Lifetime Savings Initiative

Mapping the key pinch points facing UK savers

Marketing material for professional clients only.

PMI | Schroders

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Introducing the LSI

Mission statement of the LSI

“

To look across the entire UK savings system and identify actionable recommendations for industry and policy makers that solve key pain points preventing people from being able to secure their financial future, and in doing so, create a more sustainable national Lifetime Savings Model.

”

Introducing the LSI

Introducing the Lifetime Savings Initiative

People are struggling to cope and cannot meet their basic every-day financial needs. According to the FCA Financial Lives Survey (2022), 24% of UK adults have 'low financial resilience' and 8% are in 'financial difficulty'. Since then, we've had a cost-of-living crisis where inflation has driven prices of everyday essentials to unprecedented levels and a rapid rise in interest rates has increased the cost of borrowing and the cost of housing. The Financial Lives cost of living (Jan 2023) recontact survey found that the number of adults in 'financial difficulty' has risen to 11%.

This struggle has dire consequences for individuals, communities, business, and the economy. Poor financial wellbeing is deeply intertwined with mental unwellness; according to StepChange, a Debt Charity, 40% of their advice clients in 2022 had a mental health condition. A PwC financial wellness survey (2023) of those employed across the UK found that financially stressed employees are nearly five times as likely to admit personal finance issues have been a distraction at work (44% vs. 9%).

For those fortunate enough to have at least some savings, the fragmentation and complexity of accessing financial products, even the most basic products, means that in many cases it's just easier to stick any money into a short-term savings account even if it doesn't pay interest.

Against this backdrop, while homeownership has been at the heart of British aspirations for generations, sadly this now feels out of reach for many, with 60% of those who rent wanting to own a home. Declining home ownership also has material implications for retirement; for a renter to achieve the same standard of living in retirement as a homeowner, we estimate that they would need to save an extra 9% per year into their pension over their working life.

Rather than dumping these problems at the door of the Government, we (the private sector) want to find solutions to these problems and to work with Government to find pragmatic ways to implement them.

The Lifetime Savings Initiative (LSI) aims to identify and understand the fundamental challenges of people in how they understand and manage their money.

Through an evidence-based approach, we will propose structural and other changes, to facilitate different types of savings across existing products and practices, to build confidence and improve understanding, and to enhance the ease of access and visibility of total savings. We hope this will help to deliver a more sustainable and pragmatic savings model for the future.

The LSI brings together important and influential stakeholders from across the savings and pensions market, working in collaboration with a mix of organisations and people that are at the forefront of direct engagements with UK people – across retailers, debt charities, financial education charities, unions, insurers, banks, platforms, fintechs, consolidators and others. We hope that the breadth of our panel will create understanding and help to break down the silos between different areas of the savings system and allow us to build a consensus around what needs to be done to reduce the key challenges.

We will be following a multi-stage approach to give us the best chance of making a real difference and ensuring our recommendations are impactful, feasible and deliverable:

Stage 1 – Defining the problem: We want to make sure we are tackling the underlying causes driving the key pinch points that people face and not purely the symptoms. The important drivers identified at this stage will help us to analyse whether the solutions that we propose will really make a difference. Our first summit, the LSI December 2023 Summit, was focused on identifying these root cause drivers.

Stage 2 – Identifying Solutions: In Q1 2024, we shift to solutions mode; we will work with our panel to identify a wide set of potential solutions, considering international learnings and practices, which we will then debate at our second summit in late Spring.

Stage 3 – Delivering Change: We do not want to just contribute to the discussion; we want this initiative to be a real force for positive change, to help people have easier choices and greater financial security.
Our first mechanism to do this is to **summarise the full discovery process and our final recommendations to Government and Industry in a white paper in the autumn of 2024**. We will then engage with stakeholders to receive feedback and identify how best to deliver our proposals.

This document has been put together to support the first stage of this initiative: defining the problem. In this pack, we have made efforts to identify key pinch points which are preventing people from building financial security in both the short and long-term. For each pinch point, we have conducted a broad review of existing research and data, to start to identify the potential drivers that are leading to these barriers.

We hope this document is useful and helps to stimulate thinking on the important issues clearly presented by the data. Thank you for taking the time to engage with this important issue and please do reach out to the Pensions Management Institute (PMI) and Schroders if you would like to learn more about this important initiative.

Thank you,

Ruston Smith
Chair
Pensions Management Institute

Introducing the LSI

Our Panel Members

TESCO
ASDA
PMI
Schroders
EVERSHEDS SUTHERLAND
Money Guided
Money & Pensions Service
EY
moneyhub
StepChange Debt Charity
HARGREAVES LANSDOWN
TISA
Ford
Phoenix
City Pay it Forward
Smart
LCP powering possibility
RED START
GroceryAid From factory to store we're your charity
Retirement Line

Expert and Research Input:

PENSIONS AND LIFETIME SAVINGS ASSOCIATION
nest insight
UK FINANCE
FCA
TUC Changing the world of work for good
fair4all finance
Department for Work & Pensions
PIMFA
The Pensions Regulator
BIG SOCIETY CAPITAL
ignition house
DOMINE DIRIGE NOS
HS HENHAM STRATEGY

Updated as of November 2023. Logos are the property of the respective entities.

Introducing the LSI

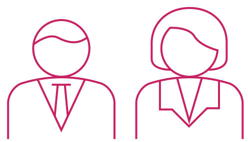
Stage 1: Defining the Problem

Before we look for innovative ways of solving some of these key challenges, the first objective of the LSI is to create a common definition of the problem.

This document aims to explore the different 'pinch points' that people face across the entire lifetime savings system, from overcoming debt, all the way through to securing an adequate retirement. We believe that taking a holistic approach is crucial as different aspects of the lifetime savings journey are interconnected. For example, if people fail to build financial resilience, they cannot begin to save for the future, and without owning a property outright by retirement age, they may require a much larger pension pot to achieve the same living standards as a homeowner.

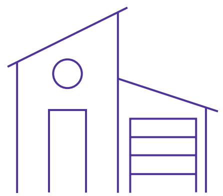
Our research has led us to identify nine key pinch points, which we have categorised under three broad headings – namely financial resilience, housing, and long-term savings. For each pinch point, we have compiled relevant research that highlights the extent of the challenge and identifies the underlying root causes.

Financial Resilience



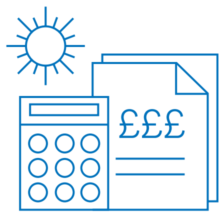
People are struggling to meet their day-to-day financial needs and are increasingly unable to weather short-term financial shocks e.g. a broken-down car without the over-reliance on debt and credit.

Housing



Housing costs, for renters and homeowners, are becoming an increasing financial strain. This directly impacts both s hort-term financial resilience and long-term savings.

Long-Term Savings



The inability to accumulate sufficient savings to meet longer-term financial and retirement needs is set against the backdrop of a fragmented and complex investment product market and regulatory environment.

Background

In this section, we outline the scope of the LSI and provide important context for the rest of the reading pack.

We define who this initiative is targeting, a group we refer to as “The Typical UK Citizen”, and some key statistics that help to bring this demographic to life.

We also provide an overview of the complex economic and policy landscape in the UK and how their ever-evolving nature could affect savers in the future.

Background

Mind the Gap

The savings and retirement system is failing the typical UK citizen

Every-day financial needs

1 in 4
Adults have low financial resilience

Source: FCA FLS.[1]

22%
Of adults borrowing more money to keep up with living costs

Source: ONS.[2]

1 in 3
Adults experiencing anxiety over paying bills

Source: Mental Health Foundation.[3]

15th
The UK ranks 15th out of 29 OECD countries in terms of financial literacy

Source: CBI.[4]

1 in 6
Adults in England have the literacy level of a 5–7-year-old

Source: National Literacy Trust.[5]

Housing Needs

41%
Of households led by someone aged 25–34 are homeowners in 2022 (vs. 59% in 2003)

Source: ONS[9], UK Parliament.[10]

Children of wealthy parents are
3 x more likely
to own a home by age 35

Source: This is Money, study by University of Bath.[11]

59%
Of renters struggling to cope financially (vs. 15% of homeowners with no mortgage)

Source: FCA FLS.[12]

11 years
To save enough for a 10% deposit on an apartment in London

Source: CALA Group.[13]

Long-term retirement needs

£350bn
Projected annual UK long-term savings gap by 2050

Source: Deloitte.[7]

14%
Of defined contribution pension savers are on track to meet their income target

Source: Phoenix Group.[6]

17m
Adults in the UK aren't saving enough for retirement

Source: Phoenix Group.[6]

47%
Of UK adults do not feel confident making financial decisions

Source: Money and Pensions Service.[8]

Background

The Typical UK citizen

Who will we focus on?

We will focus on typical UK citizens with the opportunity to save at least something.

Aged 18 and up until the point of 'retirement' (at least for now), in employment, but with consideration towards the self-employed and certain minority groups.

We will focus on those with low financial resilience to those with up to around two times median salary (c. £60,000 p.a.) - representing 80% of the UK population.

We will consider those in "financial difficulty" and those with "unmanageable" levels of debt but only in the context of allowing them to save at least something to help build up financial resilience.

Background

The Typical UK citizen

A snapshot of the average position of UK citizens

Income–individual

£60,500
90th percentile median individual income

£30,000
Median individual income

£10,200
10th percentile median individual income

Income–household

£35,000
Median household income

Source: ONS.[1,8]

Household debt

£37.3K
Median total household debt

5%
Of households in problem debt

Problem debt:

1. Liquidity problems: repayments represent >25% of net monthly income or >2 consecutive months arrears, OR
2. Solvency problems: household debt >20% of net annual income

£100K
Median household property debt

£4.9K
Median household financial debt

Including:

Overdrafts | loans | outstanding balances on credit or store cards | mail order or hire purchase | student loans | arrears on credit commitments or bills

Source: ONS WAS.[3]

Savings & Wealth

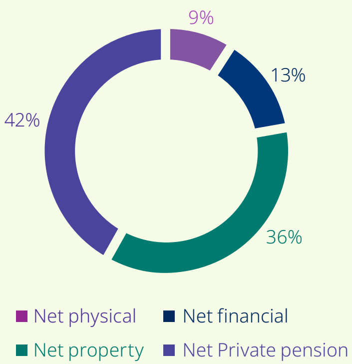
£32.7K
Median single pension savings

£302.5K
Median total household wealth

£120K
Median household private pension wealth

£250K
Median household gross property wealth (of those who own a property)

% of net household wealth



Source: ONS WAS.[2,6,7]

Housing

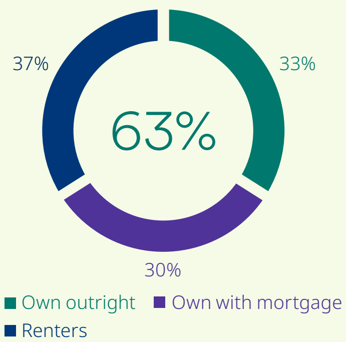
34
Average first time buyer age

£30K
Median deposit of first-time buyer

£98K
Median mortgage (of those with a mortgage)

£154
Median weekly mortgage payment

% of households who are homeowners



Source: Department for Levelling Up, Housing & Communities[4], ONS WAS[6], ONS.[13]

Financial resilience

1 in 4
Households with low financial resilience

8%
Of adults in financial difficulty

Source: FCA FLS.[5]

Background

The Typical UK citizen

We must recognise that not everyone's journey is the same

Life Stage	The "Median" household This may include the retired population depending on the data source.		Early Gen Z | Millennials 25–34	Mid Millennials | Gen X 35–44	Late Gen X 45–54	Transition Gen X | Baby Boomers 55–64
Income Source: ONS.[1,12]	£34,025	Median equivalised household disposable income (non-retired)	£37,231	£36,118	£37,495	£33,177
Savings Rate Source: NimbleFins.[9]	8.8%	Household savings rate	-0.13%	9.1%	10.4%	8.5%
Pensions	54% | £32,700	% with wealth in pensions not yet in payment | median value	69% | £9,300	75% | £30,000	78% | £75,500	66% | £107,300
	35% | £11,100	% with **DC pension** not in payment | median value	43% | £3,100	47% | £9,000	53% | £22,000	45% | £35,000
Source: ONS WAS.[7]	27% | £70,800	% with **DB pension** not in payment | median value	32% | £23,300	38% | £64,200	43% | £127,500	36% | £186,600
Financial Debt Source: ONS WAS.[3]	£4,900	Median household financial debt	£5,000	£3,500	£2,800	£2,500
***Housing**	20% | 17%	Private renters | social renters	37% | 17%	31% | 15%	21% | 15%	13% | 15%
Source: ONS.[10,13]	33% | 30%	Own outright | with mortgage	14% | 32%	9% | 45%	12% | 51%	30% | 41%

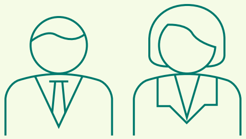
*Based on ages 20–29, 30–39, 40–49, 50–59.

Background

The Typical UK citizen

Certain groups have it harder

Gender



Median annual income
£34.8K Male | £24.7K Female

% of adults who are financially vulnerable
46% Male | 56% Female

Median pension savings
£37.7K Male | £25.0K Female

% of adults with private pension wealth
74% Male | 66% Female

Source: ONS[8], ONS WAS[7], FCA FLS.[5]

Region

£4,900
Median financial debt

14%
Of individuals who find financial debts to be a heavy burden

£302,500
Median total household wealth

	Scotland	North East	Wales	London
Median financial debt	£4,100	£3,900	£3,800	£5,000
Of individuals who find financial debts to be a heavy burden	12%	14%	14%	22%
Median total household wealth	£214,000	£168,500	£275,700	£340,300

Source: ONS WAS.[2,3]

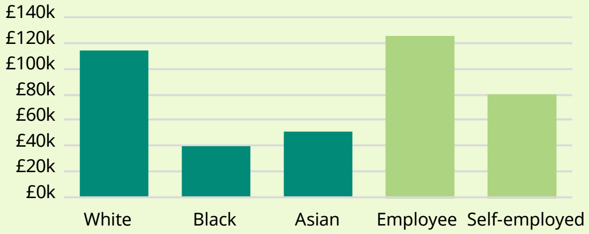
Ethnicity / Employment Status

	White	Black / Black British	Asian / Asian British	Employed	Self-Employed
% that have low financial resilience	26%	47%	32%	26%	24%
% with less than £10,000 savings	42%	54%	44%	48%	41%
% of 55 to State Pension age (SPa) with pensions not in payment (and not retired)	73%	65%	52%	88%	59%
% of 55 to SPa who own a property (and not retired)	71%	44%	78%	77%	81%

Source: ONS WAS[11], FCA FLS.[5]

Median (non-zero) pension assets near retirement

55 to SPa age with pensions not in payment (and not retired)



Source: ONS WAS.[11]

Note: SPa is currently 66.

Background

We must also recognise that the next decade may look very different...

Structural changes to pension savings

Whilst the move from DB to DC has mostly played out with respect to membership, the full effects are yet to be felt as the first generation of DC retirees approach the state pension age.

Economic conditions

As this economic cycle ends, we shouldn't expect to see the patterns of the past decade repeated. Three key trends are reshaping our economies and societies: deglobalisation, decarbonisation, and demographics. After years of low inflation and zero interest rates, the "3D reset" is likely to usher in a new normal of higher interest rates, higher inflation and greater market, political and geo-political volatility.

Intergenerational differences

Decades of asset inflation in a low interest environment has created a significant wealth gap between generations. Over time the balance might shift, however until then many people will be heavily reliant on the assets passed down by loved ones to fund their retirement. An increasing proportion of the current generation of workers will also be saddled with a 9% graduate tax for their full working lives which will impact their ability to accumulate wealth independently.

Technology advancement

Technology has, and will continue to have, a significant impact on how we work, save and interact. Breakthroughs in new technologies like generative AI pose both huge opportunities to solve the previously unsolvable, however they also create new risks for individuals and broader society.

Working and living patterns

The way we work is changing; people switch jobs more frequently, hybrid working is allowing for greater flexibility, and there are less salaried workers. How we live more generally is also changing; people are having less children and later and the nature of the 'typical' household unit is changing.

10m
People rely on defined benefit (DB) pension schemes for a substantial proportion of their retirement income
Source: DWP.[3]

£5.5tn
Will pass between generations in the next 30 years
Source: Kings Court Trust.[1]

£45.6K
Forecast average debt for students who started their course in 2022/23
Source: UK Parliament.[4]

7.3%
Interest on student loans (post-2012 loans)
Source: UK Parliament.[4]

30%
Of jobs face a high probability of being automated over the next 20 years
Source: PwC, UK government.[5]

44%
Of marriages end in divorce within 30 years
Source: Nimble Fins.[2]

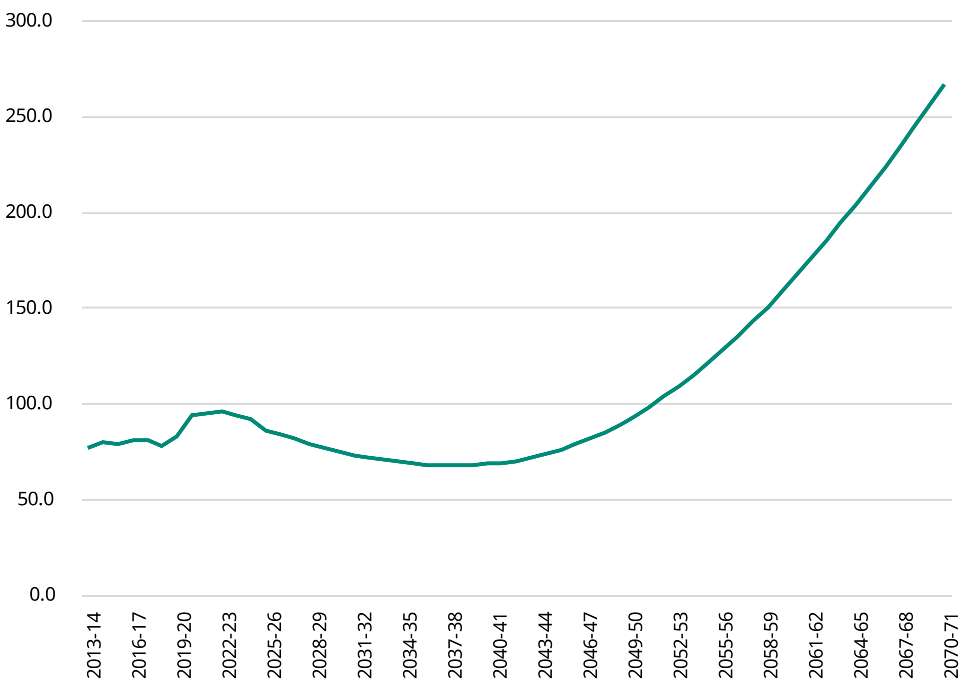
12
Jobs in a lifetime
Source: Zippia.[6]

Background

The UK Government's capacity to back-stop a retirement shortfall is looking strained

Government Debt to GDP projected over the next 50 years

Total Government Debt as % of GDP



Source: OBR FRS.[10]
Note: For further information on the use of forecasts, please view the important information section of this paper.

Increasing Longevity

Unfavourable demographic trends will put increasing pressure on state finances

92.6 years
Projected life expectancy of females born in 2045 (90.1 for males), 2.4 years more than in 2020 and c.7 years compared with 1981

Source: ONS.[7]

19.0%
Of girls born in 2020 are expected to live past 100 years (13.6% for boys)

Source: ONS.[7]

8.1%
Projected cost of the state pension, as a % of GDP, in 2071/72, up from 4.8% in 2021/22

Source: OBR FRS.[10]

Growing Dependency Ratio

Low fertility rates and greater longevity mean the UK workforce will need to support a growing population of pensioners

1.6
Fertility rate in 2021, below the developed world replacement rate of 2.1

Source: ONS.[8]

5 million
More pensioners in the population by 2070, compared to just 1 million more of working age

Source: DWP.[9]

51.6 pensioners
For every 100 people of working age by 2072, up from 30.8 in 2022

Source: OBR FRS.[10]

High Public Debt Burden

Public finances are already stretched, with large sums being spent on pensioner welfare

10.4%
Pension welfare spending as a proportion of total government spending in 2022/23

Source: OBR.[11]

27.1%
Govt spending, as a % of GDP, on healthcare, adult social care and pensioner welfare by 2071/72, up from 15.8% in 2021/22

Source: OBR FRS.[10]

56%
Proportion of (non-interest) govt spending on healthcare, adult social care and pensioner welfare by 2071/72, up from 39% in 2021/22

Source: OBR FRS.[10]

Background

We cannot underestimate the impact of interest rates

Modelling from the Resolution Foundation shows the impact of interest rates on the level of household wealth. Below is a summary of their research report: Peaked interest?

Aggregate household wealth relative to GDP has grown substantially over the past four decades, in main driven by asset inflation from declining real interest rates

The total value of wealth owned by UK households has risen from c. **three-times GDP** in the mid 1980s to peaking at over **eight-times GDP** in early 2021 – dominated by rises in housing and pension wealth.

Recent higher interest rates have prompted a reversal in this decade-long trend

The wealth-to-GDP ratio in Q1 2023 was **650% of GDP**, a fall of nearly 200 percentage points compared to its peak in Q1 2021. A key driver of recent changes are fluctuations in the value of defined benefit pensions due to higher interest rates.

If higher long-term interest rates are here to stay, house prices could fall materially

Under a "new normal" scenario - where ten-year real gilt yields settle at -0.3% – the Resolution Foundation estimate that the **ratio of average house prices to earnings would need to fall to around 5.6** for the cost of owning a home to come back into line with rents. Based on this, if house prices were to reach their new level over 5 years, they estimate that this would amount to the average **house price falling 25%** to £215,000, down from £287,000.

If higher long-term interest rates are here to stay, this could make it easier to save for retirement

All else equal, higher real interest rates mean people can make lower contributions to their pensions to achieve the same planned retirement income. The Resolution Foundation estimate that, given -0.5% real gilt yields, a 40-year-old on today's median full-time earnings of around £31,000 with no pension savings would have to save around 16 per cent of their gross income to achieve a target replacement rate of 67 per cent if retiring at the age of 68. However, if we have a persistent real rate of return of 1.7 per cent, the required contribution rate **to achieve this same goal is about 40% lower** at c. 9 per cent.

Source: Resolution Foundation.[12]
Note: For further information on the use of forecasts, please view the important information section of this paper.

> "The precipitous fall in household wealth over the past two years makes it clear that there was nothing inevitable about the increase in wealth since the mid-1980s. It was not the counterpart to thrifty saving, but largely a windfall gain for asset holders driven by valuation effects. This volatility in measured wealth also illustrates the massive uncertainty about where household wealth will go next. Although many factors will influence the level of wealth, interest rates will play a major role."

Background

The policy landscape is shifting

A summary of the Autumn Statement 2023

Who said pensions were boring?

Master Trust Review

The government is reviewing the Master Trusts market, including market trends and future regulation and supervision.

Update on implementing the Value for Money framework

The government welcomes the FCA and TPR announcements on implementing the Value for Money framework in the defined contribution workplace pensions market. The FCA will consult on rules for contract-based schemes in Spring 2024, and the TPR will strengthen their supervisory approach.

Update on saver choices at retirement

The government proposes duties on occupational pensions trustees to offer decumulation services and products of appropriate quality and price. They also plan to explore the development and wider use of Collective DC (CDC) schemes for pension saving in the UK.

Call for Evidence on Lifetime Provider Model and small pots consultation response

The government is launching a call for evidence on a lifetime provider model to simplify the pensions market. They are considering an expanded role for CDC schemes and introducing a multiple default consolidator model for eligible pension pots under £1,000.

Pension investment expertise and skills

The government supports the Pensions Regulator's plans for a trustee register and updating the trustee toolkit with information on productive finance.

Prioritising long-term pension investment performance over low fees

The government will engage with industry to ensure the pensions market supports the best outcomes for savers. This includes shifting employer incentives away from low fees and towards long-term investment performance.

The announcement also included plans for a public consolidator for DB pension schemes, reforms to Solvency II, the establishment of a Growth Fund within the British Business Bank, investment reform for the Local Government Pension Scheme, and a consultation on surplus extraction arrangements for DB pension schemes.

Source: Autumn Statement.[13]

ISA Rules (from April 2024)

The government will:

- Allow multiple subscriptions to ISAs of the same type every year
- Allow partial in-year transfers between providers
- Remove the requirement to reapply for an existing ISA annually
- Expand the investible universe of the Innovative Finance ISA to include Long-Term Asset Funds, and Open-ended property funds with extended notice periods
- Allow certain fractional shares contracts as a permitted investment
- Harmonise the account opening age for any adult ISAs to 18
- Digitalise the ISA reporting system

Other selected announcements

- The government confirmed the Lifetime Allowance will be abolished from April 2024
- The government will extend the Mortgage Guarantee Scheme for an additional 18 months until the end of June 2025. The scheme supports the availability of 95% Loan-to-Value mortgage products
- The government is announcing a consultation on a new Permitted Development Right for subdividing houses into two flats without changing the façade
- The government will be raising Local Housing Allowance (LHA) rates in Great Britain to the 30th percentile of local market rents
- The government will reform the Help to Save scheme for low-income workers and will publish proposals in a response to the consultation on Help to Save Reform

Financial Resilience

People are struggling to meet their day-to-day financial needs and are increasingly unable to weather short-term financial shocks (e.g. a broken-down car).

This means that people are prone to falling into debt spirals, become dependent on credit, and are struggling to build up even modest amounts of 'rainy day' savings.

Financial Resilience: Background and household debt trends

Pinch Point 1: **Falling into financial difficulty and debt spirals**

Household debt is on the rise – made worse by the cost-of-living crisis. In 2022, 8% of UK adults failed to pay bills in 3 or more of the last 6 months; this had risen to 11% by January 2023.

High-cost credit is often used to help make ends meet. The FCA estimates a 68% rise in the use of high-cost credit between 2017 and 2022. StepChange estimates that about 5.2m (10%) people relied on high-cost credit in 2022. Frighteningly, the most common use is for food/grocery shopping, followed by household bills.

Of those who do manage to take charge of their spiralling debt through debt consolidation plans, many often find themselves back in financial difficulty – unable to escape.

Pinch Point 2: **Growing dependency on credit for the 'heavily burdened'**

According to the 2022 FCA Financial Lives Survey, 15% of UK adults are classified as being “heavily burdened” – being those for whom keeping up with domestic bills or credit commitments is a heavy burden – but is more pronounced for females, ethnic minority groups and renters. This figure rose to 21% in January 2023.

