in their models of savings behaviour. For example, in their behavioural life-cycle hypothesis, Thaler and Shefrin (1988) consider psychological factors such as mental accounting and self-control. According to this model, people do not treat all of their wealth in the same way, but spend differently depending on whether the money is seen as current income, current assets or future assets. Regarding self-control, Thaler and Shefrin (1981) claim that people often adopt rules that restrict opportunities to spend. These rules can be imposed from the outside or self imposed.

Some authors have proposed hierarchical structures of savings motives. Lindqvist (1981), for instance, has proposed a structure of reasons for savings in which at the lowest level is the need to handle cash to deal with short-term financial goals and at the second level the need to have a reserve of money as a precautionary measure.

At the third level is the need to have a large amount of money to buy something expensive and finally at the top level there is the need to manage accumulated wealth. These various levels of reasons for savings correspond to different types of savers. Xiao and Anderson (1993) and Xiao and Olson (1993) incorporated Maslow's theory and the behavioural life cycle hypothesis into their approach. They found that families show different savings motivations and save according to different categories of mental accounting to provide for different needs.

Finally, Warneryd (1995) distinguished four motives for savings and stressed that a person can save for one or more motives at the same time. Warneryd (1995, 1999) labels the first "Savings as a continuous habit". This is a well established habit of savings which is not related to any specific goal. The second, the so-called "Precautionary motive", is due to uncertainty about the future.

Determinants of Savings

The savings of the households are determined by a number of factors like the income of the household, education of the head of the household, profession of the head of the household, & number of dependents. The relationship between these factors & the savings of the household is analyzed in the section given below.

Savings-income Ratio

The average propensity to save can be defined as the percentage of income which is not spent by the households. The savings are a function of the income of the households. The Keynesian Absolute Income hypothesis predicts a decline in the average propensity to consume of the average family when families move up a higher income level or in other words as the household income increases their savings increase.

The research results found out that the savings income ratio of the respondents of the sample is 0.16

However, when savings within the strata were compared it was found that the average savings was higher for higher income group. For the income group between Rs. 5 lacs to 10 lacs per annum the savings income ratio is 0. 20, 0.17 for income group earning between Rs. 2 lacs to 5 lacs per annum & 0.12 for respondents with per annum income of Rs. 90000 to 2 lacs per annum. It was therefore demonstrated that the average propensity to save increases as we move up the income ladder.

Table 1.1 : Average savings ratio according to income class & income Group of the selected households

Income group	under 35 years	35-54 years	above 55 years	Average of income group
90,000-2 Lacs	0.14	0.11	0.12	0.12
2 Lacs- 5 Lacs	0.19	0.16	0.17	0.17
5 Lacs-10 Lacs	0.21	0.18	0.20	0.20
Average propensity o save of all age group	0.18	0.15	0.16	0.16

Source: Survey data

Even though the Life cycle hypothesis (Modigliani & Brumberg,1953) is the most common approach to consumption & savings at the micro level & suggest that savings & dissavings are undertaken to smooth consumption & utility while yearly income varies over the stages of life cycle. The LCH makes the assumption that the income stream of an individual is relatively low at the beginning and end of their lifespan and relatively high in mid life.

In contrast to the predictions of life-cycle savings theory, younger couples without children and older households without dependent children are more likely to save than younger single households. Among middle age groups, only the pre-retirees without dependent children are more likely to save than younger single households.

Savings & Profession

The research also tried to find if there exists any correlation between the type of employment & the proportion of income saved. The research results showed that the public sector salaried households saved the least amongst the sample. The prime reason behind this behaviour is that these households have relatively secured future through the assured pensions & other social security benefits. Another reason for this result is that these households also have proportionately lesser income than the other types of employment.

The highest savers amongst the sample is the business class & the reasons to save more are the higher income generation this sample & higher savings due to take care of the future needs as they don't have an access to various social security schemes of the government.

Savings & Education

Another relation between the level of education & the percentage of income saved was derived in the research. The sample was divided according to level of education of the head of the household & the percentage of income saved done by them. The research found out that if the

ISSN : 2229-6514 (Print),2230-8237(Online)

head of the household is more educated then the proportion of savings was also high.

Table 1.2 : Savings in relation to type of employment of the sample population

Type of employment	Savings as percentage of income
Salaried public sector	15.0
Retired	15.5
Professional	16.0
Salaried private sector	18
Business	19.2

Source: Survey data

The research results are given in the table below. Whereas in the households with head of the being an undergraduate the proportion of income saved was 16% in case of post graduate head of households this proportion was 17.4%.

