Tackling the Savings Gap

Consumer Savings and Debt Data Q1 2015

TACKLING THE SAVINGS GAP

true potential LLP

simple. effective. unique.

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Foreword

Hard work has just begun.

Since our last update, pensions have undergone their most radical reforms in generations and clients now have total control over their savings.

The old system desperately needed changing and that has finally happened after months of speculation over the potential fallout. People aged 55 and over have been handed complete freedom to align their hard-earned savings with their dreams and aspirations. Now they, alongside financial advisers, must begin the arduous task of deciding which path to take amid so many permutations for retirement funds.

The much-feared supercar spending spree, meanwhile, will ultimately prove to be a myth in my view.

Instead of lining up Lamborghinis to blow their savings on, most clients appear to be carefully considering their options. To suggest thousands of pensioners would ignore tax implications and discount their responsible approach to saving, for a fast car, was frankly insulting. But we also celebrate the very fact that such options are available.

The point is that savers aged 55 and over can now do as they please with their funds – including paying to fix their local church roof as one of the first benefactors of the pension reforms did. Having fought for these changes for several years, I'm proud they are finally in place. I also believe Chancellor George Osborne deserves recognition for delivering flexi-access income drawdown for all.

Heading into the impending general election, the Conservatives appear to have put pensioners and savers at the heart of their election strategy.

As well as pension freedoms, the Tories have introduced tax-free interest on savings and higher ISA allowances since our last report. With savers being particularly hard-hit over the last six years with low interest rates, I welcome anything to help encourage people to better plan for their financial future. Should the next government not be at least partially blue, however, the onus will be on the new Chancellor to ensure the achievements of the Coalition in improving conditions for savers are not undone.

But for all the positive steps made in recent months which make saving more accessible, the UK's Savings Gap still requires drastic action. Since 2013, we have questioned thousands of people on a quarterly basis about their saving habits and worrying statistics continue to emerge.

Hopefully, new pension freedoms will switch more people on to the importance of taking their retirement fund seriously before it's too late. But they alone will not be enough to arrest the decline of Britain as a nation of savers. More action is needed, including the ongoing simplification of financial services to make them understandable and accessible.

More education about the realities of securing a comfortable retirement is also required, as is further development of user-friendly technology which makes saving easier. Both are high on True Potential's agenda, as this report explains, and must be given adequate attention in the private and public sector in the months ahead.

David Harrison
Managing Partner, True Potential LLP

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The Savings Gap campaign

The reality: too few people are saving anywhere near enough to enable them to live comfortably in retirement. This problem is exacerbated by issues such as the constantly rising cost of living, low wage inflation and longer average life expectancy. At True Potential, we refer to this as the 'The Savings Gap': the difference between what people need to live comfortably in retirement and the amount they are actually on course to receive. We want to do everything we can to help improve people's awareness of the issues, their knowledge of savings and investments, and their attitudes towards ensuring they have adequate retirement provision.

We want to give people the tools as well as the warnings.

True Potential is leading the campaign to close the Savings Gap in the UK. We believe in radical ideas and innovative solutions.

Agility Gap

Since we launched our Tackling the Savings Gap campaign in 2013, True Potential has been busy making the case at Whitehall for a new look at the way people save and invest.

And in the last quarter it appears our advice, and that of many of our peers, has been listened to. The radical pension reforms introduced on 6 April will clearly have a major impact on the way people access and spend retirement funds.

Restrictions on the amount of money that can be withdrawn from a pension fund and the level of guaranteed income savers have access to, have been lifted. Savers aged 55 and over can now take their whole fund in one go, take smaller lump sums when required or take up to 25 per cent tax-free and a regular taxable income from the rest.

The Budget in March also brought confirmation that pensioners will be able to sell their annuities from 2016 to benefit from the new freedoms. Those who have already bought an annuity will be able to cash it in. The 55 per cent tax rate has also been abolished, meaning pensioners will pay at their marginal rate of income tax.

This autumn will see a new fully flexible ISA introduced, enabling savers to withdraw money from their ISA and put it back without losing their annual allowance. This increased simplicity makes ISAs an even more accessible and easy-to-understand savings product.

