TACKLING THE SAVINGS GAP

Consumer Savings and Debt Data Q3 2016

true potential LLP

simple. effective. unique.

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FOREWORD

The embers of 2016 have been stoked by buoyant retail figures, falling unemployment and broad-based business growth.

The housing market has held firm and the services sector has far exceeded expectations; registering its fastest growth since the start of the year in November.

Yet still we're told to brace for the oncoming turbulence from our decision to leave the EU.

Some analysts say world markets' response to Trump taking office, and the ramping up of post-EU referendum talks in early 2017, will be a true test of our mettle.

But evidence suggests our economic strength will prevail. The UK was recently ranked among the top five countries in the world based on our ability to thrive in a "post-EU membership, post-Trump" world.

The Indigo Index looks deeper than GDP to measure a nation's entrepreneurial ecosystem and therefore its ability to adapt and develop.

Based on data from 30 trusted sources, including the World Bank, UNESCO and Harvard University, Britain topped the global league of economic diversity. Our growing tech sector placed us fourth for 'digital economy', providing a further sign of our resilience against potential future threats.

Investor sentiment certainly looks promising from our point of view going into 2017. Over £2bn has been invested in our range of multi-asset, multi-manager portfolios in the year since their launch. All 10 of the risk-rated True Potential Portfolios have registered growth of up to 20 percent in that time.

We've also seen surging activity on our impulseSave® platform. The app, which enables users to add as little as £1 to their savings at the touch of a button, has facilitated over £70m in investments in the last 12 months.

With thousands of new downloads in 2016, we know that technology will continue to play an increasing role in addressing the nation's Savings Gap in the New Year.

The launch of the Lifetime ISA in April (Lisa) will also be an important factor in helping people put more money aside for the future.

Despite speculation that the new Chancellor would scrap his predecessor's initiative in his maiden Autumn Statement, the Lisa looks to be going ahead.

From April, 18 to 40-year-olds will be able to save up to £4,000 per year, and receive a 25 percent bonus from the government.

It could be a catalyst to get many more young people saving for retirement, or a deposit for their first home.

Its major flaw, however, is that it is not eligible for employer contributions. Given that many people will face a choice of investing in the Lisa OR a pension, this one failing could be fixed by a simple rule change.

Doing so could dramatically improve the financial prospects and stability of millions of young people across the country.

David

David Harrison
Managing Partner, True Potential LLP

The opinions expressed are those of True Potential and the information contained herein should not be taken as financial advice and should not be relied upon by any other persons.

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THE SAVINGS GAP CAMPAIGN

It is a fact that only a minority of UK savers will have enough funds for a comfortable retirement, by their own definition. Our polling shows that an income of £23,000 is needed annually in retirement to live comfortably. Based on actual savings behaviour however, people in the UK are on course to receive an income of just £6,000 per year from their retirement fund.

The result is the Savings Gap.

Since we launched this campaign in 2013, we have polled more than 24,000 people. True Potential represents 20% of the UK financial adviser market and we have empowered over two million clients to log in to their personalised True Potential client site to manage their finances.

We have vast amounts of data and an excellent understanding of consumer attitudes and behaviour. Our research helps us to develop the tools that will tackle the Savings Gap.

Campaign Update

True Potential is leading one of the largest campaigns into the Savings Gap in the UK. We believe radical ideas and innovative solutions are needed to in three areas to close the gap:

AGILE REGULATION

BETTER FINANCIAL KNOWLEDGE

TECHNOLOGY

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KNOWLEDGE GAP

The True Potential Centre for the
Public Understanding
of Finance

True Potential continues to work closely with the Open University Business School to improve awareness and understanding of personal finances.

The True Potential Centre for the Public Understanding of Finance (PUFin) at the Open University Business School helps to:

- Develop knowledge and understanding of finance
- Make financial education more pertinent
- Increase understanding of personal finance education
- Raise awareness of personal finance among influencers

It offers three, free, online modules in personal financial management both on the educational platform FutureLearn and on the Open University's social learning platform OpenLearn.

It also publishes regular research papers aimed at getting to the heart of challenges related to financial services engagement and understanding.

Recent topics include the public's financial resilience, investment risk profiling and how we can create a secondary annuities market that works for pensioners.

Other ongoing research areas include investment diversification and behaviour and challenges faced by female investors. In all cases, research is disseminated to a wide financial services industry audience.