Overdrafts and credit cards are the most common form of mainstream credit – relied on by 20% and 17% of UK adults respectively. These figures are almost twice as high for individuals classified as "heavily burdened".

Credit cards are the most missed payment type. More than half of 18–24-year-olds missed a credit card payment in the last 2 years.

Credit card revolvers, being about 30% of credit card users, do not pay off their full statement balance each month. 37% of revolvers paid at least as much in interest/fees/charges than the balance they had to pay off.

Pinch Point 3: **Difficulty building up 'rainy day' savings**

In 2022, 24% of UK adults had less than £1,000 in savings.

Building up a sufficient saving buffer is crucial to building financial resilience – the likelihood of falling into problem debt is 44% lower if a family has £1,000 saved – and creates a foundation that allows people to start looking towards the future.

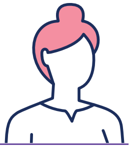
The data on this slide (and accompanying sources) can be found throughout this section on Financial Resilience.

Background and household debt trends

The stories of real people

Financial difficulty

Occupation: Admin assistant
Age: 25
Tenure: Social renter
Financial capability: High



Sarah's story

Sarah is single, in her mid-20s, and the mum of two young children. She works full-time from home. She rents from the council, and gets her rent as part of her Universal Credit payment. She also receives money to help with childcare.

Sarah is really struggling to manage as food and heating costs have gone up significantly. She has fallen behind on some of her bills in the past six months: credit card payments, payments on a personal loan, phone/ internet, and her mobile phone bill. She wants a mortgage in the future and is worried about the impact of these missed payments on her credit score. She is also worried about how she will pay off her debts.

"I'm just stressed all the time and angry and sad. I'm not supposed to struggle – I'm a working person. I'm not supposed to technically be struggling. You wouldn't think I would be struggling, but I am."

Heavily burdened

Occupation: Receptionist
Age: 57
Tenure: Owned with mortgage
Financial capability: Medium

Lucy's story

Lucy is in her late 50s. She is married with two grown-up daughters, one of whom is still living at home. Having been made redundant during Covid-19, she now works part-time as a receptionist in a hairdresser's salon, on a zero-hours contract. Her husband Greg works full-time as a self-employed builder. They have struggled financially in the past.

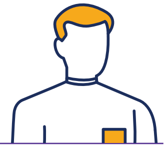
When Greg was out of work a few years ago, they fell behind on their mortgage and a variety of other debts. Despite both being in work, Lucy and Greg are now struggling with these payments and with money generally due to the rising cost of living. They have no savings and are using revolving credit to keep afloat.

Lucy's daughters had used Buy Now Pay Later (BNPL) before and they suggested she could use it to spread the cost of Christmas. Lucy feels that BNPL is different from traditional credit (such as a credit card), because it is interest-free. She recognizes that it would be easy for her to get into financial trouble as it is so tempting to spend, but so far she has not had to use it again.

"I'm apprehensive about taking on more than I can chew because I've been down that road before and I don't want the stress."

Low savings buffer

Occupation: General manager
Age: 38
Tenure: Owned with a mortgage
Financial capability: Low



Reggie's story

Reggie works as a general manager at a leisure club. He lives with his partner and together they have a two-year-old daughter.

He pays into his workplace pension as he thinks it is important to save for the future, and as it comes out of his pay packet he doesn't really notice it.

He feels that they are just about managing 'month to month', occasionally having enough to 'save little bits here and there'. He has been in this situation for a while, and he is worried that they do not have enough of a buffer set aside to cover large or unexpected items, such as a new boiler or car repairs.

He does not want to get into debt as he is worried this will affect his credit rating and his mortgage is up for renewal soon.

He is currently looking for a better paid job.

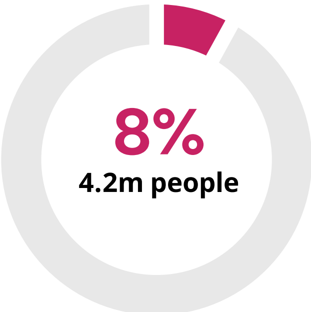
"We go month to month, just about managing. I have about £300 in a little savings account, sometimes less."

Source: FCA FLS and Ignition House.[1]

Background and household debt trends

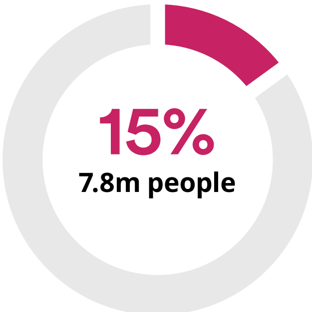
According to the FCA definition, in 2022, nearly 13m (24%) of UK adults had low financial resilience

Low financial resilience: According to the FCA, an individual is considered to have low financial resilience if they fall into any of the 3 groups below. The definition therefore includes both those adults who are already in financial difficulty because they are missing bills, and those who could quickly find themselves in difficulty if they suffer a financial shock.



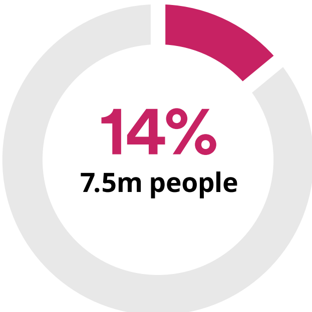
Financial difficulty:

Failed to pay domestic bills or meet credit commitments in three or more of the last six months



Heavily burdened:

Keeping up with domestic bills or credit commitments is a heavy burden



Low savings:

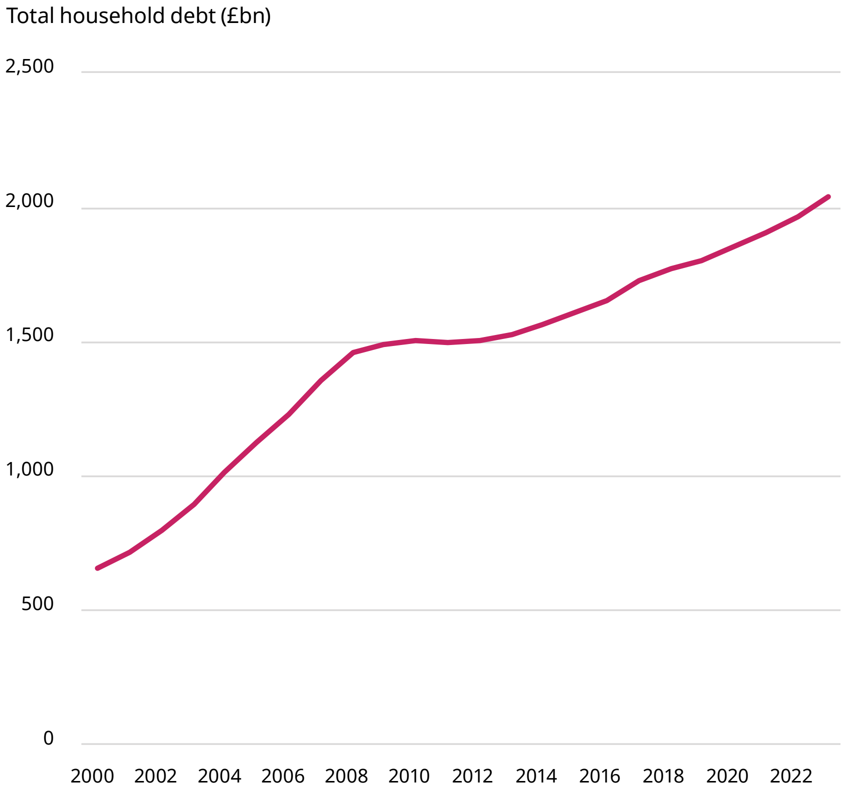
Little capacity to withstand financial shocks: e.g., they could not withstand losing their main source of household income for even a week or, for those renting or paying a mortgage, it would be a struggle to meet payment increases of less than £50

Source: : FCA FLS.[2]

Background and household debt trends

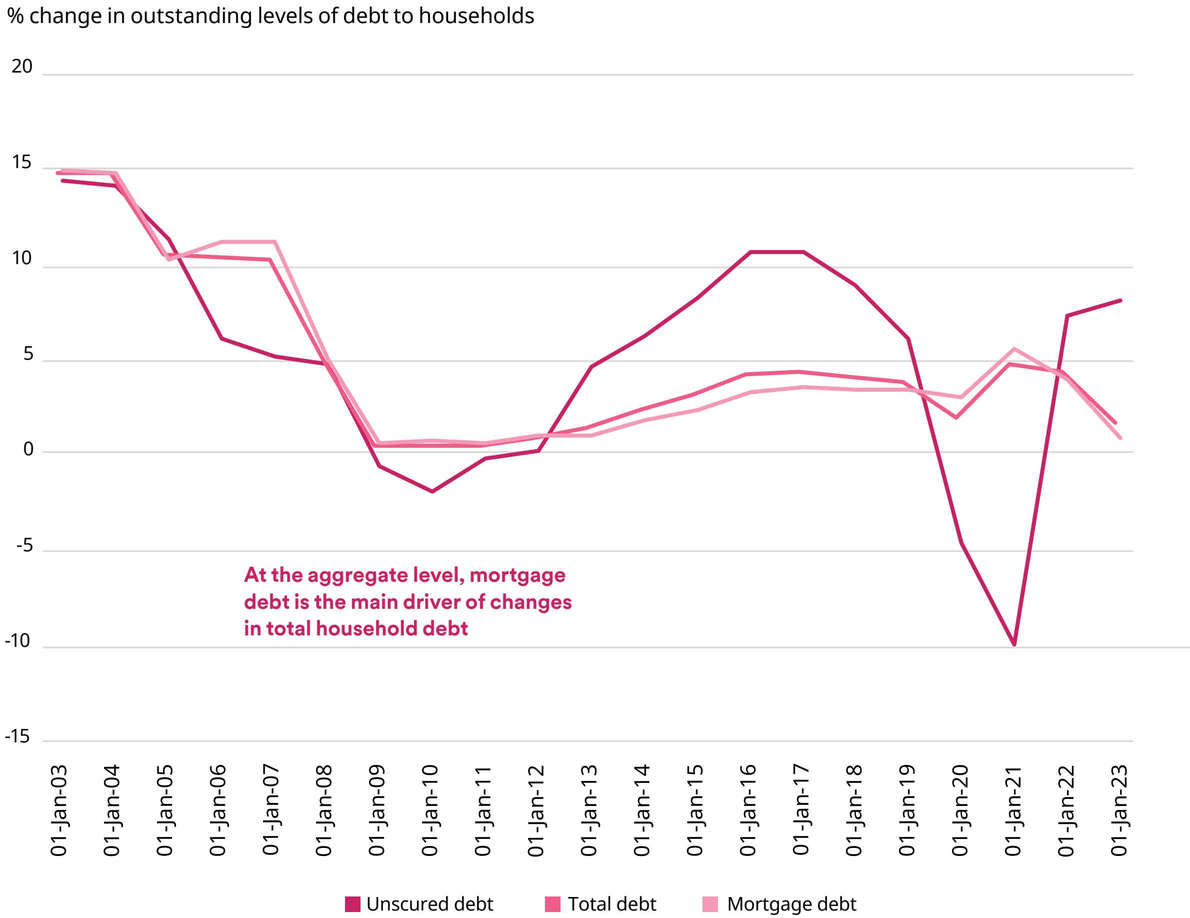
Household debt is on the rise

Total Household Debt in the UK now exceeds £2 trillion for the first time ever



Source: UK Parliament.[3]

The growth rate of unsecured debt is back above pre-Covid levels and trending higher



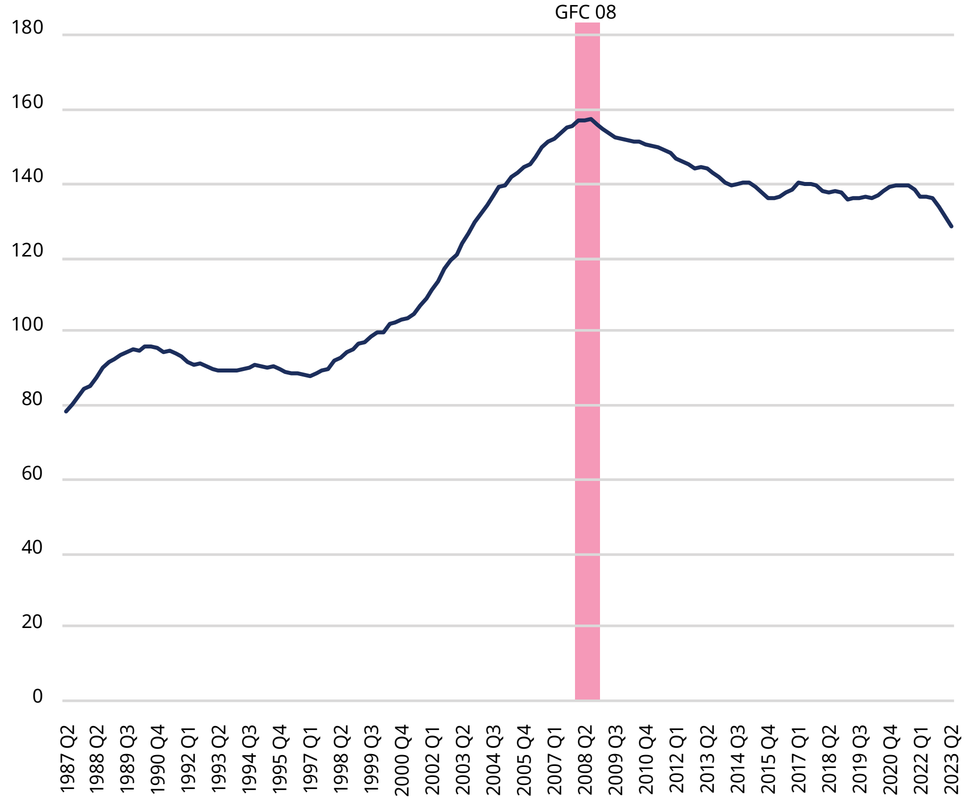
Source: BoE.[4]

Background and household debt trends

When adjusting for income, the trend is more encouraging

Overall, households have reduced their debt levels since the financial crisis. However, the ratio of debt to income remains high

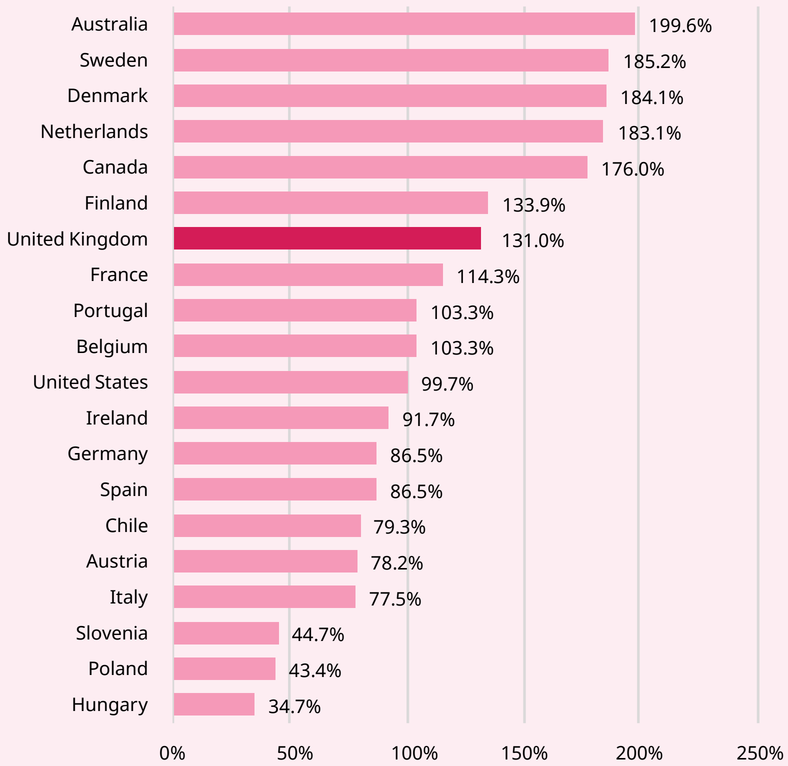
Total household debt as a % of disposable income



Source: UK Parliament.[3]

How does this compare with other nations?

Household indebtedness ratio (Q3 2023)



Source: OECD.[5]

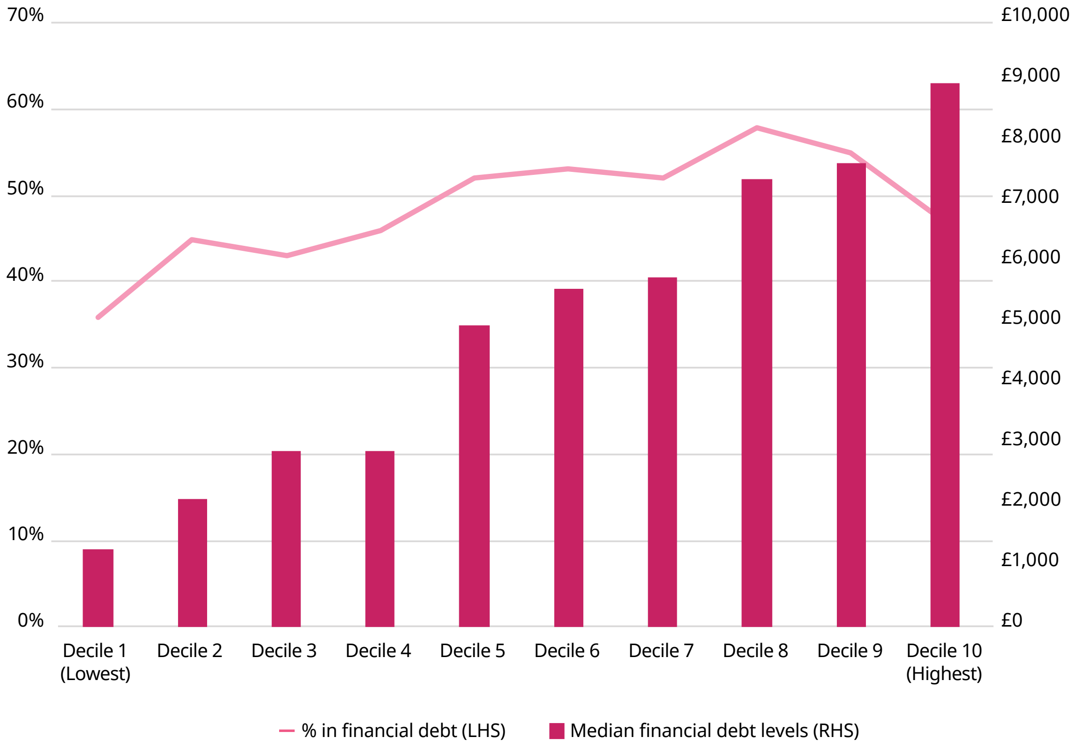
Background and household debt trends

Financial Debt levels increase with income

Financial Debt: Non-mortgage debt such as overdrafts, loans, outstanding balances on credit/store cards, mail order or hire purchase, student loans, or any arrears on credit commitments and household bills.

High income households are more likely to be in, and have high levels of, financial debt

Proportion of people with financial debt (LHS) and median levels of financial debt (RHS), by income decile (2020)



Source: ONS.[6]

Overall financial position matters more than aggregate debt levels

High income households are more likely to be in debt, but

low-income households are more likely to be over-indebted

16% of those in the lowest income decile are in arrears

compared with just 1% of those in the highest decile

Those on lower incomes are more likely to be in 'net debt':

35% of those in the lowest income decile have debts > assets,

compared with 10% in the highest income decile

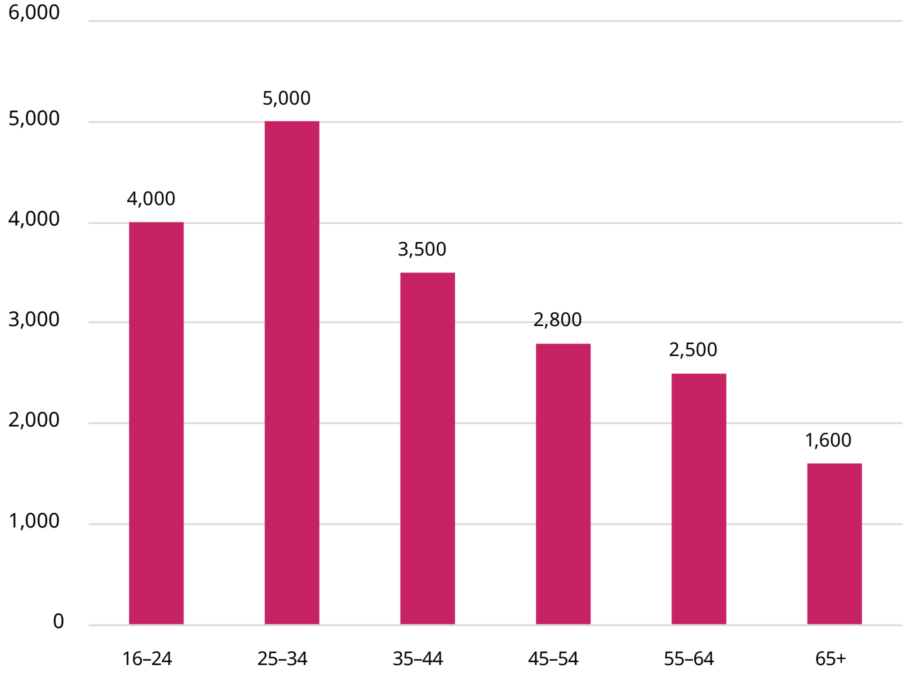
Source: IFS.[7]

Background and household debt trends

The amount and composition of debt varies by age

Younger people have higher levels of financial debt…

Median levels of financial debt (£), by age group (2020)



Source: ONS.[8]

…And are more likely to use consumer credit products

30m
UK adults (57%) use consumer credit products

UK adults who have consumer credit products

February 2020, excludes mortgages and those who pay off balances, e.g. credit cards, in full every month ("transactors")

	No. of people (millions)	% of UK adults	% of 25-34	% of 35-44	% of 45-54	% of 55-64
Any credit/loan	30.1	57%	80%	73%	64%	44%
Retail finance	16.0	31%	33%	37%	35%	30%
Overdraft	13.4	26%	34%	38%	34%	19%
Credit card	11.1	21%	31%	34%	28%	17%
Personal loan	8.1	16%	21%	25%	22%	12%
Student Loans Company loan	7.5	14%	36%	16%	4%	1%
Motor finance	6.8	13%	18%	16%	15%	13%
High-cost loan	5.6	11%	15%	16%	13%	7%
Loan from friends or family	5.1	10%	17%	14%	10%	3%

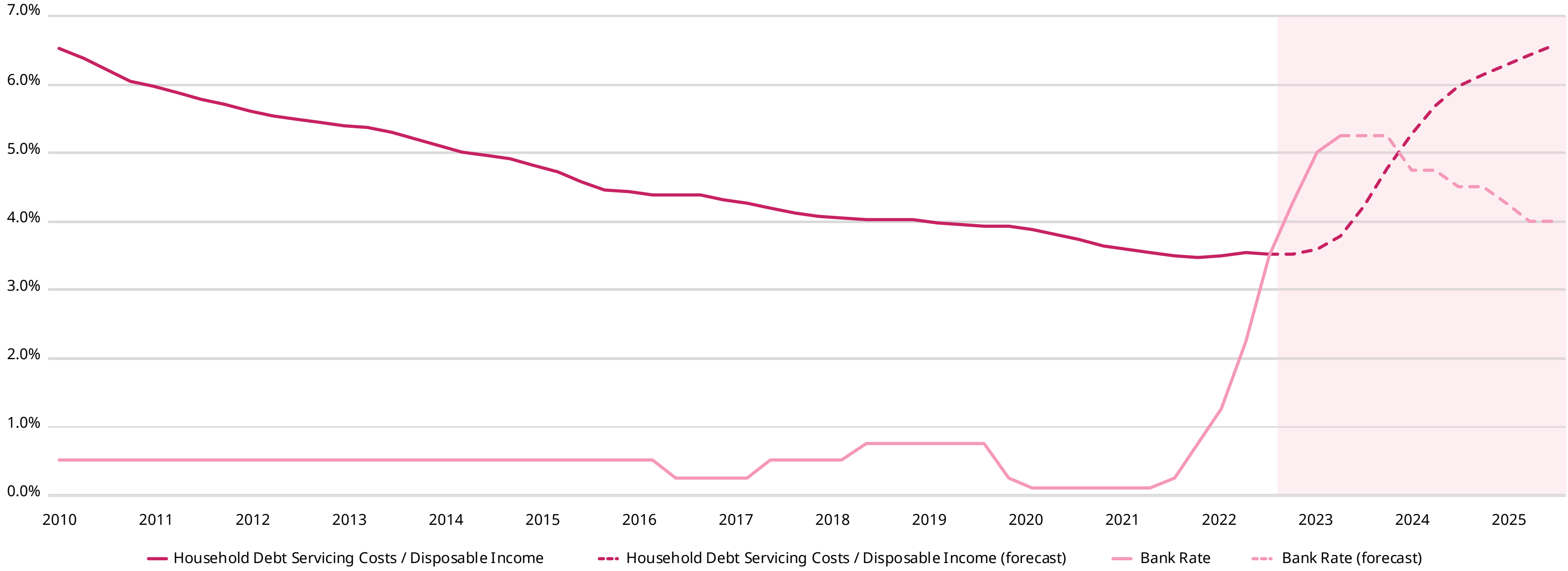
Source: FCA FLS.[9]

Background and household debt trends

Aggregate debt servicing costs are rising

Rising interest rates have driven debt repayment costs higher and this is expected to continue into 2024

Debt repayments as a % of household income and the UK Bank Rate (quarterly figures)



Source: OBR[10] and BoE.[11]
Note: Bank rate forecast from the Schroders Economic Group, using Refinitiv data, 17th November 2023. For further information on the use of forecasts, please view the important information section of this paper.

