Tackling the Savings Gap

Consumer Savings and Debt Data Q3 2018

true potential LLP

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Foreword

Our latest findings on the UK Savings Gap come amid record numbers of people saving for retirement.

The Office for National Statistics reports that there were 15.1 million active members of workplace pension schemes in 2017, up from 13.5 million in 2016.

This was made up of 8.8 million private sector pension schemes, with 6.3 million in the public sector.

As more employees engaged in pension saving, the average contribution rate fell, however.

For private sector defined contribution schemes, the average total contribution, including that of the employer, was 3.4 per cent – down from 4.2 per cent in 2016.

The data corresponds with some of our findings this quarter; more workers are planning for retirement and thinking about how they will fund their later years.

Yet, we also see many are saving less each month than they were five years ago – while pensions pots struggle for attention among the many other pressures on personal finances.

As we report in this paper, a disconnect between the annual amount savers believe they will need to fund retirement, and the sum the average saver will actually receive, continues to prevail.

This is the challenge at the heart of the Savings Gap. Solving it requires a combination of education, qualified advice, easier-to-use savings platforms and ongoing government support for retirement saving.

Ultimately, savers must take control of their long-term finances, but many may still be uncertain about their best option and how to plan ahead.

The government's proposed pensions dashboard may go some way to providing clarity to those who need it – if, indeed, it goes ahead.

It remains to be seen if it gets off the ground, but any measure that offers savers clarity in what is still a relatively young pensions landscape is firmly backed by True Potential.

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.

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 38,000 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

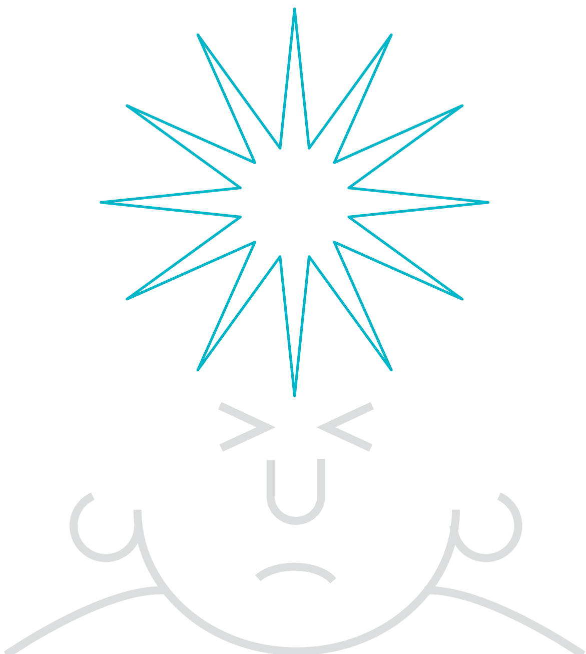
AGILE REGULATION

TECHNOLOGY

Knowledge Gap

Research by the Open University tells us that 70 per cent of UK adults are unable to answer GCSE-level questions on personal finance.

Furthermore, our own long-term studies into the saving and spending habits of UK consumers repeatedly show that a poor understanding of finance is sabotaging many household budgets.



This lack of knowledge means it is harder for pension savers to make informed decisions, and is a direct contributor to the Savings Gap.

We set up the True Potential Centre for the Public Understanding of Finance (PUFin) in 2013 to challenge this concerning status quo.

The True Potential PUFin is the first and only personal finance research centre in the UK that has an active teaching programme freely available to the public.

Our courses, available online via the OpenLearn and FutureLearn platforms, have now attracted over 375,000 sign-ups.

Courses cover a range of topics including managing my money, investments and financial journey.

While school curriculums are finally giving personal finance the attention it requires, most adults have had no access to education in this vital area.

The True Potential PUFin, therefore, aims to empower them to take control of their finances, which includes adequately preparing for retirement.

The centre is also a research body and recently contributed to an influential report for the House of Commons Treasury Committee on the vulnerable state of UK household finances.

The report highlighted several contributors to rising household debt, as well as inadequate levels of saving for both 'rainy days' and retirement.

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Agility Gap

This year's Budget is an opportunity for the Chancellor to do something great for pension savers everywhere – by doing nothing at all.

