

■ EXECUTIVE SUMMARY AND HIGHLIGHTS

- Although the value of household net wealth increased further during Q1 2015, such growth is fragile.
- Momentum/Unisa estimates that real net wealth (current value expressed in constant 2010 prices) increased at a rate of 12.1% between Q4 2014 and Q1 2015 (Quarter over quarter seasonally adjusted and annualised – QoQSAA) to R6 482 billion.
- This increase was driven by strong growth in the value of household assets – specifically financial assets – and slow growth in the value of household liabilities.
- Expressed in real terms the value of household assets increased by R182.5 billion to R7 898 billion between Q4 2014 and Q1 2015. This represents an annualised growth rate of 10.1% between the two quarters. Compared to the same period a year ago, the real increase was 3.4%.
- However, the growth in assets seems fragile, as households are reliant on an increase in share prices, where such share prices are not supported by profit growth. In addition, their contributions to retirement funds that are invested in such shares, were only 0.9% more compared to a year ago.
- The slow growth in contributions to retirement funds are however also indicative of the strain under which households are operating.
- Further indications of such strain are the slow growth in the pace at which households' liabilities are growing. In current prices household debt increased by an annualised rate of only 1.8% between Q4 2014 and Q1 2015 to R1 806 billion. Expressed in real terms the value of household liabilities increased by only 1.3% (annualised) between Q4 2014 and Q1 2015.
- The proportion of (an adjusted) household disposable income used for debt repayment increased to 24.7% in Q1 2015 compared to 23.7% in Q1 2014.
- Purchases by way of credit cards are the fastest growing debt type. Credit card debt increased at a rate of 9.7% by the end of Q1 2015 compared to 10.7% at the end of Q4 2014 (year-on-year – YoY). Similar increases for instalment sales credit, unsecured loans and mortgages at the end of Q1 2015 amounted to 5.9%, 3.7% and 2.7% respectively, while overdrafts fell out of favour being 0.4% less than a year ago.

TABLE 1: OVERVIEW OF MOMENTUM/UNISA HOUSEHOLD WEALTH INDICATORS
(Quarterly)

Household wealth indicators	Q3 2014	Q4 2014	Direction	Q1 2015	Direction
Momentum/Unisa Household Liabilities (nominal R' billion)	1 772	1 798	↑	1 806	↑
Momentum/Unisa Household Assets (nominal R' billion)	9 707	9 822	↑	10 074	↑
Momentum/Unisa Household Net Wealth (nominal R' billion)	7 935	8 024	↑	8 268	↑
Momentum/Unisa Household Liabilities to Disposable Income	78.3	78.3	↔	78.1	↓
Household Net Saving (+)/dissaving(-) (R' billion)	-52.3	-51.4	↓	-53.7	↑
Momentum/Unisa Household Assets to Disposable Income	428.7	427.7	↓	435.3	↑
Momentum/Unisa Household Net Wealth to Disposable Income	350.4	349.3	↓	357.3	↑
Momentum/Unisa Household Liabilities (nominal QoQSAA %)	6.2	6.1	↘	1.8	↘
Momentum/Unisa Household Assets (nominal QoQSAA %)	-2.1	4.9	↗	10.7	↗
Momentum/Unisa Household Net Wealth (nominal QoQSAA %)	-3.8	-4.6	↗	12.7	↗
Momentum/Unisa Household Liabilities (real QoQSAA %)	1.3	2.1	↗	1.3	↘
Momentum/Unisa Household Assets (real QoQSAA %)	-6.5	1.0	↗	10.1	↗
Momentum/Unisa Household Net Wealth (real QoQSAA %)	-8.2	0.7	↗	12.1	↗
Household Debt Service Costs (nominal QoQSAA %)	11.4	15.5	↗	7.6	↘

Key:

↘ = growing at slower pace (QoQSAA % change);

↗ = growing at a faster pace (QoQSAA % change); Red colour = not preferred direction in terms of the pace (QoQSAA); Black colour = Preferred direction in terms of the pace (QoQSAA);

↑ = increase and preferred; ↑ = increase and not preferred;

↓ = decrease and preferred; ↓ = decrease and not preferred;

↔ = unchanged.