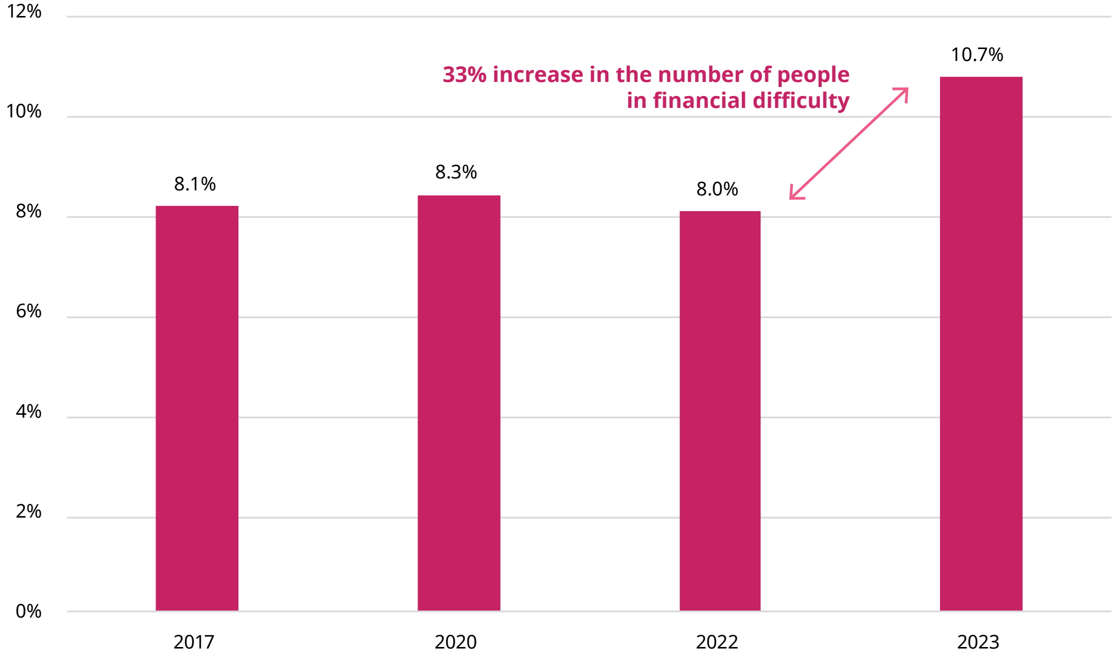
Falling into financial difficulty and debt spirals

Pinch Point 1: **Falling into financial difficulty and debt spirals**

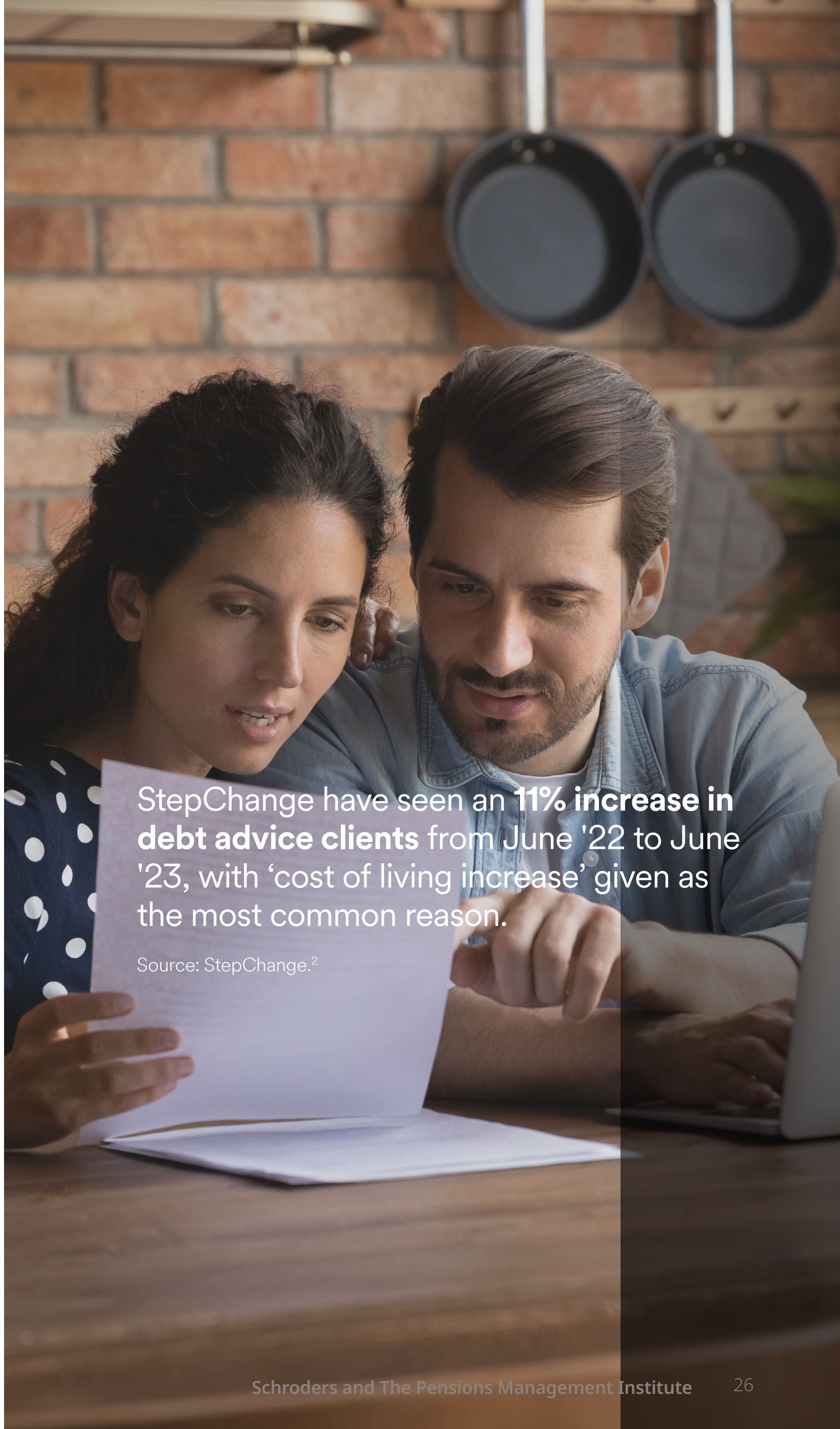
Financial difficulty:
Failed to pay domestic bills or meet credit commitments in three or more of the last six months.

The number of adults in financial difficulty is on the rise

% of UK adults who are in financial difficulty



Source: FCA FLS.[1]



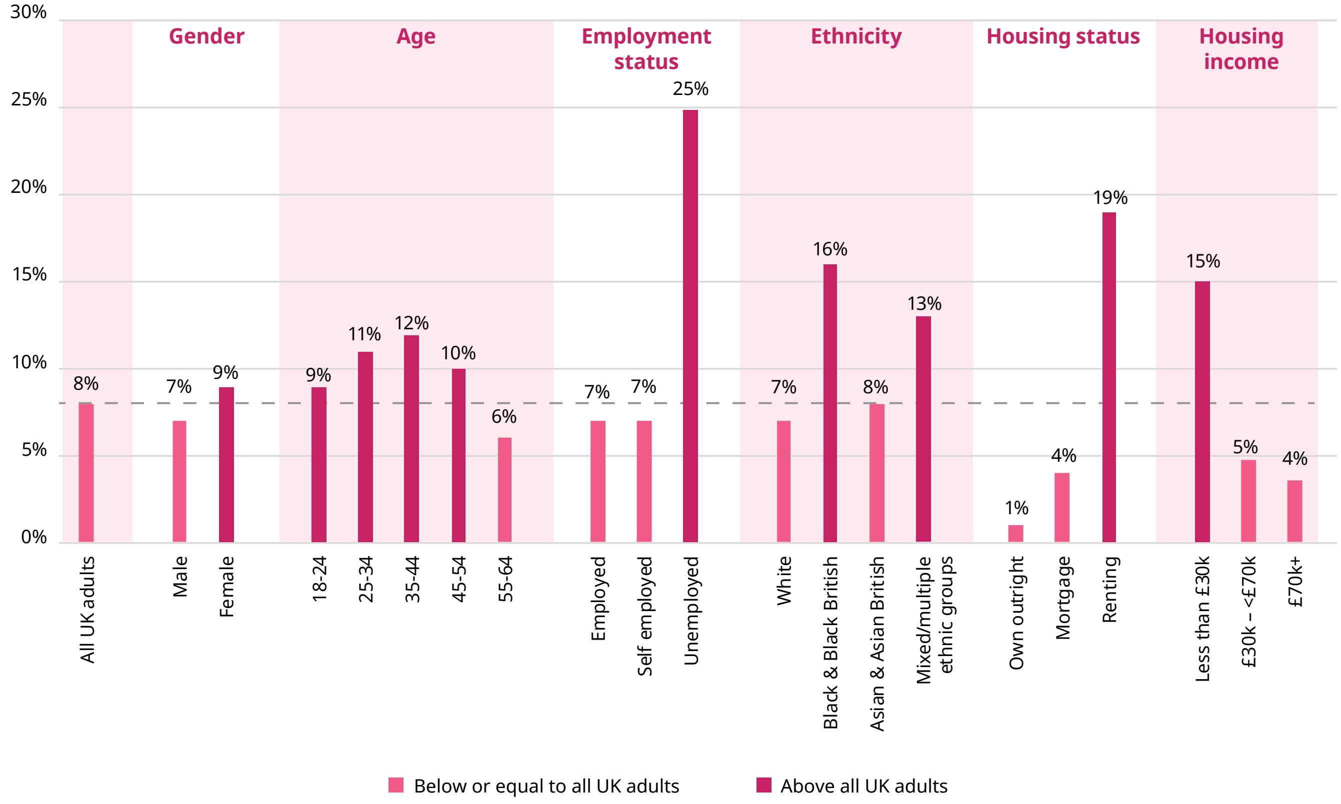
StepChange have seen an **11% increase in debt advice clients** from June '22 to June '23, with 'cost of living increase' given as the most common reason.

Source: StepChange.[2]

Falling into financial difficulty and debt spirals

Some groups are more likely to find themselves in financial difficulty

% of UK adults in financial difficulty (2022)



Source: FCA FLS.[1]

Highlights:

9% Female 7% Male

12% aged 35–44
Highest rates of financial difficulty across age groups, when people are likely to have dependents

2x
People in minority ethnic groups around twice as likely to be in financial difficulty

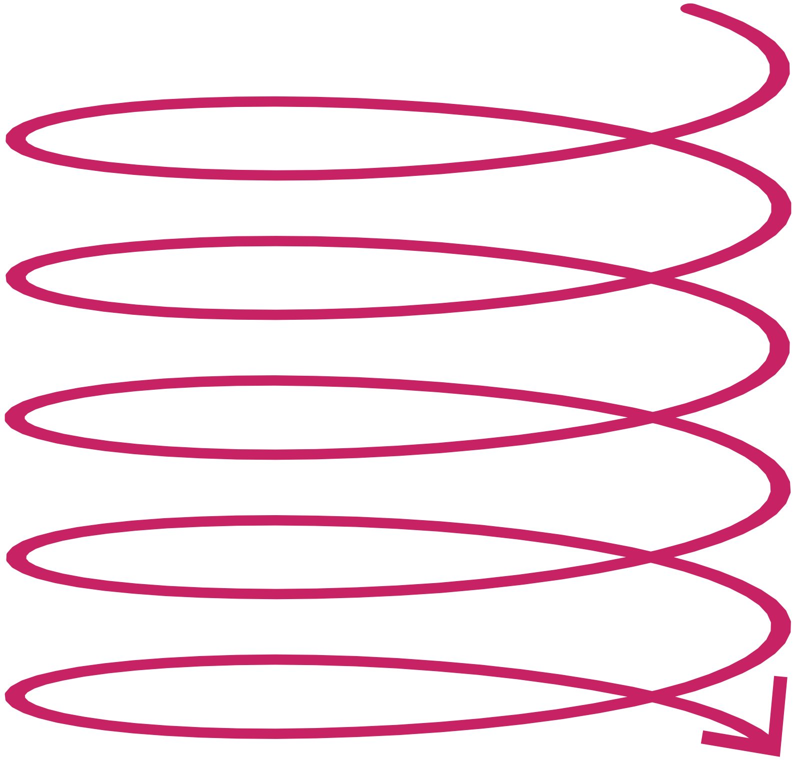
5x
Renters are five times more likely to be in financial difficulty than people with mortgages

1 in 8
earning £15k–£30k

Falling into financial difficulty and debt spirals

...and risk falling into a debt spiral

The debt spiral

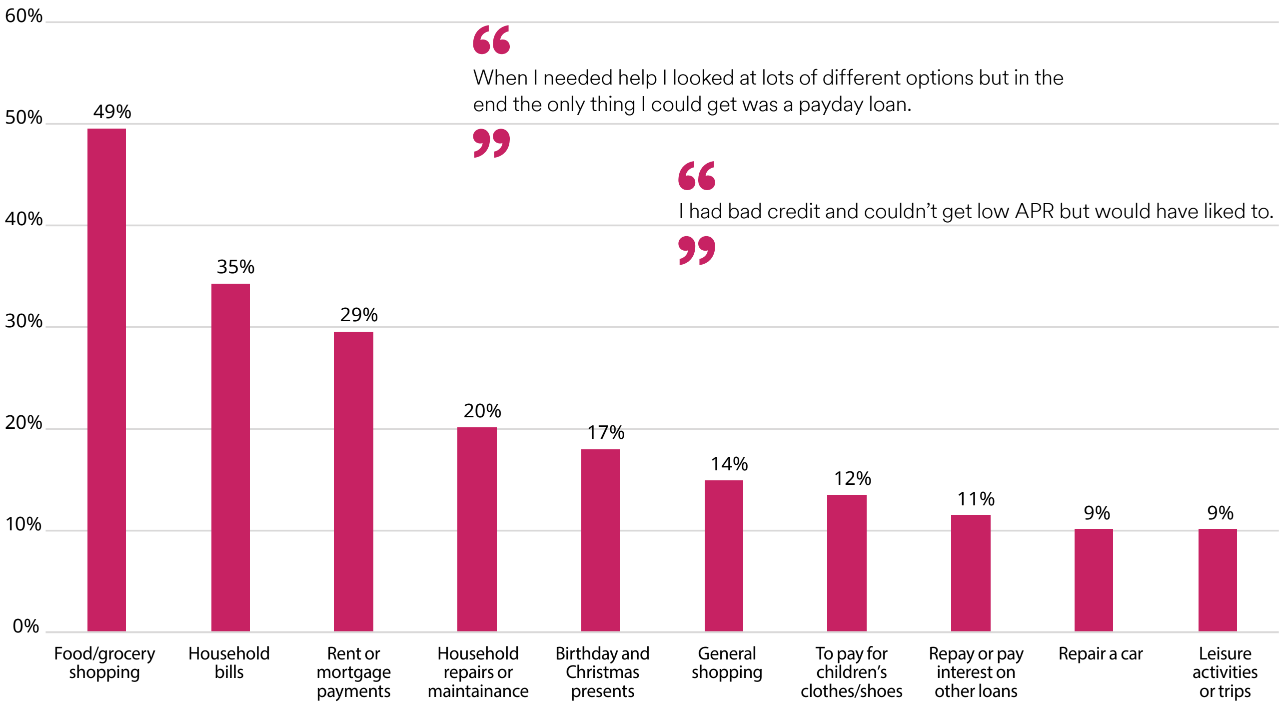


Source: Schroders.

Falling into financial difficulty and debt spirals

High-cost credit is often used to fill the gap

The uses of high-cost credit (2017)



"When I needed help I looked at lots of different options but in the end the only thing I could get was a payday loan."

"I had bad credit and couldn't get low APR but would have liked to."

Source: StepChange.[3]

And it's on the rise

5.2m people

(10%) used high-cost credit in 2022.

Source: FCA FLS.[4]

68% increase

In the use of high-cost credit between 2017 and 2022.

Source: FCA FLS.[4]

Pawnbroking demand hits 'record levels' in UK

Increased usage down to high inflation and shortage of alternatives says chief of Britian's biggest operator.

Source: FT.[5]

Falling into financial difficulty and debt spirals

How expensive is high-cost credit?

32%

adults said they shopped around before taking out their payday/short term loan

Source: FCA FLS.[6]

Type	Maximum APR from selected provider		% (no.) of people using high-cost credit within the previous 12-month period (2022)
Catalogue credit or shopping accounts (revolvers)	39.9%	Grattan[7]	**5.8% (3.1m)**
Short-term Instalment Loan	1,333%	Lending stream[8]	**2.1% (1.1m)**
Rent-to-own	79.9%	Rent2Buy[9]	**1.8% (1.0m)**
Payday Loan (single payment)	1,721%	Payday UK[10]	**1.2% (0.6m)**
Home-collected loan	1,591%	Morsesclub[11]	**0.6% (0.3m)**
Pawnbroking	155.8%	H&T Pawnbrokers[12]	**0.6% (0.3m)**
Logbook Loan	442.7%	Cash Converters[13]	**0.4% (0.2m)**

Source: FCA FLS[4], selected providers.

The FCA had to intervene in 2019

FCA High-Cost Credit Review:

- **Price caps:** implemented price caps on payday loans to limit interest and fees that lenders could charge
- **Affordability checks:** lenders now required to conduct thorough affordability assessments
- **Repeat borrowing restrictions:** introduced rules to prevent borrowers from repeatedly taking out payday loans
- **Overdraft reforms:** implemented reforms to make overdraft charges fairer and more transparent, including banning fixed daily or monthly fees
- **Rent-to-own price cap:** introduced a price cap on rent-to-own agreements
- **Improved disclosure:** lenders are now required to provide clearer and more transparent information to consumers about the costs and risks of credit

These changes were expected to save:

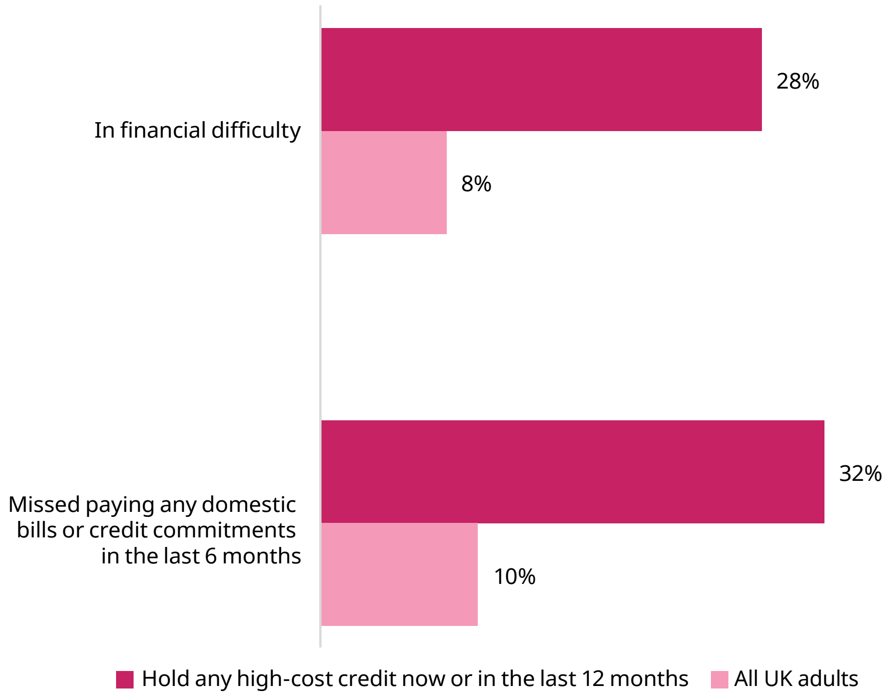
- Credit card customers up to £1.3bn per year
- Overdraft users up to £160m per year
- Rent-to-own users up to £31m per year
- BNPL customers up to £74m per year

Source: FCA.[14]

Falling into financial difficulty and debt spirals

High-cost credit users are far less financially resilient

% of adults in financial difficulty in the last 12 months, by use of high-cost credit (2022)



All UK adults	High-cost credit users
41% can cover more than 3 months	74% cannot cover more than 3 months
32% have cash savings less than £1k	60% have cash savings less than £1k
£27k average savings	£7k average savings

Source: FCA FLS.[15]

Falling into financial difficulty and debt spirals

There are a wide array of potential routes out of unmanageable debt

Property-Related Options	Informal Repayment Arrangements	Formal Debt Solutions	Court-Managed Plans
Releasing Equity Equity release takes money from your home to pay off debts	**Debt Management Plan** An agreement to pay back money you owe based on what you can afford	**Individual Voluntary Arrangement (IVA)** A formal agreement to make affordable monthly payments for 5 to 6 years	**Administration Order** A court managed payment plan
Remortgaging Replace your existing mortgage with a new one	**Debt Consolidation** Take out credit to reduce payment amounts or the number of people you owe	**Debt Relief Order** A way of cancelling your debts, happens after 12 months	**Bankruptcy** A legal process that writes off unsecured debts
Selling assets Selling anything you own of value		**Debt Arrangement Scheme** Pay back debts based on what you can afford	**Sequestration** A legal process that writes off your debts
Surrendering your property You can sell your property if you cannot afford to make mortgage payments		**Minimal Assets Process** MAP bankruptcy is for lower incomes and fewer assets	
		Protected Trust Deed A formal agreement to make affordable monthly payments for 4 years	

Source: StepChange.[16]

Falling into financial difficulty and debt spirals

IVAs are a common route out

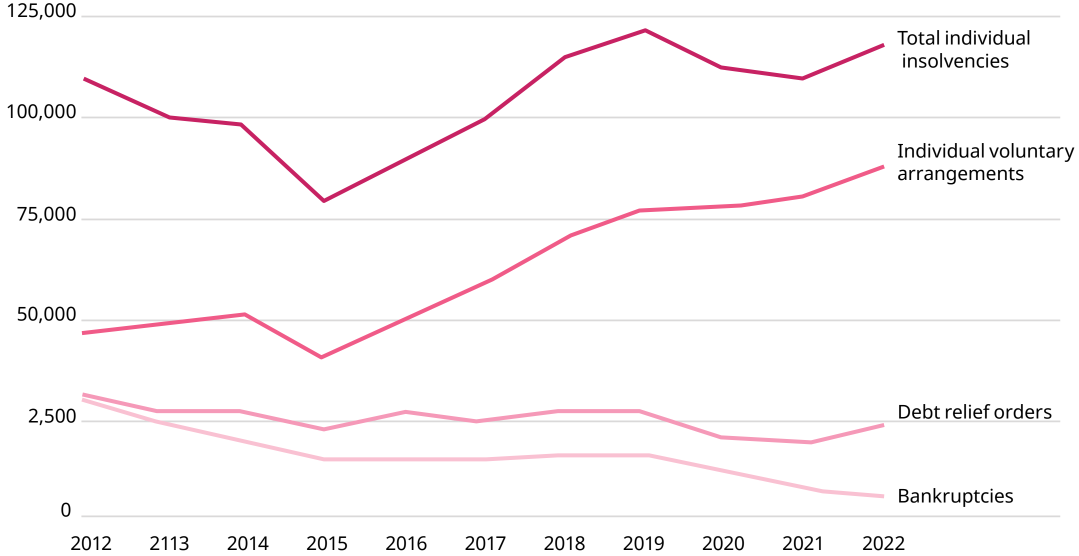
For those who have spiralled into unmanageable debt levels, they can be placed on debt management plans to help reduce their debt levels. Individual Voluntary Arrangements (IVAs) are a formal legally binding agreement between an individual and their creditor to pay back their debts over a period.

87,967 IVAs registered in England and Wales in 2022 – the highest annual number on record	IVAs accounted for 74% of all individual insolvencies in 2022	1 in 3 IVAs fail

Source: GOV.UK.[17]

Over the past ten years, the number of IVAs has increased, while numbers of other individual insolvency types have stayed constant or decreased

Number of insolvencies in England and Wales (2012–2022)



Source: GOV.UK.[18]

There are growing concerns that a broken IVA market is failing people in debt distress

IVAs are aggressively marketed at people in problem debt, regularly using misleading claims that promise immediate relief without mentioning risks or fees. When searching for 'debt help' online, IVA ads crowd out alternative debt options and free advice providers. IVA ads are also pervasive on social media platforms such as Facebook, Instagram and TikTok.

While IVAs can work well for some people, they cost more in fees than other solutions – usually £3,500–£4,000 – and involve a higher level of risk. In the worst cases, an unsuitable IVA can leave people struggling to make ends meet, being in debt for longer, or even going into more debt to make repayments.

73% of people who are or have been in an IVA said they **struggled to make repayments**

46% had to **cut back on everyday essentials** like food and heating to make their IVA payments, while **26%** had to go without

42% said they did not have enough money for **unexpected essential costs** e.g. a car breaking down or needing to buy new school shoes

39% said their IVA has had a negitive impact on their debt levels

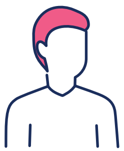
32% said they had to borrow money to make their IVA payments

Source: Citizens Advice.[19]

Falling into financial difficulty and debt spirals

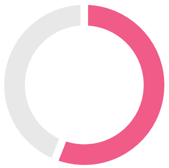
Insights from StepChange Clients

In 2022, StepChange saw a 20% increase in people seeking advice or guidance with their problem debt



580,913 people

Contacted StepChange seeking debt advice or guidance with their problem debt, up from 483,247 in 2021



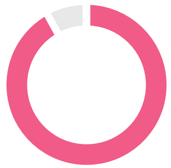
56%

In some form of employment

40% Full-time

14% Part-time

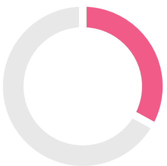
2% Zero hours



92%

Aged 18-59 and those aged 25–39 are present at twice the rate their population size would suggest

	Clients	UK average
Under 25	11%	12%
25–39	48%	24%
40–59	34%	33%



33%

In arrears with their energy bills compared to 29% in 2021 and despite significant government intervention

25%

Y-o-Y increase in mean unsecured debt, to £13,941 in 2022, following two consecutive years of decline

40%

Had a mental health condition

63% women

Gender split of clients receiving full debt advice in 2022

Source: StepChange.[20]

Falling into financial difficulty and debt spirals

Insights from StepChange Clients: Younger Individuals

A worrying number of people are seeking debt advice before their 25th birthday

22,262
adults under the age of 25 sought help from the charity last year

Young adults are struggling with priority debts more than older generations
A larger share of those under 25 were in council tax, gas, electricity and water arrears than any other age group

Council tax
28% in arrears
£534 average bill

Gas
14% in arrears
£338 average bill

Electricity
15% in arrears
£339 average bill

Water
25% in arrears
£323 average bill

Source: StepChange.[21]

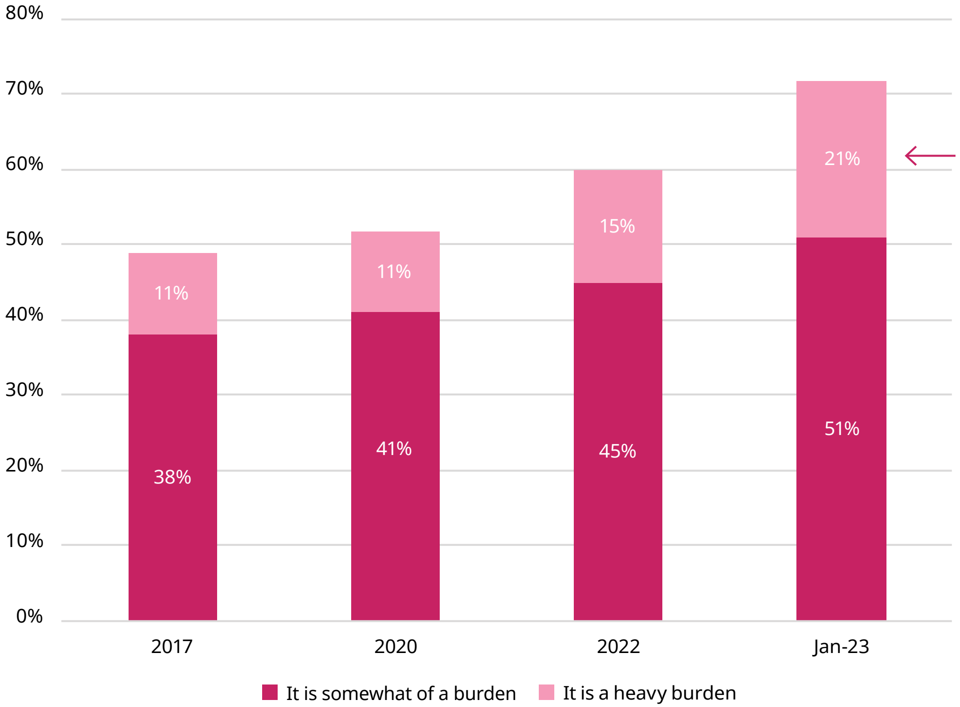
> "Spiralling bills for every essential from food to energy costs to childcare coupled with wages falling in real terms have made it almost impossible for youngsters to become independent, save and begin their adult lives.
>
> We hear daily on the Netmums forum from young families who cannot afford to move out of their parents' home into rented accommodation, let alone buy their own place. And those who do try often become mired down in debt.
>
> As StepChange's study shows, we are creating a ticking timebomb of debt which may well prevent a generation from moving forward with their plans for adulthood."
>
> *Siobhan Freegard, Netmums Founder*

Growing dependency on credit for the "heavily burdened"

Pinch Point 2: **Growing dependency on credit for the heavily burdened**

Heavily Burdened:
Keeping up with domestic bills or credit commitments is a heavy burden.