Table 1.3 : Savings in relation to the education of the head of the households of the sample population

Education of the head of the household	Savings as % of income
Undergraduate	16.0
Graduate	16.7
Post graduate	17.4
Professional	17.3

Source: Survey data

It can therefore be interpreted that the savings rates increases as the education level of the head of the household improves.

Savings & Number of Dependents

The savings if the household are also affected by the number of earning members in the family. As is known there exists a positive correlation between the income & the proportion of the income saved the research was directed in ascertaining whether the same can be empirically tested. The research results found that there is vast difference on the savings of the household which had one earning members & the ones where all the family members were earning. The savings percentage with one earning members was 13.57% whereas the same rate went up to 16.17% with 2 to 4 earning members in the family. The following table shows the results.

Table 1.4 : Savings in relation to the number of earning members in the households of the sample population

Number of earning members	Percentage of income saved
1	13.57
2 to 4	16.17

Source: Survey data

The number of dependents & the percentage of savings is also an area where the research tried to find some relationships. It has been studied by various researchers that the number of dependents affects the savings of the households. Dependents can be defined as the members of households who are not earning. The research related the size of the family & the number of earning members in the family. The size of the family was divided into a family with upto 4 members & family with more than 5 members. The earning members were divided in a family with only one earning member & a family with had more than 1 earning member.

Table 1.5 : Savings in relation to the number of earning members in the households & the size of the households of the sample population

Earning members in the family	Size of the family Up to 4 members	more than 5 members
1	15.16	13.9
more than 1	17.8	16.9

Source: Survey data

It was found out from the sample population that the savings as percentage of income increased with the more earning members in the family. The smaller families have more savings as compared to larger families. Similarly the savings rate increased as the proportion of dependents reduced, in other words which meant that when the ratio of dependents to earners reduced the families saved more.

TEST OF HYPOTHESIS

The research results brought forth the savings percentage of the three income groups. The null hypothesis was that the mean of savings percentage amongst all the three groups are the same. Alternative hypothesis was that the means of these groups were significantly different at a level of 5% significance.

The Z-test of hypothesis was done & it was found that there is a significant difference in the mean savings rates of the income groups Rs.90,000 p.a.-2 lacs p.a. & Rs. 2 lacs-5 lacs p.a. This difference was again significant for the income groups Rs.90,000 p.a.-2 lacs p.a. & Rs. 5 lacs -10 lacs p.a. Therefore the alternative hypothesis was accepted.

The value of z test for the difference of means between Rs.90,000 p.a.-2 lacs p.a. & Rs. 2 lacs-5 lacs p.a. is 2.35 whereas the critical value of z at 95% level of significance is 1.96. Therefore it can be interpreted that the savings difference between these two income classes is significant.

Similarly the value of z for the difference of means between Rs.90,000 p.a.-2 lacs p.a. & Rs. 5 lacs -10 lacs p.a. is 4.96 & the critical value of z at 95% level of significance is 1.96.Hence it can be said that the difference in savings between both the income groups is significant.

On the other hand this difference was however not significant for the income group Rs. 2 lacs-5lacs p.a. & Rs. 5 lacs -10 lacs p.a. as the value of z for the difference in mean savings rate between these two income groups is 1.12 & the critical value of z at 95% significance is 1.96.

From the above analysis it can be concluded that there exists a difference between the savings rates amongst the classes or the savings increase as income increases this difference is large in lower income group of the middle class income segment as proved above.

This difference is significantly large when the income disparity is more or the income group of Rs. 90,000 – 2 lacs p.a. have a greater variation. As we move the higher income slab the significance in the savings rates decreases. This is an important conclusion from the point of view of the policy makers while they give various concessions to middle income class in order to step up the savings rates. It can be said that tax reliefs would be more effective to the aspirers or the lower middle class.

THE MOTIVES FOR SAVINGS BY MIDDLE INCOME CLASS HOUSEHOLDS IN NAGPUR

The survey of the respondents was done to find the main motives behind savings by the middle class income households in Nagpur.

The main motives behind savings were enumerated as:

1. To provide resources for retirement
2. To Finance expected large lifetime expenditure like marriage of children, education.
3. To Finance unexpected loss of income
4. Smooth availability of resources over the lifetime
5. Tax planning
6. Medical provisions
7. Paying off debt

The respondents were asked to mark their preferences for the various alternatives of motives for savings starting from most important reason to save, important reason to save & least important reason to save. The survey data results indicated that the most important reason to save by the middle income households in Nagpur is to provide resources for retirement, followed by the need to save to provide for expected large lifetime expenditure.

