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AVERTING THE CONSUMER FINANCE CRISIS

There may have been a few wealth managers who considered a change in career when, in the wake of the changes announced in the last Budget, it was suggested that people would splash their retirement pot on a Lamborghini instead.

A more reasoned argument is that those who have saved and invested diligently throughout their working lives are much more likely to use the new financial freedoms to plan their retirement responsibly. But the remark highlighted that in the UK, despite all the talk about austerity measures and living within our means, the lure of purchasing a 'big ticket item' remains. A recent report by TISA drew similar conclusions.

Published by TISA's pan-industry The Savings & Investments Policy project (TSIP) this initial review into the challenges consumers face found that the UK is heading towards a consumer finance crisis – unless attitudes towards spending and saving change.

The review highlighted that UK consumers are not only failing to save enough for day-to-day needs, but that we will reach a tipping point in 2035 when those entering retirement will be increasingly less well off than earlier generations.

TISA and 21 leading pan industry firms established TSIP – now supported by 50 organisations including representation from wealth managers – to develop strategic proposals for a savings and investments policy to improve the financial wellbeing of consumers. At its core is the need for people to take personal responsibility for their finances and to save enough money to create financial wellbeing at all stages of their lives.

For some, the high cost of living and low income levels make saving difficult. TSIP's review found that 30% of UK households have no savings at all and a further 20% have less than £1500 to cope with an expected event without going into debt. Worryingly, 25% of households would not be able to pay a monthly mortgage payment increase of £250.

Yet, as a nation, we continue to spend. High levels of consumption and easy access to cheap credit resulted in an increase in unsecured debt from £50bn in 1993 to £158bn in 2013. Each successive generation has increased spending in line with earnings and reduced relative savings levels.

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. Consequently the baby boomers are likely to be the last generation to enjoy financial security during the whole of their lifetime. Younger generations will probably need to save twice as much as their parents did to ensure a comfortable retirement and meet the cost of long-term care.

The reaction to the Budget announcement was instructive as it first brought about an overwhelmingly positive response, but then highlighted the level of confusion people have about the best ways to save for the long term. TSIP is recognition that we have a once-in-a-generation opportunity to change consumers' attitudes by developing long-term policies whereby the benefits of saving and investing outweigh the urge to spend. We need to act now if we are to avert the looming consumer finance crisis.

Carol Knight, Operations Director

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