% of UK adults who are burdened by their domestic bills and/or credit commitments, by degree of burden



21% of UK adults feel their domestic bills and/or credit commitments are a heavy burden, almost double the rate in 2020

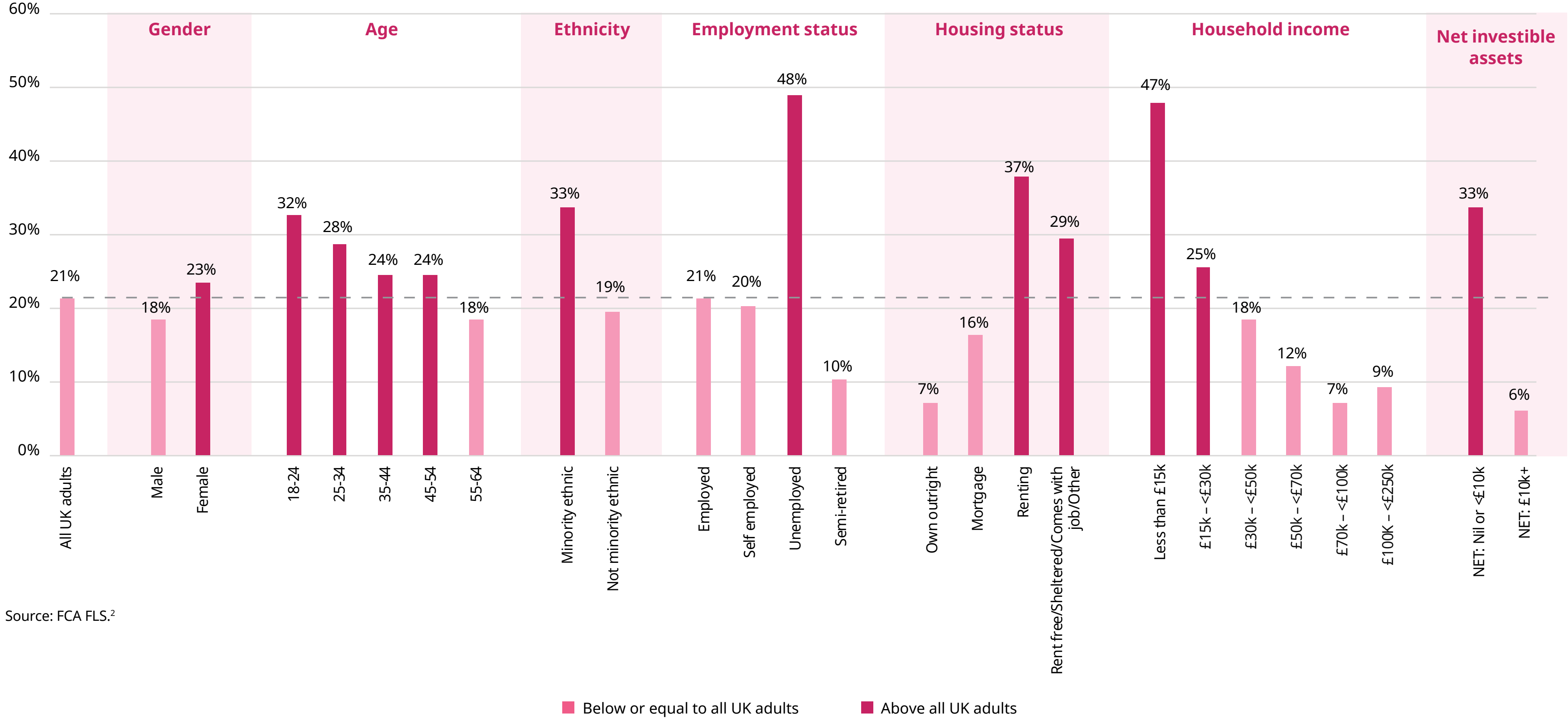
Source: FCA FLS.[1]

Growing dependency on credit for the "heavily burdened"

Some groups are more likely to find themselves "heavily burdened"

Younger people, households on a lower income, renters and those with less savings are struggling more than most

% of people who are heavily burdened by their domestic bills and credit commitments (2022)



Source: FCA FLS.[2]

Growing dependency on credit for the "heavily burdened"

The rising cost of living is making things worse

77%

Of UK adults said that the burden of bills increased in the 6 months to Jan 2023

70%

Of UK households saw their financial situation worsen

29%

Saw their unsecured debt levels increase

40%

Stopped or reduced saving or used their savings to meet daily expenses

Source: FCA FLS.[3]

56%

Of adults in the UK reported their cost of living had increased compared to a month ago (July '23 to Aug '23)

19%

Of these adults said they were using more credit than usual as a result

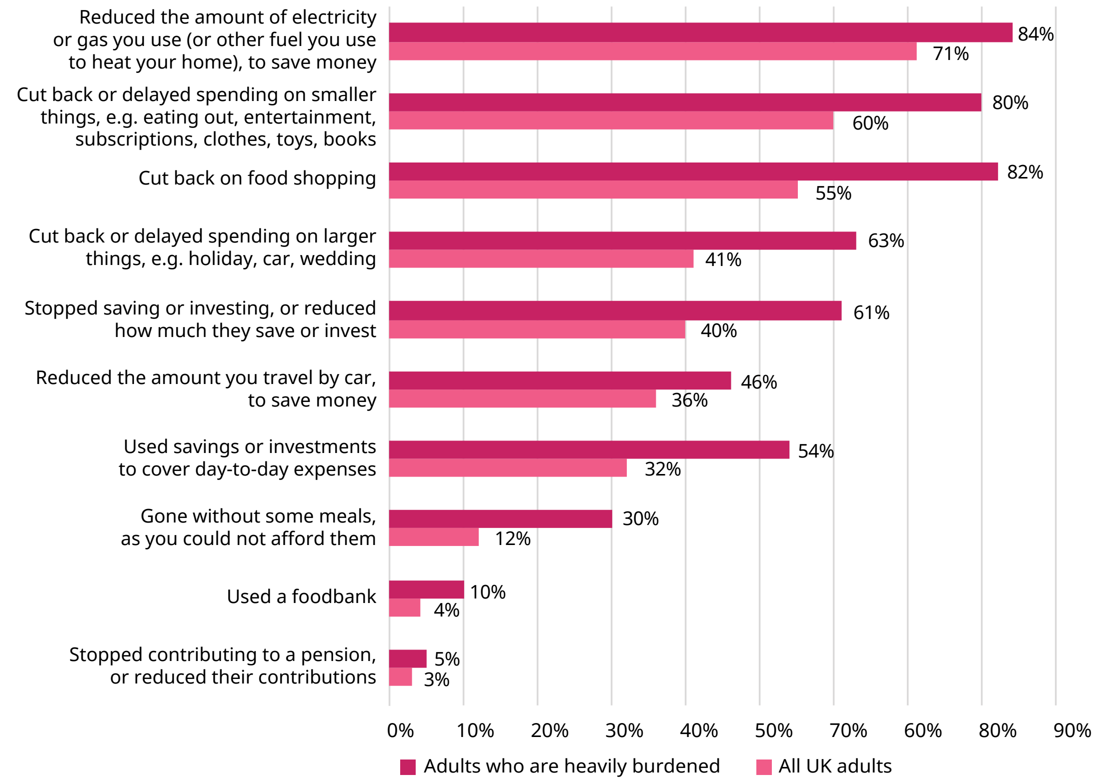
Source: ONS.[4]

26%

Of people reported using credit cards, overdrafts or other formal lenders to make ends meet

Source: The Resolution foundation.[5]

Actions taken due to the rising cost of living (2023)



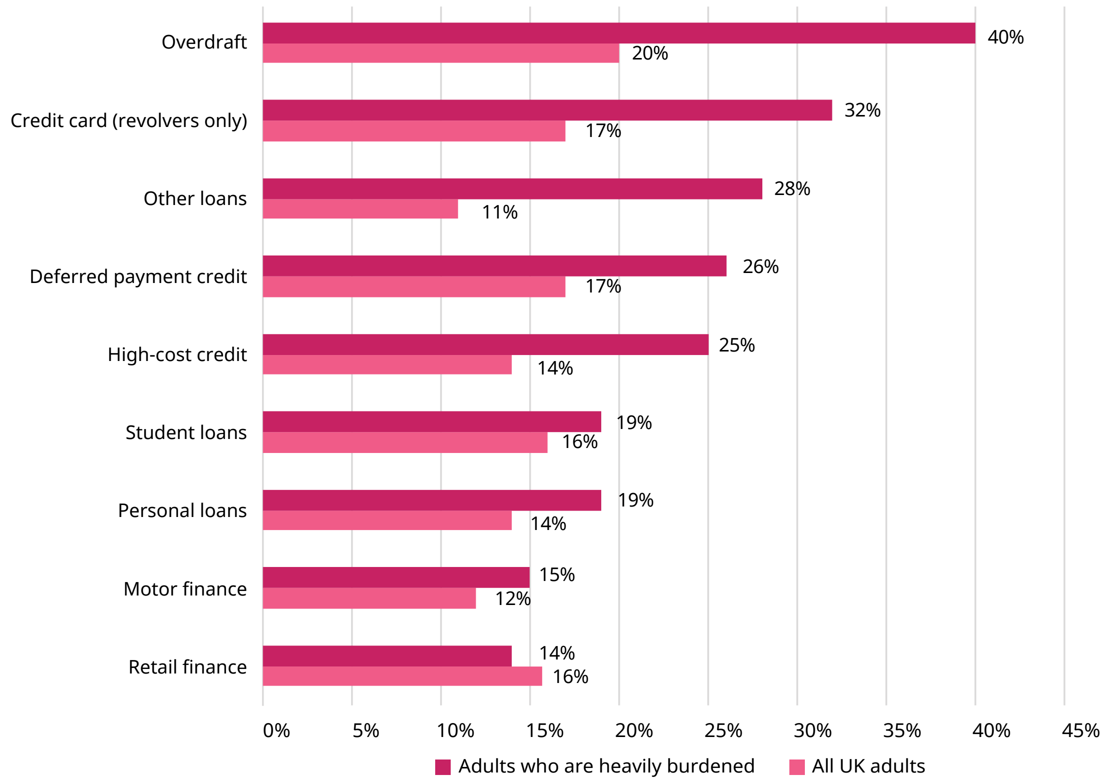
Source: FCA FLS.[6]

Growing dependency on credit for the "heavily burdened"

Overdrafts and credit cards are the most common form of consumer credit

Those who are heavily burdened are more likely to use consumer credit products

% of UK adults who have consumer credit products (2022)

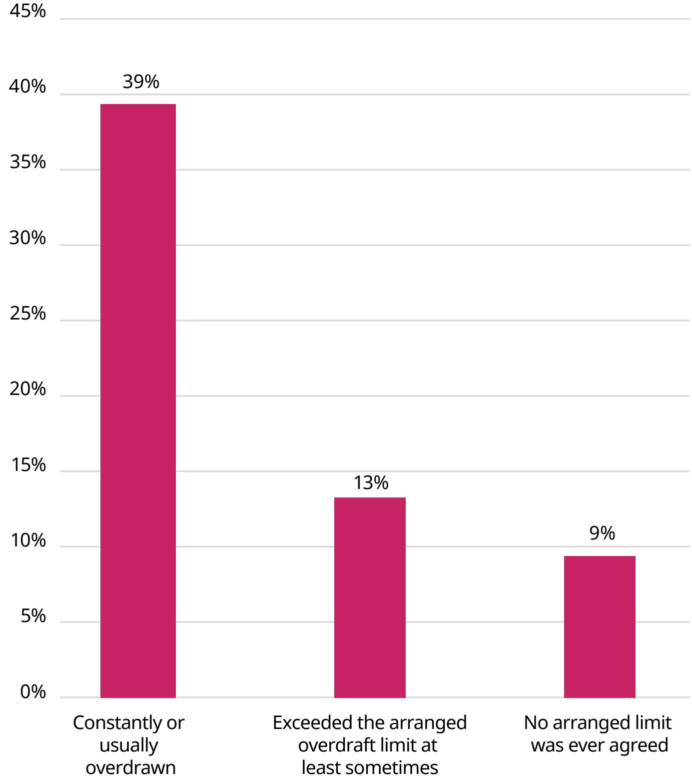


Source: FCA FLS.[7]

Growing dependency on credit for the "heavily burdened"

An overview of overdrafts

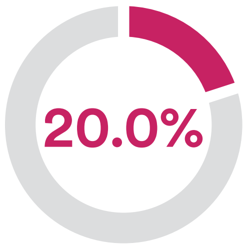
Overdraft use among adults who are overdrawn now or in the previous 12 months (2022)



Source: FCA FLS.[8]

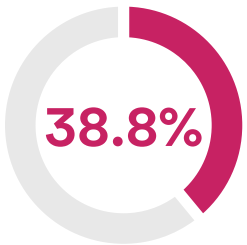
In 2016, more than 50% of firms' unarranged overdraft fees came from just 1.5% of customers

Source: FCA.[9]



UK adults overdrawn in May 2022, or had been so in the previous 12 months

Source: FCA FLS.[10]



Interest charged on overdrafts by UK's largest banks

Source: Schroders.[11]

Note: The UK largest banks, by customer numbers are: Lloyds, Natwest, Nationwide, Santander, HSBC.

Growing dependency on credit for the "heavily burdened"

An overview of credit cards

As of mid 2023:

£2,394
Average household credit card debt
Source: The Money Charity.[12]

8.5%
growth in outstanding balances on credit cards in the 12 months to mid 2023
Source: UK Finance.[13]

50.1%
outstanding balances incurred interest
Source: UK Finance.[13]

40%
Of British people do not know what APR stands for
Source: Forbes.[14]

26.5%
Average APR on credit card from top 5 banks
Source: Schroders.[11]

1 in 3
Do not know that APR applies to their balances
Source: Forbes.[14]

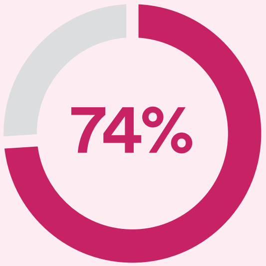
Note: The UK largest banks, by customer numbers are: Lloyds, Natwest, Nationwide, Santander, HSBC.

Growing dependency on credit for the "heavily burdened"

How are credit cards paid off?

Repayment behaviour amongst all credit card holders (2022)

'Transactors'



Pay the full statement balance every month — 65%

Pay the full statement balance most months — 9%

'Revolvers'

Pay less than the full statement balance but more than the minimum payment most months — 19%

Make only the minimum payment most months — 10%

Pay less than the minimum payment most months — 1%

53%
of 18–24 year olds missed a credit card payment in the last 2 years
Source: Forbes.[14]

37%
of 'revolvers' paid at least as much in interest/fees/charges than the balance they had to pay off
Source: FCA FLS.[15]

Note: sums do not equal 100% as people have more than one credit card, so were instructed to *"Select all that apply, where you repay differently on different cards"*

Source: FCA FLS.[16]

> The last couple of years, even on Universal Credit, I've been able to manage. But now, all of a sudden, within the last six months even, it's become an absolute struggle. And that's with everything paired down to the bone.

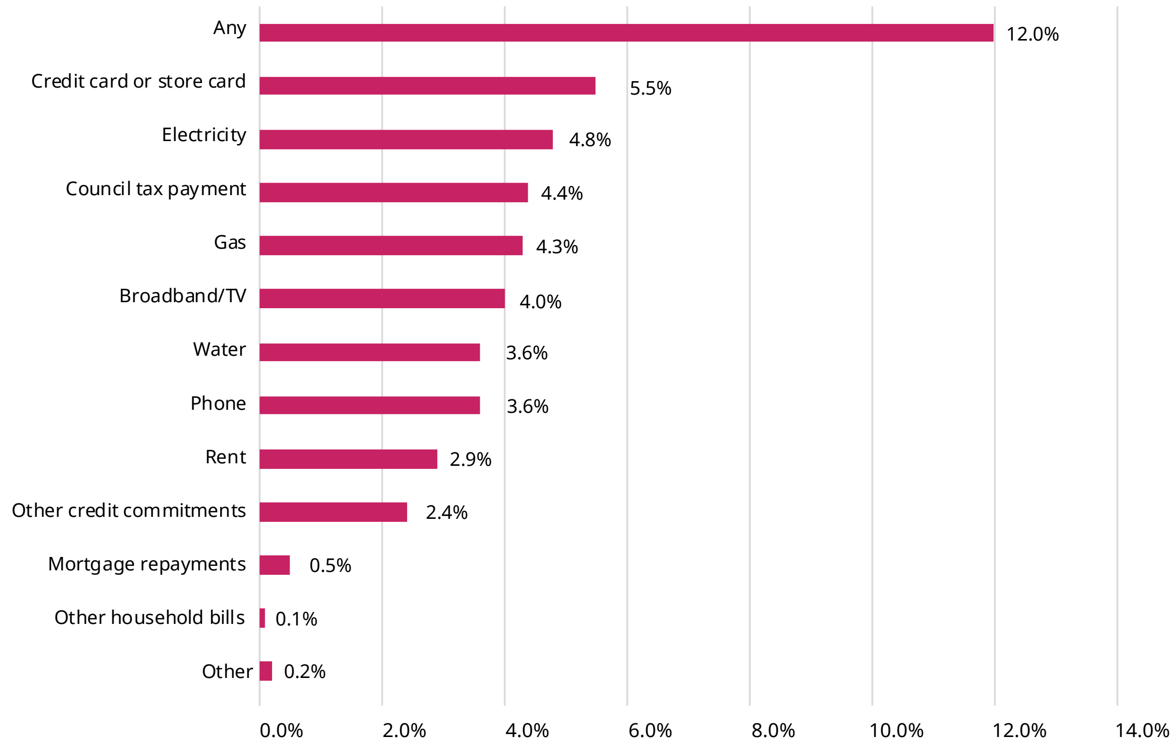
(Male, 55-64) FCA FLS.[18]

Growing dependency on credit for the "heavily burdened"

Credit cards were the most missed payment as of Jan 2023

Out of domestic bills and credit commitments, people were most likely to miss their credit card payments

% of people who have missed bills in 3 or more of the last 6 months

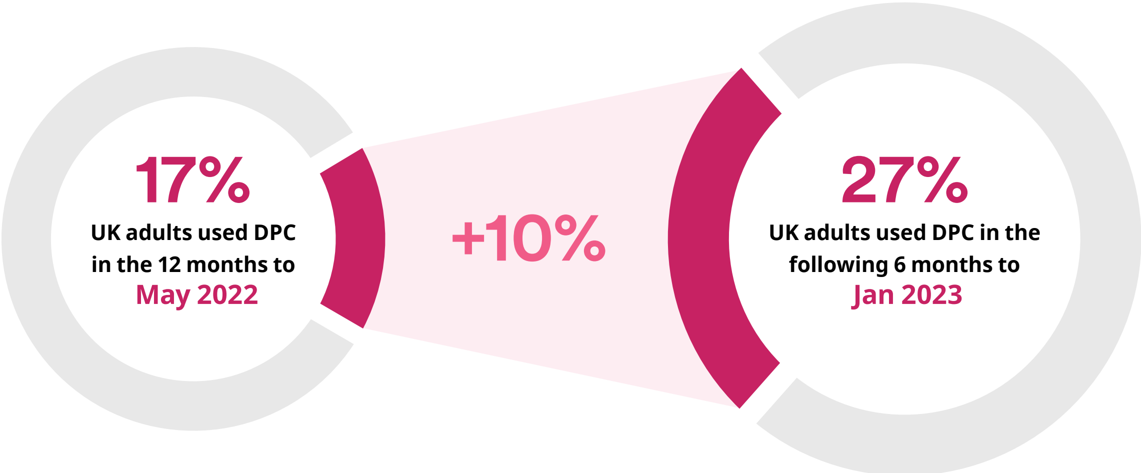


Source: FCA FLS.[17]

Growing dependency on credit for the "heavily burdened"

The rise of Deferred Payment Credit

Deferred Payment Credit (DPC):
A form of short-term, interest-free credit, commonly offered at the online checkout of retailers by a third-party credit provider. Also known as unregulated Buy Now Pay Later (BNPL).



