TACKLING THE SAVINGS GAP

Consumer Savings and Debt Data Q3 2017

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FOREWORD

Bank of England governor Mark Carney described the UK's financial system as "rock solid" in August, with households in a "position of strength" thanks to a 40-year unemployment low.

He also suggested that the squeeze on household finances caused by higher inflation would ease at the start of 2018 as inflation cools; potentially freeing up more cash to save for retirement.

Interest rates were held at 0.25 per cent in the summer. This means savers have to work doubly hard for decent returns, with nest eggs eroding over time as rock bottom rates continue.

High street banks were fairly lukewarm to the idea of the Lifetime ISA (LISA) when it was first floated by the government, with few having any intentions to launch their own version.

But savers have been far more enthusiastic – unsurprisingly given that adults under 40 can put up to £4,000 into their account annually and receive a £1,000 government bonus each year. This equates to £32,000 in bonus funds over the full life of an account.

In June, Skipton Building Society became the only provider of a cash LISA and was inundated with demand, as 28,000 people, mostly under 30, rushed to open an account. Such a reaction from an age group often so apathetic about saving for the long term, shows LISA's obvious appeal.

As we have long argued, the next step must surely be to open LISAs up to employer contributions. They might also hold the key to unlocking the puzzle of getting the self-employed involved in auto-enrolment.

Savers, and the professional advisers serving them, need clarity and assurances from the government that UK pensions are supported by a fair and robust system as well as a period of stability.

There are concerns among advisers that sweeping regulation affecting the entire pensions industry could be introduced to tackle what are isolated issues, such as scams. Such policies may be intended to instil confidence among consumers, but often have the opposite effect in an attempt to generate positive headlines.

Things are clearly moving in the right direction, but the extremes of complacency and knee-jerk reactions must be avoided at all costs going forward.

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 30,000 people. True Potential represents over 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

In this publication, we report the true impact of poor money management on the lives of UK consumers. Our findings on debt reveal the daily struggles faced as consumers seek a way back into the black.

We also see the persistent problem that underpins our entire research; many people are simply not saving enough to secure a comfortable financial future.

The scarcity of financial education in the UK is one of several agitators that have created this national picture.

The personal finance basics have not been taught on a mass scale in recent decades, contributing to decisions that are often more beneficial to the financial services sector than the individual.

Add complex financial products wrapped up in industry jargon to the mix, along with sweeping reforms, and the need for more financial education becomes even more pressing.

If more courses were available, there would be demand in abundance, as proven by the True Potential Centre for the Public Understanding of Finance (PUFin).

The financial education institution we run in partnership with the Open University has now educated over 300,000 adults in personal finance in the last three years. With millions of savers struggling to understand exactly how to get their finances in order, much more needs to be done

PUFin's courses, based at the Open University Business School (OUBS) and accessible online, include modules aimed at improving the public's financial management skills.

We are continually looking at ways of stepping up the programme to increase its impact on financial awareness and to, therefore, help narrow the Savings Gap.

Young people aged 16 to 18 and the socially disadvantaged are two groups we will be targeting in particular in the coming months.

In November, delegates will gather in Westminster to discuss the importance of financial education and how to make it effective for young people.

The PUFin Annual Conference is an opportunity to bring together influential figures from government, industry and consumer groups to focus on financial education.

Making financial education more effective for young people is one of several discussion topics in an event which we hope can catalyse meaningful action against financial illiteracy.

AGILITY GAP

Two years on from the pension reforms, law makers continue to analyse and address imperfections in a gradually maturing system.

The findings of an ongoing review of pension reforms by the Financial Conduct Authority (FCA), could shape new legislation in the sector.

An update via a recent FCA policy document warned that 30 per cent of consumers go into drawdown without first taking professional advice. It also said most people who access drawdown policies before they are 65, stick with their existing provider. This suggests competition in the market is perhaps not as vibrant – or as visible to consumers - as it should be. Just over half of fully-withdrawn pots are put into other savings or investments, rather than being spent, the authority said.

It also pointed to a lack of public trust in pensions that is seeing many consumers who withdraw their pension pot in a lump sum miss out on investment growth and other benefits, while paying too much tax.

The FCA touted several proposals in its recent update that could potentially be implemented as the pension reforms bed in.

