TISA

THE SAVINGS & INVESTMENTS POLICY PROJECT

OUR FINANCIAL FUTURE

REVIEW SUMMARY

tsip

Promoting Financial Wellbeing for the UK

OVERVIEW

TISA has established an unprecedented industry-wide project to develop strategic proposals for a Savings and Investments policy. Through which they seek to work with government, key political parties, the Treasury, the Department for Work and Pensions (DWP) and the Financial Conduct Authority (FCA) to improve the financial wellbeing of consumers. Currently, 50 leading firms representing asset managers, financial advice, stock broking, wealth management, banks and life companies have come together to support the project. In addition, the participation of the leading trade bodies, and a number of important consumer groups, will help to ensure that the interests of UK families are rooted at the heart of the strategic proposals.

Initial findings make it clear that over time changes in economic and social attitudes have had long-term impacts on our commitment to individual financial responsibility and saving. The project will focus on how to improve the consumer's financial wellbeing through clarifying the benefits (social, economic and personal) of saving and enhancing consumers' appetite for saving for short, medium and longer term security. By taking into account the challenges that individuals face when managing their day to day finances the project aims to establish strategic proposals setting out how we might increase individuals' financial wellbeing and benefit the UK economy.

The following pages summarise the key findings of our initial review 'Our Financial Future', which sets out the key findings for the next stage of the project: identifying the key strategic proposals that would best address the issues identified. In developing this review the project studied a broad range of factors including savings needs over a consumer's lifetime, income and spending trends, debt, housing, retirement needs and long term care in old age.

It concludes that the UK faces major issues, especially around provision for retirement, and that unless action is taken we will experience a long term drop in the current standard of living.

The full review is available from:
www.tisa.uk.com/savings-investments

KEY FINDINGS

WE NEED TO ACT NOW TO IMPROVE THE FINANCIAL SECURITY AND WELLBEING OF UK CONSUMERS

30%

of UK households have no savings at all and a further **20%** have less than **£1,500** to cope with an unexpected event without going into debt.

25%

of households would not be able to pay a monthly mortgage payment increase of **£250**.

Relative salaries have been increasing since the 1940s but every generation since then has been spending more and saving less, reducing household financial security.

High levels of consumption and easy access to cheap credit has resulted in unsecured debt rising from **£50bn** in 1993 to **£158bn** in 2013, peaking at over **£200bn** in 2008.

High housing prices have increased the average age of the first time home buyer and the large deposits required impacts their ability to save for other short- and long-term needs.

Furthermore, over the past **25 years**, the State and employers have significantly reduced the levels of income that consumers can expect in retirement, meaning much more must be saved just to match the income levels enjoyed by earlier generations.

This is compounded by the need to provide for increasing longevity, with consumers born after 1980 having **2 years in work for every 1 in retirement** – down from **3 to 1** just 50 years ago.

2035 is set to mark a tipping point when consumers aged 45 today will start entering retirement and will be less well off than earlier generations.

The generations impacted most by expensive housing, less saving and less generous pensions are those aged 35 or younger.

This means that low income levels in retirement is set to accelerate between 2045 and 2060 as a second baby boom of up to **12 million** consumers retire.

Consumers are failing to recognise that financial security is their personal responsibility, are too reliant on the state, are not saving enough and need a new approach to avoid long-term hardship.

All these factors are inter-related and unless action is taken, the baby boomers (people born between 1946-64) will be the last generation to enjoy financial security during their lifetime, especially during retirement.

IN A LITTLE MORE DETAIL

INCOME AND CONSUMPTION

20% of the population is currently spending more than they earn, so going into debt.

Average non-retired higher income households saw disposable income double between 1977 and 2011 to **£50k pa**, lower middle income only saw a one third gain to **£22k pa** and benefit dependent households saw virtually no gain at **£9k pa**.

The trend for successive generations to earn more than their predecessors **reversed 5 years ago**

Even with the benefit of higher relative incomes than earlier age bands, **each successive generation increased spending in line with earnings** and reduced relative savings levels.