The summary of the results shows that 84 percent of the respondents marked the following as the four most important motives to save:

1. To provide resources for retirement
2. To Finance expected large lifetime expenditure like marriage of children, education.
3. To Finance unexpected loss of income
4. Smooth availability of resources over the lifetime expenses

The reason behind this is because unlike in the western and developed countries, which have the system of social security that prevents the poor households from starvation and ill-social society by giving social protection and economic support, "there is no social security in the country (India) for the citizens of the nation."

The respondents of all income groups in middle class income households have not given much weightage to tax planning as a motive for investment. This highlights the fact that people don't recognize the current tax incentives as encouragement for individuals to keep savings.

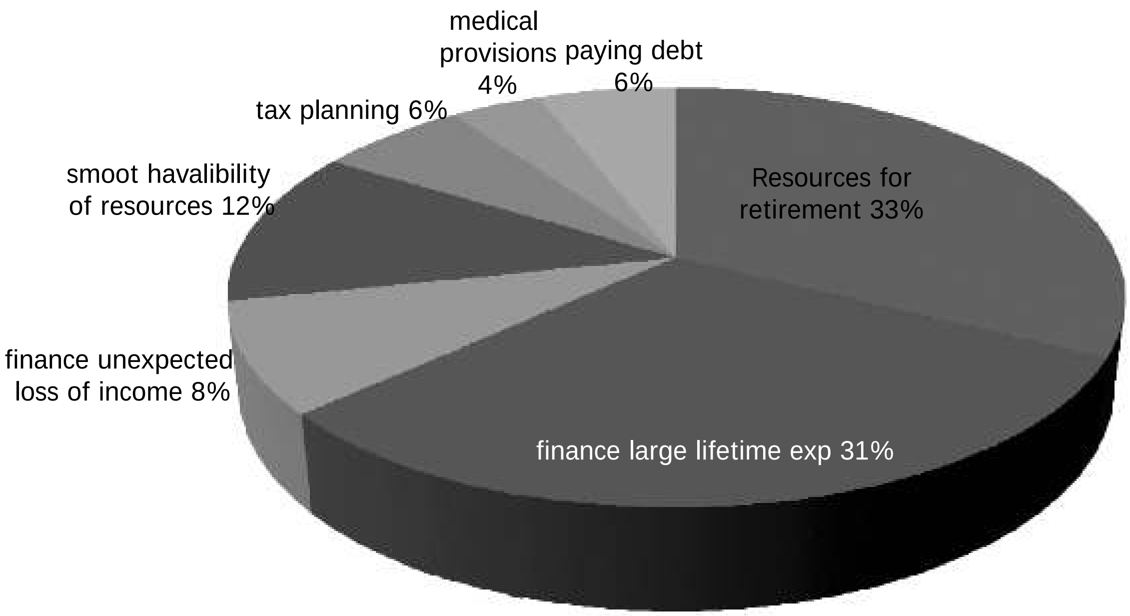
The following figure gives the breakup of the responses from the survey showing the proportion of the various reasons to save by the respondents.

It can be inferred from the above figure only 16 percent respondents have considered tax planning, paying off debt & medical provisions as most important reason to save. The respondents of the middle class income households are more financial security oriented & there is a highlighted need of the government in providing this security to the citizens. Financial security is an essential element of inclusive growth. In a more dynamic labor market and in the absence of established state-provided mechanisms of social security, households in India increasingly need to look to financial instruments to meet their asset accumulation and old-age goals.

Consistent with the life cycle model is the profile of reasons for savings across the age groups. Savings for retirement is

ISSN : 2229-6514 (Print),2230-8237(Online)

Graph 1.1 Reasons for savings of the selected households



Source: Survey data

Table 1.6 : Motives for savings of the selected middle class households in Nagpur

	To provide resources for retirement	To Finance expected large lifetime expenditure	To Finance unexpected loss of income	Smooth availability of resources	Tax planning	Medical provisions	Paying off debt
Most important reason to save	33%	31%	8%	12%	6%	4%	6%
Important reason to save	22%	26%	17%	14%	8%	10%	2%
Least important reason to save	15%	19%	24%	12%	11%	10%	9%

Source: Survey data

relatively important as individual's approach retirement age with three age grouping presented above. Upto the age of 35, less than 25 percent of households indicated that they were concerned with savings for this purpose. In contrast, around 34 percent of these aged between 35 and 54 thought that retirement was an important reason to save. The retirement motive becomes increasingly important to save for above 55 years old where 39 percent respondents are giving this as the most important reason.