Note: The above analysis on the preferred direction and pace is done against the prevailing economic environment – which was muted in 2014. The colour coding may therefore be different during different economic circumstances. For instance, if households' debt increases and they have a negative net saving situation, it means that they borrow money to save – hence the arrow will be up and red. However, if their debt increases and they have a positive net savings situation, the arrow will be up and green.

1. SOUTH AFRICAN HOUSEHOLD BALANCE SHEET

1.1 Introduction

Although the focus of analysts is more on household income, expenditure and net saving, the strength of households' balance sheets, comprising their liabilities, assets and net wealth, is one of the most important economic indicators in South Africa– as it indicates the strength of households' financial health and financial wellness, which in turn is essential for determining their resilience to deal with shocks and the ability to contribute to a robust economy.

By analysing the changes and levels of South African households' liabilities, assets and net wealth, Momentum/Unisa attempts to develop outcome-based measures that can be useful to policy makers, companies, financial advisers and households in the quest to improve the financial wellness of South African individuals and households.

Such outcome-based measures include, among others, the following:

- identification of the variables that affect and drive the value of household liabilities, assets and net wealth;
- estimating the levels of and changes in household liabilities, assets and net wealth; and
- developing a number of financial ratios that can assist in gauging whether households' financial situation is improving or deteriorating.

To estimate the level, change in and drivers of households' liabilities, assets and net wealth, an econometric model was developed using the South African Reserve Bank's (SARB) estimates of these variables as benchmark. The financial ratios were estimated from the Momentum/Unisa estimates of the household balance sheet, as well as statistics from the National Credit Regulator and Statistics South Africa (Stats SA).

This report is constructed around the above-mentioned outcome-based measures, with a specific focus on the first quarter of 2015 (Q1 2015). Additional statistics are provided in the annexure.

2. SOUTH AFRICAN HOUSEHOLD NET WEALTH

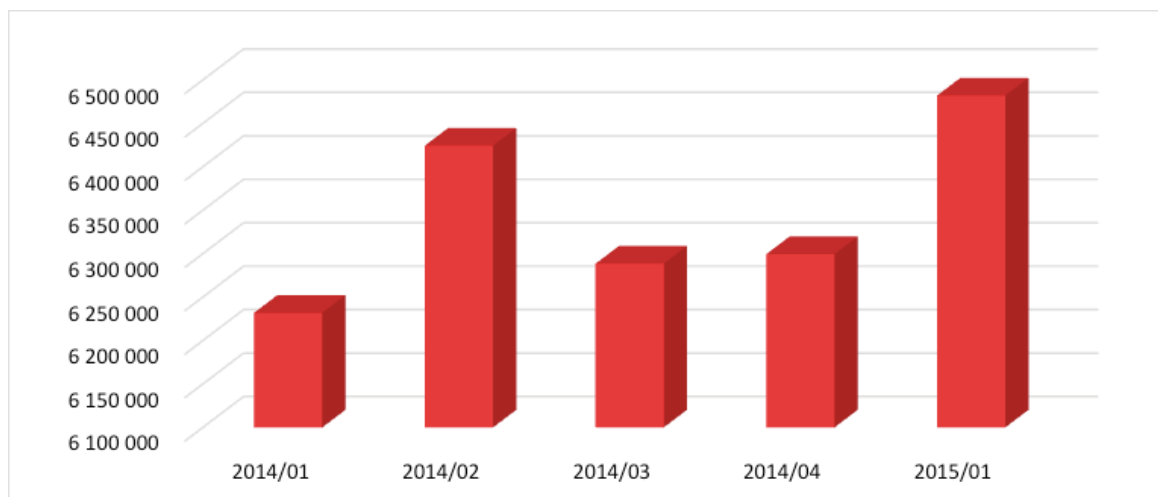
Momentum/Unisa estimated the value of South African households' net wealth – which is calculated by subtracting their liabilities from assets – at R8 268 billion (R8.268 trillion) at the end of Q1 2015. This represents an increase of R244 billion (in current prices) over Q4 2014, which is equal to an increase of 12.7% QoQSAA).

As this percentage increase exceeded the inflation rate (the annualised percentage by which prices increased between Q4 2014 and Q1 2015– in this case the household expenditure inflation rate) of 0.6%, it means that the real purchasing power of South African household net wealth (as expressed in constant 2010 prices) was 12.1% (QoQSAA) higher compared to Q4 2014. In monetary terms, this translates into an increase of R182.5 billion in household net wealth to R6 482 billion at the end of Q1 2015.

