Tackling the UK Savings Gap

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White Paper Foreword

Tackling the UK Savings Gap

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.

Furthermore, the extended retirement age (in the Chancellor's 2013 Autumn Statement, George Osborne announced that the retirement age will rise to 70 by 2060) underlines the point that Government pension support is, at best, in a fragile state and certainly shouldn't be relied upon as a sole source of income after retirement. However, because retirement seems like such a distant issue to many people, it can be incredibly difficult to communicate the extent of the problems that we as a nation are going to face.

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.

The True Potential Savings Gap Survey

True Potential has commissioned research that provides evidence to support our campaign on the Savings Gap. 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.

What follows is a summary of some of the findings from our first survey. As you will see, there are some fascinating findings. Some are surprising, others, simply worrying. What is clear is that the Savings Gap is a real and present issue facing the UK and that we have a huge job on our hands to tackle it.

David Harrison
Managing Partner, True Potential LLP

David

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Survey credentials and breakdown

The survey:

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

2,034 PEOPLE SURVEYED

997 MALES **1,037 FEMALES**

Aged 18 and over

Average age of repondents:

45 YRS

175 respondents work in the education sector

6 work in mining/ quarrying

Responses given in September 2013

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Headline statistics

The UK is facing a savings time bomb, with many Britons failing to prepare for retirement or to invest in a way that adds value to their money. The majority of Britons are predicted to spend 19 years in retirement, with savings that will run out after just seven years. The average Briton's savings only covers 37% of their retirement income (HSBC). The number of financial advisers has also fallen from 40,000 at the end of 2011 to 31,000 by the start of 2013, leaving an 'advice gap' and lack of money management advice for the UK population. Following the introduction of the retail distribution review (RDR), more than 26m UK adults said that they would not be willing to pay for financial advice. The following are some of the key findings from the True Potential Savings Gap survey.

29%

29% of Britons are currently saving nothing for retirement

2%

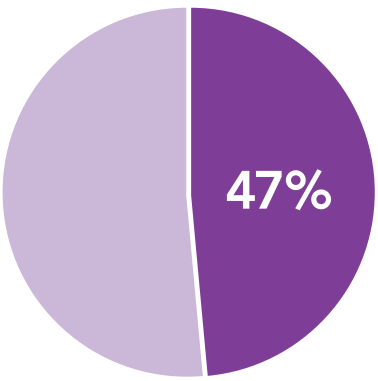
2% of Britons are preparing for retirement using stocks and shares investments, despite this being the only means of saving that has consistently outstripped inflation.

CONFIDENCE IN INVESTING

VS

55% 48%

Women are less confident than men when investing in savings.



Almost half (47%) would consider investing in stocks and shares based products, such as a stocks and shares ISA or investment funds, if it was quicker and easier to do so.

8%

Just **8%** of people are very confident that they will save enough money for retirement to enable them to live comfortably.

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The most confident demographics are;

Males aged 65+

41% Quite Confident

16% Very Confident

Males aged 55-64

39% Quite Confident

6% Very Confident

FEMALES AGED

35 - 44

are the least confident demographic - **39%** are not at all confident versus **28%** of males the same age.

Just **27%** of females aged 55 - 64 are quite or very confident that they will save enough money to live comfortably during retirement.

OVER ½

Over **½** of respondents are not confident that by the time they retire they will have saved enough to enable them to live comfortably **51%**. This jumps to **66%** for those aged 35-44.

Not enough disposable income is the largest barrier to saving more

53%

The second largest barrier is that Britons are currently paying off debt

12%

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The gender divide

There is a stark difference between the amounts that men and women save, at all stages of life. Across the age groups, men are saving an average of over £480 per quarter while women are, on average, saving just £148.10 per quarter. However, in neither case is enough money being saved to afford people a comfortable retirement.

Males vs females

Gender	Savings accrued Jul-Sept 2013	New debt accrued Jul-Sept 2013	Net savings & investments
Male	£802.80	£322.60	£480.20
Female	£445.50	£297.40	£148.10

Males by age group

Male	Age 18-24	25-34	35-44	45-54	55-64	65+
Savings	£369.60	£842.60	£760.40	£837.10	£914.90	£892.60
New debt	£367.20	£387.00	£388.80	£391.00	£155.20	£264.10
Net savings	£2.40	£455.60	£371.60	£446.10	£759.70	£628.50

Females by age group

Female	Age 18-24	25-34	35-44	45-54	55-64	65+
Savings	£335.60	£537.10	£273.90	£419.30	£601.60	£541.90
New debt	£464.20	£296.80	£420.90	£190.60	£291.50	£96.30
Net savings	-£128.60	£240.30	-£147.00	£228.70	£310.10	£445.60

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Analysis of the difference in savings habits between men and women demonstrated worrying trends for both genders, though the picture for women was far more concerning.