> " True Potential supports calls for financial education. The Tackling the Savings Gap campaign places financial education alongside technology and regulation as one of the three core requirements needed to close the gap."

Pensions spokesman and SNP MP Ian Blackford addressing the House of Commons

AGILITY GAP

Through this campaign, we have made the case that ISAs represent a better chance to close the Savings Gap than pensions, due to their popularity and simplicity.

The Lifetime ISA (Lisa) is almost identical to the 'Retirement ISA' we proposed in January 2016. It could revolutionise UK savings and we have committed to it in 2017.

For too long the retirement funding debate has been only about pensions. We welcome the additional flexibility provided by the Lisa and our polling suggests consumers do too.

In our Q2 2016 survey report we found that 58 percent of 25 to 34-year-olds would use a Lisa for their retirement savings. Out latest results bring further evidence that young people are enthused by the new savings vehicle.

Employers should be permitted to contribute to their employees' Lifetime ISA. It would mean employees would be no worse off if they chose Lisa over a pension; and there would be no need to opt out of auto-enrolment.

Lisa's critics have two main concerns; financial loss, which is the effect of the loss of employer contributions; and the impact on auto-enrolment.

Unlike workplace pensions, current plans mean employers will be unable to pay into their employees' Lisa. People who prefer the Lisa's flexibility could therefore miss out on over £20,000 worth of employer contributions during the full duration of the Lisa.

In terms of the Lisa having an impact on opt outs from auto-enrolment, certainly few people will be able to afford to save into both a workplace pension and a Lisa. In reality there will be a choice between the two. If the Lisa ends up as a complementary product it will be one used mainly by the better off, and that would be a missed opportunity.

Opening the Lisa up to employer contributions would give savers the best of both worlds.

Auto-enrolment should be considered as a national savings, rather than pensions, scheme. An employee could simply nominate their pension or their Lisa to receive the employer's contribution.

Some argue against employer contributions into a Lisa because the under-30s will most likely use it to buy a house. But there are few things employees would value more from their employer than help to get on the housing ladder.

That would lead more people into the financial discipline required to pay a mortgage each month and budget accordingly.

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58 percent of 25 to 34-year olds would use a Lisa for their retirement savings.

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TECHNOLOGY GAP

There are suggestions that advances in technology will leave financial advisers out in the cold. We disagree and have always adopted a hybrid approach – combining the strengths of advisers and technology where appropriate for the client.

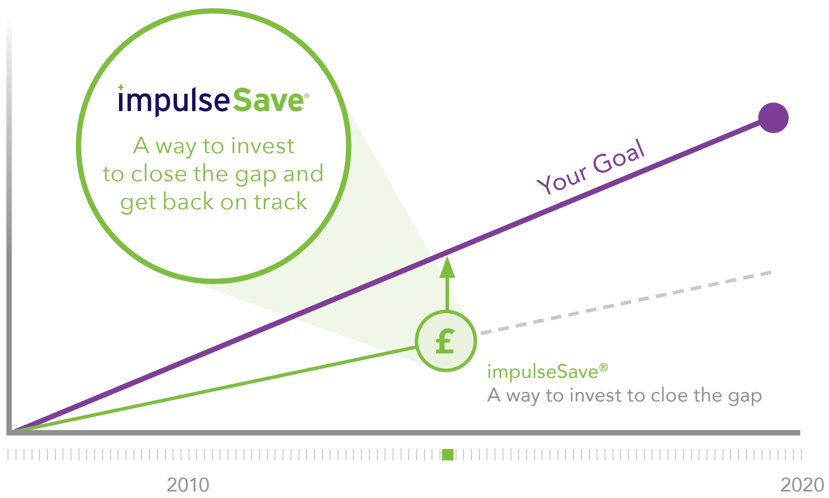
There is still no better example of this in action than our own impulseSave® technology. This year we have seen over £70m impulseSaved by clients whose advisers set them on their way and empowered them to make top up investments themselves.

That is the future and it's already here. impulseSave® was launched in 2015 to make investing accessible to all and reaching savings goals easier.

It has since been downloaded over 34,000 times, with 30% of people using it top up their retirement funds. Users can make top ups from £1 up to £99,000 to help them reach their goals more quickly and stay on target.

As well as retirement, other common goals include house deposits, new cars, and holidays.

The £70m invested represents 22,000 transactions, a third of which were for £10, with three quarters of all investments worth £50 or less.



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SURVEY CREDENTIALS AND BREAKDOWN

The True Potential Savings Gap survey was commissioned by True Potential LLP and conducted by an independent market research specialist with a nationally representative panel.