Compared to a year ago (Q1 2014), real household net wealth was R250 billion, or 4.01%, higher. However, this increase can mainly be ascribed to the mentioned annualised increase of 12.1% during Q1 2015. Put differently, it means that real household net wealth would have been on the same level than a year ago had it not been for the sharp growth during Q1 2015 (see **Figure 1**).

(see **Figure 1**).

Figure 1 : Real net wealth increases sharply in Q1 2015: (R' million)



Source: Momentum/Unisa own calculations; South African Reserve Bank Quarterly Bulletin June 2015.

The ratio of household net wealth to disposable income increased to 357.3% at the end of Q1 2015 from 349.4% in Q4 2014. This means that their net wealth is almost 3.6 times their disposable income. Despite increasing strongly, this is still just more than half the required ratio to be on par with international norms, meaning that South African households' net wealth is inadequate to, for instance, finance their retirement at current living levels.

3. SOUTH AFRICAN HOUSEHOLD LIABILITIES

South African households' liabilities were estimated at R1 806.4 billion at the end of Q1 2015.

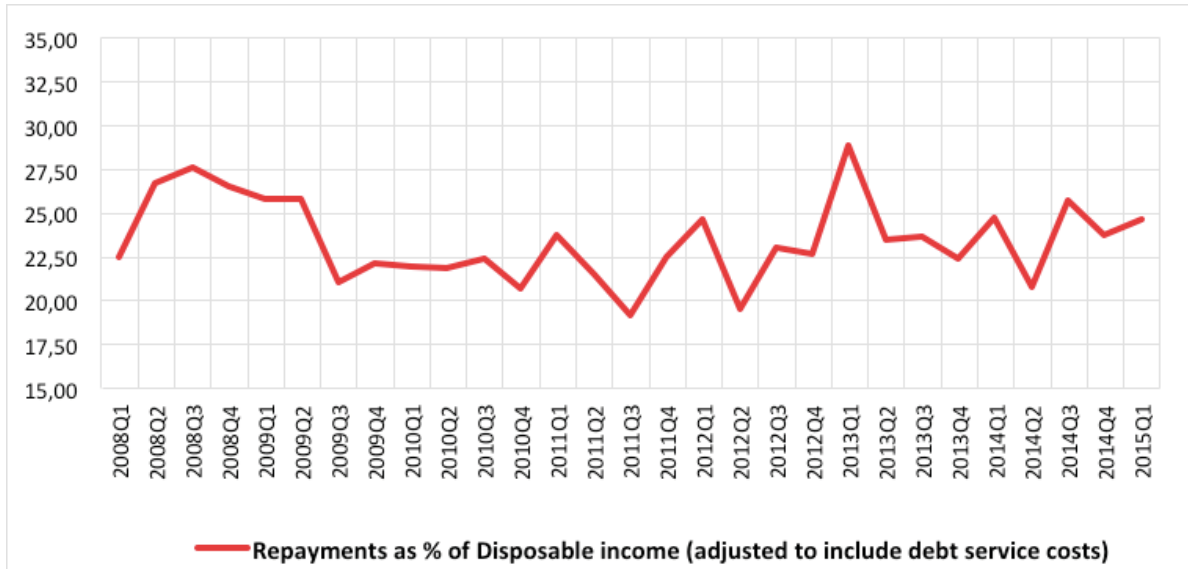
Such liabilities consist of all outstanding debts – that is, loans/credit and unpaid incidental accounts such as municipal, cell phone, medical and school fee arrears. Although South Africa has adequate information to reliably measure the value of household loans/credit, little is known about the value of all incidental accounts in arrears. As such the value of total household liabilities may be understated.

Household liabilities have been on a slow growing trend since the international economic recession. Since 2008 the average annualised quarterly increase was 5.6%. The increase was much slower during Q1 2015 though, increasing by only 1.8%. In real terms, the increase was just 1.3%. These slow rates are indicative of the strain under which the economy – and households in particular – are operating.

This slow growth contributed to households holding up reasonably in terms of debt repayments. Total required debt repayments (total instalments) as a percentage of revised disposable income increased to 24.7% in Q1 2015 from 23.7% in Q4 2014. Although this is a substantial increase as it reduced households' income available for spending by a full percentage point, it was the same as in Q1 2014 (see **Figure 2**).