Men of all ages are at least managing to save something – even if, in the case of the 18-24 year-olds, it is a negligible net amount. However, men do increase their rate of saving when they hit 25, and this broadly increases until they hit retirement. There is a blip from the ages of 35-44 when it can be assumed that people are making bigger purchases, or are now on the property ladder and are putting more money into mortgages.

The amounts women are saving follow a similar pattern, starting badly from 18-24, before rising sharply from 25-34. However, the amounts that women are saving are, in all cases, much lower than men. When asked why, women were far more likely to blame a lack of disposable income, with 56% saying they simply don't have enough spare cash.

There is a stark difference between the amounts that men and women save, at all stages of life. Across the age groups, men are saving an average of over £480 per quarter while women are, on average, saving just £148.10 per quarter.

These figures show the amount of savings per quarter and, therefore, are almost all still too low. If these rates continue, these people will not have enough in retirement to live comfortably.

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The regional savings picture

Confidence

We asked how confident people were that they would have enough money saved for retirement. Confidence levels are generally low – London is the highest with 41% – but that means even in the capital, 59% of people are not confident they will have enough saved. The proportions fell even further across the regions.

With the regional savings figures in mind, it is not surprising that there is a low level of savings confidence across the country. Although there are, as expected, regional discrepancies, in some cases as few as 30% of people (South West and North East) are confident that they will saved enough for retirement.

This lack of confidence is unsurprising when taken against the data for those that are currently saving nothing at all. Yorkshire & Humberside performs worst in this respect, where 36% of people are saving nothing. Even in the best performing region, the South West, more than a fifth (22%) of people are saving nothing. Taking all regions into account, 29% of people are saving nothing.

Region	Those confident of saving enough to retire in comfort	Those currently saving nothing at all
London	41%	29%
North East	30%	31%
Anglia	39%	27%
East Midlands	37%	24%
Northern Ireland	39%	28%
Scotland	34%	28%
North West	35%	31%
South West	30%	22%
West Midlands	31%	31%
South East	39%	28%
Wales	35%	32%
Yorkshire/Humberside	33%	36%

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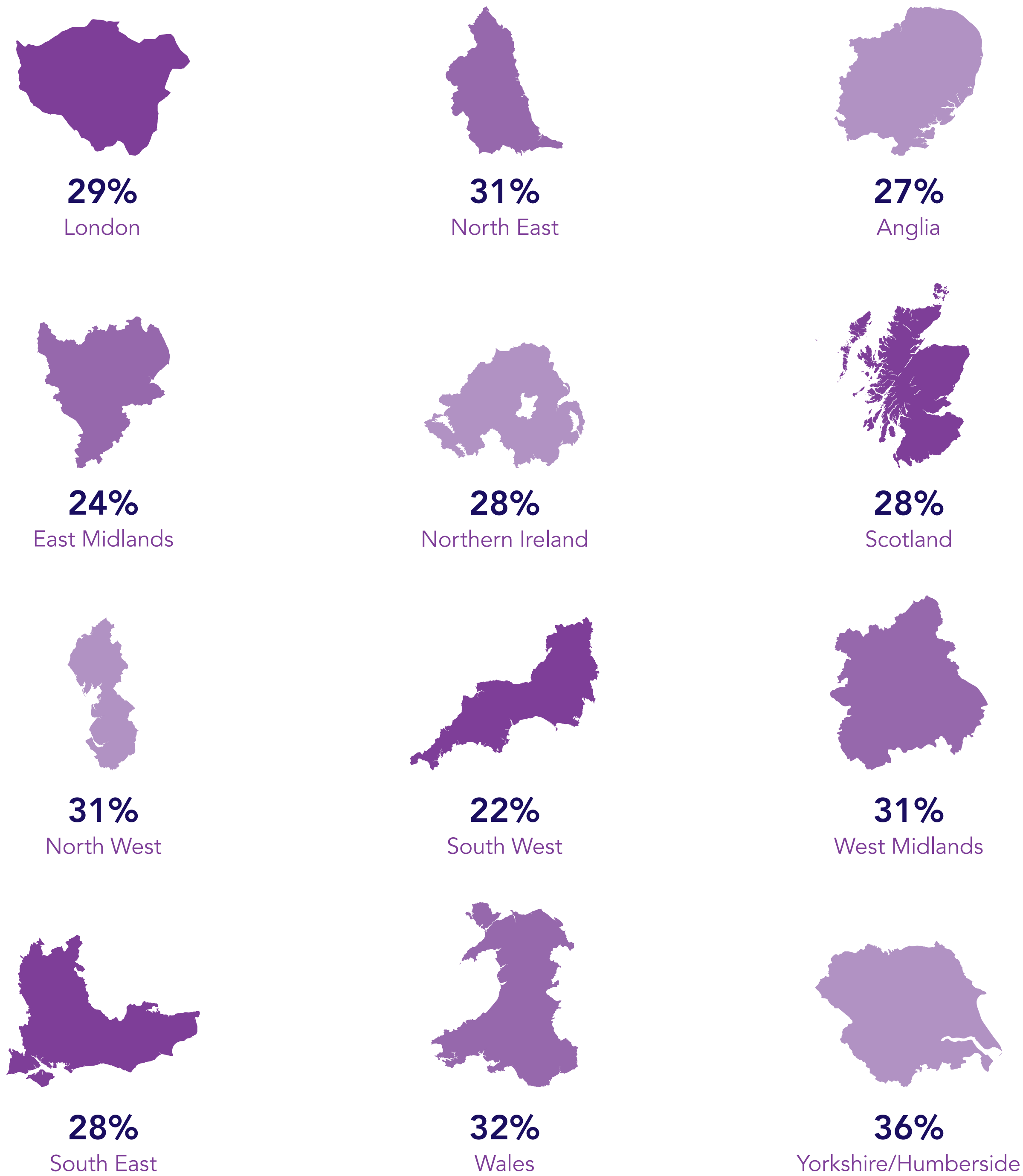
Percentage of people in each region saving nothing at all.