One idea would dictate that all advice must be offered as a personal recommendation, fully taking into account the individual's circumstances.

Clearer guidelines on the role of pension transfer specialists are also suggested. With the FCA's final report not due to be published until early 2018, rule changes affecting pension savers this year are unlikely.

Another urgent matter is finding a way to get the self-employed saving enough for retirement.

In the second quarter of 2017, the number of self-employed people in the UK increased year-on-year by 100,000 to 4.8 million.

The Office of National Statistics figures show that 15 per cent of UK workers are now self-employed. Yet, without being auto-enrolled onto pension schemes as employees are, many are not saving for retirement.

Stats from the Department for Work and Pensions (DWP) suggest that less than one in seven self-employed people added any money to a pension last year.

The Taylor Report, commissioned by the government last year to investigate how employment practices need to be updated, recommended that the self-employed should be auto-enrolled.

This is an issue that is high up the DWP and new Pensions Minister's agenda and we await their proposals with great interest.

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30% of consumers got into drawdown without first taking professional advice

In the second quarter of 2017, the number of self-employed people in the UK increased year-on-year by 100,000 to 4.8 million

15% of UK workers are now self-employed

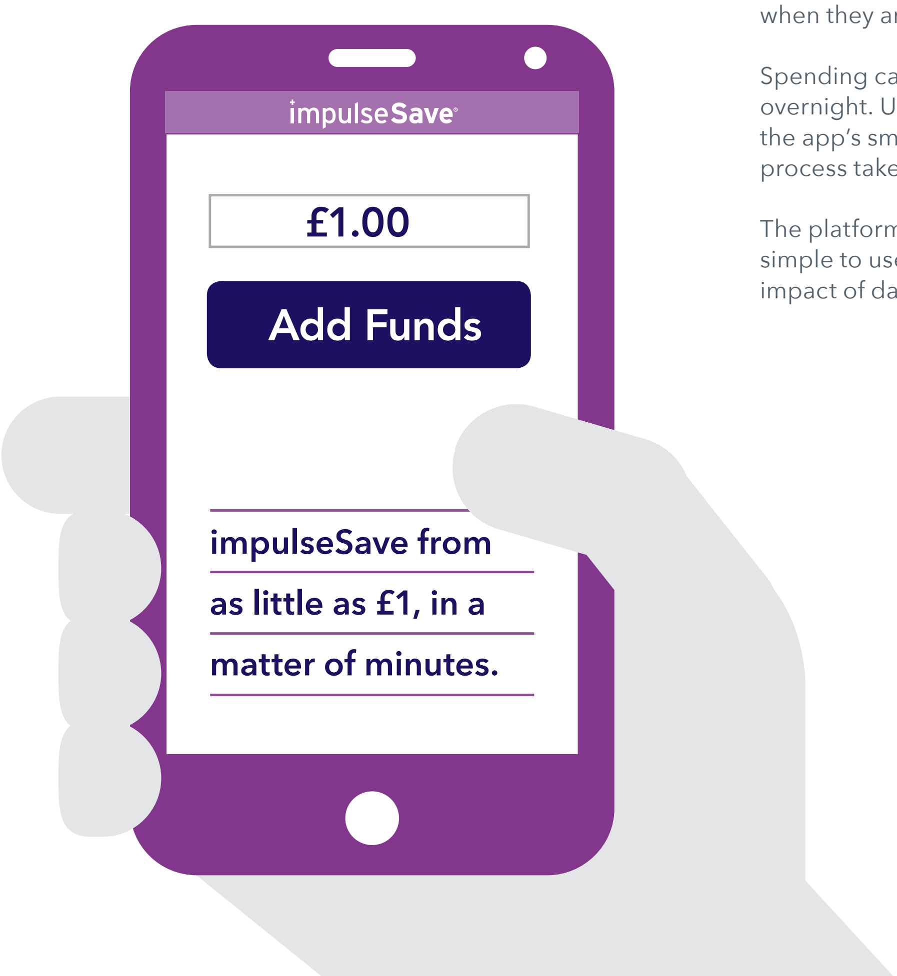
TECHNOLOGY GAP

The rise of online banking ushered in a new world financial convenience.

It also made debt dangerously easy to access. For the first time, users could plunge thousands of pounds into the red within seconds. Online saving vehicles have been playing catch up to debt generators in recent years.