Financing large lifetime expenditure like the marriage of children, investing in family home becomes a relatively important reason to save for the age group till 54 years of .Savings for medical provisions is gaining increased importance as a motive to invest with only 2 percent in the age group of under 35 years highlighting it as an important reason to 11 percent in the age group of above 55 years of age. Similarly financing unexpected loss of income as an important reason to save is given by 13 percent of households which is gradually decreasing to be reported by 10 percent & 5 percent by the age group of 35-54 years & above 55 years respectively.

The results of the nationwide survey of over 60,000 households by National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life has revealed 83 percent of the households surveyed saved for emergency, while children's education (81 percent) was the other key priority. While only 69 percent households saved for old-age financial security, 63 percent households said they kept aside money to meet future expenses like marriage, births and other social ceremonies. The survey concluded that these households save for long-term goals such as emergencies, education and old age.

This study also notes that nearly 47 percent households saved to buy or build a house and a similar percentage saved to improve or enlarge their business. Only 22 percent households saved to buy consumer durable and 18 percent for meeting expenses towards gifts, donation or pilgrimage

DETERMINANTS OF SAVINGS

The research focused on knowing what has affected the savings ratio of the middle class income households in Nagpur. The respondents in the sample were asked to report whether they were savings enough & what they thought were the reasons that made them not to save enough. The various reasons for not savings enough or the factors that affected their savings were divided as the given below:

A. Own Family expenditure

B. Medical expenses of the households

C. High cost of living

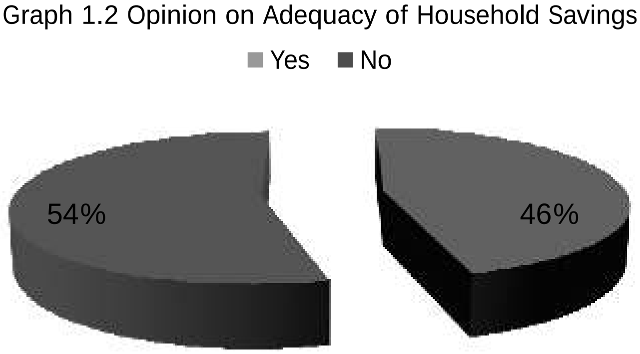
D. Low income of the household

E. Consumption expenditure on luxurious lifestyle

F. Debt commitment of the households.

The survey results bring out that the majority of the respondents in the sample have reported that they feel that they are savings enough. 54 percent of the respondents have reported in affirmative about their opinion whether they are savings enough or not

Graph 1.2 Opinion on Adequacy of Household Savings



Source: Survey data

The respondents gave various reasons that affected their savings ratio. The most reported reasons for not being able to save as desired by the middle class income households was their own family expenditure(45%), which includes the consumption expenditure on the basic necessities of life. This was followed by high cost of living (26%) which reduced the real income of the respondents & affected their savings ratio. The ability to earn less or low income of the households was the third most recorded answer (14%) for not savings enough.

A cross sectional analysis of the data on the reasons affecting the savings of the households threw light on some interesting facts. The respondents in three income strata in the survey showed that the reasons cited for not being able to save enough were different across these strata.

An analysis of what are the reasons for not being able to save enough are listed below:

The above data shows that the family consumption expenditure on necessities though has been the prime reason for not being able to save enough, the percentage of respondents indicating that the own family expenditure as the prime reason for not savings enough has declined as we move the income bracket. Whereas 56% respondents of Rs. 90,000 to 2 lacs income per annum group cited this as the main reason, only 30% of the respondents in the income bracket of Rs. 5 Lacs-10 Lacs income per annum gave importance to this reason.