The regional savings picture

Regional data – average levels of net savings (savings minus new debt).

Region	Savings Jul-Sept 2013	New debt Jul-Sept 2013	Net savings (savings minus new debt)	Overall ranking this quarter
London	£899.40	£460.10	£439.30	1
North East	£558.00	£171.40	£386.60	2
Anglia	£658.80	£309.20	£349.60	3
East Midlands	£597.40	£252.10	£345.30	4
Northern Ireland	£540.00	£212.40	£327.60	5
Scotland	£578.00	£265.50	£312.50	6
North West	£556.20	£259.00	£297.20	7
South West	£556.00	£262.40	£293.60	8
West Midlands	£511.10	£229.60	£281.50	9
South East	£674.10	£406.30	£267.80	10
Wales	£524.30	£294.60	£229.70	11
Yorkshire/Humberside	£544.30	£335.30	£209.00	12

The regional breakdown of our survey findings is quite thought-provoking. When looking at net savings, some regions have perhaps performed better than expected. For example, the North East is in second place with over £386 net savings per quarter, and Northern Ireland and Scotland are in 5th and 6th places respectively.

Although London performs well, and tops the table, it would be performing significantly better were it not for the highest levels of unsecured debt anywhere in the country. However, it is the wider South East region that suffers most significantly from high levels of debt. An affluent region that would be expected to perform well in a savings table finds itself in 10th place because of an average of £406-worth of new debt per person, per quarter.

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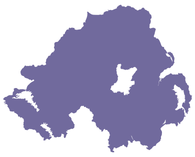
Net savings by region:

£439.30
London

£386.60
North East

£349.60
Anglia

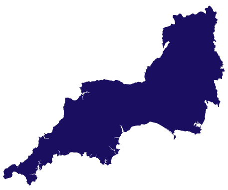
£345.30
East Midlands



£327.60
Northern Ireland

£312.50
Scotland

£297.20
North West



£293.60
South West

£281.50
West Midlands

267.80
South East

£229.70
Wales

£209.00
Yorkshire/Humberside

Where do people go for advice?

More people than ever before are turning to the internet as a first port of call when they need financial advice, with only slightly more going to a financial adviser in the first instance. This represents a significant challenge for the advice industry but also an opportunity.

A financial adviser	**34%**
Internet search	**33%**
A bank	**26%**
I have enough knowledge myself	**17%**
A financially-unqualified relative/friend	**11%**
Other	**3%**
I don't know	**13%**

Today's customers are switched-on, always connected and use their smartphones and tablets round the clock. The internet is almost always within arm's reach so is a natural first destination for anybody carrying out initial research on a subject.

This, however, is anything but bad news for the financial advice industry – advisers ought now to be embracing technology and finding ways of working that meet the needs of today's market.

