Tackling the Savings Gap

Savings and Debt Data Q1 2014

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Foreword

ISAs and NISAs can help reduce the Savings Gap

Since the last edition of 'Tackling the Savings Gap' the UK economy has shown signs of improvement with falls in unemployment and inflation, while the OECD predicts GDP in the UK will grow 3.2 per cent in 2014. Overall, these are welcome signs that, if sustained, might eventually ease the pressure on household budgets. In March, George Osborne's 2014 Budget announcement made revolutionary changes to pensions and ISAs that will go some way to closing the Savings Gap in the UK… but more action is still required to fully address the savings crisis our country is heading towards.

In his Budget statement, George Osborne simplified ISAs and, from the 1st July, raised the annual allowance to £15,000, which are two very welcome measures that are long overdue. I have argued for some time that ISAs can be made more attractive to help close the Savings Gap in Britain today and replace our culture of debt with a culture of saving. The latest findings from our Tackling the Savings Gap research of 2,000 people from across the UK shows that 25 per cent of adults in the UK are not saving anything for retirement, while 64 per cent are putting aside less than £100 per month. Unless the rates on offer for cash ISAs from the banks improve significantly, simply saving more money in cash will still fail to generate good returns. The Budget announcement should be seen as a first step towards creating ISAs that represent viable alternatives to pensions. For this to be the case I believe the limit should be set closer to £25,000 and savers should be encouraged to invest in stocks and shares ISAs.

Regarding pensions, our research shows that 25 per cent of people are saving nothing for their retirement. When I showed these figures to the Treasury in January I was clear that the current pensions system could not be the solution because it is part of the problem. Pensions have been far too complicated and unpredictable for too long compared with easy access to high cost credit. The Chancellor's decision to slash regulation and the administrative burdens that have spoiled pensions is good news. The life and annuities companies are unhappy, but if they had been putting clients first instead of their own shareholders, these changes may not have been necessary.

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There is a long way to go but I welcome the Chancellor's efforts to simplify pensions and give greater freedom to savers. Creating the right conditions is essential but the solution also lies in better education and technology. On these points True Potential is leading the way with the launch of our digital platform, True Potential Investor, and via our partnership with the Open University to create the True Potential Centre for the Public Understanding of Finance (PUFin) that has recently launched its first online module entitled *Managing My Money*.

The momentum that has started this year must continue because, as the data in this report shows, we still have a long way to go.

David

David Harrison
Managing Partner, True Potential LLP

The Savings Gap campaign

The UK is facing a problem: far too few people are saving anywhere near enough to enable them to live comfortably in retirement. This problem is being exacerbated by issues such as the constantly rising cost of living and longer average life expectancy. At True Potential, we refer to this as the 'The Savings Gap', and we want to do everything we can to help improve people's awareness of the issues, their knowledge of savings and investment and their attitudes towards ensuring they have adequate retirement provision.

Campaign update

True Potential is leading the campaign to narrow the Savings Gap in the UK. We believe radical ideas and innovative solutions are needed in three core areas:

Agility Gap: True Potential advised the Treasury on pensions and ISAs: Prior to this year's Budget, we met representatives from the Treasury and recommended that pensions should be overhauled. We also made the case for a viable alternative to a pension and we asked the Treasury to be more innovative with ISAs by creating a "super ISA" with an annual limit of £25,000.

We welcome the progress made in March's Budget and we thank the Treasury for listening to our calls and for making some of the most revolutionary changes seen for generations. That said, this must be the beginning of the process and we will continue to encourage the Government to go further.

Knowledge Gap: True Potential launched the first PUFin module: The first free module developed by the True Potential Centre for the Public Understanding of Finance (PUFin) was launched in May, with the aim to improve the general public's understanding of personal finance. The Managing My Money course (www.futurelearn.com/courses/managing-my-money) is intended for those with an interest in developing their personal financial capability but who do not have previous experience studying the subject.