Last time out with the red box, Chancellor Phillip Hammond chose not to tinker with legislation affecting retirement funds. Much to the relief of the pensions industry, the reforms that began six years ago were allowed to bed in further.

Auto-enrolment, launched in 2012, and the freedoms of pension funds from 2015, were part of the biggest pension reforms for over a century.

Given the scale of the changes, teething problems experienced since were perhaps inevitable; and further evolutionary tweaks may be required.

For example, a solution to the general exclusion of the self-employed is much needed. A recent study of Office for National Statistics data by Prudential found that 36 per cent of the UK's five million self-employed workers are not currently saving for retirement. This needs to change.

We have also argued the case for an increase in minimum contribution levels on workplace pensions. From April 2019, the minimal contribution for auto-enrolled employees will rise from five to eight per cent, which will include at least a five per cent contribution from the individual.

We believe a minimum figure of 12 per cent should be the ultimate aim, if serious inroads are ever to be made in the Savings Gap.

For now, however, the market needs stability. With every size of business now auto-enrolled, the challenge of enforcing compliance continues.

Efforts to boost the attraction of pension saving are delicately balanced. Recent years of reform have brought more awareness of the need to save for retirement.

News of pension funds suffering as a result of corporate failures like Carillion and BHS, meanwhile, are setbacks in this mission to improve the appeal of pension saving.

Technology Gap

Technology has a central role to play in challenging the UK's Savings Gap by making saving and investing faster, easier and more flexible.

Innovations which enable this are developing rapidly, however, and providers must keep up, or miss the opportunity of giving customers the full benefit of the very latest breakthroughs.

In keeping with this, True Potential has recently developed its investment and pensions platform with a complete in-house rebuild, giving us full ownership and control.

This initiative marks the next stage in our long-term ambition and strategy of benefiting clients through a deeper ownership of the value chain.

We have developed our award-winning technology in-house using our team of 35 developers.

Within this system, investment group SEI had provided additional core functionality, which does not directly impact on the adviser or end-client experience.

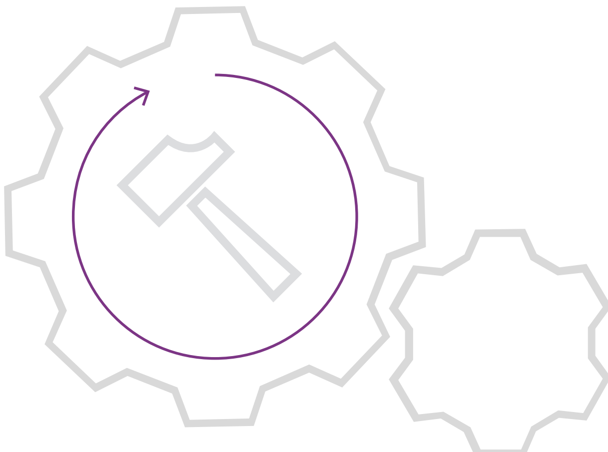
True Potential has now made the decision to build and run that functionality itself as part of the rebuild, ending the platform association with SEI.

Daniel Harrison, senior partner at True Potential, says: "This opens up powerful opportunities for the platform moving forward. It will allow us to use our award-winning technology expertise to meet the needs of today's advisers and clients in the agile and forward-facing fashion we have become renowned for.

"It also allows us to harness new technologies to both future proof our platform and boost our efficiency and reconciliation engines, giving all involved an accurate and expedient investment experience."

To best prepare for the upgrade, True Potential's dedicated team of experts has been working behind the scenes since the end of 2016 to design, build and subsequently test the new platform.

Harrison adds: "Parallel systems have been operating alongside the current platform, to ensure accuracy of data flow. This will include operating a 'model office' approach and involve the management team personally investing their own funds onto the platform."



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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.

2,005
PEOPLE SURVEYED*

1,025
MALES

980
FEMALES

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

Headline Findings

Our latest findings highlight the challenges preventing many from securing a comfortable retirement – and changing attitudes towards pension saving.

Among older age groups we see a lowering of expectations for retirement, while younger savers continue to aim high; often in contradiction to their saving habits.

There are also signs that many savers have a poor understanding of the mechanics of retirement fund saving; further underlining the need for more financial education for adults.

Overall, 67 per cent of respondents saved at least something into their pension, with an average of £1074 being contributed in the quarter (excluding employer contributions).

