TACKLING THE SAVINGS GAP

Consumer Savings and Debt Data Q1 2018

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FOREWORD

This report comes as efforts to close Britain's Savings Gap are stepped up. The new tax year will bring an increase in the minimum contribution to auto-enrolled workplace pensions from two to five per cent.

This will rise again in April 2019 to eight per cent overall, with five per cent coming from the employee and three from the employer.

Any measures which increase the flow of funds into retirement pots can only be a positive move for both savers and the national economy.

But given the sheer scale of the UK Savings Gap, a much more severe intervention is needed.

Based on our extensive research over several years – and our in-depth understanding of the retirement funding landscape – we believe the minimum contribution should be set at 12 per cent.

Clearly, this is a big step up from current and impending rates, and cynics may point to paternalism or perceptions of the nanny state.

The dire financial future many UK workers are creating for themselves currently, however, warrants drastic action.

The average British saver will fall well short of the £23,000 widely accepted as the amount needed each year to fund a comfortable retirement. Failure to act now will simply store up greater socio-economic problems for the future.

Certainly it would take a bold government to implement legislation forcing employers to significantly increase their contribution; perhaps to five per cent against the employee's seven.

Implementing such an increase would also require careful management; the potential impact on take-home pay could push some employees towards opting out.

More focus on financial education, for both children and adults, will go some way to solving this issue. As our findings in this report show, most people are oblivious to the upcoming workplace pension changes; and, therefore, have little or no knowledge of how they will impact their weekly or monthly budgets.

Financial education has been almost entirely neglected until recent years. Getting the message out about the importance of paying more into pensions each month could and should be a part of renewed focus on financial literacy.

As we report in this white paper, the majority of UK workers would be willing to put more into their retirement funds if required.

Yet we also see lingering financial misconceptions holding many back in their quest for a comfortable retirement. These could be easily fixed through readily available lessons in financial management.

The government has indeed made great progress in putting pensions higher up the agenda and getting consumers saving for the future.

We must capitalise on the gains made so far by making further changes that will truly change the trajectory of the average UK retirement fund.

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 34,000 people. True Potential represents over 20 per cent 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:

BETTER FINANCIAL KNOWLEDGE

AGILE REGULATION

TECHNOLOGY

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KNOWLEDGE GAP

Personal finance lessons were an alien concept to school leaders until recently; meaning generations of savers today have had little or no grounding in the basics of money management.

Financial services, meanwhile, have exploded in the modern era, adding layer upon layer of complexity – and branching off into a multitude of directions.

As a result, savings, investment and tackling debt can be daunting prospects to anyone intent on getting their finances in order.

Our research this quarter once again shows that poor decision making, rather than limited income, is the most toxic force against achieving retirement fund ambitions.

The only way to fight back is by getting relevant and understandable financial education to anyone who needs it.

And, based on our findings, that is the majority of UK savers; most people's later-life financial outlook would benefit from a better understanding of savings and debt. Such courses are no hard sell either, with millions of willing recipients searching for guidance.

We have witnessed this at first hand through the True Potential Centre for the Public Understanding of Finance (PUFin), which has seen soaring demand for course places.

The financial education institution we run in partnership with the Open University has now educated over 360,000 adults in personal finance in the last four years.

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.

A new project involves the development of an online financial resource for auto-enrolment pension customers.

It aims to combine content from PUFin's 'Managing my Money' course with behavioural techniques designed to nudge people to take action.

It will tailor and simplify content to the user and suggest easy-to-follow tips on improving their financial resilience.

Working in conjunction with the Open University and the Money Advice Service's What Works fund, we hope to report on a trial of the project later this year.

Other organisations involved in the research include:

Credit Unions
(which are sharing customer data with OUBS)

A Community Action Group in Milton Keynes

A social publishing charity
(which produces 'Quids in' magazine for social housing tenants)

The research project was officially launched at the True Potential PUFin annual conference, held in Westminster recently.

AGILITY GAP

As our quarterly surveys repeatedly tell us, flexibility and clarity are two vital characteristics which make savings products attractive to consumers.

Being able to save in a hassle-free, easy-to-understand way is essential if the Savings Gap time bomb is ever to be diffused.

While auto-enrolment has been hugely influential in starting to tackle a dire shortage of retirement fund saving, we shouldn't overlook the great untapped potential of the ISA.

As this simple – and tax-free - savings vehicle nears its 20th year on the market, we believe a significant increase in the annual ISA limit is long overdue.