Technology Gap: True Potential launched True Potential Investor and ImpulseSave®: March saw the launch of True Potential Investor, an innovative new online service that is designed to simplify investing and encourage a 'goal' and 'impulse' based saving culture. Using the same award-winning technology used by 22% of UK Financial Advisers, True Potential Investor can be accessed by the general public via the web (www.tpinvestor.com) and on any mobile device thanks to its use of responsive technology. True Potential Investor includes ImpulseSave® - a first-of-its-kind service that allows micro-payments to be transferred directly into investments to keep them on track or to reach their financial goals faster.

Latest findings

True Potential has commissioned this research so that we can all see clearly and fully understand the Savings Gap in the UK. This quarterly barometer, one of the largest surveys of its kind, of over 2,000 UK adults of all age ranges, socio-economic backgrounds and from all corners of the UK, shows the levels of understanding that people have of finance, how much they are saving and how they are choosing to save. The survey, therefore, is much more than just a snapshot in time and will provide a detailed look at the attitudes towards saving of the UK public.

Worryingly, our research shows that Britons are saving nowhere near enough to achieve a large enough fund to provide a comfortable retirement.

Our vision is to revolutionise savings through simplification and removal of barriers using emerging factors such as technology.

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

2,030 PEOPLE SURVEYED

995 MALES

1,035 FEMALES

Aged 18 and over

Average age of repondents:

45 YRS

Responses given in January 2014

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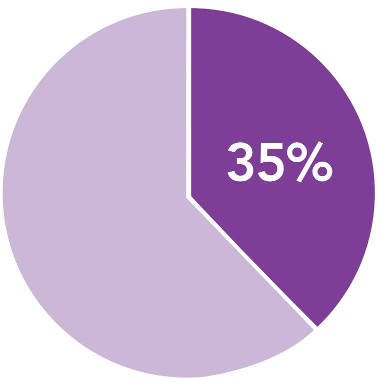
Headline Statistics

As with our first survey, the key findings from the latest quarterly research by True Potential shows the UK continues to face a savings time bomb, with many Britons failing to prepare for retirement or invest in a way that adds value to their money. Current levels of savings are unlikely to provide a comfortable retirement for most people.

Just **9%** of people are very confident that they will save enough money for retirement to enable them to live comfortably.

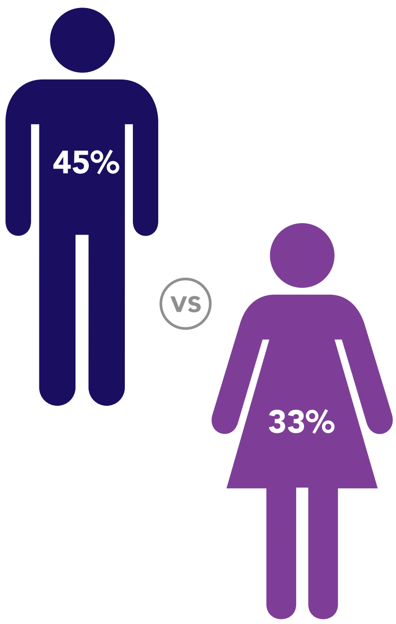
25% of Britons are currently saving nothing for retirement

2% of Britons are preparing for retirement using stocks and shares investments, despite this being the only means of saving that has consistently outstripped inflation.



35% of Britons will not be using any part of their ISA allowance in 2014

CONFIDENCE IN INVESTING



Women are less confident than men when investing in savings.

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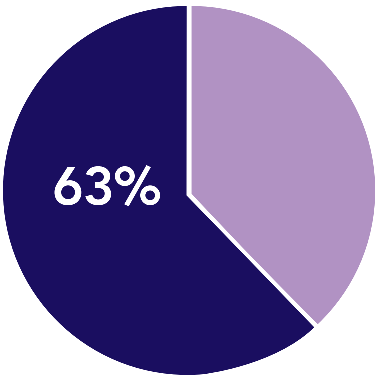
Focus on ISAs

There are two key issues around savings products. Firstly, the products most people are comfortable with – cash ISAs and pensions – deliver very poor returns. Secondly, people lack confidence in their knowledge of financial products that can deliver better value, such as stocks and shares ISAs or investment funds.