General savings pots were boosted by an average of £1326 in the period, with only 28 per cent of people saving nothing.

Respondents took on an average of £947 of debt, excluding mortgages and student loans, in the period.

People aged 25 to 34 took on a high of £1902 worth of debt – over £300 more than the second highest category, 35 to 44-year-olds.

Savers said they would need an average of £22,553 per year to live comfortably in retirement, although the data suggests people expect to need more as they get deeper into retirement.

They estimated that they would need £24,852 in their eighties – perhaps as care bills rise – versus £20,722 in their sixties. Respondents aged 25 to 34 had the highest expectations for retirement, with £33,713 needed per year to live comfortable. This compares to £15,890 among the over 55s.

Respondents were also asked to rank their financial commitments in order of priority. Saving for retirement came out in second place, behind 'mortgage repayments' on average, and was ranked a low of fourth by 35 to 44-year-olds.

Almost half (46 per cent) of respondents said they had not thought about how much they will need to have set aside for retirement. Thirty-six per cent were unaware that pension funds can be withdrawn flexibly in lump sum payments.

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£1074: Average amount savers added to their pension pot in the last three months

33 per cent of people saved nothing for retirement in the period

£1326: Average amount added to general saving and investments, not including pensions, in the quarter

£947: Average amount of debt taken on by UK consumers in the last three months

Worsening savings gap crisis revealed

The gap between the amount needed to fund retirement, and what the average saver is on track to receive, has widened in the last five years, our data suggests.

The UK has long faced the challenge of a gaping hole between the size of the average retirement fund pot and the £23,000-per-year needed to fund a comfortable retirement.

Efforts to close the gap have been stepped up in recent years, including through the government's successful auto-enrolment scheme, which has introduced millions to workplace pensions.

However, our research suggests the gap is widening. While 38 per cent of respondents said they are contributing less to their retirement savings than in 2013, a further 15 per cent have not yet started saving for retirement. Meanwhile, 31 per cent of respondents are saving "about the same" as they were five years ago. With the impact of inflation factored in, less funds are flowing into their pension pots too.

Overall, therefore, 62 per cent are saving nothing, or less than they were in 2013, with only 38 per cent of UK workers saving more than in 2013 and helping to close the savings gap.

Our findings also show that many UK workers are unaware of the realities of funding retirement.

Almost half (46 per cent) of respondents have not thought about how much they will have had to set aside by the time they retire. Over a third (36 per cent) are unaware that they can take their pension flexibly rather than the same amount every year.

Workers were also asked to rank their financial commitments in order. Saving for retirement was not top priority in any age group, with its lowest ranking of fourth among 35 to 44-year-olds.

38 Percent of respondents said they are contributing less to their retirement savings than in 2013.

15 Percent of respondents said they have yet to start saving for their retirement.

31 Percent of respondents said they are saving about the same as they were five years ago.

46 Percent of respondents said they have not thought about how much they will need for when they retire.

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Financial Priority	Age Group / financial priority ranking			
	25 to 34	35 to 44	45 to 54	55+
Mortgage / house	1st	1st	4th	5th
Buying a car	2nd	3rd	6th	6th
Rainy day fund	4th	2nd	1st	1st
Retirement saving	3rd	4th	2nd	2nd
Enjoying myself with friends & family	6th	6th	5th	3rd
Supporting family financially	5th	5th	3rd	4th

David Harrison, managing partner of True Potential, said:

"As shown in our findings, millions of UK workers remain on track for financial struggles in later life if their current saving activity continues as it is. Our data also shows that much more work is needed, by government and the pensions industry, in promoting the importance of saving for retirement.

"The fact that no age group prioritises it as a financial commitment, is perhaps unsurprising given the dominance of mortgage lending in the UK. It is, however, concerning that so many savers have not even thought about how much they will need to have saved up for retirement. This further underlines the need for more access to adult personal finance education, supported by the private and public sectors and academia."

'Working into my seventies? No thanks, I'm retiring at 41'

41%

The average age which 18 to 24-year olds expect to give up work.

51%

The average age which 25 to 34-year olds expect to give up work.

59%

The average age which 35 to 44-year olds expect to give up work.

How young working Brits are pushing for a life of financial freedom.