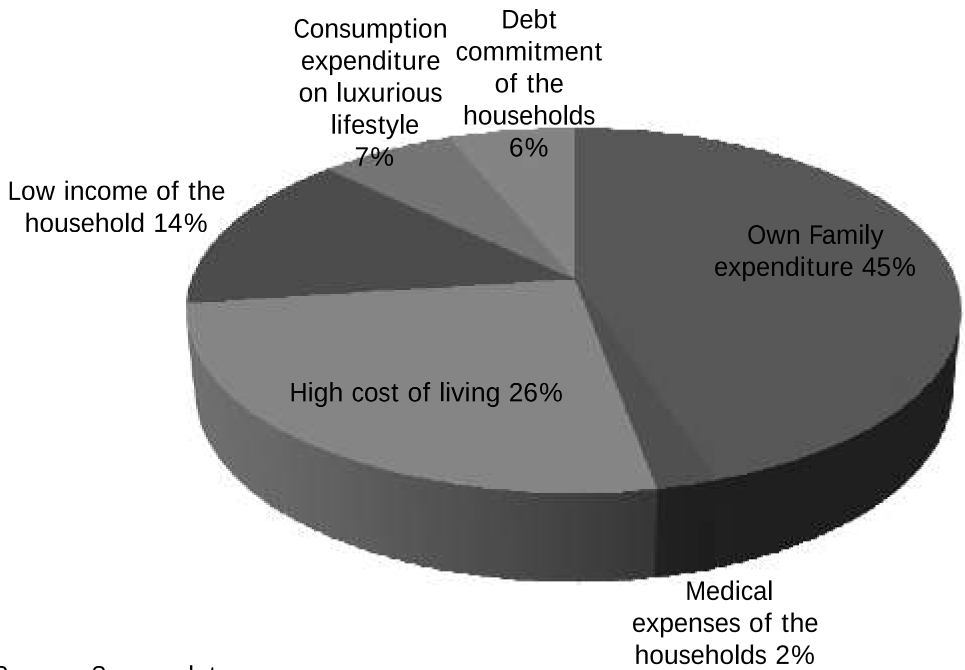
Similarly more households in the higher income bracket have given more weightage to the high cost of living as reason for not being able to save enough. The debt commitment as a reason for not savings enough has been marked by 12% respondents in the income slab of 2 lacs to 5 lacs income per annum whereas only 3% respondents have reported to as a reason for not savings enough. One inference that can be drawn from this is that the respondents in this income bracket have a higher proportion of debt in their portfolio.

Low income of the households has been marked by 30% respondents in the lower income slab whereas the same has been recorded at a much lower level at 7% & 6% respectively for income group of 2 lacs to 5 lacs income per annum & 5 Lacs-10 Lacs income per annum.

The research also focused on knowing whether the age plays a role in the quantum of savings made by the households. An age wise classification of data to know the reasons behind not savings enough shows that though the primary reason for all age groups is the own family expenditure, 55 percent of the respondents in the age group of above 55 years reported it to be the prime reason

ISSN : 2229-6514 (Print),2230-8237(Online)

Graph 1.3 Reasons for not savings adequately



Source: Survey data

Table 1.6 : Motives for savings of the selected middle class households in Nagpur

	Own Family expenditure	Medical expenses of the households	High cost of living	Low income of the household	Consumption expenditure on luxurious lifestyle	Debt commitment of the households
Rs. 90,000-2Lacs p.a.	56%	0%	11%	30%	0%	3%
Rs. 2 Lacs-5 Lacs p.a.	48%	4%	18%	7%	11%	12%
Rs. 5 Lacs-10 Lacs p.a.	30%	3%	49%	6%	9%	3%
Total	45%	2%	26%	14%	7%	6%

Source: Survey data

only 46 percent respondents in the age group of under 35 years reported it to be the reason. 39 percent of the respondents under 35 years sad that high cost of living & luxurious lifestyle reduced their ability to save. Whereas only 26 percent respondents in the age group of 35- 54 years of age & 15 percent in the age group of above 55 years reported these as the reason for not being able to save enough. The reason behind this variation is that the younger generation has less number of dependents but spend more in lifestyle maintenance than the older generation.

The objective of the research was also to know the savings behavior of the people in the middle class income households in Nagpur. The respondents were given to answer from the following options to mark how much money do they generally have left in the end of the month:

1. Always plenty of money left
2. Often money left
3. Money left only if additional income obtained
4. Often not enough money left
5. Never enough money left

As given in the figure below 44 percent of the respondents reported that at the end of the month they had often enough money left indicating a healthy trend of savings behaviour.

Disparity in the savings behaviour was seen among the income strata. In the income group of Rs. 90,000- 2 lacs per annum income 22 percent of the respondents said that at the end of the month they often didn't have enough money left whereas this was only with 7% & 6% respondents in the income bracket of Rs. 2 lacs to 5 lacs income p.a. & Rs. 5 lacs – 10 lacs income p.a.

52% respondents in the income bracket of 2 lacs to 5 lacs reported that at the end of the month they had enough money left with them. Whereas majority the respondents (55%) in the income bracket of income of 5 lacs to 10 lacs or annum reported that they always had plenty of money left at the end of the month.

