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
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.
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.

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.
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.

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.

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.
Pensions 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-enrolling 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.
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

“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.


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

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.