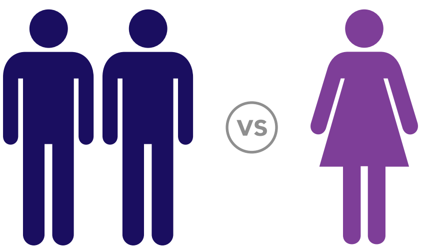
Stocks and shares ISAs often perform better than cash ISAs. However, the general public is not taking advantage of stocks and shares ISAs that could put them in a better position in retirement. Awareness and education are needed to help the general public take control of their financial future.

Only **1 in 10** savers intend to purchase a stocks and shares ISA in 2014

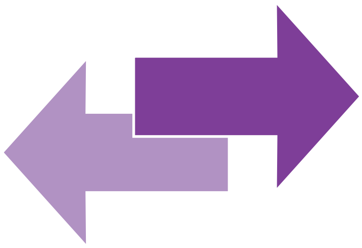


Cash ISAs

Cash ISAs dominate with two thirds (63%) of people likely to use all or part of their cash ISA allowance this year



Men were **twice as likely** to invest in a stocks and shares ISA in 2014 compared to women who preferred cash ISA



60% of respondents have never transferred their ISA to another provider

A third (35%) will not be taking out any type of ISA in 2014

Young people aged 25 to 34 years are least likely to see a good return on their investment this year with 72 per cent opting for a cash ISA.

Almost half **(46%)** of respondents were not aware that the interest rates on fixed-rate cash ISAs often fall significantly after the first 12 months

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Focus on ISAs

Our research found that cash ISAs were by far the most popular among those questioned, especially among females and the younger demographics. Stocks and Shares ISAs were more popular among men and the older demographics, with 12 per cent of the 65+ group likely to take out a Stocks and Shares ISA in 2014.

What sort of ISA do you intend to invest in this year?

	Average	Male	Female	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
Cash ISA	63%	59%	67%	66%	72%	64%	56%	59%	59%
Stocks & Shares ISA	9%	12%	6%	7%	9%	5%	10%	9%	12%
Both	11%	14%	8%	6%	8%	12%	12%	17%	13%
Don't Know	17%	15%	19%	21%	10%	19%	22%	15%	16%

The Internet was the most popular way people expect to find their ISA. Surprisingly, the 35-44 age group used the Internet just as much as the younger 25-34 age group (40% v 41%), while the 18-24 age group were the most likely to find their ISA directly from their bank. Across all demographics, approximately a third of respondents will not be using any part of their ISA allowance in 2014.

How will you find a suitable ISA in 2014?

	Average	Male	Female	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
Online	35%	38%	32%	33%	41%	40%	31%	37%	28%
Directly from Bank	25%	23%	26%	31%	27%	22%	22%	22%	24%
Through my Financial Adviser	7%	8%	6%	5%	7%	7%	7%	7%	8%
Other	5%	4%	6%	5%	2%	4%	5%	6%	9%
I won't be using any part of my ISA allowance in 2014	35%	34%	36%	33%	34%	34%	39%	34%	36%

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Transferring an ISA to another provider can give better returns, however the majority of people across all demographics have never switched provider. Of those that have switched provider, the older age groups were the most likely to move their ISA while only 2% of the 18-24 age group regularly switch provider.

Have you ever transferred your ISA to another provider?

	Average	Male	Female	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
Yes, I regularly switch providers	10%	13%	8%	2%	9%	10%	13%	15%	13%
Yes, I have switched provider once	15%	15%	16%	11%	17%	17%	13%	13%	20%
No, I have never switched providers	39%	38%	40%	44%	37%	39%	35%	44%	36%
I do not have an ISA	35%	34%	36%	43%	38%	34%	39%	28%	31%

Almost a half of respondents (46 per cent) were not aware that fixed-rate cash ISA rates often fall significantly after the first 12 months. Awareness only increased as people became older at a time when they are likely to be more concerned about their investments. There was also a marked gender difference, with only 49 per cent of woman aware that ISA rates fall after 12 months compared to 58 per cent of men.