The above shows that the income group of Rs. 5 lacs to 10 lacs p.a. is financially more comfortable as 55% respondents reported to have plenty of money left at the end of the month, whereas only 4% of the respondents in the income bracket of Rs. 90,000- 2 lacs p.a. have reported such a savings behavior. On the other hand 19% of the respondents in the income bracket of Rs. 90,000- 2 lacs per annum have reported that they never had enough money left at the end of the month whereas the only 2% of the respondents in the higher income bracket of Rs. 5 lacs to 10 lacs per annum have reported such a situation.

Therefore it can be inferred from the above that as income increases the households have a greater surplus left with them.

1.7 Savings behavior

The questionnaire included several direct questions about household savings behavior. Table 1.9 summarizes the results for the question "Which of the following sentences best describes your savings behavior?" Respondents were given a choice of five possible answers, all of which appear in the first column of the table. The percentages indicate the relative frequency of households choosing a certain answer. Next to the overall shares of households for each answer, the table lists the shares dependent on three age groups and income classes. The basic structure of the relative frequencies of the households is roughly the same for both samples.

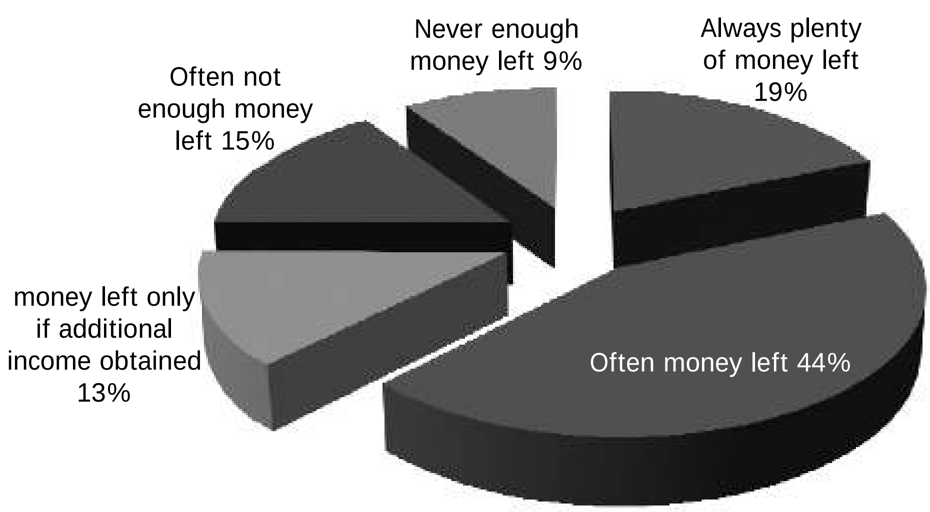
Altogether about Savings Rules three quarters of the surveyed households save either regularly or keep something aside but plan later. The majority of households report savings regularly; 74% claim to save either a fixed or a variable amount regularly. The largest share of households even saves a fixed amount regularly is 47%.

For slightly more than 24% of the households the decision whether or not to save directly depends on consumption and income. They only save if there is money left. Roughly the same share of households claims to not have the financial capability to save. Only about 2% of the households in both samples do not see the necessity to save at all and rather enjoy life.

As expected, income seems to play an important role in the savings decision. In the highest income class, more than half of the households put aside money regularly while only a little more than 30% do so in the lowest income class. Clearly, the percentage of households stating not to have the financial capability to save decreases with increase in their household income.

With respect to age, there are an astonishing high

Graph 1.4 Amount of money available for savings by the selected households



Source: Survey data

ISSN : 2229-6514 (Print),2230-8237(Online)

proportion of the youngest households that saves regularly, more than 44%. This is likely, however, to be driven by an indirect effect of income on savings behaviour as the youngest households generally have lower incomes than the older ones. The savings behaviour further gets more disciplined in the middle age group.

To check for consistency between self-assessed savings behaviour and the self-reported capability to save, a brief comparison in the results to the answers given to the question about making ends meet is done. Table 1.10 lists the percentages of households in each answer category as a function of their capability to save.

Overall the answers given to both questions are quite consistent. This becomes particularly evident when looking at the percentages of households claiming not to have the financial capability to save. About 60% of the households in samples that indicate to have always plenty of money left at the end of the month also stated to save fixed amount regularly. This is also the case for roughly one fifth of the households claiming to often not have enough money left at the end of the month.