We report in this paper that ISA take-up is gradually rising, against a backdrop of improving returns for stocks and shares-based products in particular.

To keep this momentum going, and to firmly establish ISAs as an alternative to pensions, we propose raising the annual limit from £20,000 to £25,000 in 2018/19.

While still well below the £40,000 pension limit, this figure would further remove barriers to saving and bring more flexibility – both important elements of tackling the Savings Gap.

Current "one account" restrictions, which many savers find confusing and needlessly limiting, should also be lifted. Any measures that empower savers to shop around and spread their investments should be encouraged.

Britain's savings culture is certainly improving – after decades in which debt accumulation became far easier and faster than setting aside funds for the future.

It is not yet as healthy as it should be, however, and freeing up ISAs from restrictive rules would represent further progress.

The majority of funds saved for retirement will continue to be done so through pensions. But, to cater for everyone's saving needs, we must allow alternatives to also thrive.

Making ISAs more enticing is an important part of that.

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TECHNOLOGY GAP

This year sees the launch of True Potential's new automated advice service, following months of careful preparation, working alongside regulators to test the technology.

It involves two artificially intelligent 'chatbots' – pieces of software programmed to run automated tasks and communicate through text with customers on various platforms.

They can either guide customers via passive information or offer automated advice based on data gathered by the system.

The service has been developed in close collaboration with the Financial Conduct Authority's regulatory sandbox and advice unit.

Fintech is among several data-driven industries leading the way in taking advantage of the growing capabilities of artificial intelligence (AI).

In the legal sector, research and administration-heavy tasks are increasingly being revolutionised by AI.

In life sciences, an open source tool was recently developed which uses AI to generate a picture of a person's genetic blueprint; one of Google's many healthcare-meets-AI projects.

So-called 'machine learning' is also being harnessed by insurers to improve their customer experience and how they manage and understand risk.

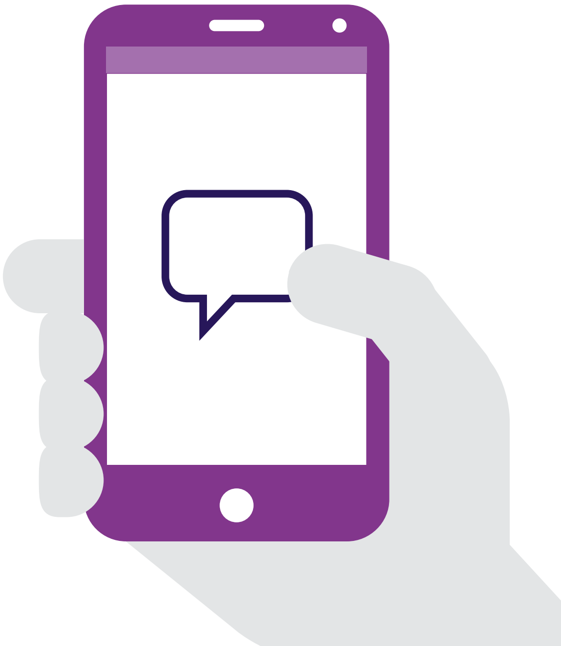
Like these other sectors, fintech is largely looking to complement human expertise with elements of automation.

AI's development is speeding up, thanks partly to a combination of improved computing capacity, 'big data' development and soaring levels of investment.

Its potential to rapidly process and interpret data – and then make objective decisions – offers much potential to fintech.

It could be many years until it is truly intuitive and sophisticated enough to adequately support consumers, however. In fact, our research into customer trends suggests it is unlikely to ever completely replace human advisers.

At True Potential, we believe consumers will always need the support and expertise of a qualified adviser. We are therefore keen to develop a hybrid model that brings together the best aspects of technology with advice from experienced professionals. We look forward to reporting on the progress of our new automated services later this year.



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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.

2,003 PEOPLE SURVEYED*

897 MALES

1106 FEMALES

*Aged 18 and over. Responses given in February 2018.

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HEADLINE FINDINGS

Our latest study captures a savings landscape in a state of flux. With the staggered launch of auto-enrolment now almost complete, further change, driven by tough decisions, is required to build on progress made so far in narrowing the Savings Gap.

This quarter we discover how most savers would be willing to make the increased contributions to their workplace pensions needed to secure a comfortable retirement; although few are aware that changes are looming in the new tax year. Only four per cent of respondents know that the minimum employee contribution will triple to three per cent from April.

We also see trust in pensions holding firm, despite recent headlines about the impact of corporate collapse on pension pots.