There will also be a new Personal Savings Allowance from April 2016. For basic-rate taxpayers, the first £1,000 of interest earned on personal savings will be tax-free.

In addition, the Chancellor changed the rules on the individual pension lifetime allowance. From 2016, it will be reduced from £1.25 million to £1 million. From 2018, the lifetime allowance will be index-linked and the current pension annual allowance of £40,000 remains unchanged.

For those who breach the lifetime allowance, a 55 per cent tax charge applies to the amount above the allowance.

It's good news that ISAs continue to evolve into more attractive savings vehicles and the new freedoms for those with annuities are welcome.

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Knowledge Gap

Better personal finance education is one of the solutions to closing the Savings Gap, because the UK generally has a poor understanding of personal finance.

As part of True Potential's mission to support and advise personal financial capability, we set up the True Potential Centre for the Public Understanding of Finance (PUFin) in partnership with the Open University. The Centre was launched in 2013 with the goal of enabling the UK public to better manage their finances. Through the Centre's own research and commitment to provide free educational modules, it is hoped individuals will be better placed to make sound financial decisions. With this in mind, True Potential PUFin is committed to making sure financial education is accessible and available.

The first of three free modules 'Managing My Money' is proving popular. It is available on both the FutureLearn MOOC (Massive Open Online Course platform) for those who prefer moderated learning and also on OpenLearn, the Open University's home for free online learning for those who want to study at their own pace.

To date, over 37,000 people have registered for the course. The second course 'Managing my Investments' is set for launch on FutureLearn in May 2015 and OpenLearn this autumn.

True Potential PUFin is also actively engaged in assessing how it can help consumers make better, more informed financial decisions. This follows research it conducted which exposed the UK general public's risk-averse attitude to saving and investing.

The Centre's research presents a strong case for the improvement of Attitude to Risk Questionnaires, to ensure they work better both within and outside the advisory process. But it also powerfully demonstrates the other factors - emotions, motivations and behaviours – that impact investment decisions and that deserve more attention.

Going forward, True Potential PUFin will explore ways to put this research into action, in partnership with other industry stakeholders.

Technology Gap

At True Potential we believe two of the biggest barriers to people saving are overly complicated financial services and all-too-easy access to payday lending.

Last year, in our efforts to make things simpler for savers, we launched impulseSave® - a world-first system that enables clients to top-up their investments from as little as £1. We recognised, with payday lenders and short-term loans so accessible, that spending on impulse and getting into debt remains worryingly simple. We needed something that could compete on behalf of savers.

We took a multi-platform approach and designed impulseSave® to fit with people's lifestyles. Now, savers can top-up their investments and reach their goals faster, in a way that suits them.

A year on from the product's launch, figures suggest it has had a considerable impact on encouraging people to put money aside for retirement who otherwise mightn't have bothered. We now have over £13 million of new money and money that may never have been invested via impulseSave®.

With close to a third of impulseSave®'s investments being £10 or under, our system is proving it is possible to create a culture of saving small amounts which can deliver a big long-term impact. With impulseSave® users increasing month-on-month, we expect savings activity via the platform to grow exponentially by our next quarterly update.

Our new True Potential One™ product is also designed to encourage consumers to save more. It enables individuals to consolidate their financial affairs in one place and get a real-time view of how their plans are performing via the web or a mobile device.

It promises to help bring order and simplicity to clients whose investments and savings are increasingly fragmented. True Potential One™ is completely at one with the trend towards simplicity and accessibility.

Survey credentials and breakdown

The survey:

The True Potential Savings Gap Survey was commissioned by True Potential LLP and conducted by an independent market research specialist.

2,004 PEOPLE SURVEYED

1,020 MALES

984 FEMALES

Responses given in March 2015.

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Headline Statistics

Since the last edition of 'Tackling the Savings Gap', the British economy edged marginally into negative inflation for the first time since the 1960s.

The Consumer Price Index (CPI) registered 0% inflation for the second month in a row in March. But a closer look at the figures by the Office for National Statistics showed that, taken to two decimal points, inflation was actually 0.01 per cent lower in March than in February.

Traditional cash savers have faced further stagnation in the last quarter, with interest rates held at 0.5 per cent in April. This means rates have remained at a record low for the entirety of the Coalition Government period. The figures come as our research reveals worryingly high numbers of people saving nothing for their retirement.