Are you aware that fixed-rate cash ISA rates often fall significantly after the first 12 months?

	Average	Male	Female	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
Yes	54%	58%	49%	36%	48%	50%	51%	65%	68%
No	46%	42%	51%	64%	52%	50%	49%	35%	32%

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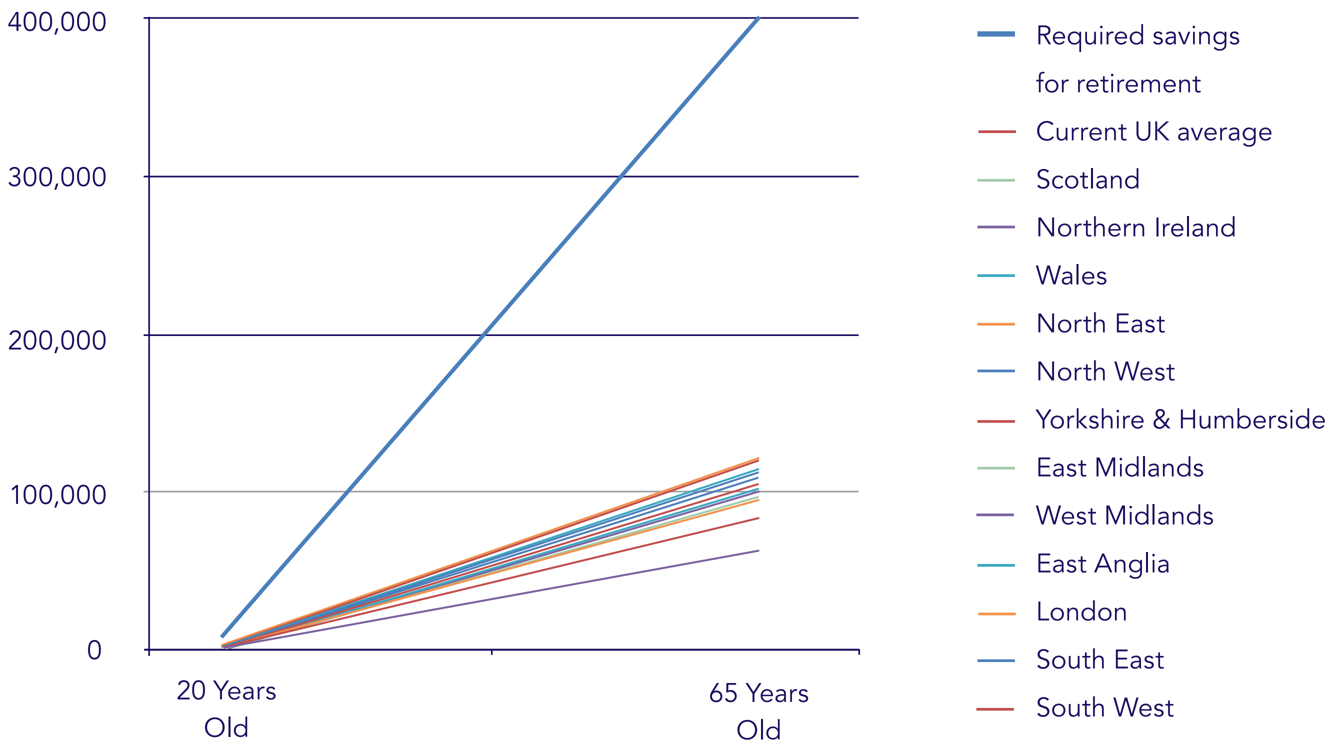
Millions face crisis in old age

If you were retiring today, how much capital would you need to generate an income of £20,000pa? An approximate guide is to multiply the required income by 20 (which equates to a 5% pa return from your capital). So you would need a sum of £400,000 from which to draw an income of £20,000 at a 5% rate of return.