2,019 PEOPLE SURVEYED*

970 MALES

1049 FEMALES

*Aged 18 and over. Responses given in November 2016.

HEADLINE FINDINGS

Our latest quarterly survey shows more people are addressing their financial futures by investing in pensions. As the influence of auto-enrolment (AE) grows, increased pension-saving activity can be seen between Q2 and Q3 2016.

The average amount savers are putting into their pension pot remains reasonably constant at around £325 per month. But the number of people disengaged from pension saving is dwindling. This is a reversal of the trend, which up until a few years ago, had shown a long-term decline in appetite for pension saving.

This can be attributed to the success of auto-enrolment, and as a provider of AE services to thousands of UK businesses and over 60,000 employees, we see first-hand the effects that AE is having.

The proportion of people saving nothing into pension pots dropped from 39 percent in Q2 2016 to 35 percent in Q3.

Young people also appear to be taking more responsibility for their long-term financial needs. Less than a fifth (19 percent) of 24 to 34-year-olds made no pension contributions in the last three months – down from 26 percent in the previous quarter.

An estimated four out of five eligible employees are now taking part in a workplace pension, according to the Department of Work and Pensions (DWP).

Among employees of large firms – those with 250 to 4,999 staff members – participation is almost nine out of ten (89 percent). With DWP working on a 2017 review to improve auto-enrolment, and the prospect of the self-employed soon being eligible to take part, take-up of workplace pensions will undoubtedly rise in the year ahead.

A major contributing factor to the UK Savings Gap is a lack of knowledge among consumers about the financial services options available to them. This is certainly evident in our latest results.

Pension reforms have given savers more control over their retirement funds than ever before. Our poll, however, suggests this newly liberated landscape has left many savers unsure of their next move. A surprisingly high proportion (57 percent) of over-55s say they haven't thought about how they will draw funds from their pension pots.

The survey also shows a lack of understanding of tax relief. A quarter of respondents were unable to identify what tax relief is, while many savers appear to have misunderstood their tax relief entitlements.

Making financial services easier to access may help address such problems. Our poll shows that usage of apps and websites to manage money has increased by 15 percent on the last quarter.

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£325: Average monthly contribution to pension pots.

35% of people saved nothing for retirement in the period.

57%: Of over 55s haven't decided how they will access their pension.

19% of 25 to 34-year-olds added nothing to their pension in the quarter.

SAVERS MISS OUT ON £360M IN LOST PENSION FUNDS

Rooted in the Savings Gap is a lack of awareness about how financial products work. The cost of misunderstanding pension savings in particular can be huge, as our research found.

We estimate that failing to claim the correct tax relief on pension savings will see 1.6 million people miss out on £360m of 'free cash' in 2016.

Individually, this amounts to £225 each – or £6,750 that could boost retirement funding at the end a typical 30-year span of pension contributions.

Our study shows that a fifth of Britain's 7.9m private pension savers have not claimed the full amount of tax relief they are entitled to on their pensions savings.

Higher rate taxpayers – those earning more than £43,000-per-year - are eligible for 40% tax relief on private pension contributions. While 20% of that is claimed automatically by their pension provider, savers must themselves claim the other 20% through a tax return.

A fifth of these private pension savers admit to not always claiming what they are entitled to, however. Since 2010, the number of people paying the 40% tax rate has gone from 3.3m to almost 5m.

But the government aims to increase the threshold by £2,000 to £45,000 next year. We believe some £360m will be lost in unclaimed relief from the estimated £9.03bn saved into private pensions this year.

This is based on HMRC figures which show that £9.03bn was contributed to private pensions in 2014/15. A fifth of people contributing to this type of pension are higher and additional rate tax payers who have not claimed their full tax relief entitlement.

Therefore, a fifth - £1.86bn – of the total may be receiving just 20% tax relief, not 40%. The missing 20% equates to £360m in lost tax relief.

This is a conservative estimate given that higher rate taxpayers statistically contribute more to their pensions every year.

Reasons cited for not claiming the full tax relief include forgetfulness, not being aware of it and the perceived hassle of making a claim. Yet, failure to claim over several years, can have a significant impact on the amount of retirement funds available to an individual.

The £360m lost in unclaimed tax relief this year is the equivalent of £10.8bn of funds missing from pension pots after 30 years, if savers claimed the money and paid it into their pensions.