Fifty-four per cent of those we asked have been unable to contribute anything towards their savings and pensions pot over the last three months, with the average Briton saving £1,640 and taking on £1,849 of new debt in that period. That leaves net debt of £70 per month, compared to a saving of £158.20 per month in the previous quarter.

54%

of Britons are currently **saving nothing for retirement.**

£1,849 has been taken on in new debt in the last three months on average - eclipsing the average savings of £1,640 put into retirement funds.

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£27K

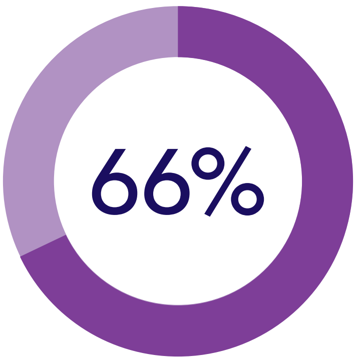
the average amount **over 55s** intend to withdraw from their retirement fund through income drawdown this tax year.

£52

amount per day that a 35-year-old starting to save for a pension now would need to save to retire at 60 with a comfortable pension of **£23,457-a-year.**

16%

of people **plan to change** the way they access their pension.



of people think **schools and universities must take responsibility** for delivering personal finance information, compared to 50% for government or government backed organisations.

64

the average age that people believe they will realistically be able to retire, compared to the **average desired age of 60.**

£9.50

the **average daily amount** savers are currently putting aside for retirement.

31%

of respondents **don't understand the policies** for pensioners and savers of any of the main political parties in the run up to the general election.

Reality versus Goals

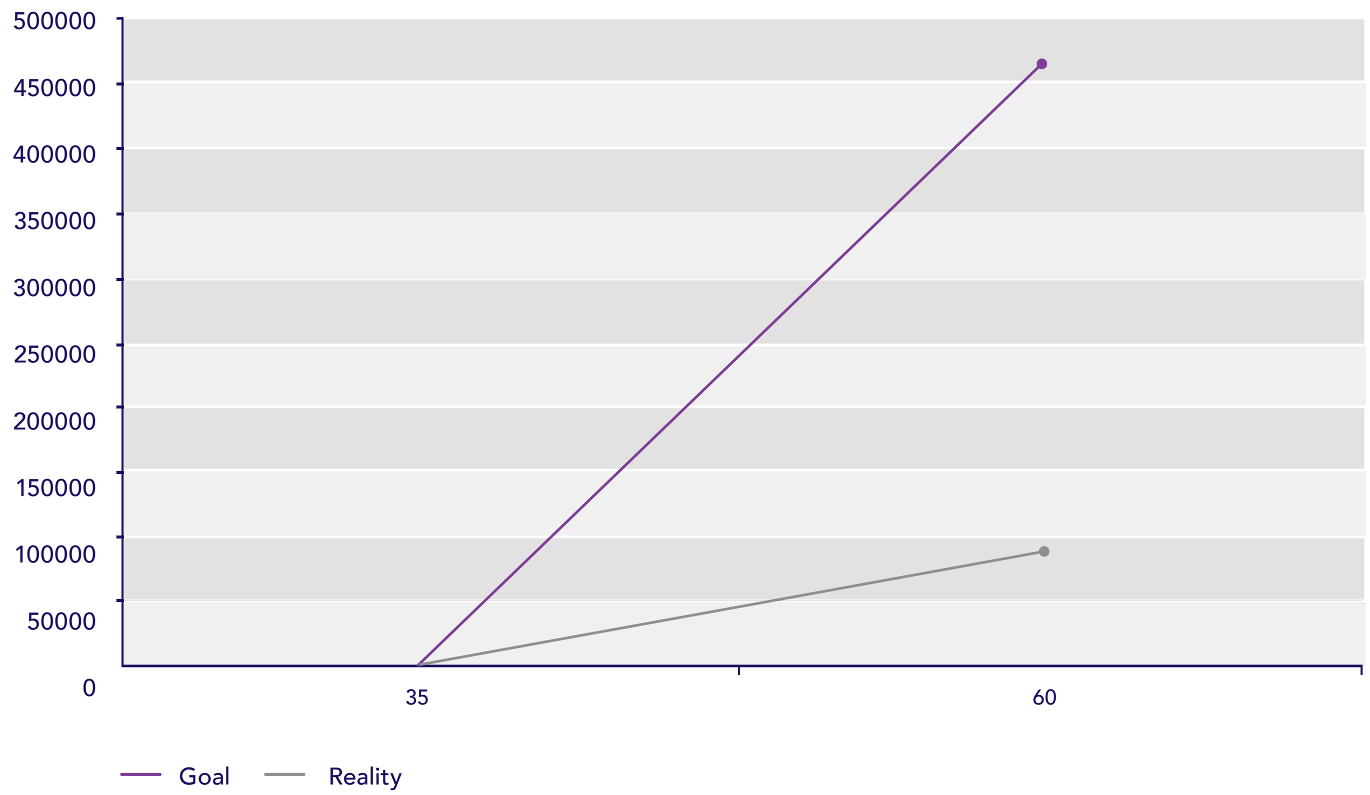
The amount savers are putting into their pension is, on average, five times below the amount required to secure a comfortable retirement. Our data from over 12,000 pension savers shows the majority of people believe an annual income of £23,457 is the minimum required to fund a comfortable retirement. This would require a funding pot of £469,140 by retirement.