Almost half of all UK savers are not at all worried about their pension funds being affected by the changing fortunes of current or former employers. Asked which saving or investment vehicle they have most trust in, more than a quarter answered "pensions", ranking it highly alongside property and – worryingly given the below-inflation returns generally on offer – bank accounts.

Overall, however, our findings on savings habits make largely positive reading.

Savers put an average of £263 (minus employer contributions) into pensions in the period, with a minority (39 per cent) of respondents putting nothing into pensions pots in the period – a marginal increase on the previous quarter.

This figure drops to a low of 33 per cent among 25 to 34-year-olds, while 45 to 54-year-olds put most into their pensions in the three months at an average of £321.

General savings and investments received an average of £426 over the quarter, with almost 75 per cent of respondents adding at least something to non-pension related funds.

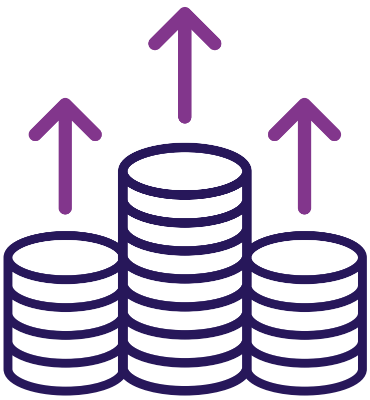
Debt continues to slow down long-term saving, rising slightly on last quarter.

An average of £315 of debt was accumulated per month by respondents, compared to £299 in the previous quarter.

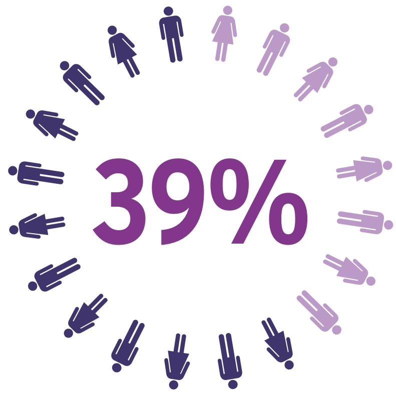
With auto-enrolment due to encompass the remaining employers not already in the scheme this year – and minimum contributions rising – we expect to report more positive findings next quarter.

As documented in this report, we also hope to see signs of further changes which improve the level of flexibility, clarity and choice available to retirement fund savers

Such measures will dictate whether we build on the progress made to date in 2018/19, or struggle to keep up with a widening Savings Gap.



£263: Average amount savers added to their pension pot in the last three months



39% of people saved nothing for retirement in the period

£426: Average amount added to general saving and investments, not including pensions, in the quarter

£315: Average amount of debt taken on by UK consumers each month

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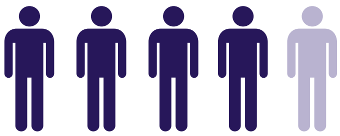
WORKERS EAGERLY ANTICIPATE PENSION CONTRIBUTION RISE

Four out of five employees plan to stay in or re-join their workplace pension scheme when minimum contribution rates rise this April.



The minimum proportion of wages that employees must put into their auto-enrolled pension will triple to three per cent in the new tax year starting on 6 April.

And our research suggest that most workers are eagerly awaiting the changes as they look to bolster their retirement funds and take advantage of increased employer contributions.

The current minimum auto-enrolment contribution is two per cent, split evenly between employee and employer. From April, employees will contribute a minimum of three per cent, alongside two per cent from their employer. In April 2019, these figures will rise to five per cent and three per cent respectively.

Our research shows that 79 per cent of UK workers plan to stay in or return to their workplace pension scheme when the changes kick in this April. Among employees aged 45 to 54 this rises to a high of 82 per cent, against a low of 77 per cent for those aged 25 to 34.

While auto-enrolment has had a huge impact on getting more people saving for retirement, our findings suggest that there is room to do more through the scheme.

The UK faces a gaping chasm between what is needed to fund a comfortable retirement and what most people are on track to receive. We believe a minimum contribution of at least 12 per cent, including around five per cent from the employer, is a much more realistic figure if we are to ever close Britain's Savings Gap.

Meanwhile, our research shows a widespread lack of understanding about upcoming pension contribution changes – suggesting urgent action is needed by the government and employers to raise awareness in the weeks ahead.

Asked about the changes, just four per cent of respondents correctly knew that the minimum employee contribution will triple to three per cent this April.

Around half were unaware of any changes to the minimum contribution, with a quarter believing the rate will go up by one per cent and one in ten people expecting it to stay the same.