Despite the higher required repayment, arrears statistics provided by the National Credit Regulator show that total arrears hovered around R190 billion over the past three quarters. During Q1 2015 total arrears increased to R191.9 billion from R189.4 billion in Q4 2014. At an annualised rate this represents an increase of 5.3% – it is however 3.5% lower compared to a year ago (Q1 2014).

Figure 2 : Debt repayment as a percentage of Disposable Income (revised)

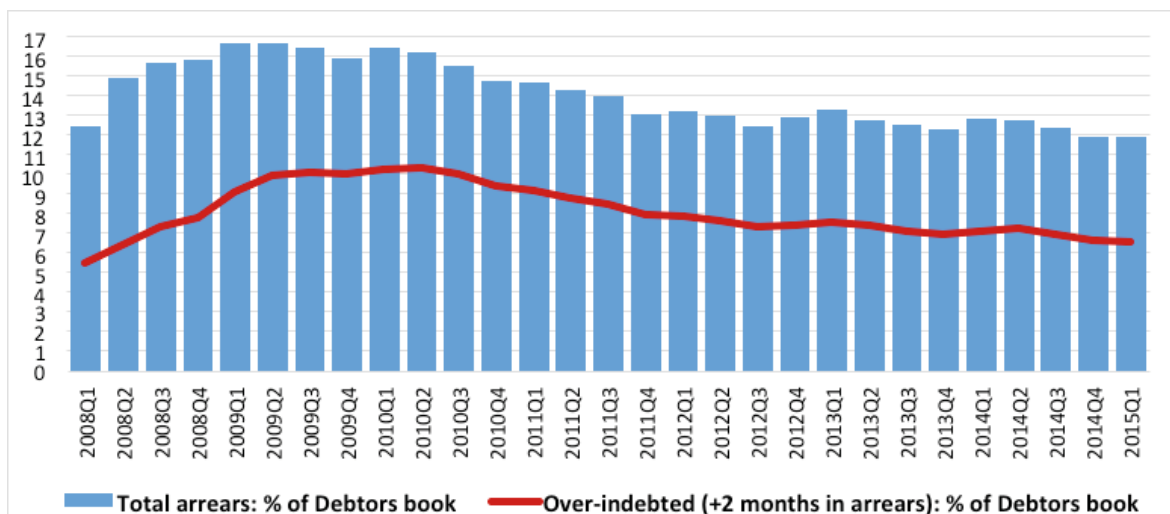


Source: Momentum/Unisa own calculations; National Credit Regulator.

Although total arrears amounted to 11.9% of total outstanding debt in Q1 2015, the over-indebted amount (more than two months in arrears) continued to decline. In Q1 2015 the over-indebted amount was 6.6% of outstanding debt compared to 6.7% in Q4 2014 and 10.4% in Q2 2010 (see Figure 3).

* Disposable income was adjusted upwards to include debt service costs.