To achieve a £400,000 pension pot an average of £8,888 per year for 45 years is required. This will provide £20,000 per year in retirement. Our latest research suggests the average Briton is only saving £2,338.40 per year, which equates to £105,228 over a 45 year working life. This will provide approximately £5,261.40 per year in retirement.

These figures do not account for new debt or inflation that will further erode what little people are saving for retirement. No matter how you look at this situation, the average person who number millions in the UK face a bleak retirement.

Even people in the South East and London, who currently have the highest net savings in the UK, are not saving anywhere near enough on average to achieve the £400,000 retirement fund that will give them a comfortable retirement. Projected over a 45 year career, the average person in the South East will have saved £112,000 for retirement, while the average person in London will have saved £122,000 for retirement (not adjusted for inflation).



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The UK and regional savings picture

The graph on the previous page was extrapolated from the regional Savings Gap picture (below), which shows a bleak savings picture for the whole country but especially in Northern Ireland, Wales and the North East. However, even in the more prosperous South East and London levels of savings are far below what is required for a comfortable retirement.

Although the South East and London performed well, and tops the table, those regions would be performing significantly better were it not for the highest levels of unsecured debt anywhere in the country.

Region	Savings (previous 3 months)	New debt (previous 3 months?	Net savings (savings minus new debt)	Overall ranking this quarter
UK average	£584.40	£342.10	£242.30	
Scotland	£539.10	£322.70	£216.40	9
Northern Ireland	£349.80	£447.60	-£97.80	12
Wales	£561.10	£406.60	£154.50	10
North East	£528.80	£394.30	£134.50	11
North West	£605.10	£320.80	£284.30	4
Yorkshire & Humber	£464.20	£223.50	£240.70	7
East Midlands	£526.10	£280.50	£245.60	5
West Midlands	£558.10	£271.60	£286.50	3
East Anglia	£637.30	£396.40	£240.90	6
London	£677.80	£382.10	£295.70	2
South East	£626.30	£329.30	£297.00	1
South West	£666.60	£439.90	£226.70	8

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The Gender Divide

No matter the age, men are more likely to save than women. The average male surveyed has a net saving of £359.70 for the previous quarter compared to £130.00 for females over the same period. While average net savings increases with age both genders, women are more likely to face a poorer retirement – a statistic that is compounded by the longer life expectancy of women.

50%

of respondents are not confident that by the time they retire they will have saved enough to enable them to live comfortably. This jumps to 64% for those aged 35-44.

The most confident;

Males aged 65+

19% Very Confident **48%** Quite Confident

Just **26%** of females aged 45 - 54 are quite or very confident that they will save enough money to live comfortably during retirement.

Compared to 6 months ago;

32% of Britons are more likely to save

21% are less likely to save

Females Aged:

35-44+45-54

are the least confident demographics –

31% are not at all confident versus
24% of males aged **35-44** and **27%** of males aged **45-54**

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Males v Females

Gender	Savings accrued (previous 3 months)	New debts accrued (previous 3 months)	Net savings and investments
Male	£707.80	£348.10	£359.70
Female	£466.20	£336.20	£130.00

Males by age group

	18-24	25-34	35-44	45-54	55-64	65+
Savings	£366.00	£884.30	£588.60	£625.90	£862.70	£821.80
New debt	£418.20	£409.60	£465.70	£325.80	£331.10	£210.30
Net savings	-£52.20	£474.70	£122.90	£300.10	£531.60	£611.50

Females by age group

	18-24	25-34	35-44	45-54	55-64	65+
Savings	£301.90	£461.50	£551.30	£454.80	£556.40	£490.60
New debt	£411.70	£294.90	£464.40	£345.00	£337.80	£154.70
Net savings	-£109.80	£166.60	£86.90	£109.80	£218.60	£335.90

The North / South divide

Confidence levels vary by region when it comes to saving for retirement. The three most confident regions in our research were London, the South East and South West. It's no coincidence that these regions also have the most people saving something for retirement.