Lower income families average weekly spending (excluding rent and mortgages) was **105%** of disposable income, **80%** for middle income families and **64%** for higher income families.

Family households on less than **c£17k pa** of disposable income are struggling to get by day to day and have limited ability to save.

The average family is saving **£1,152 pa (£96 pm)**, however on a £100,000 mortgage an interest rate increase of just 1.5% would mean extra costs of **£1,500 pa**, impacting the ability to save.

DEBT

Mortgage debt has risen from **£400bn in 1993** to **£1.2tn in 2013** which mirrors the increase in house prices over the period.

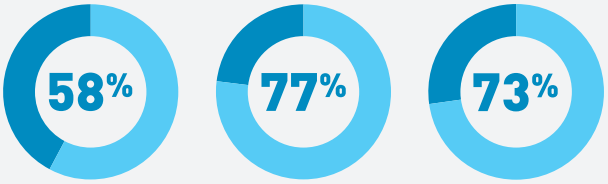
Interest only debt peaked in **1989 at 80%** of new loans, reducing to **50% in 1999** and averaged **25% between 2005 and 2009**, with many of these loans having no formal repayment plan in place.

Total unsecured debt rose from **£52bn in 1993** to **£202bn in 2008** and is **now £158bn**, albeit that since 1993 average earnings have doubled, which offsets some increases in relative debt.

51% are struggling with their cost of living and credit commitments in 2013 versus **35%** in 2006.

The **debt picture reveals a two tier nation** whereby those on lower incomes will find it hard to escape from debt whilst meeting basic needs, versus households that can reduce debt burdens.

MORTGAGES



Interest only borrowers were **over 65**

Over 60 average outstanding balance was **£112k**

No reported mechanism for repayment

According to the FCA, **58%** of interest only borrowers were over 65, **77%** were over 60 and the average balance was £112k with **73%** having no reported mechanism for repayment.

IN A LITTLE MORE DETAIL

WEALTH AND SAVINGS

Distribution of wealth is very unequal with the **bottom 20%** of consumers **owning less than 1%** of the UK's total wealth and the **top 20% owning 62%** of total wealth.

Pensions and property are the two most significant assets but there is a growing inequality of ownership between older and younger generations and between the richer and poorer households.

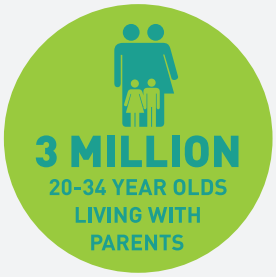
55 to 64 year olds are the wealthiest age groups with just over **£400k** of combined assets (including property) versus **£260k** for **45 to 54 year olds** and **£200k** for **35 to 44 year olds**.

A third of all households have no money left at the end of the month and this may help explain why **34%** of all households have **less than £250 in savings** and **over half have less than £1,500**.

Generations born in the 1970s onwards are experiencing lower levels of home ownership which either **means saving to pay for rent in retirement** or relying on the State for housing benefits.

Only a third of households are saving regularly and this re-enforces the trend of a nation that is choosing to consume rather than save.

HOUSING



An increasing percentage of the population is having to rent and there are **3 million 20** to **34** year olds living with their parents.

Home ownership for people born **between 1940 and 1960** typically reached **80%** of these age groups, however for those born in the **1970s** this has plateaued at **66%**.

The average house price has risen from **2.5 times earnings to 5 times earnings**, with **7 to 8 times earnings** in some parts of the country and **10 times earnings for the under 35s**.

FIRST TIME BUYER AGE

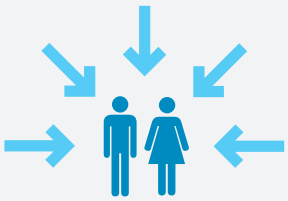
The first time buyer age increased steadily from **24 in 1970** to **28 in 2000** but leapt to **37 in 2013**.

The burden of paying a rent plus saving a large deposit on a house will **impact a household's ability to save for other important events** including retirement.

A root cause of house prices is demand outstripping supply with more than **230,000** new households being created each year against an average of **150,000** new housing units being created.