The complexity of the system for claiming full tax relief means more and more people have been squeezed into the 40% tax band and may not realise they need to claim the additional 20 percent themselves.

This results in a double hit as some savers not only miss out on the extra tax relief, but also the growth on it, if it were reinvested into their pension.

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APPETITE GROWING FOR LIFETIME ISAS

Two thirds of younger workers are considering saving into a Lifetime ISA, our study shows. Due to launch next April, the Lisa will give people aged 18 to 40 the chance to save up to £4,000 each year and receive a 25% government top-up.

The funds can grow and be withdrawn tax free to go towards a first home purchase or for retirement.

Such evidence supports our belief that the Lisa must not be delayed beyond next April, despite calls from the pension industry to do so.

The research shows that over a third of 18 to 24-year-olds saved nothing into a pension pot in the last three months, with 31% adding nothing to their general savings in that time.

Such trends have caused an ever-widening savings gap between the funds needed for a comfortable retirement and the realities of what individuals are on track to receive.

While young people's growing interest in the Lisa is encouraging, we also believe that employers should be permitted to contribute to their employees' Lisa – something that current rules do not allow.

The Lisa builds on the popularity of ISAs, with official figures showing that on average savers contributed £6,064 to ISAs in 2014/15 compared to £2,840 for personal pensions.

True Potential has confirmed that we will offer our clients the Lisa.

Our poll shows that:

60%

60% of 25 to 34-year-olds say the Lisa is on their radar as a savings option.

41%

41% of 18 to 24-year-olds are aware of the Lisa – despite more than half of them being unaware of what pensions tax relief is.

30%

30% of those aged 25-40 would choose a Lisa compared to 15% who would opt for a pension.

58%

58% of 25-34 year olds would use their Lisa for retirement savings.

DEBT WORRIES THWART RETIREMENT PLANS

Dreams of spending retirement funds on travel, fast cars and family nest eggs are being sunk by mounting debt, our research suggests.

UK savers can access 25 percent of their pension pot tax-free when they reach 55. In many cases, however, this windfall is being wiped out by debt repayments rather than invested in traditional retirement plans.

Our poll suggests many savers expect to reach retirement age saddled with debt.

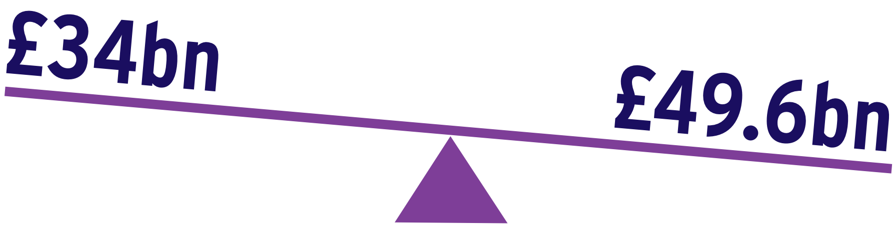
A fifth of respondents plan to use their tax-free, lump sum pension withdrawal to help drag themselves out of the red.

Our study also shows that consumers close to retirement continue to rack up new debts, with an average of £1108 of debt being taken on by the over-55s in the last three months.

Our research comes amid rising consumer debt in the UK. The Office for Budget Responsibility (OBR) estimates that households will spend £34bn more than they earn in 2016, with this figure soaring to £49.6bn by 2021.

The survey shows that 42% of savers would use an unexpected windfall of £1,000 to pay off debts. Almost a fifth of respondents cited ‘paying off debt’ as their main goal for 2017, meanwhile. True Potential has been tracking personal debt for four years. In that time levels have been heading upwards, often driven by the perception of cheap debt and deferred repayments.

Financial advisers will always recommend paying off debts as soon as possible to get rid of interest charges, so we are encouraged to see people planning to do exactly that in 2017.



Households will spend £34bn more than they earn in 2016, with this figure soaring to £49.6bn by 2021.

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CRUISE DREAMS DOCKED

While debts are increasingly clouding pension spending plans, the prospect of travelling the world in retirement could be sailing out of the picture.

According to our findings, over-55s are increasingly giving up on the age-old retirement dream of luxury, global cruises. World cruise trips have traditionally been a popular way of spending pension windfalls once people retire.

Such aspirations appear to be fading among people nearing retirement, however, as less exotic priorities like debt repayments and helping family members come to the fore.

Almost 25 percent of people aged 25 to 34 hope to spend their 25 percent tax-free pension withdraw on a round-the-world trip when they eventually retire.

