Tackling the Savings Gap

Consumer Savings and Debt Data Q2 2015

TACKLING THE SAVINGS GAP

true potential LLP

simple. effective. unique.

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Foreword

Our latest research on consumer saving habits comes at a time of much uncertainty in the pensions market.

This year's pension reforms were long in the pipeline and should now be bringing about their intended positive purpose – to enable savers to take full control of their funds.

But, months after their April 6 introduction, we are still waiting for certain factions of the financial services industry to make the necessary changes.

While many savers have accessed and invested their pension funds, others have been frustrated by complicated processes and extortionate exit fees. Financial advisers have also been hindered in their efforts to help savers unlock the funds they are entitled to.

The pension reforms were a bold and welcome step by the government, but they must be seen as just the start of the changes needed to make financial services simpler for UK savers. As noted in this report, many pension funds which should be accessible are effectively locked, due to the poor planning of providers.

Some savers are seeking flexi-access drawdown products, for example, but their providers are yet to launch them. As a result, they are forced to sit tight with what they've got or pay exit fees to find a new provider.

Savers are also told they must seek professional advice before switching providers. But, many financial advisers remain concerned about the liability they face in recommending a switch and are holding back on giving advice.

Furthermore, customers cannot legally take advice from providers, while the free advisory services and non-governmental organisations (NGOs) are similarly restricted against giving specific pensions advice.

The result is inertia where there should be a movement towards simpler, more flexible products. Hopefully, the ongoing Financial Advice Market Review and the Pension Transfers and Early Exit Charges consultation will go some way to providing adequate solutions. Meanwhile, it is encouraging to see, since our last update, in that the trend of consumers making increased use of technology to take control of their funds is continuing at pace.

Our own impulseSave® technology, enabling users to save as little as £1 whenever they wish, has seen impressive growth in the last quarter. Research tells us that such innovations, which make financial services more straight forward and instantly accessible, will shape the future of consumer saving and investing.

Crucially, however, more education about the realities of funding retirement is urgently needed, as is greater cooperation from providers to ensure schemes work for, not against, savers.

Things are gradually moving in the right direction following the pension reforms. As this report highlights though, there are many more hard yards ahead before the UK has a financial services system with the best interests of savers at heart.

David

David Harrison
Managing Partner, True Potential LLP

The Savings Gap campaign

Fact: Only a minority of UK savers will have enough funds for a comfortable retirement. Too few people are saving enough for later life, amid soaring living costs, low wage inflation and longer average life expectancy. The result is the Savings Gap; the difference between what people need to live comfortably in retirement and the amount they are actually on course to receive.

True Potential's campaign aims to raise awareness, boost knowledge of savings and investments, and change attitudes towards retirement provision. We are drawing attention to the Savings Gap and giving people the tools to beat it. True Potential is leading the campaign to close the Savings Gap in the UK. We believe radical ideas and innovative solutions are needed in three areas:
Agility, knowledge and technology.

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Agility Gap

An integral part of our campaign is to challenge the government to help tackle the Savings Gap by focusing on new ways to save and invest.

Our most recent activity at Whitehall was to issue every MP, as well as senior finance industry figures, with a detailed update on the impact of the pension reforms.

Within it, we highlighted clear evidence that the reforms were failing to make retirement funding more accessible and flexible. We also set out some affirmative actions that we believe will arrest current problems and fix the UK's flawed retirement funding system. As we reported to government, there are two stand-out issues preventing pension freedoms from having their desired impact on UK savers:

1 Financial advisers are afraid to advise on pension transfers

Under Financial Conduct Authority (FCA) rules, savers must seek advice from a financial adviser before they switch pension provider. With providers unable to advise on switching and NGOs unable to give bespoke advice, the onus is on advisers to drive pensions movement.