Today, however, saving for retirement is as easy online as taking on debt, or spending cash. Through our own impulseSave app, which enables users to save as little as £1 via mobile devices, almost £100m has been invested.

The next step is to make overall personal financial management as simple as possible. Often at the heart of poor debt management - and an inability to save for the future – is not a shortage of funds, but a lack of regular attention to monthly incomings and outgoings.



Late payment fines, interest charges and missed opportunities to save or invest can all come as a result of individuals not keeping on top of their accounts.

And the number of these accounts, for many people, range from a handful into double figures. With busy lives, individually monitoring every bank account, ISA and credit card is a hassle consumers could do without.

Yet it is a vital part of building a secure financial future. We believe the answer is to bring people's accounts together into one safe and secure place.

We have added a new 'personal finance' feature to the True Potential Investor app that enables users to connect bank, credit and savings accounts.

With one login, protected by the very latest encryption and security technology, consumers can view all of their accounts in one place.

The function automatically tracks spending and, via smart budget alerts, warns users with a text or in-app message when they are nearing predetermined budgets.

Spending can be categorised and is automatically updated overnight. Users can analyse their financial habits through the app's smart and graphics while the initial set-up process takes a matter of minutes.

The platform is designed to be easily accessible, quick and simple to use and, crucially, to clearly show the longer-term impact of daily money habits.

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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.

2,010 PEOPLE SURVEYED*

908 MALES

1102 FEMALES

*Aged 18 and over. Responses given in August 2017.

HEADLINE FINDINGS

There are plenty of encouraging signs in our data that more and more people are taking action to prepare for the financial burden of retirement.

Yet a significant proportion of people are seemingly unwilling or unable to address their long-term financial needs.

Data shows that 45 per cent of respondents saved nothing into pension pots in the last quarter. The highest level of disengagement from retirement saving was in the 45 to 54 category (47 per cent), followed by 18 to 24-year-olds (44 per cent). People aged 24 to 35 saved the most, with an average of £239 in the period – but a third of this group saved nothing for retirement.

As with previous surveys, the data suggests continuing challenges that hinder saving activity.

The widespread lack of understanding of financial products has long been identified by True Potential as a key cause of the Savings Gap. Our study shows that more than half of UK adults admit to not fully understanding the machinations of saving.

Taking on and servicing debt is another stumbling block to retirement fund saving. This quarter we discovered that a third of people worry every day about money.

Daily financial pressures perhaps explain why many are not prioritising saving for a retirement that might be decades away.

Over a third (37 per cent) of respondents admit to lying about debt, indicating widespread avoidance or denial of personal finance problems.

But as our data on regretful spending in this study also highlights, many savers could significantly improve their retirement fund outlook by cutting out a few needless purchases. With an average of £33 a week being wasted on food, clothes, alcohol and other expenses that are later regretted, there is clear room for many to save more.

Over several years, small savings can have a big impact on pension pots.

Our survey also reveals a worrying dearth of rainy day funds. Almost 40 per cent of savers could not support themselves beyond three months if they lost their job.

Overall, however, auto-enrolment and pension reforms have contributed to a largely positive picture. Increasing numbers of people are now focused on saving for retirement and more are likely to join them as further reforms take place.

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£203

£203: Average amount savers added to their pension pot in the last three months

45%

45% of people saved nothing for retirement in the period

£353: Average amount added to general saving and investments, not including pensions, in the quarter

£370: Average amount of debt taken on by UK consumers each month

IMPULSE BUYS SET SAVERS BACK YEARS

The average Brit wastes £4.70 a day on purchases they later regret – enough to fund 13 years of retirement if they instead invested it into a pension.

Our research shows that UK savers spend an average of £143 per month on things they later wish they hadn't bought – or around £4.70 per day.

A quarter of survey respondents say food purchases are their biggest cause of regret, followed by alcohol (15.8 per cent), clothes (12.8 per cent) and going out (12.5 per cent).

Other regrettable purchases include taxis, unused gym memberships and beauty treatments. People under 35 are wasting the highest amount each month, at £173.80, compared to a low of £70.52 among the over 55s.

The findings highlight the level of disposable funds available to people for potential savings and investments that are often wasted or overlooked.