Encouragingly, confidence in pensions among UK savers remains relatively high; despite the much-publicised impact of the collapse of Carillion, which – like the fall of retailer BHS – has jeopardised employee pension pots.

Respondents were asked how worried they are about their pension savings being damaged should their current or former employer run into financial difficulties.

Almost 45 per cent are 'not worried at all', compared to 'very worried' (12 per cent), 'moderately worried' (18 per cent) and 'slightly worried' (26 per cent).

The number of companies to have complied with auto-enrolment passed the one million mark earlier this year, with around 150,000 remaining businesses – including those formed after the start of auto-enrolment – due to comply by June.

ISA TAKE-UP RISES BUT MORE SUPPORT NEEDED

More than two thirds of UK consumers now have an ISA, up 10 per cent in the last 12 months, our research shows.

Improving returns and the government's hike in the annual allowance last April - from £15,240 to £20,000 – appear to have enticed more people to the ISA market.

Our study shows that 69 per cent of UK consumers saved into an ISA in the last quarter, compared to 59 per cent at this point last year.

The findings come amid improving conditions for ISA savers.

- Returns on average instant access ISAs reportedly increased from 0.68 per cent in December to 0.78 per cent in February, while, for fixed-rate ISAs, rates jumped from 1.38 per cent in December to 1.46 per cent this month.

- Stocks and shares ISAs continue to offer the biggest potential returns to those willing to accept an element of risk - and represent around 20 per cent of all ISA accounts according to HMRC.

- Ahead of the start of the new tax year on 6 April, we urge the government to consider another increase in the annual ISA allowance to encourage more savers to set aside funds for the future.

- Raising it to £25,000 would engage more people in long-term saving and go some way to helping to tackle the Savings Gap.

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YOUNGEST WORKERS MORE RETIREMENT-FOCUSED THAN EVER

Almost 90 per cent of UK workers in their teens and early 20s are now saving for retirement – although one common mistake continues to threaten to their long-term financial future.

Our data on the savings habits of 18 to 24-year-olds has shown them to be far more financially astute than cash-strapped stereotypes perpetuated by previous generations.

Our study shows that 89 per cent are engaged in some form of retirement saving, with playing the stock market and trading cryptocurrencies among several ways they aim to secure funds for later life.

On average, those we surveyed are putting £120 into their general savings each month, and a further £52 into their pension (excluding their employer's contribution).

Respondents aged 18 to 24 were asked which three forms of saving and investing for the future they have most confidence in.

Over a third (34 per cent) of people said 'ISAs', compared to 31 per cent for 'property' and 20 per cent for 'pensions'. The data also suggests that online trading platforms are an increasing influence on savings habits in young people.

One in ten respondents said they are trading in cryptocurrencies to help secure their financial future, with 11 per cent investing on the stock market.

Worryingly, however, 54 per cent of respondents are also putting their faith in bank accounts as a means to save up for retirement.

Even if funds were put into a high interest current account with a rate of five per cent, £1000 of savings would only yield £50 per year in interest – ignoring the impact of inflation. In comparison, the long-term returns available through pensions are significantly higher – potentially amounting to tens of thousands of pounds over the course of an individual's working life.

Young people are more engaged than ever in saving for a comfortable retirement, thanks in part to auto-enrolment and increased publicity about the grim realities of retirement for people who have not saved during their working life.

A dearth of financial education and overly complex financial services, however, have conspired to make saving for the future needlessly confusing – as we can see from how many people believe bank accounts will deliver the returns they need to fund retirement.

Getting financial education to more young people is absolutely essential, especially with many of them experimenting on potentially volatile cryptocurrency and stock markets.

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%	17%	11%	9%	14%	43%
East Midlands	6%	21%	8%	6%	15%	44%
East / East Anglia	9%	11%	4%	9%	18%	49%
London	8%	18%	12%	10%	11%	41%
North East	4%	19%	9%	15%	17%	36%
North West	7%	16%	12%	9%	13%	43%
Northern Ireland	2%	11%	10%	8%	18%	51%
Scotland	1%	16%	10%	12%	17%	44%
South East	7%	14%	12%	7%	13%	47%
South West	5%	26%	10%	11%	10%	38%
Wales	4%	17%	16%	9%	16%	38%
West Midlands	6%	14%	14%	13%	11%	42%
Yorkshire & the Humber	8%	20%	11%	9%	16%	36%