Source: FCA FLS.[19]

Source: FCA FLS.[20]

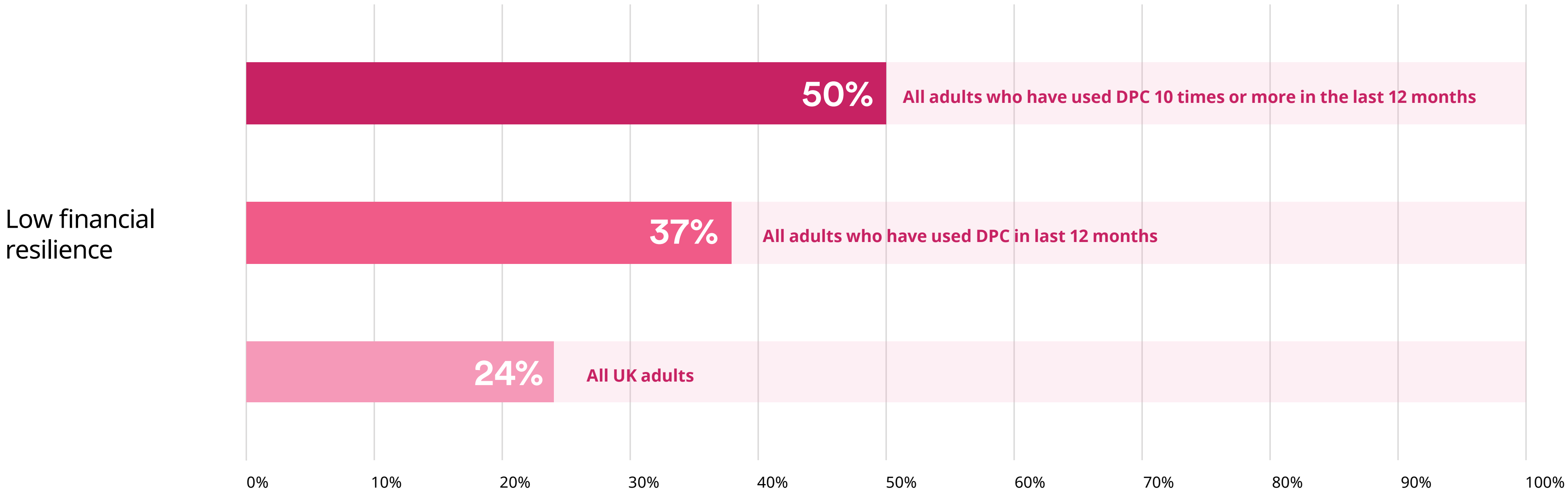
The average user had **£160 outstanding** across all their DPC purchases.
Source: FCA FLS.[21]

Females and younger adults were more likely to use DPC, as were **those from a black ethnic background and also renters**.
Source: FCA FLS.[19]

Growing dependency on credit for the "heavily burdened"

Deferred Payment Credit users are more likely to have low financial resilience

% of UK adults who have low financial resilience, by use of DPC (2022)



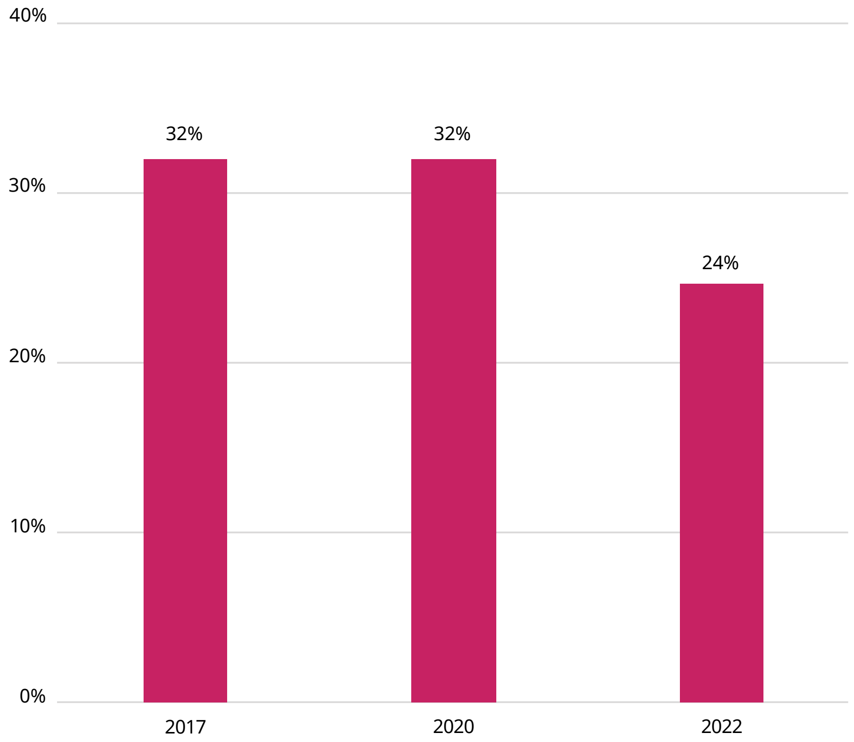
Source: FCA FLS.[19]

Difficulty building up 'rainy day' savings

Pinch Point 3: **Difficulty building up rainy day savings**

The number of people with a savings buffer improved in the aftermath of COVID, however data from 2023 suggests cost-of-living pressures have more than eroded this progress

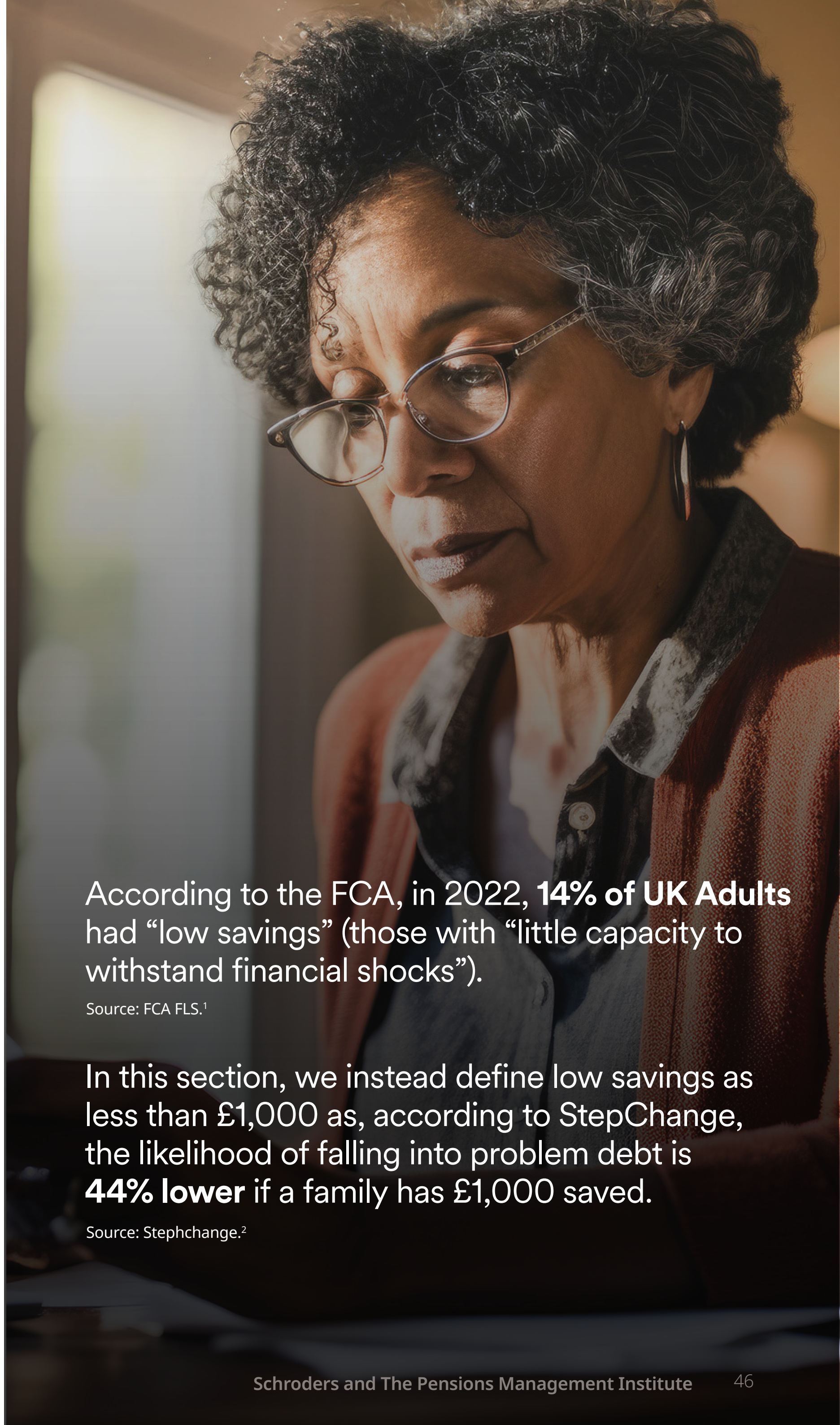
% of UK adults with less than £1k in savings



Source: FCA FLS.[3]

According to Finder, as of 2023: 50% of British people have less than £1,000 in savings

Source: Finder.[4]



According to the FCA, in 2022, **14% of UK Adults** had “low savings” (those with “little capacity to withstand financial shocks”).

Source: FCA FLS.[1]

In this section, we instead define low savings as less than £1,000 as, according to StepChange, the likelihood of falling into problem debt is **44% lower** if a family has £1,000 saved.

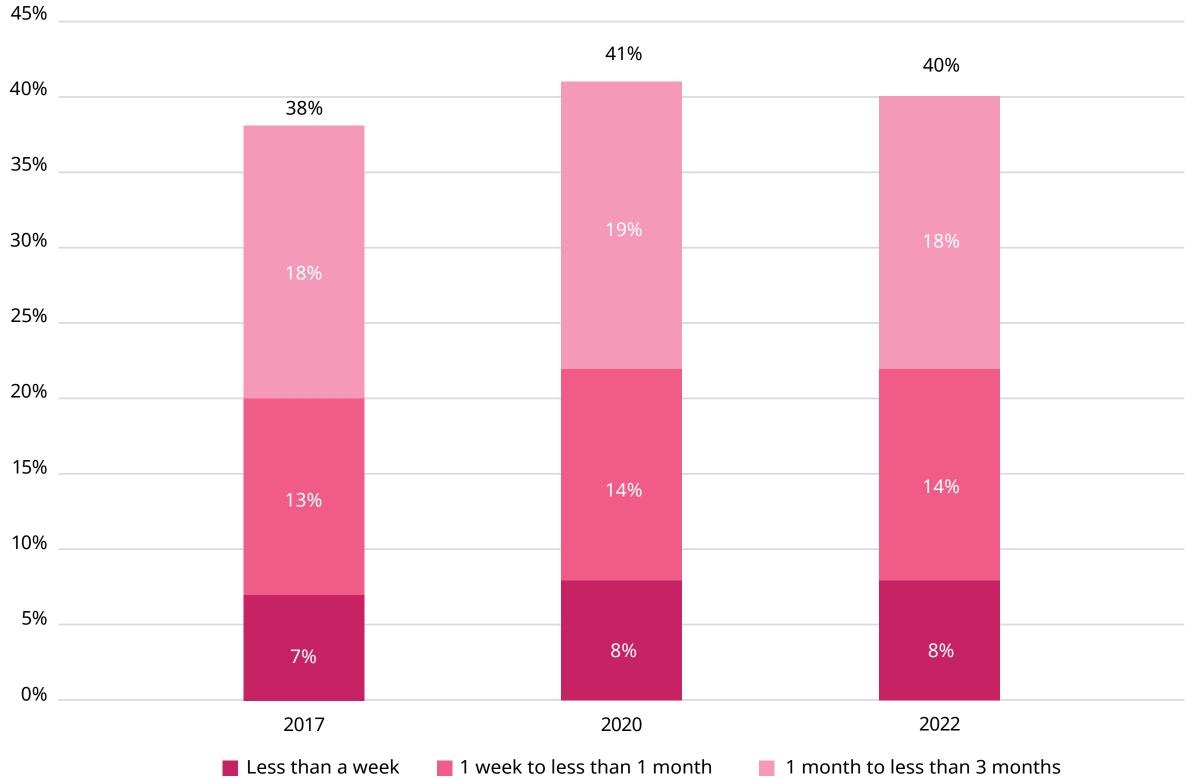
Source: Stephchange.[2]

Financial experts generally recommend having **at least 3 months of essential outgoings** available.

Difficulty building up 'rainy day' savings

In 2022, 40% of adults did not have enough savings to cover 3 months' living expenses

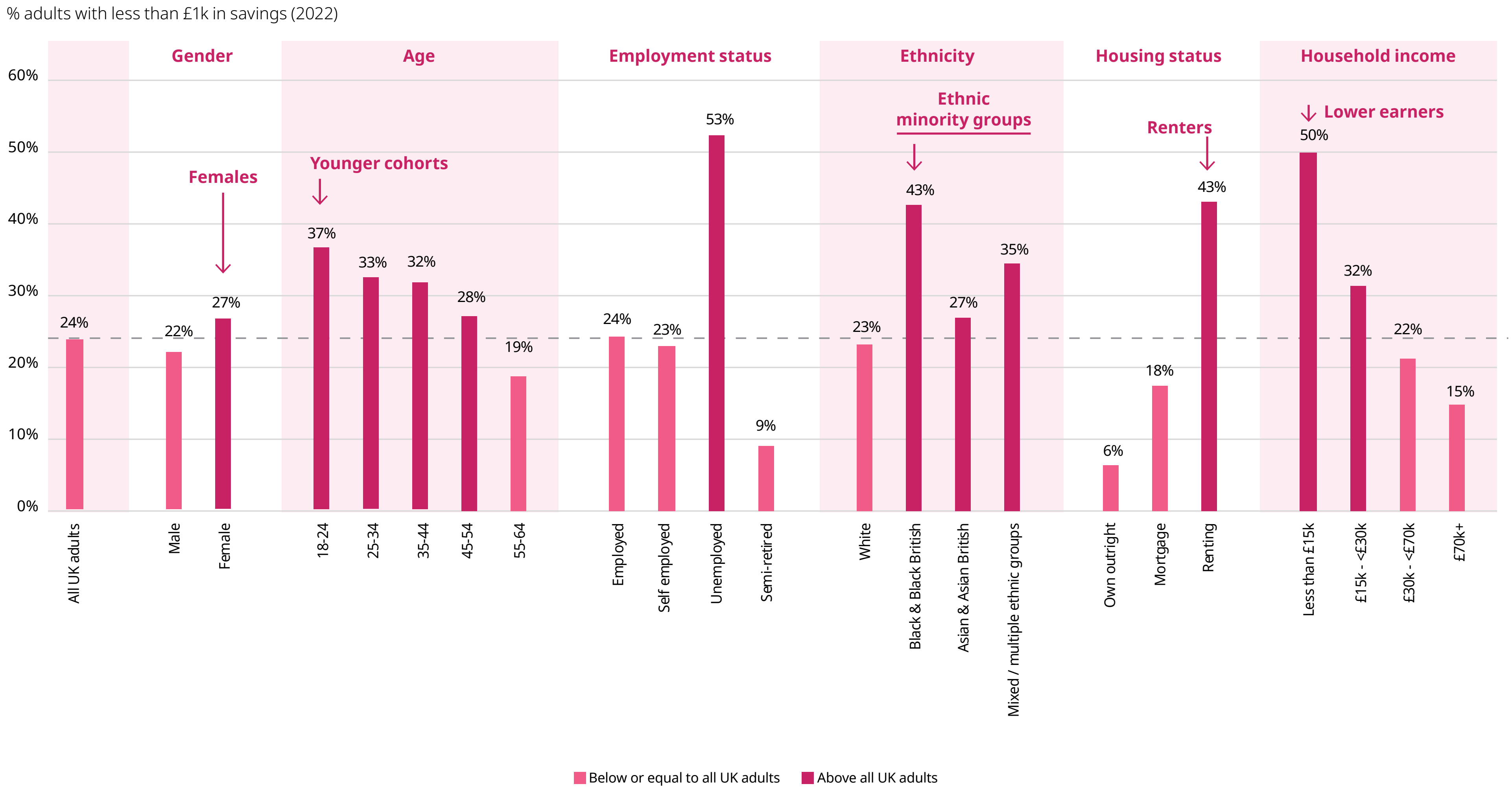
% of UK adults whose savings could not cover 3 months' living expenses if they lost their main source of income (2022)



Source: FCA FLS.[5]

Difficulty building up 'rainy day' savings

Some groups are more likely to struggle building up a savings buffer



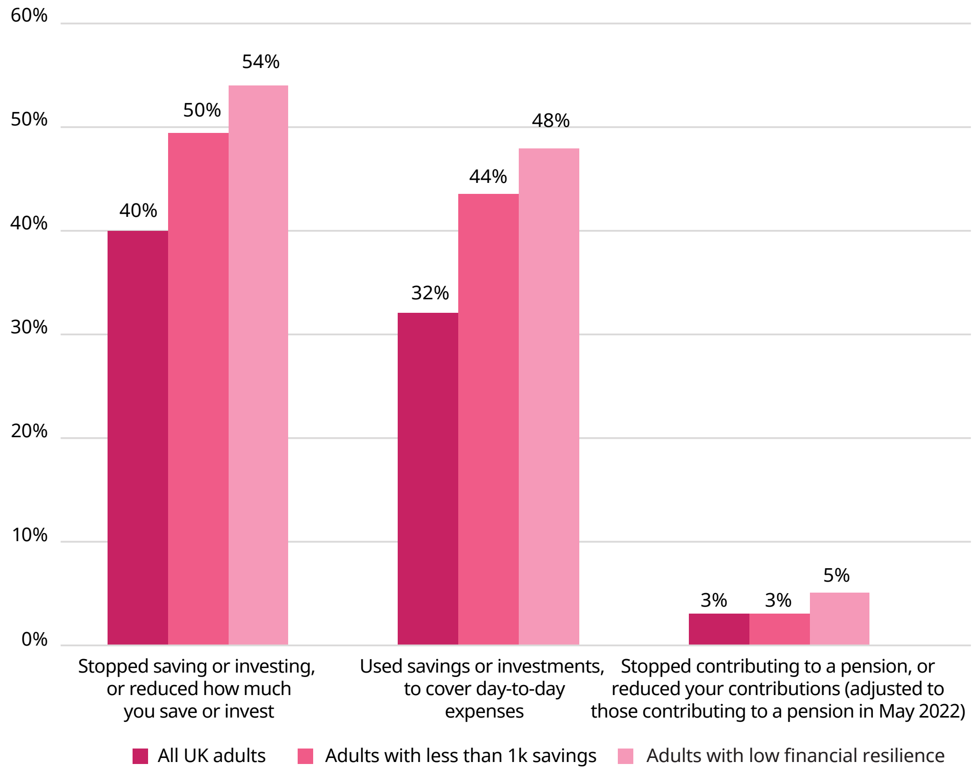
Source: FCA FLS.[6]

Difficulty building up 'rainy day' savings

Those with a low savings buffer have been more impacted by the cost-of-living crisis

40% of adults stopped or reduced their savings during the cost-of-living crisis, rising to 50% of adults who had less than £1k in savings

Actions taken as a result of the rising cost of living, from May '22 to Jan '23



Source: FCA FLS.[7]

In the 6 months to January 2023

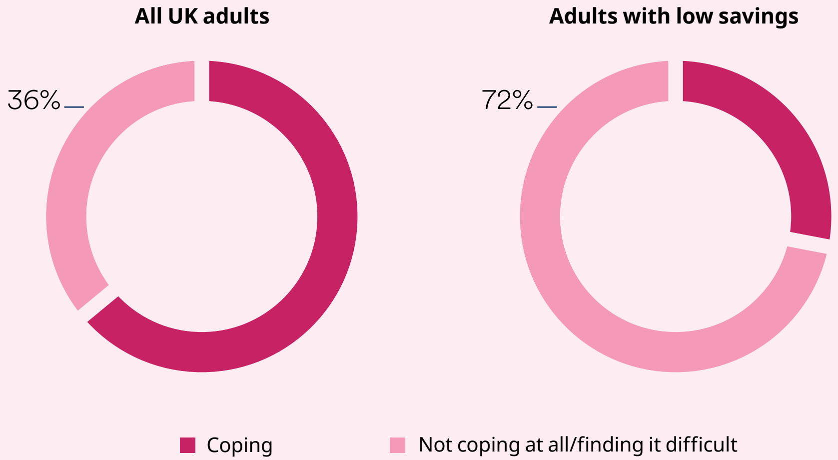
70% of all UK adults saw their financial situation worsen, vs. 79% for adults with low savings,

and

57%
of UK adults' disposable income fell

Source: FCA FLS.[8,9]

Adults with
less than £1k
in savings find it more difficult to cope:

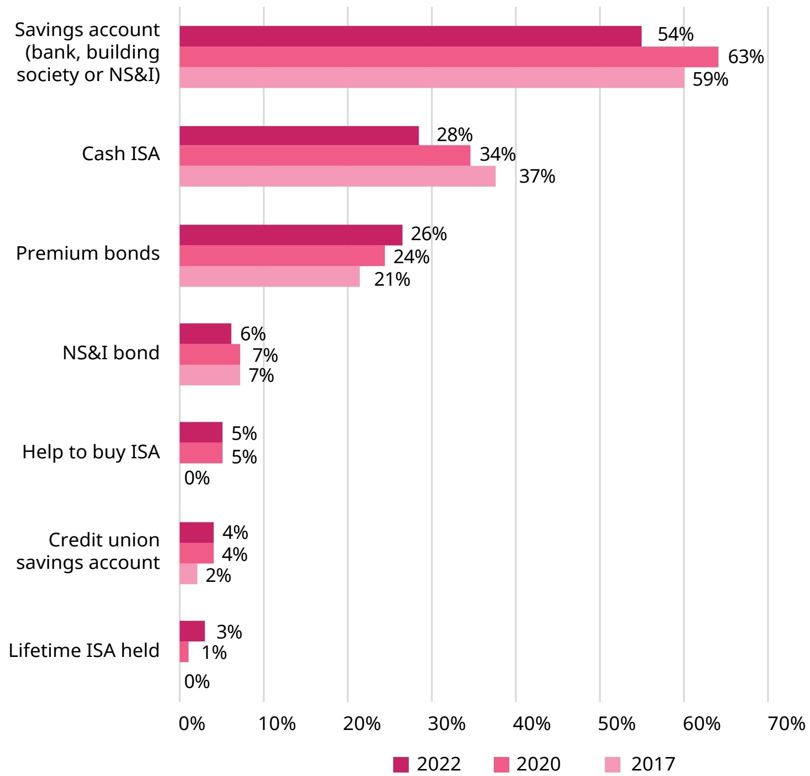


Source: FCA FLS.[10]
Note: Low savings defined according to the FCA definition.

Difficulty building up 'rainy day' savings

Savings accounts are the most common form of savings

Short-term savings products held, by period (2017–2022)



Source: FCA FLS.[11]

15.9mn people

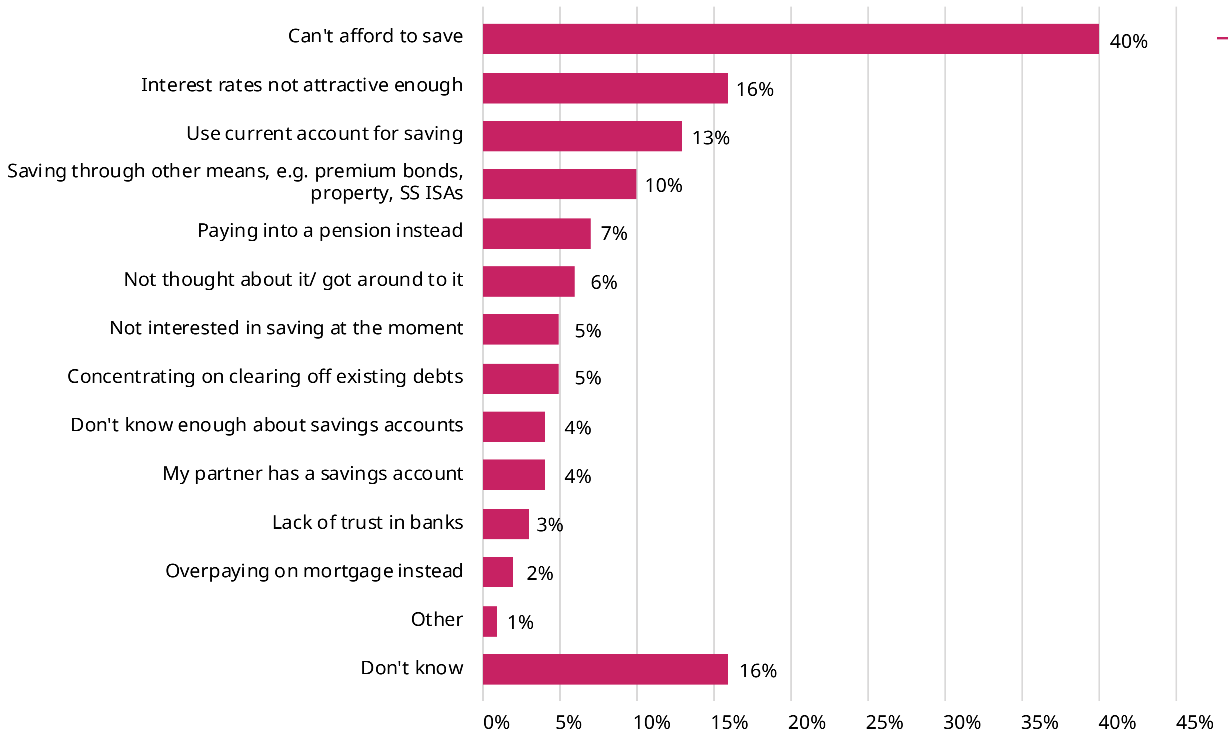
in 2022, did not have a savings account of any type (30% of adults)- up from 24% in 2020

Source: FCA.[12]

Difficulty building up 'rainy day' savings

For those without a cash-savings product, affordability was the most common reason provided

Reasons for not having a savings account or cash ISA (2022)



Source: FCA FLS.[13]

Females (45%) are more likely than males (36%) to say they can't afford to save

35–54-year-olds are most likely to list affordability as the reason for not having a savings account

Renters more than double as likely than homeowners

Adults who find their bills to be a 'heavy burden' are 5 times more likely to list affordability issues

Source: FCA FLS.[13]

36% of people didn't expect to save in Jan 2022, this rose to 42% in Jan 2023

Source: ONS.[14]

Difficulty building up 'rainy day' savings

...but not all displayed characteristics of "un-affordability" ...

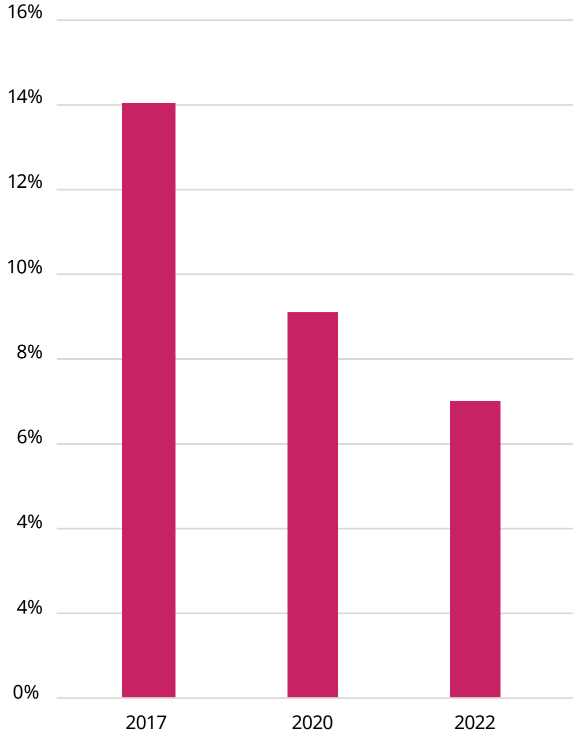
Source: FLS Internal Data.[15]

Difficulty building up 'rainy day' savings

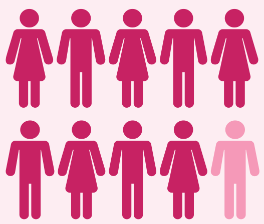
Is the digital transition leaving some people behind?

Whilst the number of digitally excluded people are falling, those who remain digitally excluded are significantly more likely to have a low savings buffer, and have low financial resilience

% of digitally excluded people



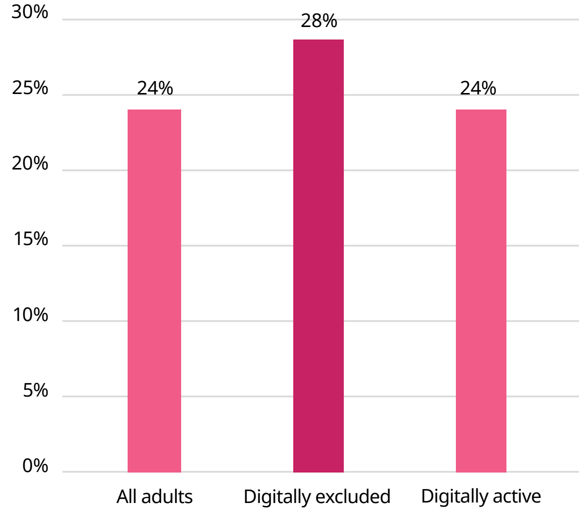
Source: FCA FLS.[17]



Almost 9 in 10 **adults banked online**

Source: FCA FLS.[16]

% adults with less than £1k in savings



Source: FCA FLS.[18]

The digitally excluded are more likely to have a low savings buffer

Source: FCA FLS.[18]

Difficulty building up 'rainy day' savings

Behavioural biases inhibit savings

Below are several behavioural biases that can subconsciously impact our ability to save:

Framing

Consumers' savings can be increased or decreased merely by changing the way consumers think about their savings goals. They can either specify or not specify an exact amount to save (goal specificity), and they can focus on either how to save or why to save (construal level).