But with the average saver hoping to retire at 60, a vast savings gap emerges. A 35-year-old starting to save for a pension now would need to save £52 per day to reach the £23,457-a-year watermark by retirement. A 25-year-old, meanwhile, would need to find at least £37 worth of daily savings.

According to our study, an average of just £9.50 per day is currently being put aside for retirement.

For someone starting their pension at 35 and retiring at 60, this would deliver an ultimate pension pot of just £86,450, a fraction of the £469,140 required for a comfortable retirement.

This gap between goals and aspirations versus reality has not happened overnight. Instead it is the result of decades of poor or non-existent personal finance education and overly complicated products. This has been compounded by years of rock bottom interest rates that have discouraged people from saving at all.



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Educating savers

As life expectancy rises and people spend longer in retirement, education around long-term financial planning must be stepped up.

The general mismatch between saver expectation and reality (highlighted earlier in this report) is a clear indicator of a wide-spread lack of awareness of personal financial planning.

Of the 2,004 people questioned in our latest report, 81 per cent believe there needs to be greater provision of personal finance education.

The majority (55 per cent) of savers describe their understanding of budgeting, saving and investing as 'satisfactory', with 21 per cent as 'not very good' or 'poor'.

Sixty six per cent of savers believe personal finance education should be provided by schools and universities, compared to 50 per cent who believe the responsibility lies with the government or government-run organisations. Other suggestions include banks and building societies (31 per cent) and financial advisers (14 per cent).

At True Potential we have certainly recognised our responsibility in providing better personal finance education. Through our initiative, the **True Potential Centre** for the Public Understanding of Finance (PUFin), we are researching core issues associated with personal finance and are also supporting people who want to improve their skills now.

In partnership with the Open University we are running a number of free online courses, including 'Managing My Money', which has attracted over 37,000 registrations.

In May we will launch 'Managing my Investments', with 'Personal finance: Understanding the industry and your rights' also in the pipeline.

Among several areas of important research, we have analysed the issue of risk and how the general public handles it in terms of saving and investment.

True Potential PUFin is a pioneering Centre of Excellence for research in the development of personal financial capabilities. The Centre is working to improve public understanding of personal finance through its research and the delivery of free modules providing individuals with the tools to make sound financial decisions.

Pension policy lifts Tory support

With a general election looming, Conservative-led reforms of the pensions market appear to be winning votes for the Tories, our data shows.

We asked savers who they would be backing at the polling station and, among people approaching retirement, the Tories came out on top. Overall, 28 per cent of respondents said they would vote Labour, compared to 27 per cent for Conservative, 17 per cent for UKIP, with Liberal Democrats (seven per cent), the Green Party (five per cent) and the SNP (four per cent) making up the rest.

Just over 15 per cent of those polled said they had changed the way they would vote as a result of new pension freedoms driven by Chancellor George Osborne. Of those, 81 per cent said they were now more likely to vote Conservative.