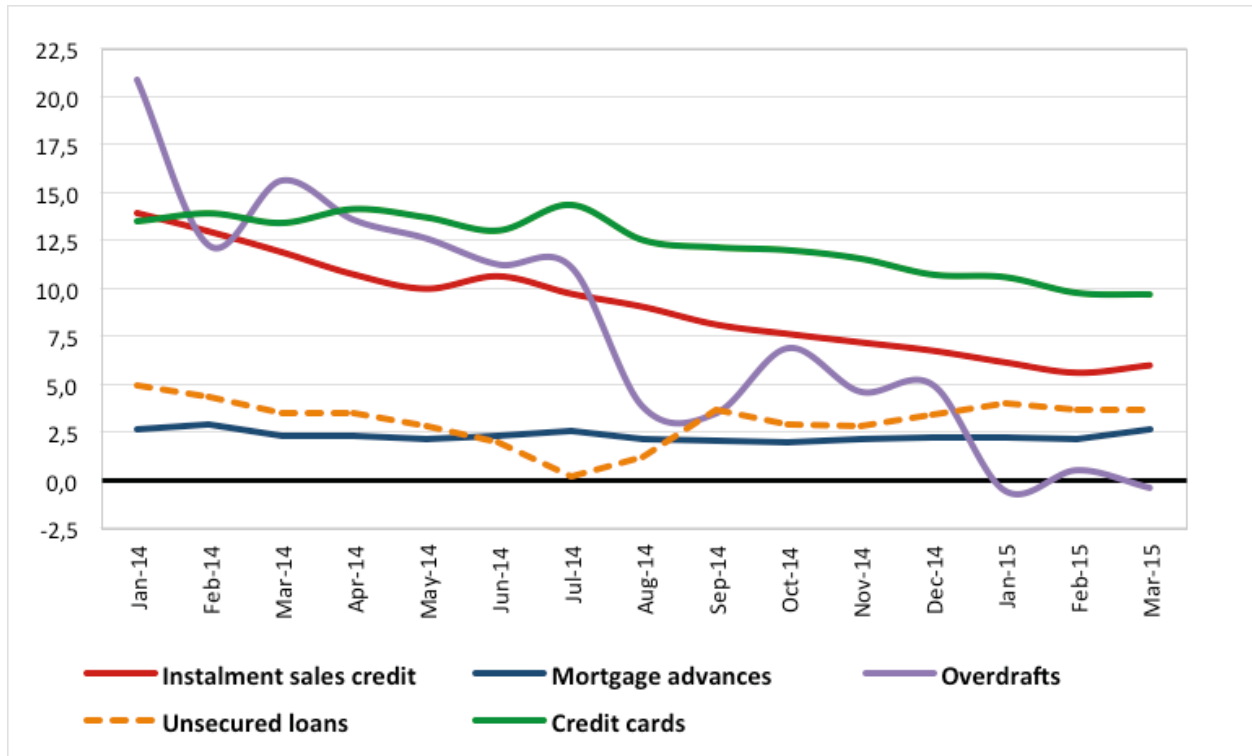
Figure 3 : Over-indebtedness declining proportional to outstanding debt



Source: Momentum/Unisa own calculations; National Credit Regulator.

In terms of the type of debts that are incurred, it is noteworthy to keep in mind that household debt is primarily used to finance residential assets and durable goods such as motor vehicles, furniture and electronic equipment. However, the fastest growing debt type is not asset backed credit. Figure 4 shows that although the year on year (YoY) growth in all types of credit is slowing, purchases by way of credit cards had been increasing at the fastest rate for some time now. Credit card debt increased at a YoY rate of 9.7% by the end of Q1 2015 compared to 10.7% at the end of Q4 2014. Similar increases for instalment sales credit, unsecured loans and mortgages at the end of Q1 2015 amounted to 5.9%, 3.7% and 2.7% respectively, while overdrafts fell out of favour, being 0.4% less than a year ago.

Figure 4 : Credit card debt increasing at the fastest rate (Year On Year % change)



Source: Momentum/Unisa own calculations; National Credit Regulator.

With most credit types increasing at a faster rate than mortgages, the latter credit type (for some time now has lost its status as comprising more than half of total liabilities. Household mortgages comprised just more than 46% of total household liabilities at the end of Q1 2015.

The above analyses show that households are increasingly financing their consumption expenditure with debt; that credit card purchases have taken over from unsecured credit as the fastest growing debt type; and that many households (comparatively and as a consequence) are unable to afford mortgages to purchase residential property. However, collectively debt repayments are not (yet) out of control, as instalments comprise more or less the same proportion of their disposable income (revised), while over-indebtedness is declining as a percentage of total debt outstanding.

4. SOUTH AFRICAN HOUSEHOLD ASSETS

Household assets are dominated by financial assets that comprise 70% of total assets. Financial assets mainly consist of investments (contributions) for purposes of retirement. In the non-financial assets category, residential property is the largest asset category and also the second largest category after households' interests in retirement funds.