Source: Journal of Marketing Research.[19]

False Optimism

The more financially optimistic individuals are, the lower their savings

Source: University of Sheffield.[23]

Present Bias

People prefer instant gratification to rewards they can have in the future

Source: Thaler and Benartzi.[20]

Visibility Bias

People spend more because they only see what others are spending, and not what they are saving (social media has exacerbated this)[18]

Source: Han, Hirshleifer and Walden.[21]

Inertia

Savers are set up for indecision and inaction, so do not make the active decision to regularly save

Source: Han, Hirshleifer and Walden.[21]

Difficulty building up 'rainy day' savings

Behavioural Biases in action

Case Study 1:

Thaler and Benartzi's "Save More Tomorrow" Plan

In this case study, a workplace trial was run where employees had to commit to putting a predefined % of all future pay raises into their retirement accounts; far before they received their first raise. The employees were free to stop the plan at anytime.

In the first implementation of the plan in 1998:

Average savings rate increased from
3.5% to 11.6%
in 28 months

80%
of employees stayed in the plan for 3 pay raises

Nobody
chose to go back to their original savings rate

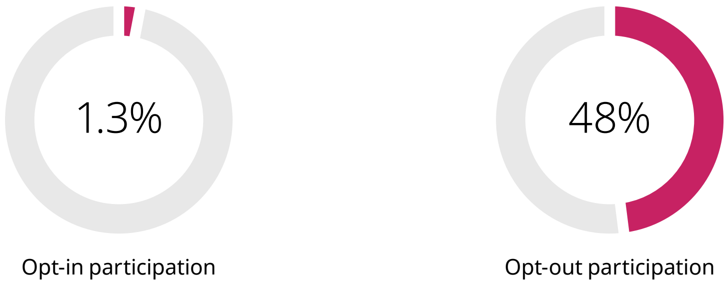
Source: Thaler and Benartzi.[20]

Case Study 2:

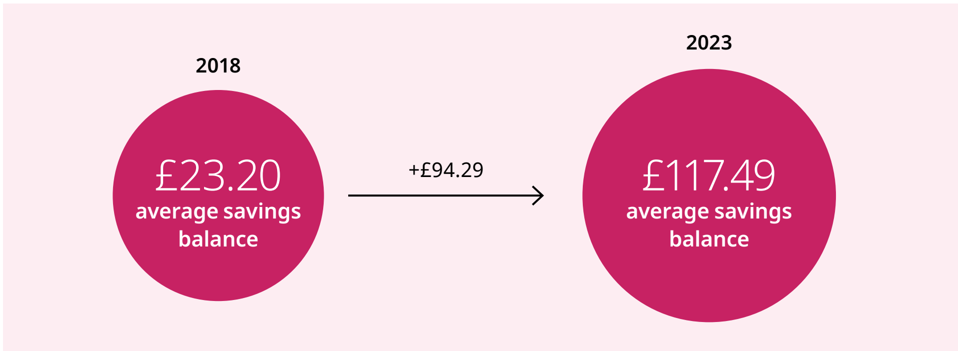
Nest Insight Sidecar Savings Tool

In Nov 2021, Nest Insight launched a research trial in workplaces with SUEZ and Transave UK. The trial involved an opt-out payroll savings scheme. Employees were free to opt-out at any time or change their automatic savings payments.

The results: More People are saving ...



... and those who save, save more



Source: Nest.[22]

Housing

Housing is a unique element of the lifetime savings journey, impacting both financial resilience and long-term savings.

Renting and buying will have a different cost profile at different points of the economic cycle, but either way, housing costs typically have a material impact on people's lives.

Housing: Background and housing trends

Pinch Point 1: **Buying a house is becoming unaffordable**

Over the last 10 years, home ownership has declined from 71% to 64%. Over the same period, the average house price for first time buyers, even after adjusting for inflation, has increased by over 50%.

It is therefore no surprise that in 2022 only households in the top 10% income bracket could afford an average price home with fewer than five years of income.

And for those lucky enough to do so, people are increasingly relying on financial help from parents to get onto the housing ladder. As a result, children of wealthy parents are 3 times more likely to own a home by age 35.

Pinch Point 2: **Ongoing housing costs are a financial strain, especially for renters**

Almost half of weekly spending is on housing-related costs, with around half of these costs going towards rental or mortgage payments. This was the largest single household expenditure item in 2022.

On aggregate, rental costs have roughly moved in line with inflation, however this obscures the challenges that many groups are facing. For example, lower-priced rents in London are equivalent to 46% of the income of lower-income households, far higher than the 30% affordability threshold set by the ONS. Furthermore, owners with mortgages are now facing additional challenges; in 2023, average annual mortgage interest payments increased by 53%.

And when we look at key metrics of financial health, renters are more likely to be struggling financially and have lower levels of savings. Two thirds of renters did not have enough savings set aside to cover 3 months' worth of essential outgoings (vs 41% of mortgaged owners vs 12% of outright owners).

Pinch Point 3: **Home ownership will have a big impact in retirement**

Home ownership is not just about putting a roof over your head and the associated financial security that comes with that – it is also a key contributor to retirement adequacy. However, a recent paper by the PPI estimates that the proportion of pensioner households renting privately during retirement could increase 3-fold over the next 20 years, from 6% in 2022 to 17% in 2042.

There is a significant difference in the expected pension adequacy for renters versus home buyers. For a renter to achieve the same standard of living in retirement as a homeowner, we estimate that they would need to save 9% p.a. of additional pension contributions over their lifetime – starting at age 22.

Note: The data on this slide (and accompanying sources) can be found throughout this section on 'Housing'. For further information on the use of forecasts, please view the important information section of this paper.

Background and housing trends

The stories of real people

High housing costs

Occupation: Hospice manager
Age: 35
Tenure: Private renter
Financial capability: Medium

Jade's story

Jade has been working since she was 18 and is currently the manager of a hospice. She is married and has a two-year-old daughter. Her husband is working in the construction industry.

Jade is privately renting a house in the area close to her work and her daughter's school. Her sister lives with the family to help with the rent.

She says that they have been just about managing but they have noticed the rising cost of living – especially food and heating. Furthermore, the landlord has recently put the rent up several times, saying that he had no choice as his mortgage rate has significantly increased. This means that they can no longer make any savings.

"Our landlord's mortgage has gone up, so he's put our rent up. And not just by a little bit, it was like £250 a month. And when we're also paying for nursery fees on top of that, which are horrific, we pay about £1,300 a month in nursery fees and our rent is £1,850 a month, it's been a real squeeze. Instead of saving money at the end of the month, we're not really saving anything at all."

Inability to get on the housing ladder

Occupation: University lecturer
Age: 45
Tenure: Private renter
Financial capability: High

Tamar's story

Tamar is in his mid forties, married, with four young children, including new-born twins. He works full-time as a university lecturer. Currently renting, he had hoped to buy a home in the near future.

Tamar is not coping financially. His bills have gone up a lot recently, including his rent, and they are struggling. He has looked carefully at his finances and tried to reduce his spending as much as possible. He feels there is not much more he can cut back on. He is reluctant to take on debt as he wants to keep a good credit record for when the time comes to buy a house.

He has money saved from working abroad which he was going to use as a deposit on a house. Now he is having to dip into these savings to meet his day-to-day living costs. He is thankful that he has this nest egg to fall back on but is unhappy that his plans to buy have been put on hold. He is worried that rising prices and dipping into his deposit will mean that he is priced out of his home ownership dream for the foreseeable future.

"I was planning to buy a house, but I was forced to keep on renting. The cost is the major issue. Mortgages are now something like 6%... It might be more than five years before I can buy... It'll be a long time."

Renter in retirement

Occupation: Admin assistant
Age: 62
Tenure: Social renter
Financial capability: Low

Jane's story

Jane is working full-time and is hoping to retire when her State Pension kicks in in a few years' time.

She has cashed in her only DC pension and used the money to treat the family and go on a large holiday. She currently has some savings, which is her 'rainy day' money. She is a self-confessed shopaholic and finds it very difficult not to touch this account.

She has always lived in council accommodation, and just swapped her 3-bed council house for a smaller council house down the road to reduce her outgoings. She is starting to get worried about how she will pay her rent when her State Pension does start and hopes that she will qualify for help from the State.

"Just over £10,000 a year from the State Pension isn't bad.. I suppose that would pay my rent and a few small bills. It's probably not enough for me to live on. A big chunk of my money goes on Council Tax and rent and I just about manage on what I'm on now [£18,000]. So no, I don't suppose it would be enough. If I live in a local authority house, would I get help with my rent and things? Maybe I won't be able to afford to retire, I'll have to keep working until I drop."

Source: Source: FCA FLS and Ignition House.[1]

Background and housing trends

What do the headlines say?

Retirement rental costs to hit £377K per person by 2040 and £660K in London

According to the Office for National Statistics (ONS), there has been a significant increase in the number of older individuals renting in England. Currently, 29% of those aged 55–64 years old are renting and are expected to continue renting in retirement, up from 18% in 2004. Additionally, the percentage of 45–54 year olds who are renting has risen to 34%, compared to only 19% in 2004. There could be 860k more households privately renting in England in retirement by 2040 – based on the number of additional households aged 45–64 who are currently in private rental accommodation compared to 2004, costing £11 billion more in rent each year to the UK as a whole (full figures in note 2 – the figures are only available for England.

Retirement rental costs to hit £377K per person by 2040s and £660K in London (ii.co.uk)

More than 1 in 10 over 55s have mortgage debt in the run up to retirement

- Over five million adults in the UK 'haven't got a clue' how much they owe in outstanding debts
- 15% feel their debt is 'out of control' and have no way of paying it off, rising to 18% of 45–50 year olds
- Half (48%) of over 55s have 'some sort' of debt in the decade before retirement, more than one in ten (11%) still have a mortgage

More than 1 in 10 over 55s have mortgage debt in the run up to retirement - Aviva plc

Rent: 'We've got £1,750 a month and can't find anywhere'

The average UK tenant now spends more than 28% of their pay before tax on rent, figures shared with the BBC show.

It means people are spending more of their wages on rent than at any other time in the last 10 years, according to property portal Zoopla.

Average rents for new lets have also risen, jumping 10.4% in a year making it harder for people to afford places.

Chris Ward and his girlfriend said they were struggling to find a rental in London despite a £1,750 a month budget.

"I don't have a car, I don't go on vacations, I can't save for property," the 31 year old told the BBC. "There is necessary support for the poorest but young workers are struggling now."

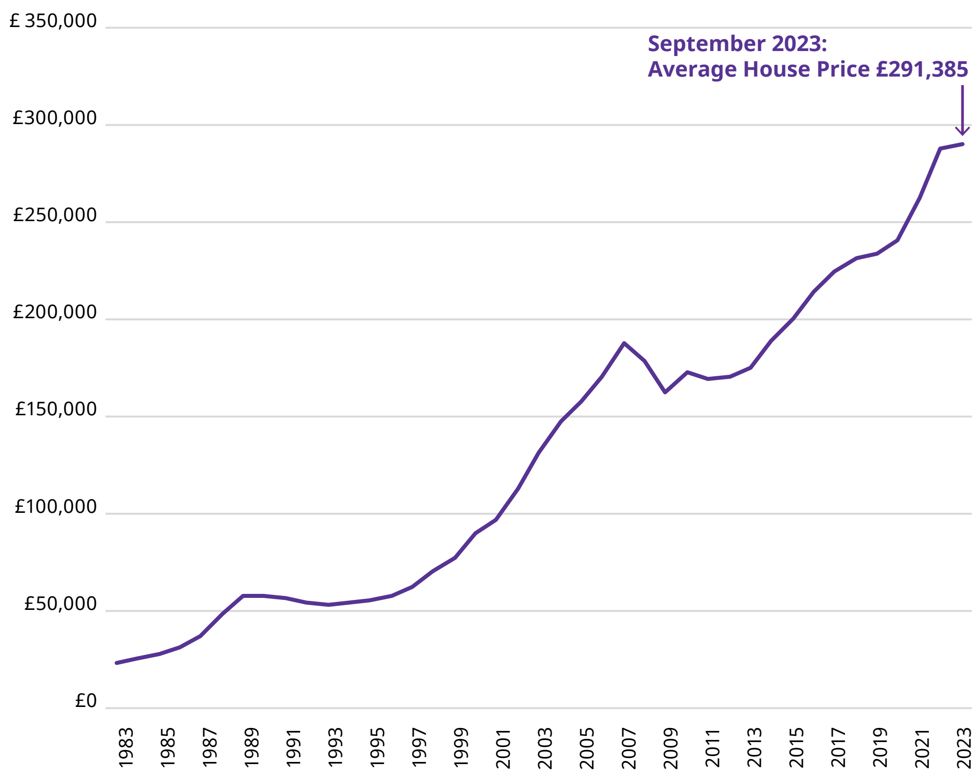
Richard Donnel, Executive Director at Zoopla, said there was signs of financial stress for tenants, particularly those on low incomes.

Rent: 'We've got £1,750 a month and can't find anywhere' - BBC News

Background and housing trends

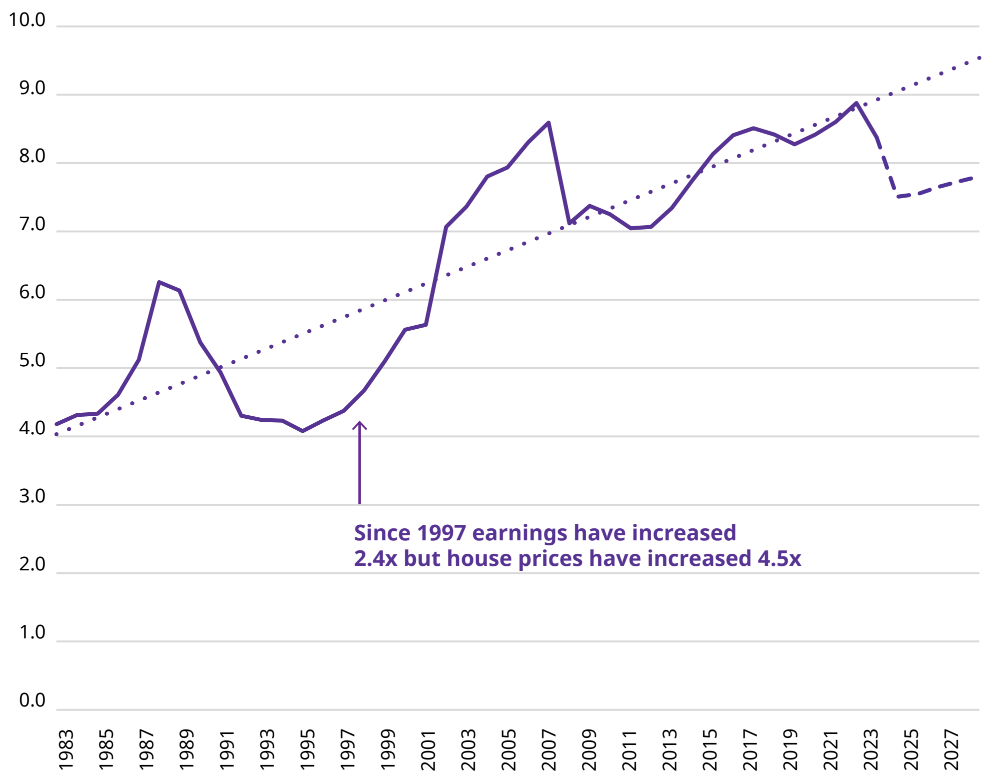
House prices have outpaced earnings

UK Average property price, 1983–2023



Source: GOV.UK.[2]
For further information on the use of forecasts, please view the important information section of this paper.

Average house prices/average earnings UK, 1983–2028



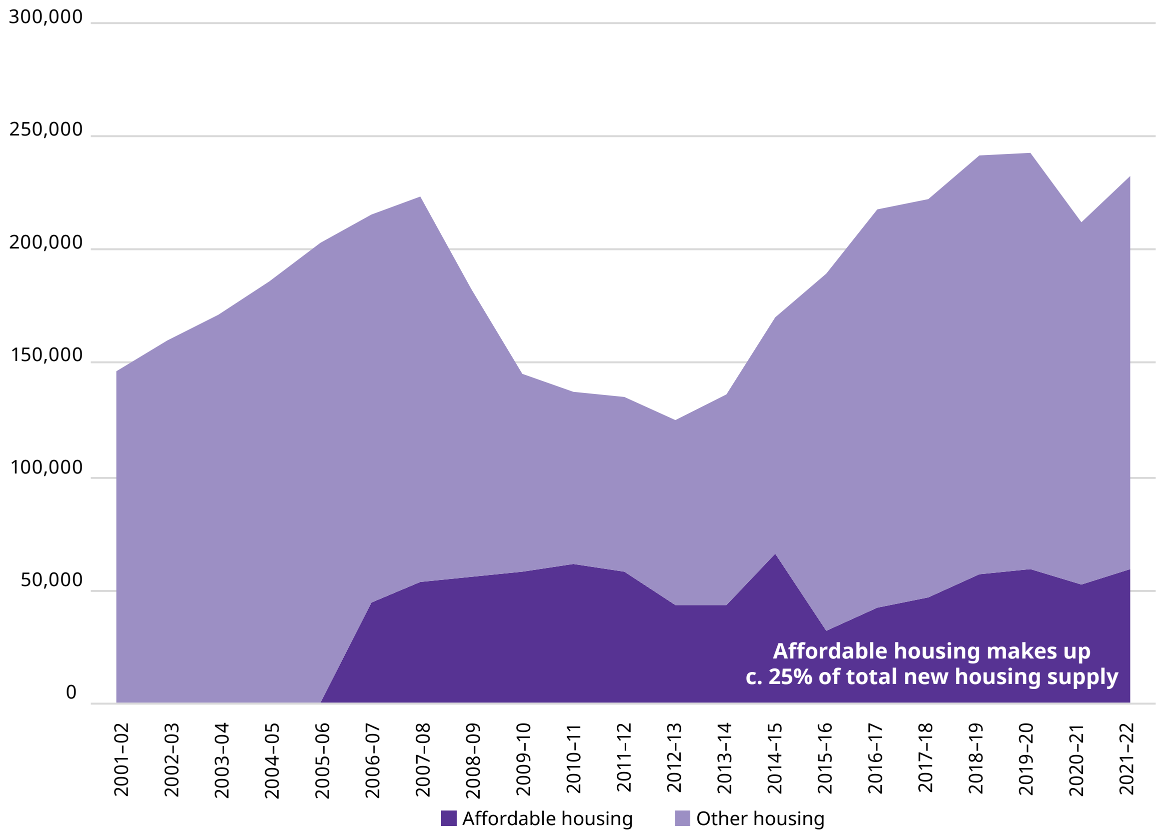
Source: ONS.[3,4]

Background and housing trends

Commentors tend to point to a lack of supply or interest rates

The Government is targeting 300,000 new homes by the mid 2020's – we have some way to go

England net additional dwellings by dwelling type, 2001–2022



Source: GOV.UK.[5]
Note: Affordable housing includes social rent, affordable rent and shared ownership dwellings.

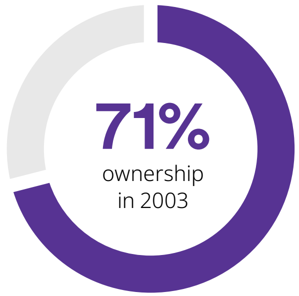
> It is widely argued that, along with changes in the mix of housing provision, long-term deficits in the supply of new housing have contributed to homes being unaffordable in many places, unsuitable in others, and, in some places, both.
>
> However, it is increasingly apparent that long-term increases in house prices have been largely driven by sensitivity to interest rates, and more specifically to the sustained, dramatic, and consistently unexpected, decline in real interest rates as measured by the yield on medium term index-linked gilts.

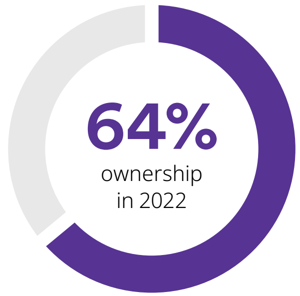
PPI – Renting in Retirement.[6]

Buying a house is becoming unaffordable

Pinch Point 1: Buying a house is becoming unaffordable

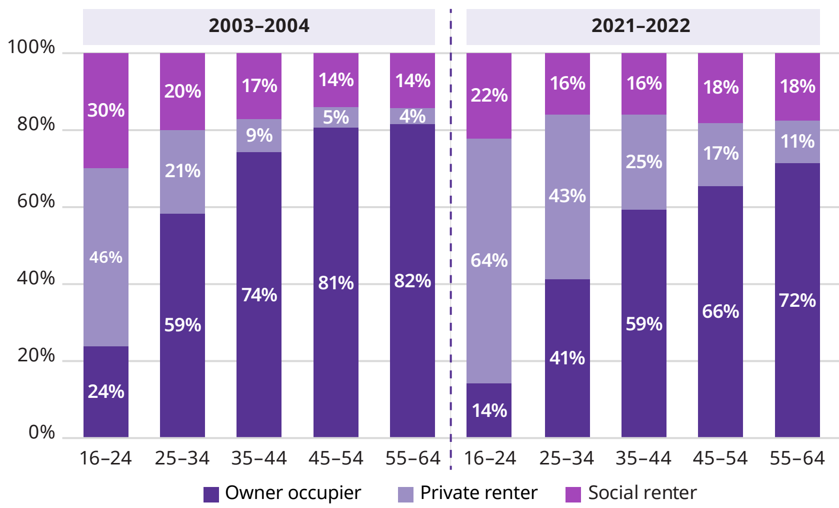
Over the last 20 years, homeownership has declined:





The decline in home ownership is concentrated amongst younger age groups

Housing tenure by age, by period

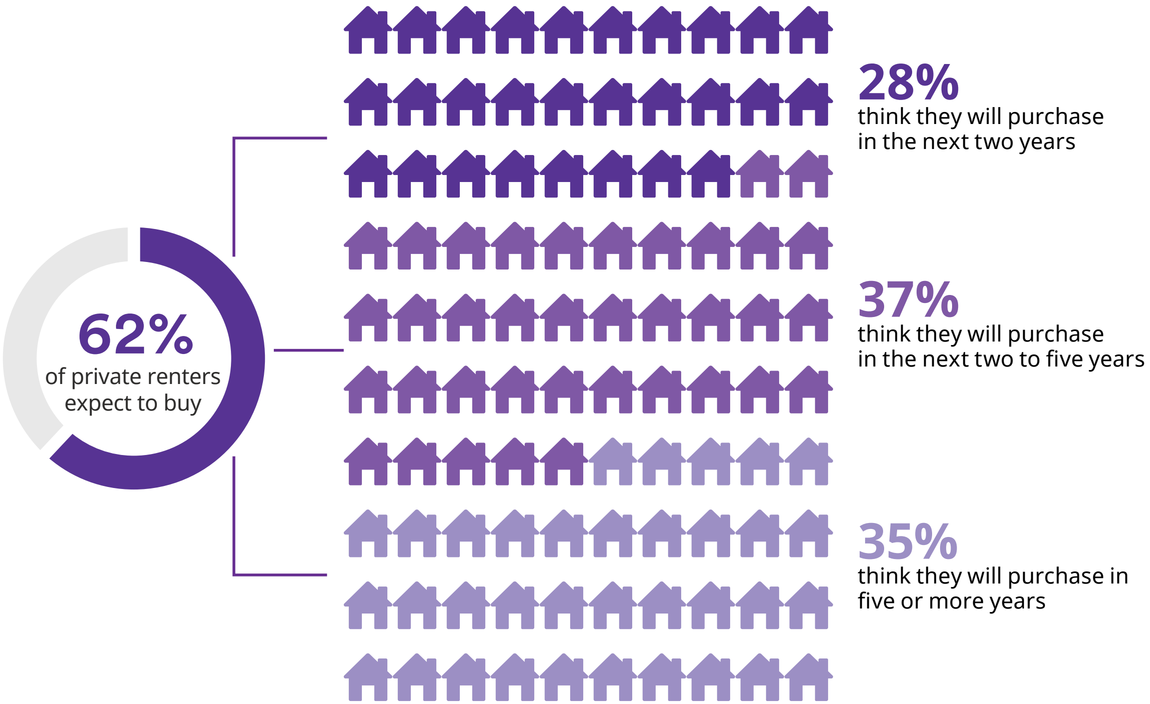


59% of households led by someone aged 25–34 were homeowners in 2003, this fell to **41%** in 2022.

Source: ONS.[1,2]

Buying a house is becoming unaffordable

The UK has strong aspirations for home ownership



Source: ONS.[1]

Buying a house is becoming unaffordable

The UK Government wants to "turn Generation Rent" into "Generation Buy":

And there have been a range of government schemes that aim to help more UK citizens become homeowners.

Lifetime ISA

The Government's Lifetime ISA helps first-time buyers save up for a deposit for a house. This scheme enables a saver to receive a maximum of £1,000 government bonus each year (up until £32,000) to put towards buying their first home.

First Homes

This scheme enables local first-time buyers to purchase a new home with a discount of at least 30% under market value. The discount is delivered through developer contributions and will be retained in perpetuity.

Help to Buy (Equity Loan)

From April 2021 first-time buyers could obtain an equity loan from the Government of up to 20% (or up to 40% in London) of the market value of an eligible new-build property (subject to regional maximum property price caps). The equity loan was interest free for the first five years. The buyer had to have a deposit worth at least 5% of the property's value and secure a mortgage for the remaining amount. The scheme ran to March 2023.

Help to Buy (Shared Ownership)

The scheme enables home buyers to buy a share of a property and pay a subsidised rent on the remaining share. Purchasers can buy additional shares in the property as and when they can afford to do so, until they achieve full ownership.

Purchase schemes for social housing tenants

Many social housing tenants have a statutory Right to Buy or Right to Acquire the home in which they live at a discount. The Government has committed to extend the Right to Buy to assured housing association tenants on a non-statutory basis. It is also introducing a new Right to Shared Ownership - eligible tenants in new housing association properties delivered with Government grant will have an automatic right to buy a minimum 10% share of their home, with the ability to buy further shares over time.

Mortgage Guarantee

From April 2021, the Government provides a guarantee to lenders who offer 95% mortgages to people with a deposit of 5% on properties with a value of up to £600,000.

Stamp duty land tax (SDLT)

Over the past few years the Government has announced several reforms to SDLT charged on the sale of residential property, designed, to differing degrees, to encourage home ownership, particularly for first time buyers.

Rent to Buy

Homes are let at an Intermediate Rent (which must not exceed 80% of the local market rent for an equivalent home) for a minimum of five years during which it is expected that tenants will save for the deposit to purchase their home.