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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	28%	19%	14%	15%	13%	9%	2%
East Midlands	21%	23%	14%	12%	20%	8%	2%
East / East Anglia	25%	20%	12%	18%	11%	12%	2%
London	23%	13%	14%	19%	14%	13%	4%
North East	28%	24%	12%	16%	11%	7%	2%
North West	29%	16%	14%	18%	13%	8%	2%
Northern Ireland	16%	14%	17%	18%	21%	10%	4%
Scotland	31%	19%	11%	12%	15%	11%	1%
South East	32%	17%	14%	15%	14%	6%	2%
South West	28%	18%	19%	16%	8%	9%	2%
Wales	34%	26%	14%	11%	8%	6%	1%
West Midlands	35%	19%	14%	10%	14%	7%	1%
Yorkshire & the Humber	24%	19%	24%	11%	11%	9%	2%

REGIONAL SAVINGS AND DEBT

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	40%	17%	16%	14%	8%	4%	1%
East Midlands	37%	18%	20%	12%	9%	4%	0%
East / East Anglia	42%	18%	12%	15%	7%	5%	1%
London	34%	16%	12%	19%	11%	7%	1%
North East	47%	15%	12%	14%	5%	6%	1%
North West	40%	12%	18%	13%	12%	5%	0%
Northern Ireland	39%	14%	10%	20%	10%	7%	0%
Scotland	41%	14%	15%	10%	15%	4%	1%
South East	45%	17%	15%	12%	6%	4%	1%
South West	39%	18%	16%	18%	7%	2%	0%
Wales	43%	17%	22%	12%	2%	3%	1%
West Midlands	40%	18%	22%	11%	6%	2%	1%
Yorkshire & the Humber	33%	21%	14%	16%	11%	4%	1%

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GENDER SAVINGS AND DEBT Q1 2018

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	40%	17%	16%	14%	8%	4%	1%
Male	35%	15%	16%	17%	10%	6%	1%
Female	44%	18%	16%	12%	7%	3%	0%

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	28%	19%	14%	15%	13%	9%	2%
Male	26%	15%	16%	16%	15%	9%	3%
Female	29%	21%	14%	14%	12%	9%	1%

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GENDER SAVINGS AND DEBT Q1 2018

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%	17%	11%	9%	14%	43%
Male	6%	17%	12%	9%	12%	44%
Female	6%	17%	11%	10%	16%	40%

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CONCLUSION

This report charts further progress on the UK's journey to solving its retirement funding shortfall.

Once again we see pensions disengagement remaining relatively low – and generally positive signs that more people are considering their financial future.

While a lot has been achieved in recent months, and years, however, the most challenging terrain arguably lies ahead.

More people of all ages are switched onto the importance of pensions and other long-term investment vehicles than ever before.

Auto-enrolment has transformed the savings landscape and pension freedoms have given people control of their retirement funds.

With those headline changes made, we are now coming to the finer details – the barriers we must overcome to stand any chance of closing the Savings Gap.

Getting UK employers and employees involved in workplace pensions is an almighty achievement which is close to completion.

But encouraging them to take their joint contribution into double percentage figures is an entirely tougher challenge. Yet this is a must for the shift required to finally plug the Savings Gap.

We hope to see the minimum contribution rate pass our suggested figure of 12 per cent eventually - and at least welcome the planned increases, even if they do not go far enough.

Furthermore, financial illiteracy continues to wreak havoc on retirement fund prospects.

Our latest survey reveals widespread and misplaced trust in bank accounts as a vehicle for long-term saving. Such misconceptions are the product of years of financial education neglect. It could take many more years to reverse the damage done.

At least money management is now on today's school curriculums, hopefully laying the foundations for a more financially astute nation of savers.

There is an urgent need for more adult financial education; and, as we have seen at the True Potential Centre for the Public Understanding of Finance (PUFin), huge demand for it. Our work with the Open University Business School is changing personal finance perceptions and we urge others, including financial service and public sector bodies, to follow our lead.

Meanwhile, this quarter's findings give us a detailed picture of how UK workers view different forms of saving.

It is encouraging to see ISAs and pensions continuing to be held in relatively high esteem, standing their ground alongside property as ever-popular means of investing for the future. If, as we urge in this paper, the ISA limit was raised to 25,000, we would see many more people flocking to them – further narrowing the Savings Gap.

Our research also evidences the rise of cryptocurrencies and playing the stock market as methods of securing financial futures. While Bitcoin and friends are being circled by would-be regulators, both areas carry great risks to investors. We watch this changing situation – and the wider UK savings picture – with interest before our next quarterly update.

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