If £4.70 a day was invested into a pension for the full span from age 30 to 65, it could translate into almost £320,000. That could fund 13 years of comfortable retirement, given the fact that £23,000 is what Brits believe is the minimal annual requirement for a comfortable retirement, according to extensive research.

Once basic rate pension tax relief is added, the figure could rise to £399,000.

Saving on a £7.99 bottle of wine each week, could generate £96,653 in retirement funds if invested into a pension over 35 years.

Cutting back on a £2 daily dose of caffeine from the High Street, meanwhile, could generate £169,000 after 35 years of investment into the same pension pot.

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DAILY DEBT ANGUISH HITTING ONE IN THREE BRITS

A third of UK households are blighted by daily money worries, with women, single parents and carers among the worst affected.

Our study found that 33 per cent of UK consumers worry about their finances at least once a day. Women are seemingly more susceptible to money worries than men, with 38.7 per cent worrying about their finances every day, compared to 25.8 per cent of men.

In terms of employment status, the most frequent money worriers are surprisingly those that work full-time with an additional sideline way of generating income, such as selling online.

Almost 45 per cent of this group said they worried about money every day, compared to 36 per cent of part-time workers, 34 per cent of the self-employed and 31 per cent of full-time employees who work a single job.

The financial burden of raising young children as a single parent is a major contributor to money concerns, the survey suggests.

Some 41 per cent of single parents with dependents under 18 said they worried on a daily basis about their finances, in contrast to couples with no children (28 per cent), couples with grown up children living at home (27 per cent) and single adults with no dependents (35 per cent).

A large minority (40 per cent) of respondents living with elderly parents requiring care also admitted to daily money concerns.

Overall, consumers worried about money an average of 3.17 times per week with 54 per cent of people worrying at least once a week. Under 30 per cent of respondents had money worries on a monthly basis or less frequently.

The over 55s had the highest proportion of people who claim to never worry about money, at 22.5 per cent, compared to the low of 5.5 per cent among people aged 18 to 24.

The vast majority of money worries were identified as being related to debt. Respondents took on an average of £1110 of debt in the last quarter.

The findings come amid growing speculation that a new debt crisis could be on the horizon. In July, the Bank of England warned of a looming "spiral of complacency" about mounting consumer debt.

It cautioned banks, credit card firms and loan provers about the threat of letting the recent fair economic conditions distract them from the risk of rising personal debt.

Unsecured borrowing via credit cards and loans has returned to the pre-2008 crash level of above £200bn, the Bank said.

33% of UK consumers worry about their finances at least once a day.

54% of people worry at least once a week about money.

30% of respondents had money worries on a monthly basis or less frequently.

MOST PEOPLE HIDING THEIR DEBT FROM LOVED ONES, DATA SHOWS

Almost 90 per cent of UK consumers have lied about their finances to hide the amount of debt they are in from friends and loved ones.

More than a third (37 per cent) also admit to being dishonest about their income, with parents the people most likely to be lied to.

Our survey shows that 86.6 per cent of UK consumers have lied about debt to parents, friends, partners or colleagues.

Around a fifth of respondents (22.4 per cent) said they had lied on several occasions about debt to their parents, followed closely by partners (20.5 per cent), friends (18.1 per cent) and colleagues (16.6 per cent).

Men are more likely to lie to colleagues and friends about debt and income, while a higher proportion of women lied to parents and partners about both.

Nearly a quarter of millennials – people aged under 35, many of whom may be paying back tens of thousands of pounds' worth of student debt - said they have lied to parents about their income. This age group also had the highest number of people being dishonest to parents about their debt, at 44.5 per cent.

While respondents showed a willingness to be flexible with the truth with the people they are closest to, certain individuals appear much harder to hoodwink.

Only 3.5 per cent of people admitted to inflating their income in conversations with their bank and 2.8 per cent have lied about earnings to prospective employers. Income dishonesty also appears to be a turn-off in the dating game, with only 6.9 per cent of respondents lying about their pay packet on dates with new or potential partners.

The debt which people tried to hide from friends and family was caused by a wide range of expenses. Holidays (18 per cent), home improvements (18 per cent) and car costs (17 per cent) were the most common reasons for taking on debt. Other factors included special purchases, unexpected bills, the death of a partner and the impact of a relationship break-up.