Source: Parliament UK.[3]

Buying a house is becoming unaffordable

Buying a home is increasingly limited to the 'wealthy'

Average First Time Buyer (FTB) house prices have increased rapidly, outpacing inflation

	2012 All figures have been inflation adjusted for 2022 base year		2022
Avg. UK FTB House Price	£179,372	+29%	£231,917
Avg. FTB deposit (15% deposit)	£26,906	+29%	£34,787
Avg. FTB Deposit/Avg. Salary	80%	+29%	109%

Note: Nominal UK FTB house prices in 2012 were £141,572.
Total inflation over the period from 2012 to 2022 was 26.7%

In 2022, only households in the top 10% income bracket could afford an average priced home with fewer than 5 years of income

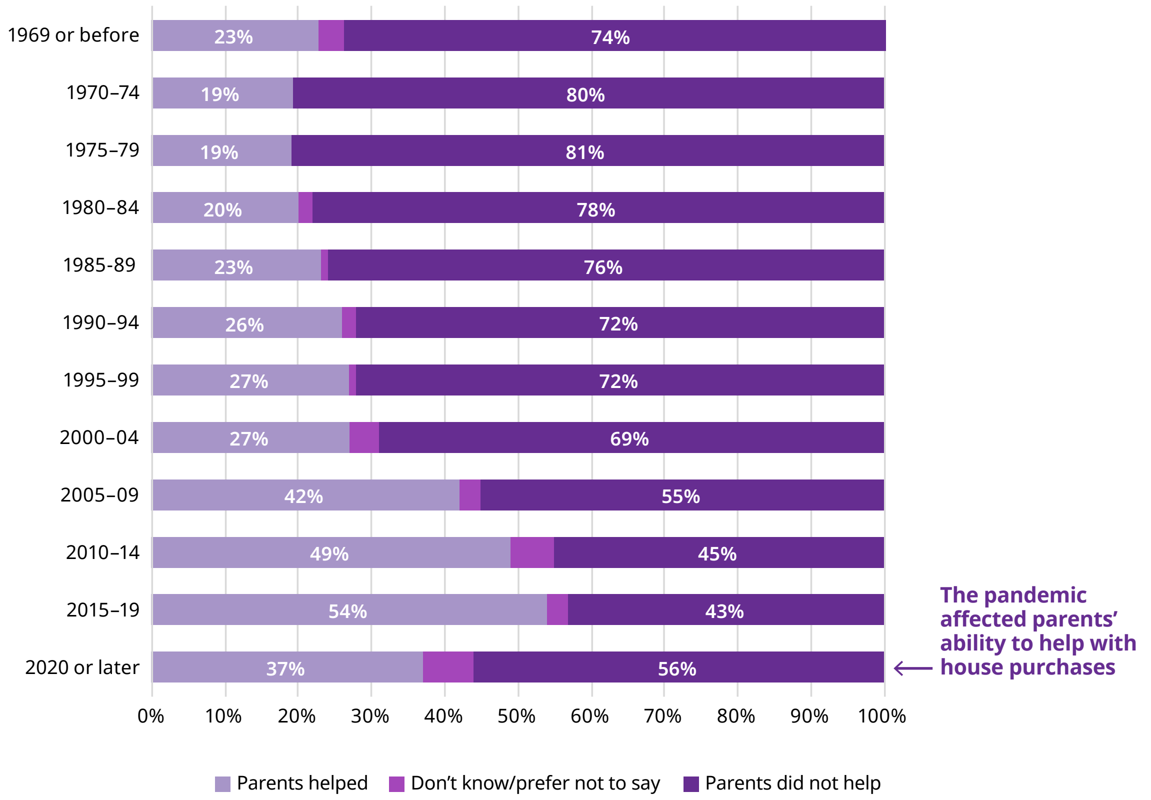
Source: ONS.[7]

Source: Financial Reporter[4], ONS,[5,6] Schroders Analysis.

Buying a house is becoming unaffordable

Or those that can rely on help (intergenerational wealth transfer)

% of people who received financial help from their parents, by year of house purchase



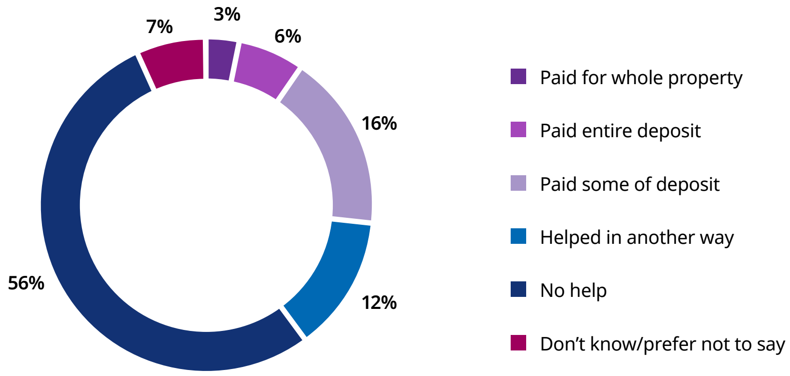
Source: YouGov.[8]

Children of wealthy parents
3x more likely
to own a home by 35

Children of wealthy parents
10x more housing wealth
vs. those from less wealthy backgrounds

Source: This is Money.[9]

Type of financial help received, 2020 or later



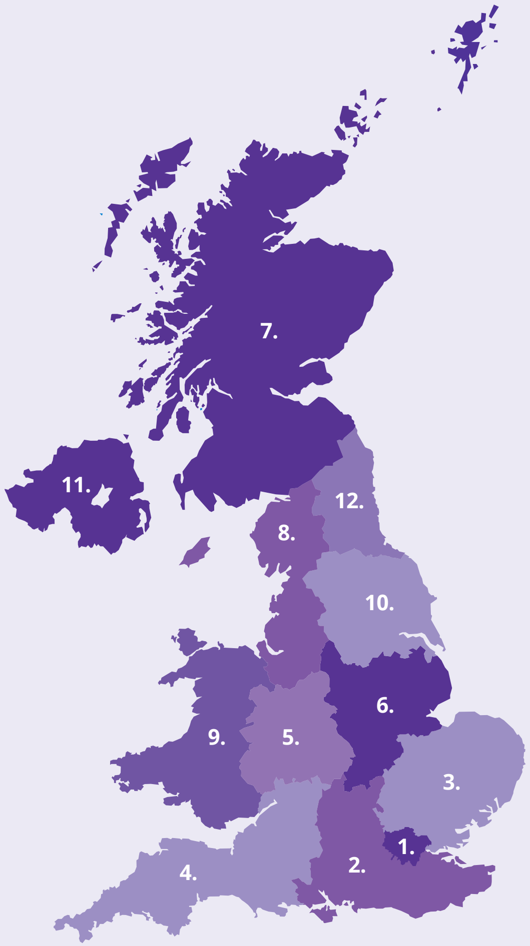
Source: YouGov.[8]

Buying a house is becoming unaffordable

There are strong regional differences

London takes top spot for unaffordable housing, while Northern Ireland and Northeast England are more affordable

Region	Avg. annual salary	Avg. 2022 deposit as % of house price	Avg. FTB house price	Avg. deposit estimate	Years to save 10% deposit
1. London	£36,749	24%	£444,000	£106,560	29 years
2. South East	£29,058	19%	£310,000	£58,900	20.3 years
3. East of England	£26,840	18%	£296,000	£53,280	19.9 years
4. South West	£26,381	20%	£248,000	£49,600	18.8 years
5. East Midlands	£25,837	18%	£203,000	£36,540	14.1 years
6. West Midlands	£26,708	18%	£108,000	£37,440	14 years
7. Scotland	£27,710	22%	£172,000	£37,840	13.7 years
8. North West	£26,277	18%	£188,000	£33,840	12.9 years
9. Wales	£25,988	18%	£182,000	£32,760	12.6 years
10. Yorkshire and the Humber	£25,000	18%	£174,000	£31,320	12.5 years
11. Northern Ireland	£25,293	19%	£150,000	£28,500	11.3 years
12. North East	£25,164	17%	£147,000	£24,990	9.9 years

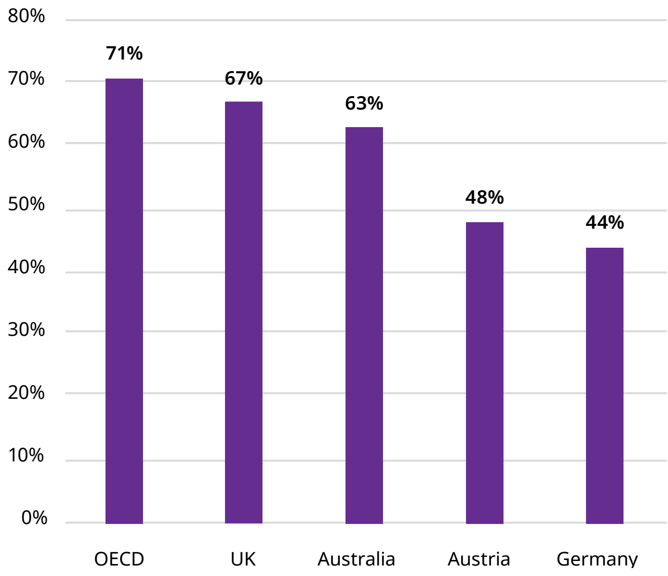


Source: Confused.com.[10]

Buying a house is becoming unaffordable

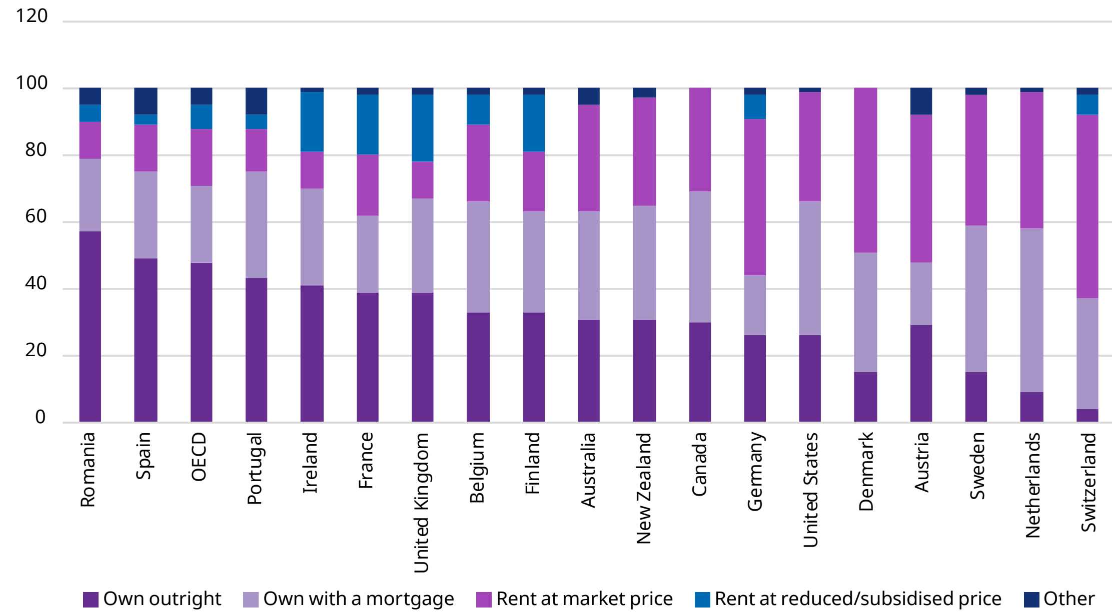
The UK has higher homeownership rates than its peers

Homeownerhsip Rates (%)



Source: OECD.[11]

Housing tenure breakdown across different countries



Source: OECD.[11]

Ongoing housing costs are a financial strain, especially for renters

Pinch Point 2: Ongoing housing costs are a financial strain, especially for renters

Housing costs make up a large proportion of disposable incomes

In 2022, for both renters and homeowners, housing costs were the largest weekly household expenditure item

Source: ONS.[1]

% of weekly income spent on rent or mortgage payments in England (2022)

Median private renters spend
26%
of their income
Source: ONS.[2]

Median home owners spend
28%
of their income
Source: Introducer Today.[3]

	2021		2022
Median monthly rent payment	£755	+9% →	£825 (highest ever recorded)
Median monthly mortgage payment	£781	+62% →	£1,262

Source: ONS.[4]

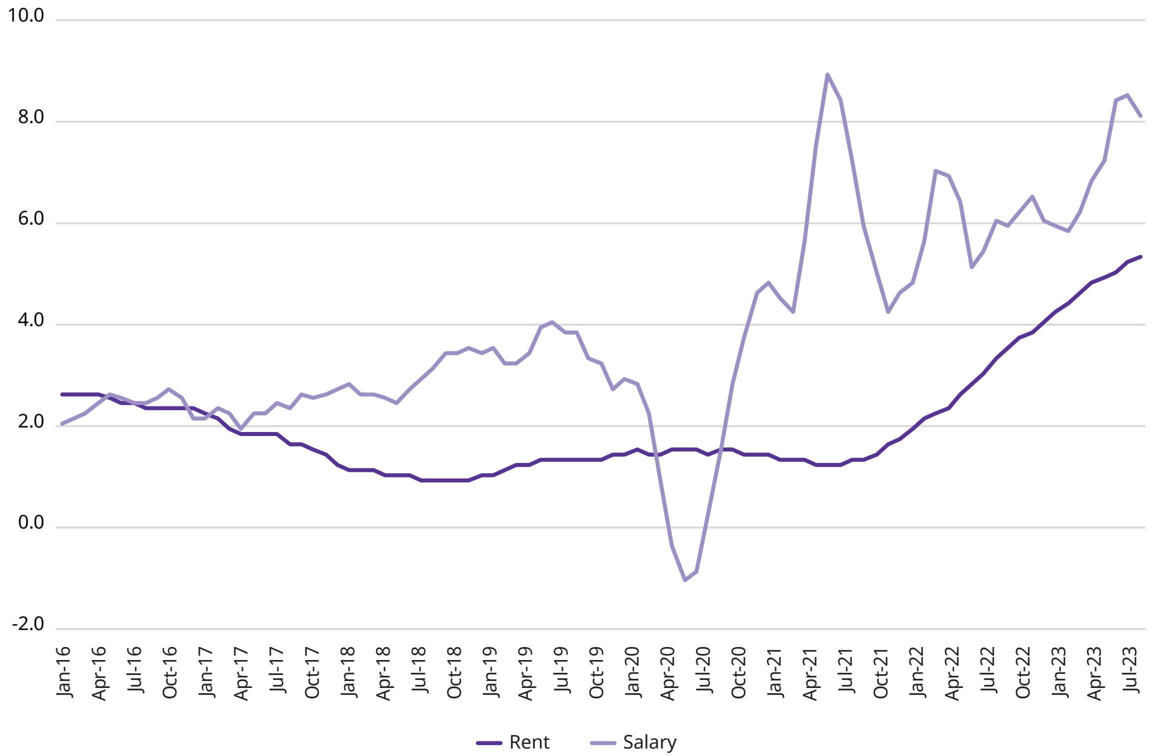
Source: ONS.[5]

**For average semi-detached home in the UK

Ongoing housing costs are a financial strain, especially for renters

Private rental prices have increased across the UK but have generally been outpaced by earnings

Annual % change in private rental prices and average weekly total pay



Source: ONS.[6,7]

As of March 2023, the median monthly rent price in England, by number of bedrooms are:

All categories:	£825pm
Room:	£460pm
Studio:	£625pm
1 Bedroom:	£725pm
2 Bedrooms:	£800pm
3 Bedrooms:	£900pm
4 or more Bedrooms:	£1,500pm

Source: ONS.[8]

Rental demand has sky-rocketed, sitting at 51% above the 5-year average

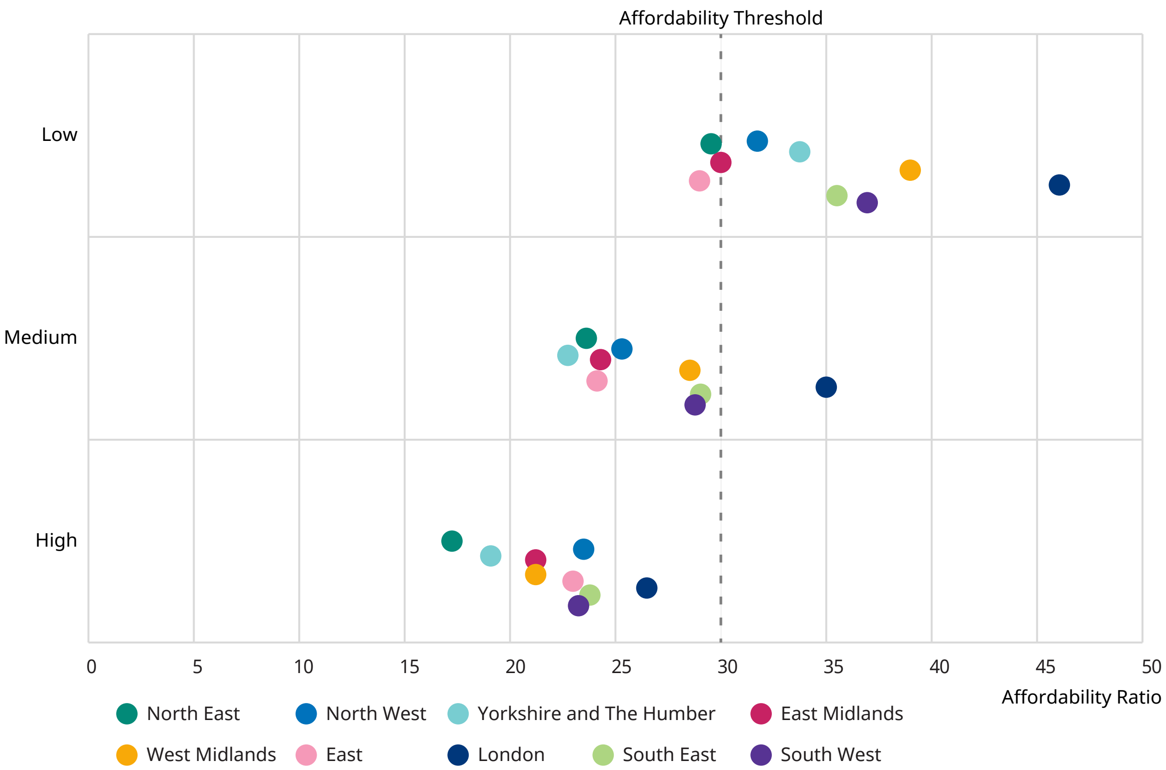
Source: Zoopla.[9]

Ongoing housing costs are a financial strain, especially for renters

Lower-income households and renters in London are worse off than the 'median' renter

Lower-priced rents in London are equivalent to 46% of the income of lower-income households

Ratios of low, median and high rents to low, median and high private rental incomes, by English region, financial year 2022



Source: ONS.[10]

Many experts deem a property affordable if a household would spend the equivalent of 30% or less of their income on rent or mortgage payments.

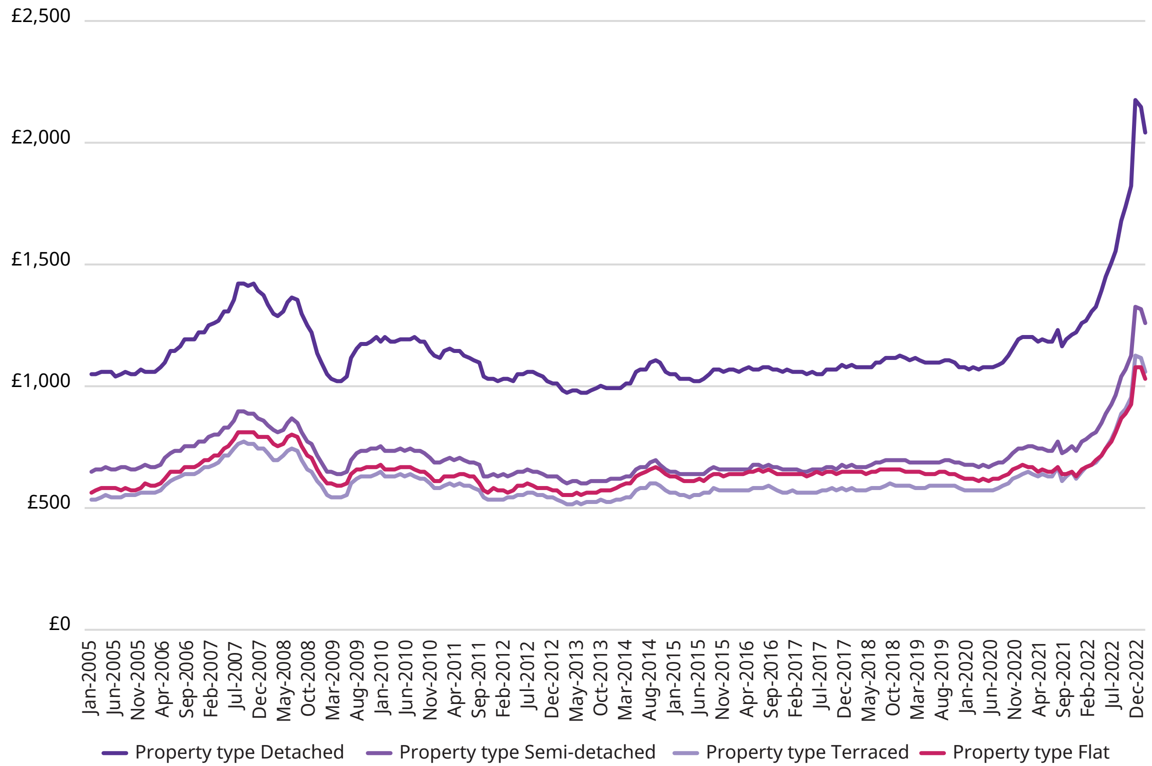
Source: Schroders.

Ongoing housing costs are a financial strain, especially for renters

Mortgage payments were relatively constant until 2021

The monthly mortgage repayment costs for an average semi-detached house increased by 61% between December 2021 and 2022

Indicative monthly mortgage payment (£ nominal) for average priced properties in the UK assuming average 5-year fixed mortgage offer over 25 years at a 75% loan-to-value



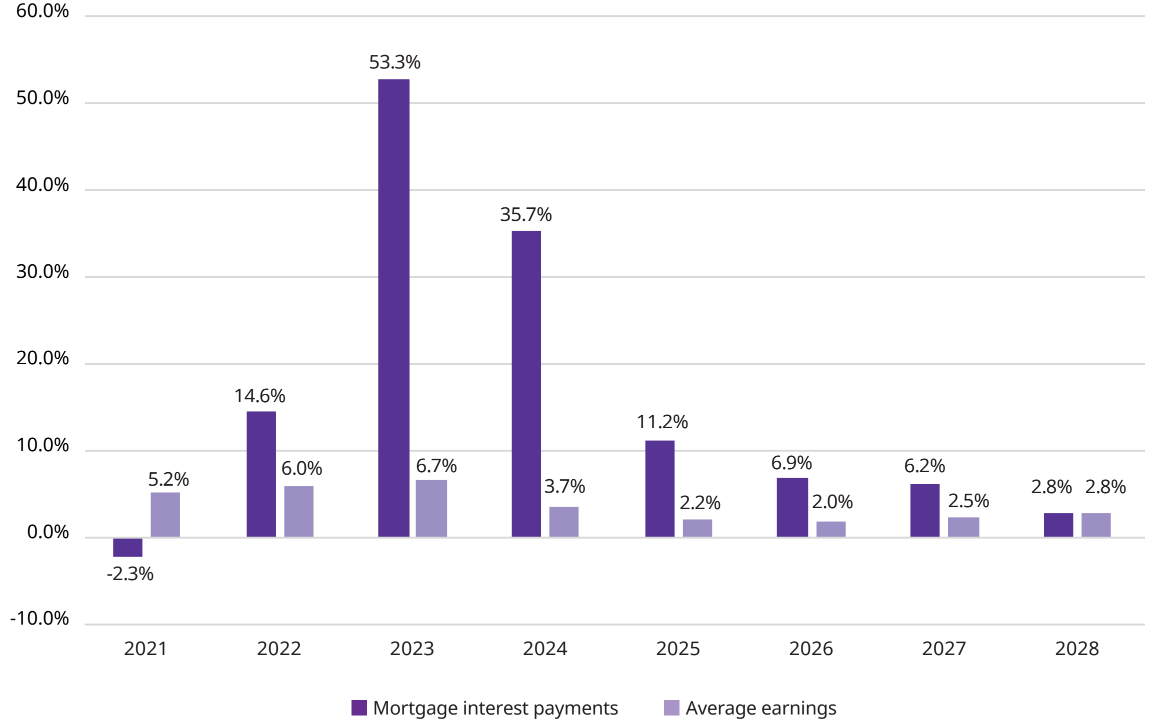
Source: ONS.[11]

Ongoing housing costs are a financial strain, especially for renters

With the expiration of fixed rate deals, mortgage costs will continue to rise

Future mortgage payments are expected to rise faster than wages

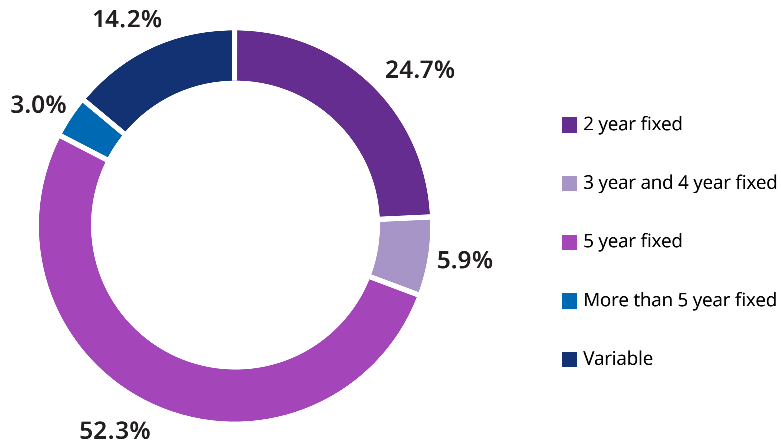
Annual % change in earnings and mortgage interest payments, 2021–2028



Source: Schroders Analysis.
For further information on the use of forecasts, please view the important information section of this paper.

As of 2022, 86% of mortgages were on a fixed rate term, the majority of which were 5-year fixed term mortgages

Total distribution of outstanding mortgages held by UK Monetary Financial Institutions, by type and period of initial interest rate (2016 to 2022)



Source: ONS.[12]

17%
of fixed rate mortgages are due for renewal between Oct '23 and Oct '24.