IN A LITTLE MORE DETAIL

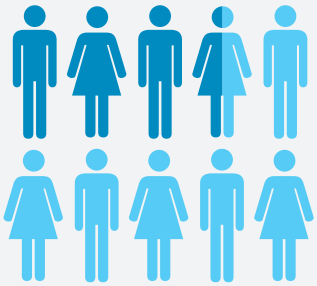
PENSIONS



Pension **responsibility** and **risk** has moved from the State and the employer to the **individual**.

Middle income retired households are achieving adequate pre-retirement income as a result of generous 1970s State pensions and Defined Benefit (DB) schemes.

Middle income **consumers in their 40s and younger are poised to experience pensions that are c30% lower than individuals in their 50s or older** as a result of the shift to Defined Contribution (DC) and less generous State pensions, even if they have contributed/saved as much as earlier generations.



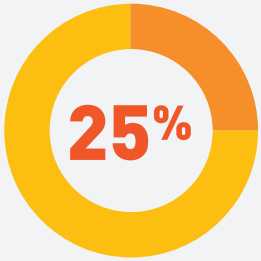
Less than 35% of working age Britons are saving towards a pension.

The government seeks to expand pension provision by auto-enroling an additional **10m** consumers into private DC schemes, but the projected **8%** contribution rate is unlikely to produce sufficient income to meet the **2/3rds pre-retirement income target**, when combined with the State pension.

The implication is that **many consumers are not saving anything** for their non State pension retirement income and for those that are, **savings levels need to be much higher**, taking into account age till retirement, amount saved to date and target income.

LONG-TERM CARE

With projected longevity of today's 40 year olds being 92 for women and 90 for men, this implies that **c1.8m people by 2033** and **c2.8m by 2043** may need care of some sort.



25% of children born today likely to live to **100** and it is difficult to assess long-term care capacity.

Under the current means testing rules only **20%** of the population requiring care would have all costs paid for them, rising to about **30%** if the new rules are applied.

The average length of stay in BUPA care homes is **2 years 9 months** equivalent to a cost of **£61k** in a private residential home or **£84k** in a nursing home.

Around **27%** of people lived in care homes for more than three years, equivalent to **£83k** in a private residential home or **£115k** in a nursing home.

By **2033** there are projected to be **2.8m** people aged 85 or older and **4.2m** aged 85 or older by **2043** and that **69%** of these people will have a disability or limiting long-standing illness.

PUTTING IT ALL TOGETHER!

Consumers are faced with a **complex mix of demands** on their hard earned cash. The need to save in the short- and long-term has to be **balanced with living** today. However, the evidence points towards many consumers who could save, but who are **failing to provide** for unexpected events or their **long-term financial wellbeing**.

This propensity to live for today also means consumers are failing to take into account that the **fundamental reduction** in support from the State and employers will diminish the income they can expect to receive in retirement. Consumers are not typically compensating by **saving more**. Equally worrying is the fact that longevity will result in those individuals experiencing a more modest lifestyle over a much greater period, potentially **25 to 30 years in retirement**.

The challenge changes for different generations. For instance, people aged **55+** that have not saved enough for retirement will find it **hard to save sufficient funds** to create their **preferred retirement income** levels in the short period before they stop working.

For generations aged **35 or younger**, the burden of **student debt** and **high house prices**, impacts their ability by **reducing** their disposable income and **ability to save in general**.

On the plus side, the early introduction of policies that encourage higher levels of savings could provide significant long-term benefits to the consumer and the nation, plus avert the future that we are currently marching steadfastly towards.

BENEFITS OF CHANGE

Although the project is still working through developing strategic proposals that will help encourage higher levels of saving, we can already point towards some high level benefits:

SAVING TODAY MEANS GROWTH TODAY

Saving is key to ensuring growth, stability and prosperity in the UK.

It provides a source of capital for much needed investment in UK business and infrastructure, providing immediate benefits in terms of jobs and Gross Domestic Product (GDP) and supporting sustained long-term growth. Saving means UK consumers investing in the UK.