Yet this percentage drops dramatically in older age groups, to a low of just two percent for people over 55, as the limitations of their pension pots are realised. Similarly, 34 percent of 25 to 34-year-olds are gearing up for regular holidays in retirement; Among the over 55s, this figure falls to 10 percent.

Those who are dreaming of a luxury trip round the globe may be in for a nasty surprise when they finally make their tax-free withdrawal and look to book their cruise.

Our research into over 24,000 UK savers as part of the Savings Gap campaign shows that the average 55-year-old's pension pot is worth £51,446.

A 25 percent tax-free withdrawal on this amount would not go far in the market for around-the-world cruises. A mid-range ticket on the popular world cruise route of Miami to Miami, for example, costs almost £48,000*.

The average lump sum pension withdrawal of £12,900 would therefore get a retiree halfway across the South Pacific; just 35 days into a 120-day trip. If the holidaymaker was also paying for their partner, the couple would just about make it along the Panama Canal to California.

Our research highlights growing realism among pension savers about the challenges of funding a comfortable retirement.

It suggests many people are discovering too late in the day that they have not saved enough and find themselves in troubled waters.
It also serves as a warning to the many young people who think saving isn't worthwhile if they can't afford to put hundreds of pounds aside every month.

Regular, smaller impulse savings can keep savings afloat and make a big difference over the longer term.

* Based on brochure price of a 120-day cruise with Oceania, staying in an 'Ocean View' room

** Based on average prices for two people travelling from Manchester in the first week of July. Mallorca trip is all-inclusive. Others include travel and accommodation – plus theatre tickets for the London trip.

If the average pensions withdrawal was used to fund regular holidays, it would buy the equivalent of:**

35 theatre breaks in London

28 coach trips to the Welsh seaside resort, Llandudno

Six all-inclusive fortnights in Mallorca

FESTIVE SPENDING SOARS BY 40%

Despite talk of economic uncertainty and the impact of the UK's decision to leave the EU, UK consumers headed into the festive period in buoyant mood according to our survey.

Respondents planned to spend an average of £700 on Christmas 2016 – a near 40 percent surge on 2015.

Men planned to spend 6 percent more than women, while shoppers in the North East of England appeared to be the most generous with a £1030 average spend, against a low of £542 in the West Midlands.

On average, consumers planned to spend £698 on Christmas gifts, socialising and entertaining, compared to £500 last year.

The figures also showed that 27 percent of consumers set themselves a Christmas spending limit of £250, while 16 percent intended to spend more than £1,000 over the festive period.

Our study reveals significant regional differences in terms of Christmas budgets, with northeasterners planning to spend 48 percent more than the national average.

Consumers in the West Midlands were the most reluctant festive spenders, with a 22 percent lower budget than the UK average Christmas budget.

27 Percent of consumers set themselves a Christmas spending limit of £250

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REGIONAL SAVINGS AND DEBT Q3 2016

Approximately how much have you managed to put towards your pension pot(s) in the past three months, not including any employer contributions?

	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	5%	13%	17%	13%	16%	36%
East Midlands	3%	8%	20%	10%	21%	38%
East / East Anglia	3%	16%	9%	13%	13%	46%
London	6%	18%	23%	18%	11%	24%
North East	7%	20%	19%	13%	8%	33%
North West	4%	11%	15%	12%	18%	40%
Northern Ireland	17%	21%	3%	14%	17%	28%
Scotland	2%	15%	14%	16%	14%	39%
South East	5%	15%	16%	10%	19%	35%
South West	5%	9%	17%	13%	14%	42%
Wales	3%	9%	13%	13%	18%	44%
West Midlands	5%	11%	22%	10%	17%	35%
Yorkshire & the Humber	4%	10%	16%	9%	25%	36%

Nationally, we can see over a third of people paid nothing into their pension in the third quarter of the year, with the highest proportion in the East of England.

REGIONAL SAVINGS AND DEBT Q3 2016

Approximately, how much have you managed to put towards your general savings in the past three months, not including pensions?