The concerning findings here would be the quarter of people who would attempt to get financial advice from a bank, which will usually only offer single products. Adviser numbers in banks and building societies have fallen by 23% from August 2013 to date, from 4,604 to 3,556. Numbers had already been in decline in the run-up to the retail distribution review (RDR), dropping from an estimated 6,655 in the summer of 2012 to 4,810 by the end of that year.*

Also worrying is the number of people who would seek help from an unqualified friend or relative, which runs the risk of incorrect information or poor advice being passed on.

* Figures from the FCA, January 2014

'Today's customers are switched-on, always connected and use their smartphones and tablets round the clock.'

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What's next?

The True Potential Savings Gap Survey has delivered some interesting, surprising and alarming results and the scale of the problem facing the UK is already apparent.

Simply put, too few people are saving anywhere near enough to ensure they can retire in comfort.

What's more, we live in a culture of instant gratification and easy access to debt, despite the lessons that ought to have been learned following the market crash of 2008. This is underlined by the consistently high levels of new unsecured debt that our survey respondents are taking on.

At True Potential, we believe there are three key areas that can be improved and which would help to address the savings gap. Sadly, there is no quick fix, but if action is taken now then the social catastrophe towards which we are currently heading, could be averted.

Education

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.

While 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.

It is for this reason that True Potential has partnered with the Open University to set up the True Potential Centre for the Public Understanding of Finance (PUFin). As well as carrying out leading research into the British public's relationship with money, the PUFin centre will offer absolutely free-of-charge, open-access courses that will help people develop their understanding of a range of financial matters.

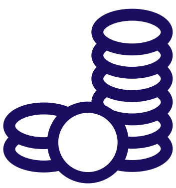
These courses are split into three modules, covering increasingly complex issues, and will be available online from May 2014. For more information, visit http://www.open.ac.uk/business-school-research/pufin/home

Savings products

There are two key issues around savings products. Firstly, that the products most people are comfortable with – cash ISAs and pensions – deliver very poor returns. Cash ISAs, for example, are usually outstripped by inflation and they therefore guarantee that savers will lose money.

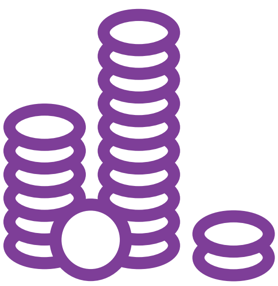
Secondly, people are suspicious, or lack knowledge, about those products that can deliver better value, such as stocks and shares ISAs or investment funds.

We would like to see the extension of the tax-free allowance for stocks and shares ISAs, which we believe could and should be more than doubled to £25,000. This would give greater incentive to people to invest in products that not only offer better rates of return, but which will also give the UK economy a boost.



£11,520

The current
tax-free allowance



£25,000+

Our suggested
tax-free allowance

Regulation

Still in the UK we see very little regulation attached to debt and this has given rise to the payday loan companies and and easy access to credit cards, while the savings and investment industry remains heavily regulated. Our proposal would be to aim to reduce the amount of regulation that currently affects the financial services industry, with particular reference to financial advice. Although our survey showed a third of people now head to the internet for advice, there is still a critical role for financial advisers to play. They should be encouraged to do their jobs well, and given freedom to advise instead of being made to jump through increasing numbers of administrative hoops.

Regulation is strangling our industry and has a knock-on effect on the end customer, to whom advice is becoming less accessible through no fault of advisers.These are just three simple points that we feel, if put into practice, would help to improve the savings landscape in the UK. There is clearly a lot of work to be done, but if those with the power to make a difference do so, then we can close the Savings Gap.

Conclusion

This inaugural True Potential Savings Gap Survey has delivered some surprising results and we can be left under no illusion as to the scale of the problem that faces the UK.

The picture is clear: far too few people are saving enough, with large proportions saving nothing at all.

This leaves low levels of confidence around savings: people lack knowledge, and though they are aware of the problem, are choosing to ignore it or finding priorities in other areas. We have a cultural dependency on state pension support but this must now only be seen as a 'top-up' because it will not be enough for most to live on.

It also is deeply concerning, for example, to hear the former Financial Services Authority (FSA) chairman Adair Turner, speaking in January 2014, defending the Retail Distribution Review (RDR) and claiming that the disappearance of mass-market financial advice was 'unavoidable'. A model for regulation that removed easy-to-access advice from the majority of people should never have progressed beyond the drawing board.

Ultimately though it will come down to individuals to save more and improve their own financial outlook but we need support from businesses and from Government to create an environment in which saving and investing is rewarded with competitive products, not over-regulated and used as a mechanism to enhance the bottom line of high-street banks.

Changes and improvements can be made – we've suggested some above – but action has to be taken now.

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