Consumer spending has helped get the UK out of recession but only increased saving can ensure we stay there – benefiting the UK both in the short-term, when the current cyclical stimulus measures have to come to an end, and in the longer term, potentially reducing consumer's reliance on the State later in life.

Savings held in pension funds, insurance companies, investment funds and banks increasingly provide complementary sources of capital to drive UK growth. For example, greater investment in UK infrastructure is proven to drive UK growth, as £1 invested generates £2.84 of UK economic activity (Institute of Civil Engineers).

"There is a clear correlation between investment in infrastructure and long-term growth. The Organisation for Economic Co-operation and Development (OECD) found that, between 1970 and 2005, investment in UK roads, rail and electricity generating capacity had a stronger positive effect on the level of GDP per capita, and on short-term growth, than other types of capital investment." (HMG, National Infrastructure Plan, Oct 2010).

SAVING GIVES CONSUMERS MORE CHOICE

Saving makes it possible for consumers to see, and plan, how they can get that new house, the exotic holidays, plan for a family or prepare exciting retirement plans.

It's not just about pensions, it's about all of life's needs – short, medium and longer term.

EVERYONE BENEFITS FROM THE SAVING HABIT

"Saving is a fine thing, especially if your parents have done it for you" (Winston Churchill). Today's pensioners are benefiting from good savings habits of the past: the future is different.

We are living longer, we expect more from retirement but are saving less and pensions are likely to be smaller. We need to take action now: longevity is a blessing; it should not become a burden.

Research indicates that many people feel too poor to save, even if they have money left at the end of the month. Putting even £10 a week into savings means more money for emergencies and future needs. Spending it all now results in consumers having to borrow in emergencies, often at very high rates.

Money saved isn't money wasted – it's invested in new businesses, mortgage loans, new building, government debt and jobs. It benefits everyone.

THE SAVINGS & INVESTMENTS POLICY PROJECT

The Savings and Investments Policy project is working with a wide range of financial service companies, trade bodies and consumer groups to develop these pan-industry proposals. It is directed by an Executive Committee formed of 22 leading financial services companies including Aviva, AXA Wealth, BNY Mellon, Barclays, BlackRock, Charles Stanley, Citi, Fidelity, J.P. Morgan Asset Management, Henderson, Intrinsic, L&G, Lloyds Banking Group, Nationwide, NatWest, Northern Trust, Old Mutual, Pinsent Masons, Simply Biz, Threadneedle Investments, TISA and Zurich.

Key input and support is being provided by an Advisory Board formed of 28 pan-industry organisations, trade bodies and consumer groups including Ascentric, Association of British Insurers, Association of Professional Financial Advisers, Bravura, British Bankers Association, Building Societies Association, EY, Fair Life, Financial Inclusion Centre, Financial Services Consumer Panel, Friends Life, Hargreaves Lansdown, Investment and Life Assurance Group, Investment Management Association, Microsoft, Money Advice Service, Parker Fitzgerald, Rathbones, Raymond James, RBS, Sesame Bankhall, Schroders, Scottish Friendly, Standard Life, The Pensions Advisory Service, The Share Centre, TD Waterhouse and True Potential.

The outputs from this review are being used in the development of strategic proposals that will seek to increase consumers' financial wellbeing and support them in creating greater personal financial security. The project will report on these proposals later in the year. In the meantime, further details are available on the project's website:

www.tisa.uk.com/savings-investments

TISA

Telephone: 01642 666982

engagement@tisa.uk.com
www.tisa.uk.com

ABOUT TISA

TISA is a not-for-profit membership association operating within the financial services industry. We represent the interests of over 145 member firms involved in the supply and distribution of savings and investment products and services.

TISA has a highly successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for consumers. Policy and regulation continues to be the major focus for our members with regard to corporate responsibility.

TISA and its members' remit is evolving into a clearer focus on pro-active consultation in the regulatory world in order to influence policy and associated regulation before its creation, rather than reacting to issued policy directives. This will help to ensure a more considered policy creation from the authorities.

Designed and printed by studio401