By comparison, the least confident people were living in Northern Ireland where living standards have experienced the steepest falls during the economic downturn. A low level of confidence was also found in Wales and Scotland. But, while almost half of the people in Northern Ireland were not currently saving anything for retirement, Wales and Scotland were close to the UK average when it came to saving.

In England, only Yorkshire and Humberside bucked the trend with confidence levels almost equal to the South. The rest of England is still suffering a lack of confidence that will likely only improve as the economy improves and the cost of living returns to more normal levels.

When comparing confidence levels between this quarter and the previous quarter, more people were feeling positive that they are saving enough for retirement. Only Scotland and Northern Ireland recording lower confidence this quarter. These statistics indicate that the economic recovery may be filtering down into the population's psyche and will hopefully lead to higher levels of saving in the near future.

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Confidence levels and those saving nothing for retirement

Region	Those confident of saving enough to retire in comfort	Those currently saving nothing at all
UK average	38%	25%
Scotland	35%	28%
Northern Ireland	26%	47%
Wales	32%	24%
North East	38%	26%
North West	39%	26%
Yorkshire & Humberside	41%	24%
East Midlands	37%	22%
West Midlands	36%	33%
East Anglia	39%	27%
London	42%	22%
South East	42%	19%
South West	42%	23%

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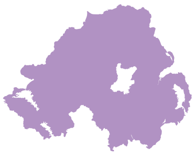
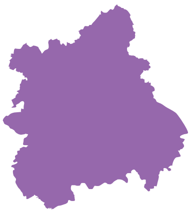
Those confident of saving enough to retire in comfort by region:



26%
Northern Ireland

32%
Wales

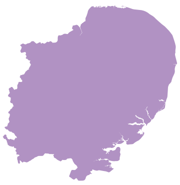
35%
Scotland



36%
West Midlands

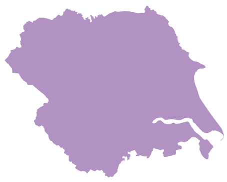
37%
East Midlands

38%
North East



39%
Anglia

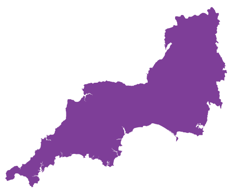
39%
North West



41%
Yorkshire/Humberside

42%
London

42%
South East



42%
South West

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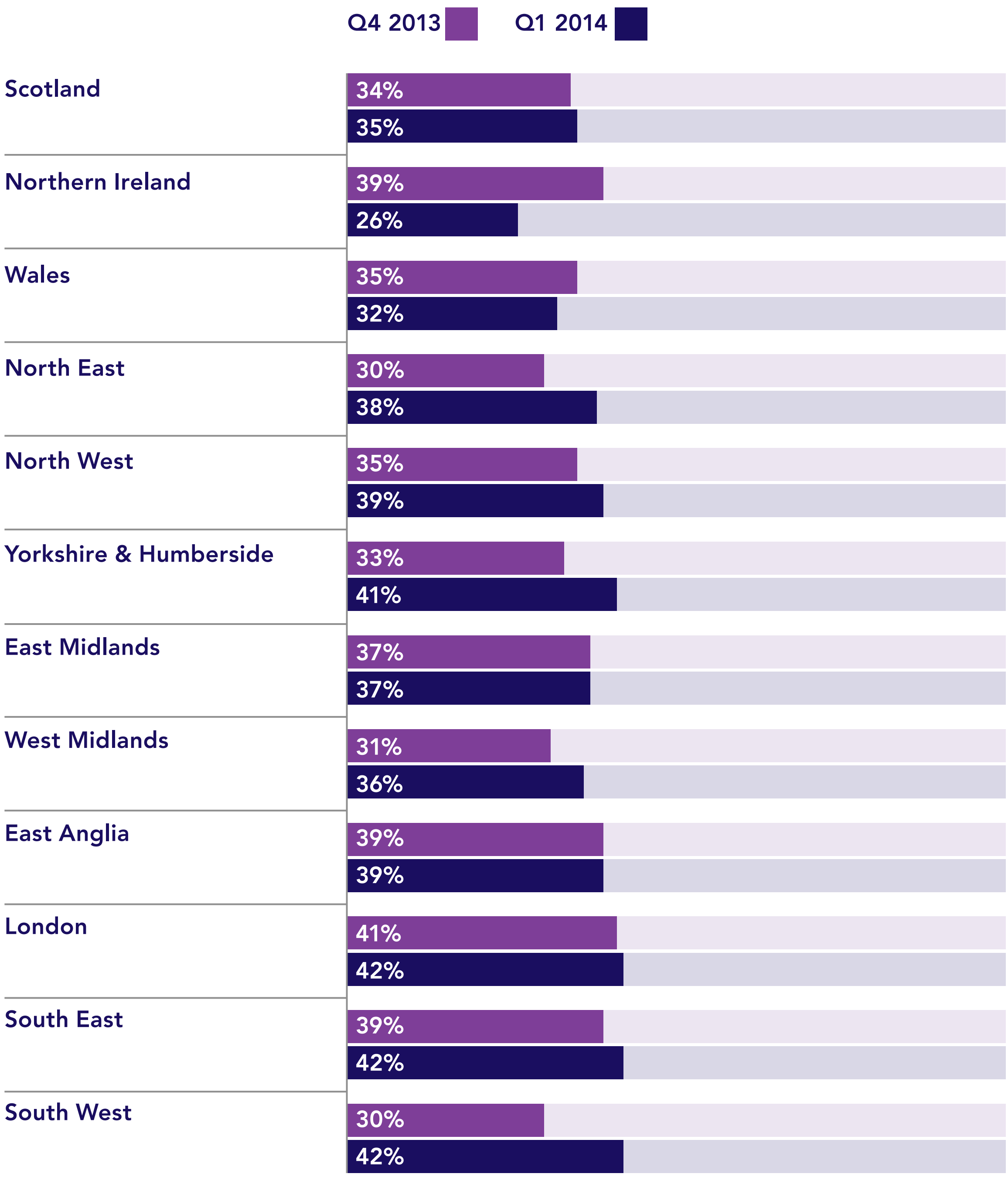
Comparing Q4 2013 with Q1 2014. Those confident of saving enough to retire in comfort by region



Conclusion

How can we close the Savings Gap? The obvious answer, of course, is to save more. However, some of the most common routes may not be the ideal solutions. New pension rules mean people will be enrolled automatically into a company pension. While the intentions are good, the minimum saving levels – at 2% of salary – are far too low and won't be enough for most people. The newly introduced NISAs offer a more viable alternative, giving savers a tax free and flexible product that could give them a more comfortable retirement. However, our own research shows that most people who are saving are using cash ISAs. There's a problem here too with interest rates at record low levels. With inflation factored in, savers are losing value on their money every day.

We cannot rely on the state for retirement provision therefore individuals must be encouraged to plan for retirement and save accordingly. Everyone including Governments, businesses and individuals have a role to play in replacing a culture of debt with a culture of saving.

We believe financial education is below-par in the UK and has been for many years. This has left millions of adults with very poor basic knowledge of financial products, services and opportunities.

Personal financial education is due to arrive on the National Curriculum in schools from September 2014, but this will be too late for anyone currently aged 15 and over. To address this, the True Potential Centre for the Public Understanding of Finance (PUFin) has launched the Managing My Money course (www.futurelearn.com/courses/managing-my-money) and further announcements will be made throughout 2014.

Digital technology is opening new possibilities and changing our behaviour. Mobile apps are becoming more popular and the technology is there to encourage people to save rather than get into more debt. We recently launched TP Investor that has been designed to encourage 'goal' and 'impulse' saving. True Potential Investor includes ImpulseSave® - a first-of-its-kind service that allows micro-payments to be transferred directly into investments to keep them on track or to reach their financial goals faster.

Sadly, there is no quick fix to the Savings Gap but if action is taken now to introduce more agile regulation, harness the power of technology and improve financial education then the social catastrophe that we are currently heading towards can be averted.

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