But, in many cases they are not doing so because of:

- A lack of guidance on the repercussions advisers might face following their pensions advice.
- Fear that pensions could be the subject of the next mis-selling scandal.
- The fact that, to be compliant, advisers must prove the new scheme is better than the old one – but there are no clear guidelines on how to do this.
- Poor understanding of where advisers stand if they give advice which is ignored by an insistent client.

2 Switching pensions is overly complicated and expensive

Many providers have not yet created the flexi-access income drawdown products. This means savers moving to a provider with such products may be unfairly penalised with exit fees. People with small pension pots are effectively trapped with a provider who is failing to offer what they require. Ultimately the cost of exit eclipses the benefits.

Solutions

In our report to government, we called for the following measures:

- The FCA must provide sensible, robust guidance for cases of insistent clients. Advisers must be confident that they will not be punished for events beyond their control. It should be an FCA priority to reduce the red tape and administration placed on advisers. This creates unnecessary delays and costs the end client a lot of money.
- A cap on pension annual management charges (AMC) would significantly reduce the burden on advisers to prove that the client is moving to a better pension. All auto enrolment schemes are already capped at 0.75 per cent AMC. By extending this to every flexi-access income drawdown pension, advisers would be assured that transferring clients will be at least no worse off in their new scheme.
- Exit fees charged by pension providers must be outlawed. This is a restriction in an age of freedom that only benefits the same large providers who are failing to offer their customers a fair deal.

Knowledge Gap

Poor understanding of personal finance in the UK is a major contributor to the Savings Gap. Education is vital if Britain's retirement funding shortfall is to be closed. To help democratise savings and make financial education more accessible, we founded the True Potential Centre for the Public Understanding of Finance (True Potentil PUFin) in 2013.

Created in partnership with the Open University Business School, True Potential PUFin aims to help the UK public better manage its finances.

Through the Centre's own research and commitment to providing free educational courses, it is hoped individuals will be better placed to make sound financial decisions.

To date, we have seen over 65,000 people register for the free courses, which have included 'Managing my Money' and 'Managing my Investments'. A third course is due to launch in Spring 2016.

The courses are delivered via both FutureLearn MOOC (Massive Open Online Course) and OpenLearn, the Open University's home for online learning for those wishing to study at their own pace. Plans are also underway to adapt 'Managing my Money' for broadcast on Share Radio in autumn 2015.

As well as educating UK savers, True Potential PUFin conducts extensive research into what drives financial decision making and how that knowledge can potentially improve UK saving habits and behaviour.

A particular area of focus for the Centre is risk and the appropriateness of the assessment tools available. Insight and outputs from this research will be disseminated in the coming months.

Technology Gap

The complexity of the financial services industry is making saving needlessly difficult. At the same time, getting into debt is all too easy in this age of payday loans and online shopping and gambling.

In response, we've made it our mission to harness the power of technology to drive change and revolutionise the way wealth management is delivered.

To help make a difference, we introduced impulseSave®. Developed by our in-house team in 2014, this world-first feature, available to all True Potential clients, empowers individuals to top-up their investments with as little as £1. It is multi-platform and designed to fit into busy lifestyles and help savers close any 'gap to goal' or reach their goals faster by investing more often.

Earlier this year, we also added a new 'Max my ISA' option to impulseSave®, allowing savers to invest any remaining allowance with just one click. This was hugely popular in March/April as clients rushed to get their contributions in by the tax deadline.

Overall, almost a third of all impulseSave® investments made to date have been £10 or under and the majority are repeat users, demonstrating that with the right technology, spenders can become savers and people can, and will, get in the habit of saving.

A recent poll by True Potential also found that 66 per cent of savers would be more likely to put money aside for their future if technology could make it easier and simpler to interact with their finances.

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Along with simplicity, we believe that saving and investing should be convenient. We live in a real-time, on-demand world so why should this be any different? We firmly believe in transparency and that clients should be connected to their finances whenever, wherever and on whichever device they choose.

Each True Potential client has 24/7 access to their own personal client site (web and mobile apps) where they can view all of their accounts, track performance of their investments, and contact their adviser directly and securely should they have questions or want to make changes to their plans.