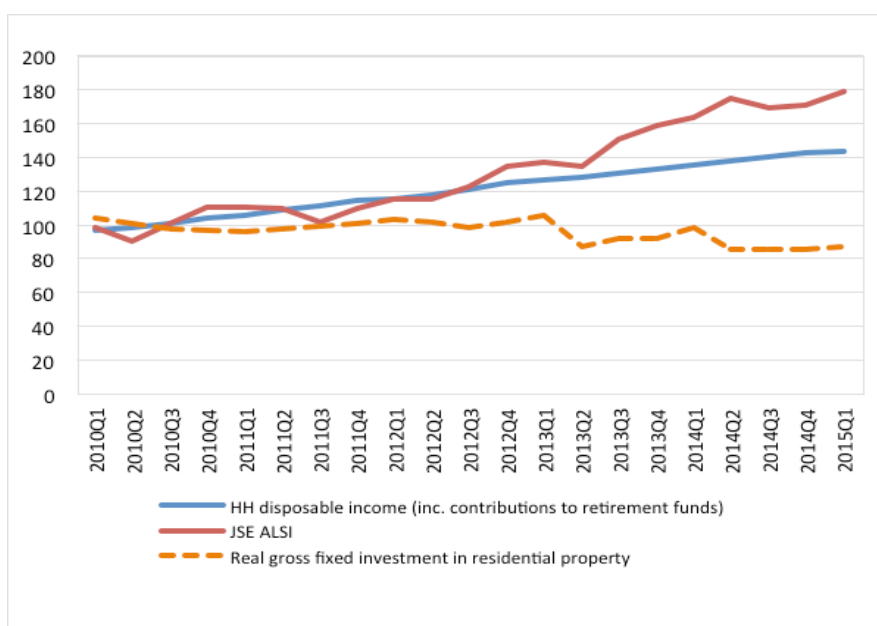
Momentum/Unisa estimates that the value of household assets increased to R10 074 billion in Q1 2015 from R9 822 billion in Q4 2014. This increase of R252.2 billion between the two quarters is equal to an annualised growth rate of 10.7%. Household assets were also 7.1% higher than a year before.

Expressed in real terms (2010 prices), the value of household assets increased by R182.5 billion to R7 898 billion between Q4 2014 and Q1 2015. This represents an annualised growth rate of 10.1% between the two quarters. Compared to a year ago the real increase was 3.4%.

This strong increase in the value of household assets was the main contributor to higher household net wealth in Q1 2015. However, when analysing the reasons for the increase in the value of household assets, the performance seems rather fragile and not sustainable – if current household behaviour continues. The increase in household net wealth is therefore also under pressure to lose its gains.

The analysis reveals that the growth in household assets, especially financial assets, is excessively reliant on the growth in share prices – and less so on contributions to retirement funds and the volume of new investments in property (see **Figure 5**). The JSE All Share Index (which serves as a proxy for share prices) was 20.8% higher at the end of Q1 2015 compared to Q4 2014 (quarterly growth rate annualised) and 8.4% higher compared to a year ago. These increases were the main drivers behind the mentioned 10.7% annualised increase in the value of household assets between Q4 2014 and Q1 2015 and the 7.1% increase between Q1 2014 and Q1 2015. However, at the same time the contributions to retirement funds at life insurers and official pension and provident funds was only 0.9% higher than a year ago (and when expressed in real terms these contributions were 2.7% lower than a year before).

Figure 5 : Investment in listed shares the main driver of household assets



Source: South African Reserve Bank; Momentum/Unisa own calculations

These numbers spell danger to households as the growth in share prices in itself is in fragile territory. This indeed seems to be the case as the price earnings multiple of the JSE All Share Index of 18.4 at the end of Q1 2015 was more than 25% higher than its long term average – suggesting that share prices are not supported by earnings. Such a situation, where households are too reliant on share prices for growth, but at the same time they are not saving to earn such growth via higher contributions to retirement funds, signals fragility and as such, a vulnerable rate of growth in net wealth.

Apart from financial assets, residential assets also did not grow spectacularly. The ABSA House Price Index revealed that compared to a year ago house prices were 7.1% higher and compared to Q4 2014 the annualised growth rate was a mere 2.6% higher. In addition, the volume of investments in residential property was 11.6% lower in Q1 2015 compared to Q1 2014.

So, in short, the increase in the value of household assets can mostly be deemed to be of artificial nature and a downward correction may be imminent. This is bad news for households who need to rely more on investments than artificial pricing for an increase in the value of their assets and net wealth.

CONCLUSION

The value of household net wealth increased further during Q1 2015 in current and constant prices.

The increase was mainly driven by strong growth in the value of household assets. It was mainly financial assets, specifically investments in listed shares that spurred the strong increase in the value of household assets. However this growth seems fragile as the increase in share prices are not supported by earnings. At the same time households' contributions to retirement funds (that are invested in listed shares) increased by less than a percentage point compared to a year before, meaning they are reliant on share price growth for an increase in their asset value.