While many Brits plan to work beyond retirement age to make ends meet, the average 18 to 24-year-old expects to be able to give up work by 41.

Our findings show that working 18 to 24-year-olds believe they will reach financial independence - the age at which they have enough wealth to live without employment – well before retirement age.

On average, they expect to have escaped the need to work by 41, through investments, savings and passive income streams that make working a choice rather than a necessity.

This age group is also more likely to have thought in detail about funding their retirement. Our study shows that the dream of early retirement gradually fades with age.

While 41 is the magic 'financial freedom' number for the 18 to 24s, this rises to 51 among 25 to 34-year-olds and 59 for 45 to 54-year-olds.

Only six per cent of 18 to 24-year-olds said they would 'never' reach financial independence, compared to nine per cent of 25 to 34s, 20 per cent of 35 to 44s and 36 per cent of 45 to 54s.

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Older workers face retired life well below the financial comfort zone

People nearing retirement resigned to sub-£16k income

Older UK workers are facing retired life on just £15,890 per year – over 30 per cent below the amount needed for a comfortable retirement, according to our findings.

Our study into the finances of working Brits aged 55 to 64 shows that many are resigned to spending their retirement years struggling to make ends meet.

The average worker over 55 expects an average annual retirement income of £15,890 including state pension. This is 31 per cent below the £23,000 widely accepted in the pensions industry as the minimum annual amount needed for a comfortable retirement.

The study also shows that many over-55s are planning to work beyond their retirement age. While 42 per cent say they “are not happy with my current financial position”, 22 per cent will “work for a few more years beyond retirement age”.

Almost half (47 per cent), however, say they will retire as planned and “just get by on a lower pension income”.

Sixteen per cent say they “are too busy to sort their finances out” and one in four admit to not knowing where to start to fix their finances. On average, respondents aged 55 to 64 saved £92 per month into their pension over the last quarter; compared to an average across all age groups of £358.

Extensive research by True Potential spanning several years, and wider industry analysis, show that £23,000 is the minimum annual threshold needed to fund a comfortable retirement.

The maximum state pension in the UK currently is worth £8,545.50 per year, meaning a 20-year retirement would require a private pension pot worth £289,090 to reach the £23k-a-year level.

Younger UK workers, meanwhile, believe they will need almost £34,000 a year to fund a comfortable retirement, our study shows. The average worker aged 25 to 34 said they would need a minimum of £33,714 per year in retirement to get by comfortably.

Younger workers are also more confident of achieving their pension ambitions, with 54 per cent of 25 to 34-year-olds feeling “on track” to receiving their target minimum amount – versus just 38 per cent of people age 55 to 64.

Funding a 20-year retirement on the £33,714 per year desired by the average 25 to 34-year-old would require a personal pension pot worth £674,370.

Yet our study shows that more than a third (37 per cent) of 25 to 34-year-olds put £250 or less per month into their pension during the last quarter.

Our study shows how pension expectations generally drop with age beyond the mid-thirties:

The research also shows that younger workers are more likely to have considered their financial needs in later life. Sixty-three per cent of 25 to 34-year-olds said they had thought about how much they would need in retirement, compared to 49 per cent of people age 55 to 64.

David Harrison, managing partner at True Potential, said: “While it is encouraging to see more young people thinking about their financial future, the data also shows many are on course to receive far less than they believe is needed for a comfortable retirement.

“This savings gap is a legacy of poor financial education, needlessly complex savings products and a legislative framework that was not conducive to retirement fund saving.

“Progress is underway on all three fronts and, through auto-enrolment, millions of people have engaged with pension schemes for the first time. More action is needed, however, to ensure momentum continues and younger generations make the decisions now that will prevent financial difficulties in later life.”