The percentage of household savings regularly decreases with lower capability to save, which can be seen in the first two rows of the table above. Nevertheless surprising is the fact that still 30% claim to save a fixed amount regularly even though they never have enough money left at the end of the month. Possibly, some respondents subtract their regular savings amounts as monthly expenditures when answering the "never enough money left" question. In this case, savings regularly can be consistent with never having enough money left at the end of the month.

FINDINGS & CONCLUSION

The research results found out that the average propensity to save of the respondents of the sample was 16 percent. For the income group between 5 lacs to 10 lacs per annum the average propensity to save was 20 percent, 17 percent for income group earning between 2 lacs to 5 lacs per annum & 12 percent average propensity to save of respondents with per annum income of 90000 to 2 lacs per annum. It was therefore demonstrated that the average propensity to save increases as we move up the income ladder which proves the research hypothesis.

Table 1.8 : Savings behavior with respect to income group

Income group	Always plenty of money left	Often money left	Money left only if additional income	Often not enough money left	Never enough money left obtained
Rs. 90,000-2 lacs p.a.	4%	39%	16%	22 %	19%
Rs. 2 lacs – 5 lacs p.a.	18%	52%	17%	7%	6%
Rs. 5 Lacs- 10 lacs p.a.	55%	33%	4%	6%	2 %
Average	19%	44%	13%	15%	9%

Source: Survey data

Table 1.9 : Self-Assessment of Savings Behavior

	Age				Income group (Rs.)			
	Total	under 35	35-54	above 55	Total	Rs. 90,000-2 lacs p.a.	Rs. 2 lacs-5 lacs p.a.	Rs. 5 lacs-10 lacs p.a.
Fixed amount regularly in investment instruments Keep	47%	44%	50%	47%	49%	35%	53%	58%
something aside but plan later	27%	30%	26%	26%	28%	25%	28%	32%
Save if something left	15%	18%	15%	11%	15%	19%	14%	11%
Don't save as no scope	9%	7%	7%	12%	7%	18%	4%	0%
Don't save & want to enjoy now	2%	0%	2%	4%	1%	3%	1%	0%

Source: Survey data

ISSN : 2229-6514 (Print),2230-8237(Online)

The research results showed that the public sector salaried households saved the least amongst the sample.

The highest savers amongst the sample is the business class & the reasons to save more are the higher income generation this sample & higher savings due to take care of the future needs as they don't have an access to various social security schemes of the government.

Socially relevant results were also obtained from the research. The research found out that if the head of the household is more educated then the proportion of savings was also high. The research results found that there is vast difference on the savings of the household which had one earning members & the ones where all the family members were earning. It was found out from the sample population that the saving as percentage of income increased with the more earning members in the family. The savings rate increased as the proportion of dependents reduced, in other words which meant that when the ratio of dependents to earners reduced the families saved more.

The summary of the results shows that 84 percent of the respondents marked the following as the four most important motives to save:

1. To provide resources for retirement
2. To Finance expected large lifetime expenditure like marriage of children, education.
3. To Finance unexpected loss of income
4. Smooth availability of resources over the lifetime expenses.

It can be inferred from the above figure only 16 percent respondents have considered tax planning, paying off debt & medical provisions as most important reason to save. The research focused on knowing what has affected the saving ratio of the middle class income households in Nagpur. The survey results bring out that the majority of the respondents in the sample have reported that they feel that they are saving enough. 54 percent of the respondents have reported in affirmative saying that in their opinion they are saving enough.

The most reported reasons for not being able to save enough by the middle class income households was their own family expenditure (48%). 56% respondents of 90,000 to 2 lacs income per annum group cited this as the main reason for not being able to save enough. Low income of the households has been marked by 30% respondents in the lower income slab whereas the same has been recorded at a much lower level at 7% & 6% respectively for income group of 2 lacs to 5 lacs income per annum & 5 Lacs-10 Lacs income per annum.44 % of the respondents reported that at the end of the month they had often enough money left indicating a healthy trend of saving behaviour.

Disparity in the saving behaviour was seen among the income strata. 22 percent of the respondents said that at the end of the month they often didn't have enough money left.48 % respondents in the income bracket of 2 lacs to 5 lacs reported that at the end of the month they had enough money left with them.55% respondents in the income bracket of income of 5 lacs to 10 lacs or annum reported that they always had plenty of money left at the end of the month.

The majority of households report saving regularly; 74% claim to save either a fixed or a variable amount regularly.