But despite the election being just a few weeks away when savers were polled, almost a third (31 per cent) said they still don't understand the financial policies of any of the main parties. The recent pension reforms have clearly been well received by most savers, but our report also suggests there remains a lot of uncertainty in the marketplace.

It also highlights that, beyond the headline debates around immigration, education and healthcare, retirement funding - and policies related to it – is an important issue for voters.

Thirty two per cent of savers aged over 55 said they intend to vote Conservative, compared to 23 per cent for Labour. But across all ages, Labour edged marginally ahead of the Conservatives, with UKIP in third and the Liberal Democrats fourth.

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Regional Variations

There has been a decline in the amount of money savers have put aside in the last quarter. This goes against the trend that we have seen over the last 12 months, which pointed towards people steadily increasing the amount of money they managed to save. We will need to monitor this before making any judgements, as external factors such as paying off Christmas debt could be contributing to these figures.

In every region apart from the North East, people save less in this quarter compared to the previous one, by as much as £449 in the East Midlands. In the North East however, savers increased the amount they put aside in Q1 2015 by £118.91 compared to Q4 2014.

Regional savings: Q4 2014 and Q1 2015

Region	Q4 2014	Q1 2015	Change quarter on quarter
UK Average	£900.40	£724.88	-£175.52
Scotland	£625.40	£611.94	-£13.46
Wales	£992.40	£686.98	-£305.42
Northern Ireland	£806.50	£696.80	-£109.70
North East	£924.00	£1042.91	+£118.91
North West	£829.10	£762.22	-£66.88
Yorkshire & Humberside	£750.30	£614.07	-£136.23
East Midlands	£878.10	£429.10	-£449.00
West Midlands	£900.90	£668.78	-£232.12
East Anglia	£1039.00	£579.55	-£459.45
London	£1213.20	£1079.44	-£133.76
South East	£844.10	£782.81	-£61.29
South West	£900.90	£535.33	-£365.57

Saver Behaviour: News In Brief

Basic rate boost

From next April, every basic rate taxpayer will be able to earn £1,000 interest each year in high street bank accounts without having to pay tax.

This has prompted many analysts to question what the future holds for ISAs, which are sold on the back of their favourable tax status.

Only **22 per cent** of people in our poll said they would continue to pay money into an ISA following the change, while another **22 per cent** said they would use a combination of high street bank savings and the cash ISA allowance.

Men statistically save more

When it comes to saving for retirement, men appear to be slightly more frugal than women.

Our study shows that **77 per cent** of women have saved nothing in the last three months, compared to **72 per cent** of men.

At the same time, **four per cent** of men have saved over £5,000 in the last quarter, against **two per cent** of women.

77%

Our study shows that 77 per cent of women have saved nothing in the last three months, compared to 72 per cent of men.

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Conclusion

Within the next few weeks, a new government will take on the responsibility of closing the UK Savings Gap, described in this paper. No doubt, those individuals elected to run our country will have long 'to do' lists – I hope the savings crisis will be high on it.

Businesses and markets do not like uncertainty and that is exactly what we now face. Who knows what impact the recently-introduced pension freedoms will have and would a different government even support these freedoms?

Pensions have started to regain some of the credibility that had been lost through years of tinkering and forcing people into products that performed poorly, leaving consumers feeling short-changed. At last we have some common sense in the system and seem prepared to treat adults like adults, letting them decide how to spend their own retirement fund.

But that is all at risk, if a new government decides to overhaul pensions for the umpteenth time and opts to un-do some of these freedoms.

Governments of all colours have, over many decades, made decisions that have complicated financial services. Bad policies and poor regulations have conspired to make financial services confusing and riddled with complicated jargon that protects businesses from regulators but makes the whole thing less accessible for customers.

This is madness and is it any wonder we have a Savings Gap, which as our research in this paper shows, still persists?

I have two messages to the next government. If ministers are serious about closing the Savings Gap they should continue with the reforms to pensions and ISAs, making them more attractive to customers. They should also make it their mission to simplify financial services. Unhelpful rules, regulations and disclaimers do nothing to encourage saving, in fact they have the opposite effect.

So as we head into unchartered waters as a nation, I am left wondering whether what I see ahead is a light at the end of the tunnel, or an oncoming train. Only time will tell.

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