90%

of UK consumers have lied about their finances to hide the amount of debt they are in

37%

of people also admit to being dishonest about their income, with parents the people most likely to be lied to.

86%

of UK consumers have lied about debt to parents, friends, partners or colleagues.

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ONE IN TWO CONSUMERS ARE CONFUSED BY SAVING

More than half of British workers are struggling to understand the basics of saving and would welcome access to financial education, our research shows.

Our study also reveals the fallout of this lack of saving knowledge – with a fifth of working people less than a month away from bankruptcy and over 40 per cent saving nothing for retirement each month.

In the survey, 51 per cent of UK workers admit to having a poor understanding of saving. This compares to 43 per cent for investing, 41 per cent for both mortgages and pensions and 39 per cent for borrowing.

The report also suggests a lack of understanding about credit ratings; despite their pivotal role in dictating some of life's most significant financial applications, including mortgages.

Almost 40 per cent of respondents cited credit ratings as a topic they have poor knowledge of.

Savings was identified as the financial topic workers would most like to learn more about – and the savings habits uncovered in the report show why.

Researchers found that 21 per cent of people could not support themselves for longer than a month with their current savings if they lost their job. Meanwhile, 45 per cent of workers saved nothing into their pension pots in the last three months.

SAVING COMES OUT ON TOP IN THE SATISFACTION STAKES

UK consumers find saving four times more satisfying than giving to charity, our data on people's emotional connections with money suggests.

Setting aside money for the future has been ranked as the most satisfying use for income, ahead of paying off debt, spending on oneself or others and giving to charity.

Close to a third (29 per cent) of UK consumers said they get the most satisfaction out of saving, compared to 24 per cent for spending on others, 20.3 per cent for paying off debt and just 7.6 per cent for giving it to charity.

Treating oneself appears to give people limited enjoyment, however, with only 17.9 per cent of respondents rating it the most satisfying way to spend money.

This rises to 21 per cent among men – compared to 15 per cent of women – challenging the age-old gender stereotype that women prefer shopping to men. Despite the general theory that people become more sensible with money as they get older, 18 to 24-year-olds appear to be the keenest savers.

Some 32.3 per cent of them derive most satisfaction from saving, in contrast to 22.6 per cent of 25 to 34-year-olds and 23.5 per cent of 35 to 44-year-olds.

The most charitable age group is the 25 to 34-year-olds, with 10.6 per cent ranking giving to good causes as top of the satisfaction stakes, against a low of 6.5 per cent of the over 55s.

29%	24%	7.6%
of UK consumers said they get the most satisfaction out of saving	compared to 24 per cent for spending on others.	of UK consumers said they get the most satisfaction for giving it to charity.

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REGIONAL SAVINGS AND DEBT

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	6%	13%	9%	7%	12%	53%
East Midlands	11%	13%	11%	7%	14%	44%
East / East Anglia	4%	8%	13%	6%	12%	57%
London	7%	16%	15%	7%	9%	46%
North East	5%	12%	11%	5%	10%	57%
North West	5%	15%	6%	7%	11%	56%
Northern Ireland	8%	9%	7%	11%	15%	50%
Scotland	5%	14%	4%	8%	16%	53%
South East	6%	11%	5%	9%	14%	55%
South West	6%	11%	6%	5%	10%	62%
Wales	7%	9%	9%	7%	7%	61%
West Midlands	6%	14%	11%	6%	12%	51%
Yorkshire & the Humber	5%	22%	6%	10%	5%	52%

Nationally, we can see almost a third of people paid nothing into their pension in the fourth quarter of the year, with the highest proportion in the South West.

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REGIONAL SAVINGS AND DEBT Q4 2016

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

	Nothing	Between £1 and 100	Between £101 and £250	Between £251 and £500	Between £501 and £1000	Between £1001 and £2000	£2001 and higher
Total	29%	17%	17%	15%	12%	8%	2%
East Midlands	24%	17%	16%	17%	14%	10%	2%
East / East Anglia	32%	18%	18%	17%	6%	6%	3%
London	25%	14%	16%	18%	13%	11%	3%
North East	30%	17%	21%	13%	7%	11%	1%
North West	31%	13%	16%	21%	10%	8%	1%
Northern Ireland	26%	24%	12%	13%	16%	8%	1%
Scotland	31%	20%	13%	12%	12%	10%	2%
South East	33%	17%	16%	14%	11%	8%	1%
South West	29%	23%	19%	9%	13%	6%	1%
Wales	35%	10%	16%	17%	17%	4%	1%
West Midlands	27%	14%	22%	15%	11%	9%	2%
Yorkshire & the Humber	33%	20%	17%	15%	8%	5%	2%