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	4%	14%	11%	5%	10%	56%
East Midlands	4%	10%	8%	6%	6%	66%
East / East Anglia	4%	5%	6%	1%	12%	72%
London	5%	27%	26%	5%	11%	26%
North East	8%	14%	21%	3%	11%	43%
North West	4%	9%	6%	4%	9%	68%
Northern Ireland	12%	38%	3%	12%	6%	29%
Scotland	4%	11%	3%	7%	10%	65%
South East	3%	11%	5%	6%	6%	69%
South West	1%	9%	6%	5%	11%	68%
Wales	6%	8%	5%	3%	12%	66%
West Midlands	3%	7%	3%	6%	12%	69%
Yorkshire & the Humber	3%	7%	4%	3%	13%	70%

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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	Over £2000
Total	28%	9%	7%	13%	13%	13%	17%
East Midlands	30%	11%	10%	9%	9%	15%	16%
East / East Anglia	29%	9%	9%	12%	15%	9%	17%
London	13%	8%	4%	10%	14%	25%	26%
North East	25%	8%	10%	17%	16%	7%	17%
North West	31%	12%	7%	18%	14%	7%	11%
Northern Ireland	12%	1%	3%	9%	15%	21%	41%
Scotland	35%	9%	9%	13%	11%	7%	16%
South East	40%	9%	5%	11%	9%	14%	12%
South West	39%	12%	11%	13%	14%	3%	8%
Wales	29%	5%	11%	12%	10%	16%	17%
West Midlands	42%	9%	5%	13%	10%	8%	13%
Yorkshire & the Humber	33%	11%	12%	13%	14%	7%	10%

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	Over £2000
Total	50%	7%	5%	9%	7%	4%	18%
East Midlands	66%	1%	7%	6%	3%	3%	14%
East / East Anglia	62%	9%	5%	8%	6%	2%	8%
London	23%	8%	4%	13%	9%	5%	38%
North East	42%	10%	13%	8%	8%	4%	15%
North West	65%	5%	6%	6%	8%	4%	6%
Northern Ireland	29%	3%	0%	3%	3%	15%	47%
Scotland	50%	9%	3%	13%	10%	2%	13%
South East	62%	7%	4%	5%	6%	6%	10%
South West	64%	7%	6%	8%	6%	3%	6%
Wales	58%	2%	6%	5%	8%	7%	14%
West Midlands	65%	7%	5%	9%	5%	3%	6%
Yorkshire & the Humber	64%	6%	2%	8%	10%	3%	7%

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Gender Savings and Debt Q3 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	Over £2000
Total	50%	7%	5%	9%	7%	4%	18%
Male	40%	6%	4%	11%	9%	4%	26%
Female	61%	7%	6%	8%	5%	4%	9%

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

Gender Savings and Debt Q3 2018

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	Over £2000
Total	28%	9%	7%	13%	13%	13%	17%
Male	23%	7%	6%	12%	13%	15%	24%
Female	34%	11%	8%	13%	12%	12%	10%

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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	4%	14%	11%	5%	10%	56%
Male	5%	19%	14%	6%	10%	46%
Female	3%	9%	8%	4%	12%	65%

Conclusion

Our latest findings provide a valuable reminder of the huge amount of progress still needed in closing the UK Savings Gap.

As we have reported, pension saving remains relatively high on the list of personal finance priorities for most of workers. In no age group, however, is saving for retirement the number one priority.

More concerning is the fact a significant proportion of savers are putting aside less than they were five years ago.

For many of them, the prospect of struggles in retirement is getting evermore real, rather than fading as it should be in this age of auto-enrolment.

Our data in the years since we launched the Savings Gap study has consistently highlighted the role poor financial awareness is playing in the retirement fund shortfall.

This is evidenced once again this quarter, with almost half of savers unaware that pensions can be taken in lump sums rather than at the same level every year.

Saver expectations about how much they will need to live on in retirement also appear considerably out of sync with the realities of average saver activity. These realities seem to hit home as people get closer to retirement, with annual expectations gradually reducing.

Among younger savers, it is commendable to see many in our poll showing such ambition about their financial future – by aiming to be financially independent long before they hit the standard retirement age.

But if they are to give up working earlier than in their mid-to-late sixties, do they fully appreciate the amount they will need to save in order to enjoy a lengthier retirement?

Ensuring savers have a clear understanding of the link between current activity and the size of their pension pot at retirement is a fundamental part of closing the Savings Gap.

Our next quarterly report comes after an autumn Budget which we hope brings no further changes to current pensions legislation.

For all the challenges highlighted in this paper, the pension reforms of recent years have made a significant impact in getting more people saving for later life.

Even now, however, the market, savers and employers are still adjusting. Any further intervention from Whitehall could bring unwanted uncertainty.

We hope that is not the case and we can report on further progress in narrowing the UK Savings Gap in our next update.

David

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