For those wanting a more complete look at their financial big picture, clients can also link up their bank accounts and legacy assets held elsewhere, as well as store important documents for quick and easy reference all in one location.

We're pleased to see that others are recognising the power that technology can have. The Financial Conduct Authority is now working with the government on a pensions dashboard that will consolidate all of an individual's entitlements in one place and are also considering modern alternatives through their Project Innovate initiative.

We estimate that by the end of 2015 **more than £50m** will be invested in ISAs, pensions and general investment accounts using **impulseSave® via mobile devices, smartwatches and PCs**, showing that there is a real appetite for more modern approaches to investing.

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.

2,024 PEOPLE SURVEYED

1,016 FEMALES

1,008 MALES

Responses given in August 2015.

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Headline Statistics

Since the last quarterly edition of Tackling the Savings Gap, the economic backdrop in the UK has marginally brightened. The UK's inflation rate turned positive in July, rising to 0.1 per cent, compared to 0 per cent in June. The second quarter of 2015 also brought news of 0.7 per cent GDP growth between April and June.

For traditional cash savers, however, continually low interest rates mean further stagnation. The Bank of England Base Rate has now been static at 0.5 per cent for over six years and speculation suggests a rise at the start of 2016. Against this backdrop, saving for retirement remains worryingly low. Our latest survey shows that over 45 per cent of Britons are saving nothing for retirement.

The average pension pot contribution in the three months to August was **£1,426** – but this was offset by an average of **£1,272** worth of debt being taken on in the period.

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45% of Britons are saving nothing for retirement

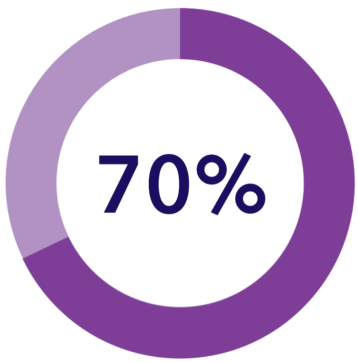
£1,426 has been put into the average pension fund in the last three months, while £1,272 worth of debt has been taken on

£1.72 per day / £51 per month – amount the average Briton is putting into their pension pot

£56 – amount savers are spending per month on impulse purchases such as coffee and snacks. This figure rises to £76 for people aged 25 to 34

33% - portion of UK savers who have given up the prospect of retiring for any longer than five years

66% - rise in the number of savers turning to financial advisers since the introduction of new pension freedoms in April



70% - proportion of financial advice-seeking savers that use a financial adviser. At the same time, almost 50% of adults admit to ignoring the financial advice they are given.

Financial futures under threat

The average Brit is putting just **£1.72 per day** – less than the cost of a high street coffee – into their pension pot. And overall they are spending more on impulse buys like coffee, snacks and music each month than they are investing in a comfortable retirement.

But, savers are spending an average of **£56 per month** on impulse purchases and getting into increasing amounts of debt, the research shows.

An average **£1,272 worth of debt** was taken on by individuals in the three month period. Of those questioned, 56 per cent said they believe it is now easier to get into debt than it was 10 years ago.

Meanwhile, 45 per cent of respondents saved nothing towards their pension in the period overall. Among 18 to 34-year-olds this figure rises to 49 per cent. Young people aged 25 to 34 confessed to spending **£75.90 per month on impulse buys** – the equivalent to £2.53 per day.

The government is attempting to address low levels of retirement saving through automatic enrolment – the initiative requiring all businesses to enrol employees into a pension by 2018. By the end of the decade, participating eligible employees will see eight per cent of their salary invested into a pension each year, but True Potential warns even this will leave many savers short.

Based on over 14,000 respondents to our Savings Gap survey, savers believe an annual income of £23,000 is needed to live comfortably in retirement.

But with the average salary in the UK currently £26,000, auto enrolment will generate a pension pot over a working life of £93,600 – barely funding four years of comfortable retirement.