Not saving sufficiently for investment is however indicative of financial strain. This is confirmed by the slow growth in their debt and an increase in the proportion of their income allocated towards debt repayment. Furthermore, although the pace of credit growth is slowing, the increase in credit card debt was at 9.7% (compared to a year before) higher than the nominal growth in consumption expenditure (5.3%), which indicates that they are borrowing to keep going.

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■ ANNEXURE

TABLE A1: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH INDICES: QUARTERLY NOMINAL SEASONALLY ADJUSTED AND ANNUALISED (SAA): 2010 = 100

Quarter	HH Liabilities SAA	HH Assets SAA	HH Net Wealth SAA
2010/01	97.66	98.13	98.25
2010/02	102.20	95.86	94.23
2010/03	98.57	101.66	102.46
2010/04	101.57	104.35	105.06
2011/01	103.10	105.77	106.45
2011/02	105.85	107.22	107.58
2011/03	108.51	105.75	105.05
2011/04	111.33	110.70	110.54
2012/01	113.83	113.49	113.41
2012/02	116.40	115.26	114.96
2012/03	119.46	119.80	119.89
2012/04	122.05	127.03	128.31
2013/01	125.17	128.95	129.92
2013/02	126.36	129.00	129.68
2013/03	129.00	136.92	138.95
2013/04	131.23	141.36	143.96
2014/01	133.30	148.05	151.84
2014/02	134.48	153.58	158.48
2014/03	136.50	152.76	156.94
2014/04	138.53	154.59	158.71
2015/01	139.16	158.56	163.54

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

TABLE A2: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH AS PERCENTAGE OF DISPOSABLE INCOME: QUARTERLY SEASONALLY ADJUSTED AND ANNUALISED (SAA)

Quarter	Liabilities (SAA) to Disposable Income	Assets (SAA) to Disposable Income	Net Wealth (SAA) to Disposable Income
2010/01	81.72	401.92	320.20
2010/02	83.68	384.19	300.51
2010/03	78.74	397.50	318.76
2010/04	78.86	396.56	317.69
2011/01	78.36	393.46	315.10
2011/02	78.02	386.86	308.84
2011/03	78.31	373.56	295.25
2011/04	78.35	381.35	303.00
2012/01	79.26	386.82	307.56
2012/02	79.27	384.19	304.92
2012/03	79.47	390.07	310.60
2012/04	78.63	400.56	321.93
2013/01	79.71	401.95	322.23
2013/02	79.15	395.54	316.38
2013/03	79.40	412.54	333.13
2013/04	79.40	418.65	339.25
2014/01	78.95	429.22	350.27
2014/02	78.33	437.86	359.53
2014/03	78.26	428.67	350.41
2014/04	78.30	427.67	349.38
2015/01	78.06	435.34	357.28

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

TABLE A3: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH: REAL QUARTER OVER QUARTER SEASONALLY ADJUSTED AND ANNUALISED PERCENTAGE CHANGE (QoQSAA % CHANGE)

Quarter	Liabilities	Assets	Net Wealth
2010/01	0.10	4.71	5.91
2010/01	3.36	7.29	8.32
2010/02	15.28	-12.48	-18.68
2010/03	-16.53	22.01	34.79
2010/04	8.53	6.83	6.41
2011/01	1.08	0.52	0.38
2011/02	2.51	-2.54	-3.77
2011/03	3.65	-11.20	-14.68
2011/04	1.78	10.31	12.65
2012/01	5.69	6.83	7.13
2012/02	2.85	0.03	-0.69
2012/03	5.31	10.79	12.25
2012/04	-0.59	15.34	19.70
2013/01	7.99	3.67	2.63
2013/02	-1.04	-4.57	-5.43
2013/03	2.56	19.84	24.49
2013/04	0.74	6.87	8.37
2014/01	-0.85	12.07	15.27
2014/02	-1.41	10.18	12.93
2014/03	1.33	-6.54	-8.19
2014/04	2.13	0.96	0.70
2015/01	1.26	10.06	12.10

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

TABLE A4: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
REAL YEAR ON YEAR PERCENTAGE CHANGE (YoY % CHANGE)