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

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

	Nothing	Between £1 and 100	Between £101 and £250	Between £251 and £500	Between £501 and £1000	Between £1001 and £2000	£2001 and higher
Total	45%	17%	16%	11%	7%	4%	1%
East Midlands	33%	21%	19%	12%	9%	5%	1%
East / East Anglia	48%	15%	21%	10%	3%	3%	0%
London	41%	13%	14%	14%	11%	5%	2%
North East	44%	20%	16%	11%	8%	1%	0%
North West	48%	15%	17%	11%	7%	3%	0%
Northern Ireland	36%	23%	21%	12%	5%	3%	0%
Scotland	53%	16%	12%	8%	6%	5%	0%
South East	47%	16%	15%	9%	7%	5%	1%
South West	48%	21%	15%	10%	3%	3%	1%
Wales	58%	12%	13%	12%	1%	4%	0%
West Midlands	42%	19%	17%	11%	6%	3%	2%
Yorkshire & the Humber	50%	11%	20%	12%	8%	4%	0%

GENDER SAVINGS AND DEBT Q3 2017

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

	Nothing	Between £1 and 100	Between £101 and £250	Between £251 and £500	Between £501 and £1000	Between £1001 and £2000	£2001 and higher
Total	45%	17%	16%	11%	7%	4%	1%
Male	40%	14%	17%	14%	9%	6%	0%
Female	49%	19%	16%	8%	5%	3%	1%

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?

	Nothing	Between £1 and 100	Between £101 and £250	Between £251 and £500	Between £501 and £1000	Between £1001 and £2000	£2001 and higher
Total	29%	17%	17%	15%	12%	8%	2%
Male	27%	15%	16%	16%	14%	11%	2%
Female	32%	18%	18%	14%	10%	6%	2%

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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	6%	13%	9%	7%	12%	53%
Male	5%	13%	10%	7%	10%	55%
Female	8%	13%	8%	8%	13%	52%

There was an even spread between genders in terms of the amount of debt being taken on in Q4 2016.

CONCLUSION

Our latest findings reflect a nation of savers who are both adjusting to new rules and regulations - and being hamstrung by perpetual problems.

There are several positives to be encouraged by, including clear signs that young people are proactively addressing their long-term financial future.

Thanks in part to auto-enrolment, we see the proportion of people disengaged from pension saving falling and more people making regular contributions to retirement funds.

By highlighting the amount of money wasted on regrettable purchases every day, our report also draws attention to funds that could easily be converted into savings with a little more consideration before spending.

A slight change in shopping habits, combined with access to a flexible investment app like True Potential's impulseSave, could result in a big payoff come retirement. It might also bring people more satisfaction, as our findings on emotional responses to money show.

Debt, however, remains a continual threat to long-term saving. Servicing it diverts vital cash streams away from pensions and general savings and, as we discovered, can be a daily worry for consumers.

The fact that nine out of 10 people lie about it to friends and loved ones is indicative of why it is such an issue for so many people.

Debt problems are solved when consumers face up to them and take appropriate action. Lying about them suggests they are a source of shame that people would rather hide and ignore.

The credit agency Moody's warned recently that the nation's debt levels are leaving Britain's lowest earners dangerously exposed should the economy falter; prompting it to downgrade four out of five consumer finance sectors.

In the background, debt on credit cards and loans has slowly crept back up to pre-2008 crash levels. Only by striving to make saving as easy as accumulating debt will we see any significant improvements on this front.

Another barrier to long-term saving is the UK's financial illiteracy epidemic.

Children at school today benefit from a curriculum which now includes financial education. But what about older generations failed by a schooling system devoid of the slightest mention of personal finance?

The unnecessary complexities of banking products have exacerbated a situation in which most people are clamouring for the knowledge to better understand their finances, as our survey shows.

We hope to see more people enrolling on the courses we run with the Open University this year.

But many more financial educators are needed, to help the millions of people in the UK struggling to get to grips with the savings and investment game.

David

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