Employees must not complacently assume that their auto enrolment pensions will fully support them in their retirement years. Employers and the government, meanwhile, must play a part in raising awareness of the realities of auto enrolment pension schemes.

Our survey does suggest that many employees have realised that an auto enrolment pension alone will fall short of funding their entire retirement. Of those questioned who are in an auto enrolment scheme, 67 per cent are saving and/or investing additionally to boost their retirement funds.

Our data from over 2,000 pension savers in the three months to August 2015 shows that a monthly average of **£51 per month was invested** into retirement funds.

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Retirement plans derailed

Low interest rates, depressed wages and increased life expectancy, have all contributed to making saving for a comfortable retirement tougher.

And our survey reflects this, with signs that people are facing up to the harsh realities of working longer and having shorter retirements.

In fact, a third of the pension savers we questioned have given up the prospect of retiring for any longer than five years.

Savers were asked how long after retirement they expect to be dependent on their pension, with 16 per cent saying they have no plans to retire at all.

A further 17 per cent said they are only expecting a retirement of less than five years. Our study shows that less than 18 per cent of savers are preparing for the once-common 25 years+ retirement.

Over a quarter of respondents aged 55+, who under recent pension reforms can now legally access their retirement funds, have resigned themselves to less than five years of retirement.

As well as rock-bottom interest rates, which have made saving less attractive in recent years, poor or non-existent personal finance education has also contributed to worryingly low levels of pension savings.

An overly complicated and inaccessible financial services system has also dissuaded many savers from considering pension products.

16% saying they have **no plans** to retire at all.

17% said they are only expecting a retirement of **less than five years.**

18% are preparing for the once common **25 years +** retirement.

Advice in demand, but many ignore it

The number of UK savers turning to financial advisers following the introduction of new pension freedoms has increased by 66 per cent since April.

Our research shows that nearly 70 per cent of savers who seek financial advice now use a financial adviser to do so.

Following the introduction of the Retail Distribution Review and prior to the introduction of the new pension freedoms on April 6th, just 42 per cent would have gone to a financial adviser if they were looking for financial advice.

More than a third (36 per cent) of respondents say they would turn to their bank or building society for financial advice yet this is not always a viable option given that the number of bank advisers authorised to offer investment advice has steadily fallen since 2010.

Just eight per cent rely on the Money Advice Service (MAS), which was set up by the government in 2011 and funded by a statutory levy on the financial services industry to provide free and impartial money advice.

However, despite the surge in demand for their services, many advisers remain unwilling or unable to advise and are particularly wary of future mis-selling claims.

True Potential represents close to 20 per cent of UK advisers and in a separate poll, over 60 per cent did not think that the new pension rules are working as they were intended to. Nearly half of all advisers report that fewer than 10 per cent of those enquiring about pension freedoms have successfully accessed their money since the new rules came into effect.

Instead of a great liberation of pension funds across the country, the new reforms have left savers frustrated by industry bottlenecks, inertia and an industry refusal to play by the new rules.

Savers are told they must seek professional advice before switching to a new provider. But many financial advisers are still wary of the new risks and future liabilities they could face in recommending a switch.

The government recently launched the Financial Advice Market Review to seek ways of introducing greater accessibility to advice, with recommendations due before the Budget in 2016.

This is a welcome step, which we hope will lead to more accessible advice that leverages technology and provides clearer guidance for advisers. Meanwhile, as demand for advice rises, so too do instances of people ignoring the professional advice they are given.

Almost 50 per cent of savers admit to ignoring the financial advice they are given, often opting to follow their own instinct instead. Yet, when asked to rate their own understanding of financial affairs, less than 20 per cent of people claim to have a good grasp.

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Technology surge

As the downfall of cash continues, more and more savers are using new technologies to access, add to and spend their funds.

It has been said that this is the year that cashless transactions finally become the dominant force in Britain in terms of volume.