Table 1.10 : Self-Assessment of Savings Behaviour and Savings Capability

	Total	Always plenty of money left	Often money left	Money left only if additional income obtained	Often not enough money left	Never enough money left
Fixed amount regularly in savings/ investment	47%	60%	52%	31%	30%	0%
Keep something aside but plan later	27%	24%	27%	38%	27%	1%
Save if something left	15%	15%	13%	13%	19%	0%
Don’t save as no scope	9%	1%	8%	19%	19%	5%
Don’t save & want to enjoy now	2%	0%	1%	0%	5%	0%

Source: Survey data

ISSN : 2229-6514 (Print),2230-8237(Online)

47% of the households save a fixed amount regularly is.Income seems to play an important role in the savings decision. In the highest income class, more than half of the households put aside money regularly while only a little more than 30% do so in the lowest income class.

With respect to age, there is an astonishing high proportion of the youngest households that saves regularly, more than 44%.The saving behaviour further gets more disciplined in the middle age group.

About 60% of the households in samples indicate to have always plenty of money left at the end of the month & also stated to save fixed amount regularly. However there was dissimilarity in the saving ability was seen across the income class. The research results highlighted that as the income of the household's increase they have greater surplus left with them.

REFERENCES

Alessie, R., Lusardi, A., & Aldershof, T. (1997). Income and wealth over the life cycle: Evidence from panel data. Review of Income and Wealth, 43(1), 1–32.

Brumberg, R. (1954). Utility analysis and the consumption function. An interpretation of cross-section data. In K. K. Kurihara (Ed.), Post-Keynesian economics. New Brunswick, NJ:Rutgers University Press.

Daniel, T., & Webley, P. (1998). Individual differences and research into savings. Talk given at a workshop on Individual Differences in Economic Behaviour held at the International Centre for Economic Research, Turin, March 1998

Friedman, M. (1957). A theory of the consumption function. Princeton, NJ: Princeton University Press.

Katona, G. (1975). Psychological economics. New York: Elsevier.

Kotliko? , L. J. (1989). What determines savings? Cambridge, MA:

The MIT Press.Modigliani, F., &

Modigliani, F. (1986). Life cycle, individual thrift, and the wealth of nations. Science, 234, 704–712

Johnson, P. J. (1999). Savings practices of new Canadians from Vietnam and Laos. Journal of Consumer Affairs, 33(1), 48–75.

Harris, M. N., Loundes, J., & Webster, E. (2002). Determinants of household savings in Australia. Economic Record, 78(241), 207–223.

Horioka, C. Y., & Watanabe, W. (1997). Why do people save? A micro-analysis of motives for household savings in Japan. Economic Journal, 107(442), 537–552.

Lindqvist, A., Julander, C.-R., & Fjaestad, B. (1978). [Development of behavioral scienti?c indicators on savings. Report 2 of the project Savings and savings behaviour']. Stockholm: EFI

Lindqvist, A. (1981). The Stockholm School of Economics, Stockholm.

Thaler, R. H., & Shefrin, H. M. (1981). An economic theory of self-control. Journal of Political Economy,89(2), 392–401.

Thaler, R. H., & Shefrin, H. M. (1988). The behavioural life-cycle hypothesis. Economic Inquiry, 26, 609–643.

Warneryd, K.-E. (1995). A study of savings behaviour towards the end of the life cycle. Center for Economic Research, Tilburg University, Progress Report No. 28

Warneryd, K.-E. (1996). Personality and savings. Centre for Economic Research, Tilburg University,

Progress Report No. 39.

Warneryd, K.-E. (1999). The psychology of savings. A study of economic psychology. Cheltenham: EdwardElgar Publishing.

Webley, P., Burlando, R.P., & Viner, A. (2000). Individual di? erences, savings motives and savings behaviour: A cross-

national study. In E. H€ olzl (Ed.), Fairness and cooperation. IAREP/SABE 2000.25th Colloquium, Baden, Vienna, Austria (pp. 497–501).

Xiao, J. J., & Anderson, J. G. (1993). A hierarchy of ?nancial needs re?ected by household paper assets. In T. Mauldin (Ed.), The proceedings of the American council on consumer interests 39th annual conference(pp. 207–214). Columbia, MO: American Council on Consumer Interests.

Xiao, J. J., & Olson, G. I. (1993). Mental accounting and savings behavior. Home Economics Research

Journal, 22(1), 92–109.

ISSN : 2229-6514 (Print),2230-8237(Online)