	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	4%	16%	17%	13%	18%	32%
East Midlands	3%	9%	18%	13%	24%	33%
East / East Anglia	8%	17%	13%	17%	15%	30%
London	5%	22%	24%	14%	14%	21%
North East	2%	27%	14%	4%	18%	35%
North West	3%	15%	14%	12%	18%	38%
Northern Ireland	7%	3%	24%	11%	24%	31%
Scotland	5%	20%	17%	12%	18%	28%
South East	2%	18%	18%	14%	17%	31%
South West	5%	8%	14%	17%	17%	39%
Wales	3%	6%	21%	14%	13%	43%
West Midlands	2%	16%	17%	10%	22%	33%
Yorkshire & the Humber	4%	13%	12%	12%	23%	36%

Around a third of people across the country contributed nothing to their general savings in the third quarter of the year, with the highest proportion in Wales.

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Approximately, how much new debt have you taken on in the past three months, including traditional loans, credit cards, store cards and payday loans?

	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	2%	7%	9%	5%	6%	71%
East Midlands	3%	4%	11%	4%	7%	71%
East / East Anglia	0%	7%	6%	6%	8%	73%
London	3%	13%	19%	13%	4%	48%
North East	2%	7%	11%	2%	3%	75%
North West	3%	5%	7%	3%	7%	75%
Northern Ireland	3%	0%	3%	8%	3%	83%
Scotland	1%	9%	5%	1%	6%	78%
South East	2%	6%	7%	1%	5%	79%
South West	3%	6%	3%	6%	5%	77%
Wales	2%	1%	11%	1%	8%	77%
West Midlands	1%	6%	6%	4%	8%	75%
Yorkshire & the Humber	2%	2%	4%	5%	7%	80%

London had the highest proportion of people taking on debt in the second quarter of the year, with the lowest in Northern Ireland.

GENDER SAVINGS AND DEBT Q3 2016

Approximately, how much have you managed to put towards your pension pot(s) in the past three months, not including any employer contributions?

	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	5%	13%	18%	13%	16%	35%
Male	5%	15%	21%	15%	14%	30%
Female	5%	11%	14%	11%	18%	41%

More men than women paid into their pension during the quarter. Fewer women also made a contribution to their general savings in the period.

Approximately, how much have you managed to put towards your general savings in the past three months, not including pensions?

	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	4%	16%	17%	13%	18%	32%
Male	4%	18%	20%	14%	15%	29%
Female	4%	14%	15%	12%	21%	34%

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	Over £5000	Between £1001 and £5000	Between £501 and £1000	Between £301 and £500	Between £1 and £300	Nothing
Total	2%	7%	9%	5%	6%	71%
Male	2%	7%	10%	6%	5%	70%
Female	2%	7%	8%	4%	7%	72%

There was an even spread between genders in terms of the amount of debt being taken on in Q3 2016.

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CONCLUSION

Progress continues in narrowing the gap between the funds needed for a comfortable retirement and the income many people will actually receive in later life.

Growing awareness of savings products, including the Lifetime ISA (Lisa), and the impact of auto-enrolment are contributing to increased retirement pot savings.

Our research is also underpinned by persistent barriers stopping UK savers from getting their long-term finances in order.

Once again the figures reflect an underlying lack of awareness about financial products caused largely by needless, systematic complexities.

Even for high-earning and often financially savvy savers, understanding of their options and entitlements can be poor.

As highlighted by our data on unclaimed tax relief on pension funds, hundreds of millions of pounds are being lost simply because information has been misunderstood. Surely it is the government's role to make this message clearer and more accessible?

Our findings on what people plan to do with the lump sum withdrawal from their pension also suggest a general lack of awareness about where current saving habits are taking people.

The best way to switch savers on to the realities of retirement funding would be to ask them, 'if you were to retire now, how much money would you need?' We could look at a multiple of that and paint a very simple picture of their scenario, with the ability to close gaps or get there faster via impulseSave.

More innovation is needed in financial services to make them work better for customers. But less red tape is also required to facilitate this.

We believe the creation of a new Savings Minister role in Whitehall would be hugely beneficial. It would help bring together the increasingly fragmented policies which impact on retirement saving. It would also ensure issues like the proposed inclusion of the self-employed in auto-enrolment schemes and the pressing need for better financial education for young people would be given full attention by a dedicated, accountable minister.

Looking ahead to 2017, inflation will undoubtedly make things more difficult in the months ahead for many UK cash savers as living costs rise. This only underlines the case for diversified, actively managed, low cost asset backed investments to deliver real growth.

We're optimistic that the momentum built up in 2016 in terms of tackling the Savings Gap will be enough to keep things moving in the right direction.

David

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Managing Partner, True Potential LLP

true potential LLP

simple. effective. unique.

TACKLING THE SAVINGS GAP®

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