	Liabilities	Assets	Net Wealth
2010/01	-5.46	11.20	16.44
2010/02	2.41	6.29	7.42
2010/03	-1.13	7.47	9.83
2010/04	1.93	5.18	6.02
2011/01	1.36	3.48	4.02
2011/02	-1.57	6.30	8.49
2011/03	3.90	-1.82	-3.23
2011/04	2.25	-1.03	-1.84
2012/01	3.40	0.49	-0.23
2012/02	3.48	1.15	0.56
2012/03	3.89	6.90	7.70
2012/04	3.28	8.10	9.35
2013/01	3.84	7.29	8.18
2013/02	2.84	6.03	6.86
2013/03	2.16	8.14	9.66
2013/04	2.51	6.09	6.97
2014/01	0.34	8.18	10.12
2014/02	0.25	12.14	15.12
2014/03	-0.05	5.38	6.68
2014/04	0.29	3.89	4.74
2015/01	0.82	3.42	4.01

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

TABLE A5: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH: REAL SEASONALLY ADJUSTED AND ANNUALISED ESTIMATES (R' billion)

Quarter	Liabilities	Assets	Net Wealth
2010/01	1 286 376	6 326 992	5 040 616
2010/02	1 332 917	6 119 597	4 786 680
2010/03	1 274 035	6 431 652	5 157 617
2010/04	1 300 365	6 538 723	5 238 358
2011/01	1 303 862	6 547 230	5 243 367
2011/02	1 311 961	6 505 224	5 193 262
2011/03	1 323 770	6 314 909	4 991 140
2011/04	1 329 613	6 471 664	5 142 052
2012/01	1 348 145	6 579 514	5 231 369
2012/02	1 357 659	6 579 988	5 222 329
2012/03	1 375 321	6 750 756	5 375 435
2012/04	1 373 287	6 995 910	5 622 622
2013/01	1 399 918	7 059 167	5 659 249
2013/02	1 396 247	6 977 042	5 580 795
2013/03	1 405 095	7 300 011	5 894 917
2013/04	1 407 704	7 422 252	6 014 548
2014/01	1 404 708	7 636 732	6 232 024
2014/02	1 399 735	7 824 118	6 424 383
2014/03	1 404 375	7 692 893	6 288 518
2014/04	1 411 795	7 711 303	6 299 508
2015/01	1 416 237	7 898 289	6 482 052

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A6: MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
ANNUAL VALUES AT YEAR END EXPRESSED IN CURRENT PRICES**

	Liabilities	Assets	Net Wealth
1993	129 645	911 653	782 008
1994	158 273	1 176 973	1 018 700
1995	231 354	1 253 872	1 022 518
1996	283 805	1 421 205	1 137 399
1997	283 077	1 455 224	1 172 147
1998	272 850	1 475 998	1 203 148
1999	302 040	1 865 841	1 563 801
2000	363 296	2 026 644	1 663 349
2001	395 953	2 342 294	1 946 341
2002	430 561	2 463 770	2 033 208
2003	509 586	2 694 814	2 185 228
2004	603 300	3 238 419	2 635 119
2005	741 272	3 984 697	3 243 425
2006	908 991	4 870 452	3 961 460
2007	1 256 934	5 571 438	4 314 504
2008	1 196 700	5 416 941	4 220 241
2009	1 249 935	6 090 658	4 840 723
2010	1 318 528	6 630 054	5 311 526
2011	1 445 140	7 033 975	5 588 835
2012	1 584 411	8 071 432	6 487 021
2013	1 703 504	8 981 882	7 278 378
2014	1 798 275	9 822 281	8 024 005

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

TABLE A7: VARIOUS INDICATORS

	Real Net Wealth per person	Solvency ratio ¹⁾	Debt repayment (instalment) ²⁾ as % of income ³⁾	Contributions to retirement funds ⁴⁾ as % of income ³⁾	Surrenders as % of income ³⁾
2009	97947	4.90	23.96	4.85	2.84
2010	102335	5.06	21.57	4.93	2.74
2011	98964	4.89	21.41	4.77	2.74
2012	106577	5.13	22.35	4.58	2.79
2013	112249	5.33	24.24	4.80	2.83
2014	115722	5.42	23.48	4.55	3.05

Source: Momentum/Bureau of Market Research at Unisa: South African Reserve Bank Quarterly Bulletin; National Credit Regulator

1) The number of times assets exceed liabilities.

2) Capital, interest and costs. Developmental loans included from 2013.

3) Total income after tax available for spending and saving.

4) Employer and employee contributions to official and private retirement funds.