By 2023, there will be just under 13 billion annual cash transactions in Britain, compared to over 27 billion cashless ones, financial trade body The Payments Council predicts.

Just as the way people spend is changing, so too is their method of managing their funds and assets.

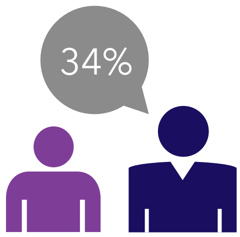
Our latest survey shows that the use of digital services, including online, smartphone and wearable technology, is most popular for clients when it comes to managing savings and investments.

Almost 55 per cent currently use digital services to manage their savings and investments, compared with only 34 per cent who use face to face services and just 11 per cent who now use telephone banking.

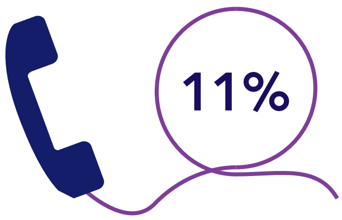
New advancements in technology are making the use of online and digital services easier and more accessible across all age groups.

The data revealed that, looking ahead five years, 15 per cent believe that they will use either a smart phone or wearable device as their primary way of managing savings and investing.

of people currently use digital services to manage their savings and investments.



of people use face to face services.



of people now use telephone banking.

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Saver Behaviour

Yorkshire gains

Pension savers in Yorkshire & Humberside appear to be the most committed to investing large sums into their pension pots. In the three months to August 2015, 11 per cent of savers in that region put over **£5,000 into their retirement funds**, compared to 10 per cent in London and nine per cent in Northern Ireland.

The region with the lowest proportion of **£5,000+ savers was Wales with two percent**. Wales also had the highest proportion of people who **saved nothing in the three-month period with 53 per cent**, followed by the South West and the East Midlands (both with 52 per cent).

Auto awareness

We asked respondents whether or not they are part of an employer's auto enrolment scheme.

Only 27 per cent of the 2024 people we questioned answered 'yes' - but with the new legislation still being implemented across different business demographics, it is perhaps too early to draw any significant conclusions.

It may be of interest to the government and employers, however, that six per cent of respondents don't know whether they are enrolled on such a scheme or not.

Clearly more focus on personal finance awareness is needed by certain employers, along with an emphasis on the benefits of auto enrolment, if is to have any impact on getting the UK public saving for retirement.

Women plan shorter retirements

Preparing financially for a comfortable retirement is a major challenge for many UK savers, prompting a shift in retirement trends.

Our statistics suggest that more women than men are facing up to a shorter retirement. Of the women we questioned, **36 per cent** expect to have a retirement lasting no longer than five years, compared to **31 per cent of men**.

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Conclusion

While there are many positives to draw from our latest survey, the overriding trend is that people are simply not saving enough for retirement. The UK Savings Gap is the product of years of bad public and private sector decision-making that has created needlessly complicated financial services.

Complex products, confusing jargon and unfavourable terms are among several factors that have made pension saving less accessible to customers. Businesses and regulators have spent decades in a game of cat and mouse, while the needs of customers have slipped lower and lower on the priorities list.

The biggest changes to the UK pensions system for over 100 years were always going to take time to truly benefit consumers. But there really are no excuses left for the many providers who are still dragging their heels in adapting to the new rules.

The government has made a number of positive steps to address problems in the market – and a huge leap forward in actually introducing the pension reforms in the first place. But now the onus is on the Chancellor to get tougher on any provider not enabling their customers to benefit from the changes.

The government must also support speedy resolutions to some of the wider issues highlighted in this report.

Beyond Whitehall, customers demand simpler, more transparent products and those providers who can meet that need will ultimately dominate in years to come. New technology, that makes saving and investing as easy as possible, will also shape Britain's financial future. It will also be crucial in the fight against the rise of payday loans and their damaging impact on the nation's savings.

Personal finance education must also be backed to the hilt by the public and private sector if the national crisis of the UK Savings Gap is ever to be turned around.

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