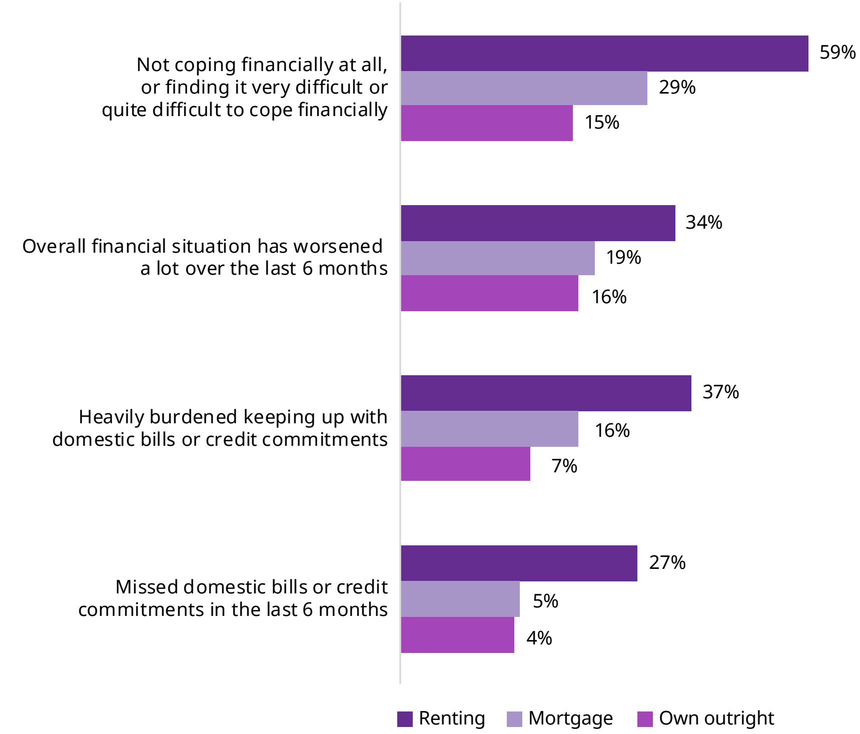
90%
of which will see **their interest rate** increase by 3-fold.

Source: BofE.[13]

Ongoing housing costs are a financial strain, especially for renters

Renters are more likely to be struggling financially

% of adults who are struggling financially, by housing tenure, Jan 2023



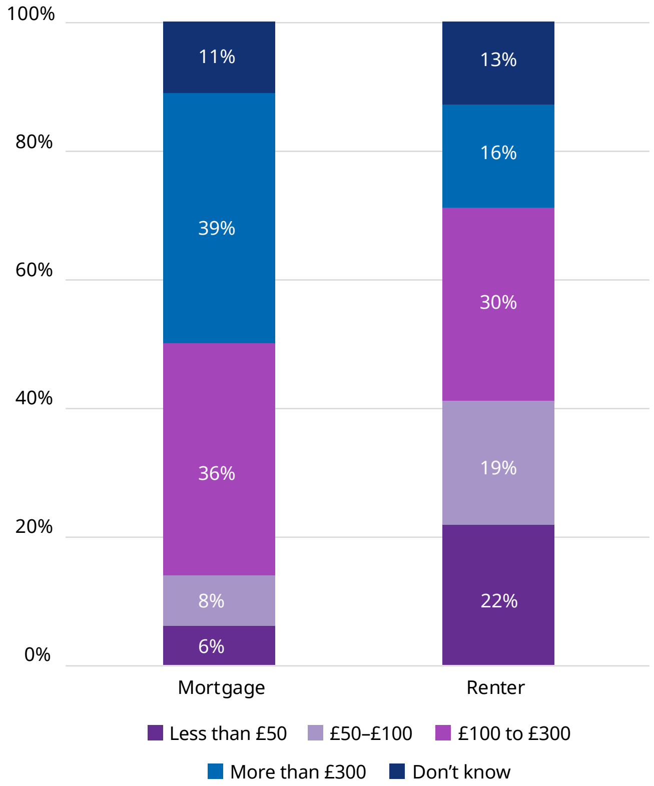
Source: FCA FLS.[14]

Ongoing housing costs are a financial strain, especially for renters

Renters are also less financially resilient

41% of renters would struggle to pay their rent if it increased by £100

How much can your current housing payments increase before you would struggle to pay them?



Source: FCA FLS.[15]

If we look at the relationship between housing tenure and problem debt, we see that of those in problem debt:

6%
are outright owners

vs.

28% are mortgagors and

66% are renters

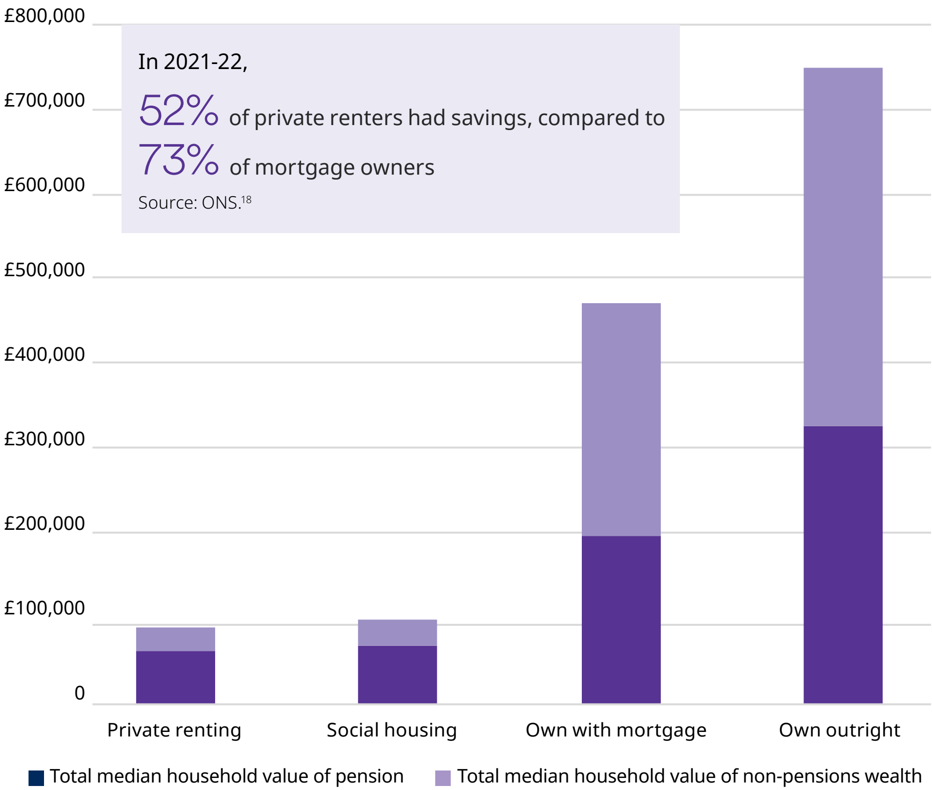
Source: ONS.[16]

Housing: Ongoing housing costs are a financial strain, especially for renters

There is a stark divide for savings & investing: owner vs renter

Couples who own their home outright have over seven times more household wealth than those still privately renting

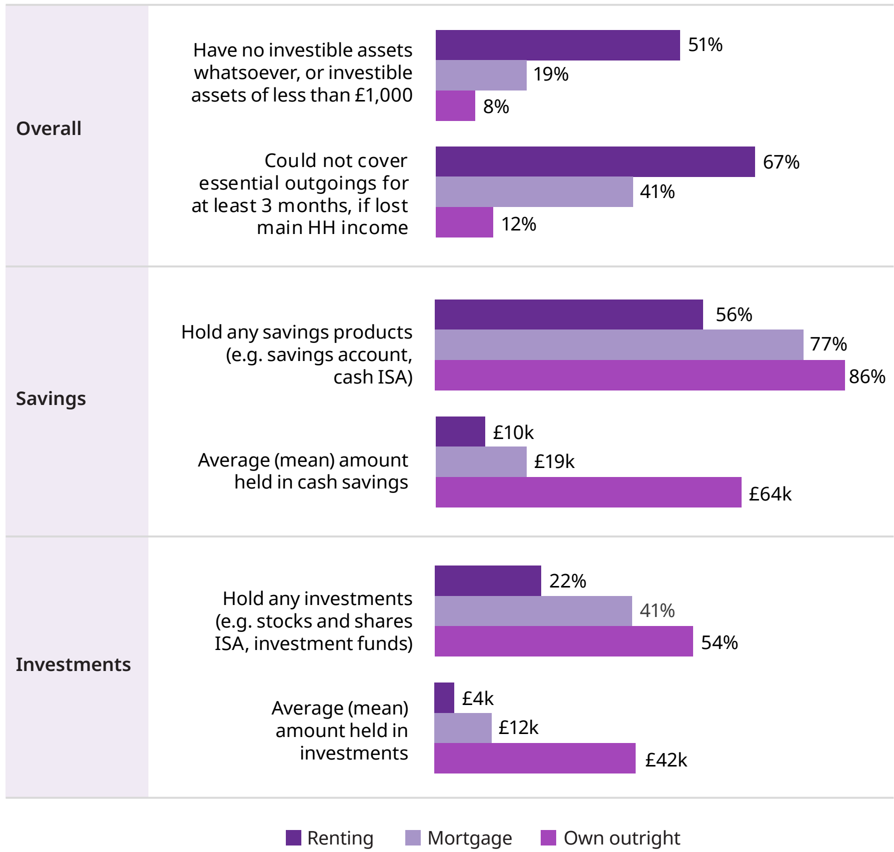
Total value of pension and non-pension wealth among coupled households aged 45-64 in the UK, 2020–21



Source: PPI.[17]

51% of renters had investible assets of less than £1k and 67% did not have enough savings set aside to cover 3 months' worth of essential outgoings

% of adults who are struggling financially, by housing tenure, Jan 2023

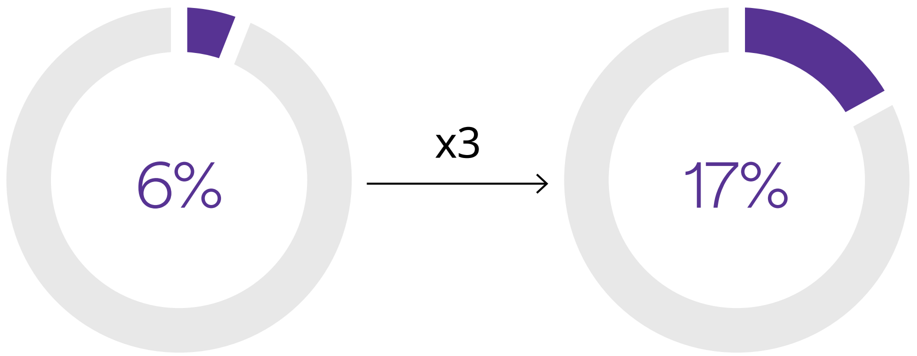


Source: FCA FLS.[19]

Greater retirement income needs for renters

Pinch Point 3: Greater retirement income needs for renters
The PPI projects a significant rise in the number of "retirement renters"

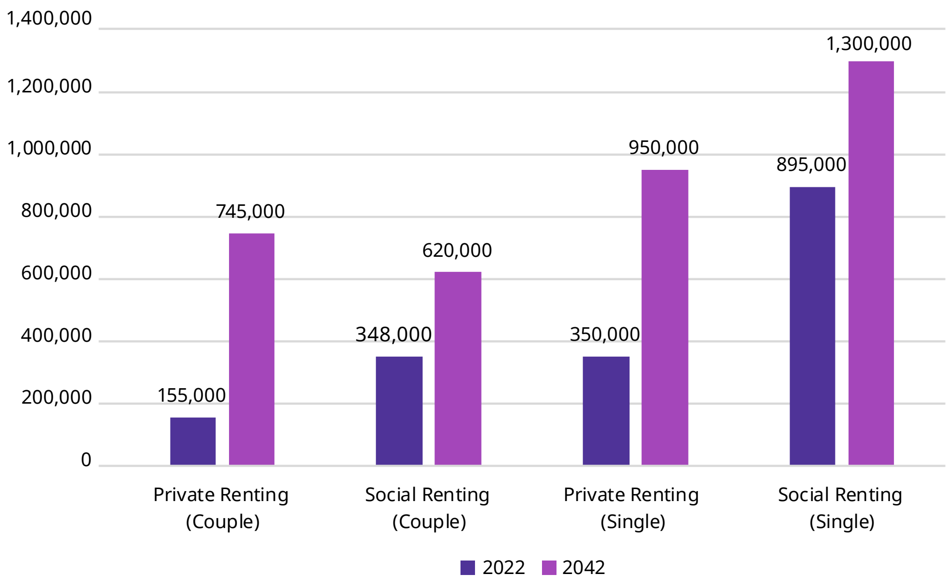
The proportion of privately renting households in retirement is projected to increase almost 3-fold over the next 20 years



Source: PPI.[17]

The number of households renting in retirement is projected to increase from 1.7 million to 3.6 million within the next 20 years

The number of single and couple pensioner households in the social and private rented sectors in 2022 versus the projected number in 2042



For further information on our use of forecasts, please see the important information section.

Source: PPI.[17]

Greater retirement income needs for renters

Renters will need sizable savings pots to cover the cost of renting in retirement

2023
£180,000
Total rental cost over retirement in England

2043
£187,000
Projected total rental cost over retirement in England

Note: Based on cost of renting 1 bedroom flat in England and in London in 2023, uprated for inflation (earnings at 3.80%). Total cost based on average life expectancy figures, investment growth 5.3%. The PPI presents figures in earnings terms, so the rental payments are discounted in line with assumed earnings growth.

400,000 more households
could become dependent upon income-related pensioner benefits

Rates of
relative and absolute poverty
among pensioners could
increase by 2%

An additional
170,000 households
outside London could be precluded from meeting minimum living standard targets in retirement

Source: PPI.[17]
For further information on our use of forecasts, please see the important information section.

Greater retirement income needs for renters

Greater income need for renters in retirement

To achieve a PLSA 'moderate' standard of living at retirement assuming **homeownership** at retirement:

Pension pot £209,900 → **Monthly savings** £217 OR **Pension contribution** 13%

To achieve a PLSA 'moderate' standard of living at retirement assuming **private renting** during retirement:

Pension pot £406,500 → **Monthly savings** £404 OR **Pension contribution** 22%

The median 22-year-old needs to save an additional

c.9% p.a.

in pension contributions over their working life if they plan to rent in retirement (vs a homeowner)

Source: ONS[7], Schroders Analysis.
Notes: Calculations assume the individual is single during retirement.

Renting costs during retirement are from PPI calculations and equate to £180,382.

Calculations assume individual starts saving at 22 and retires at 66- 2.5% interest earned on cash savings and pension contributions follow a de-risk throughout their life.

Calculations assume median salary at each age according to UK median salary 2022 figures.

Long-Term Savings

The success of long-term savings can be broken down into the Savings Decision and the Allocation Decision.

Savings Decision: do individuals save enough (once they have achieved a degree of financial resilience) to achieve their future spending needs?

Allocation Decision: given a set level of saving, do individuals get the most out of their savings?

Background and trends in long-term savings

Pinch Point 1:
People are struggling to navigate the current system

The UK has a financial literacy problem; in 2022, 38% of adults rated themselves as having low knowledge with respect to financial matters. This is having an impact on people's financial situation; adults with low financial literacy are less likely to contribute to pension pot, have lower savings rates and are more likely to have less than £1,000 in savings.

A complex and fragmented lifetime savings system compounds these issues. There are over 10 different open tax-advantaged savings & investment wrappers available to the typical saver; it is therefore not surprising that 50% of British people agree that the different versions of ISAs make them too complicated.

One way of cutting through this complexity is by accessing advice, however, take up of both free and paid advice is generally low; just 11% of British adults took paid advice in the last 2 years. Trust, awareness and confidence are all key barriers that need to be overcome.

Pinch Point 2:
People are not getting the most out of their savings

The UK loves cash savings; so much so that total household cash savings in the UK is equivalent to the market cap of the FTSE 100.

Unfortunately, many savers fail to take advantage of the interest offered by leading cash products in the market; 34% of savers keep most of their cash in a current account, even though most current accounts earn no interest.

Whilst interest rates have made cash more attractive, it seems as if savers are overly reliant on cash; a whopping 57% of adults with over £10,000 of investible assets hold greater than 75% of these assets in cash. Interestingly, this number falls to 45% for adults who have received some form of advice or guidance.

At the same time, we have also observed an uptick in the take up of High Risk Investments (HRI), such as crypto currency. Worryingly, 1 in 3 adults with HRI said their current or future lifestyle and wellbeing would be impacted if they experienced a significant loss.

Pinch Point 3:
People do not accumulate enough for a moderate retirement

Pensions are the bedrock of retirement income, with state and private pensions accounting for over 70% of household income for people past retirement age.

However, there are growing concerns that people are not saving enough through our pension system. According to modelling conducted by The Peoples Pension, only 3% of median income, millennial households are predicted to reach PLSA “moderate” retirement standards.

Re-evaluating AE rates is clearly an important topic, but it is by no means the only barrier to helping people build towards a more sustainable level of long-term savings.

The data on this slide (and accompanying sources) can be found throughout this section on ‘Long Term Savings’. For further information on the use of forecasts, please view the important information section of this paper.

Background and trends in long-term savings

The stories of real people

Minimum AE Saver

Occupation: Shop assistant
Age: 24
Tenure: Private renter
Financial capability: Low

Maisie's story

Maisie started a new retail job at 22 and joined a pension for the first time. She had heard from her parents that it was important to save for retirement, so she was glad that her employer had sorted it all out for her. She didn't know very much about pensions and didn't pay it much attention.

In a research interview, she was shown the PLSA's Retirement Living Standard and was surprised to see the amount of money needed for a comfortable retirement. She did not know if she was on track for this, but when shown the rates she knew that she was paying the minimum, and so was her employer.

She was very disappointed to find out that this probably was not enough, and wondered why this was not being more widely advertised so people could do something about it.

"I had always thought that by making the minimum contribution to my pension I would be able to retire comfortably and it seems that this is actually not the case. So, I think the Government need to tell people this."

Inefficient allocation

Occupation: Self employed photographer
Age: 45
Tenure: Owned with mortgage
Financial capability: Medium

Helen's story

Helen is a single parent and therefore makes all the financial decisions in her household. Work is going well, she feels financially comfortable. She has been saving regularly over a number of years and has a savings account, premium bonds, and some cash ISAs. In total, she has £35k in savings. She has no investment products and has never been to see a financial adviser.

She is very wary of investing her money as she doesn't really know where to start and is afraid of losing some of her capital. She thinks of herself as very risk averse.

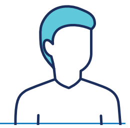
"I'm quite good at managing it as I'm not frivolous and I'm good at saving. But then once I've saved, I'm not quite sure what to do with it. I don't want to pay anybody because I don't trust them and because it's not a huge amount of savings that I have got to invest. So I'm not quite sure what to do.

I've got £20,000 in an ISA, and I've got £15,000 in the bank which has been sitting there. I keep meaning to do something about it, it's in my current account, which is crazy. But I get disheartened because the interest rates are so low.

I'd be willing to take more risks if I was guaranteed return of what I put in but maybe not make any money, but if I was going to lose then definitely not."

Excessive risk

Occupation: Apprentice
Age: 20
Tenure: Private renter
Financial capability: Medium



Eric's story

Eric is 20 years old. He is working as a graduate apprentice and lives with a friend in rented accommodation. He describes himself as a cautious investor.

He started investing in cryptocurrency a year or so ago, after seeing adverts on social media and discussing it with some of his friends in the pub. He thought it looked exciting and that it was his only possibility of making enough money to save a deposit for a house. He decided to invest in some lesser-known cryptocurrencies, because he felt that he had a better chance of making money than if he invested in a more established currency, like Bitcoin.

He only invested very small amounts so far, so if he lost all his money, it would not have had a material impact on his financial wellbeing. He enjoys the thrill of watching his money grow. It feels very different from looking at his savings account which is earning practically nothing. He didn't mind too much if his coins went down as it is all a learning experience.

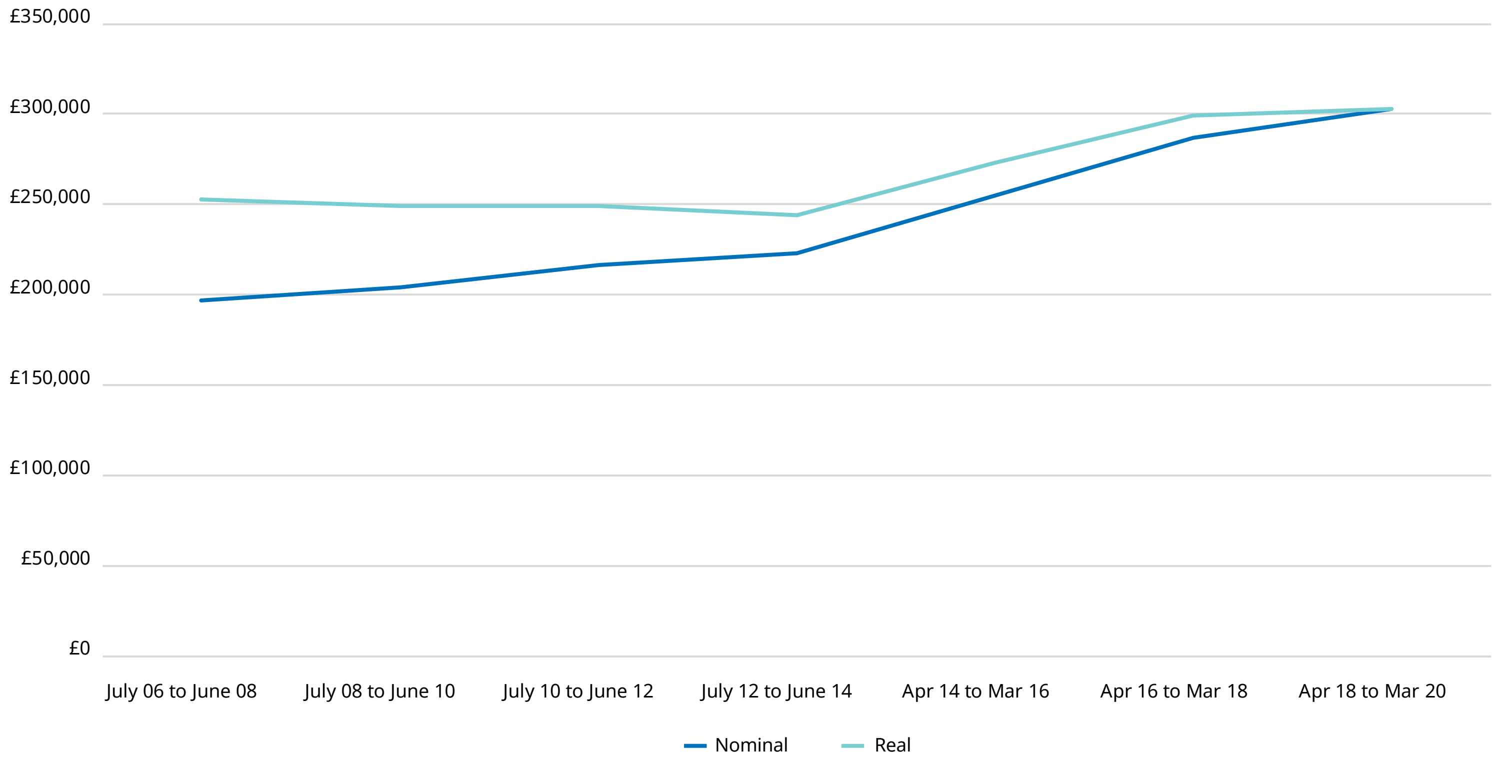
"My money in my savings account doesn't go up by more than a couple quid in interest a month, whereas crypto could flip overnight into something way bigger."

Source: FCA FLS and Ignition House analysis.[1]

Background and trends in long-term savings

Median real household wealth has grown by 20% over the past 14 years

Median total household wealth in nominal and real terms, Great Britain, July 2006 to March 2020



Source: ONS WAS.[2]

Note: household wealth includes net property wealth, physical wealth, private pension wealth and net financial wealth.

Background and trends in long-term savings

But this growth has been concentrated in the south

1. London

£340,300
Median Household Wealth in 2020

63% ↑
Percentage change since 2006

2. South East

£503,400
Median Household Wealth in 2020

43% ↑
Percentage change since 2006

3. East of England

£398,900
Median Household Wealth in 2020

33% ↑
Percentage change since 2006

4. South West

£379,900
Median Household Wealth in 2020

15% ↑
Percentage change since 2006

5. West Midlands

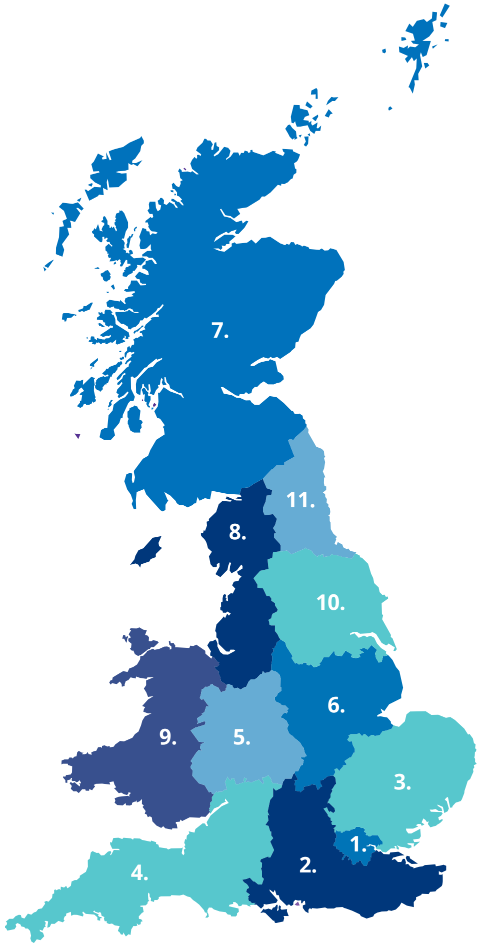
£262,400
Median Household Wealth in 2020

10% ↑
Percentage change since 2006

6. East Midlands

£262,800
Median Household Wealth in 2020

-1% ↓
Percentage change since 2006



7. Scotland

£214,000
Median Household Wealth in 2020

11% ↑
Percentage change since 2006

8. North West

£237,500
Median Household Wealth in 2020

14% ↑
Percentage change since 2006

9. Wales

£275,700
Median Household Wealth in 2020

8% ↑
Percentage change since 2006

10. Yorkshire and the Humber

£214,900
Median Household Wealth in 2020

2% ↑
Percentage change since 2006

11. North East

£168,500
Median Household Wealth in 2020

-17% ↓
Percentage change since 2006

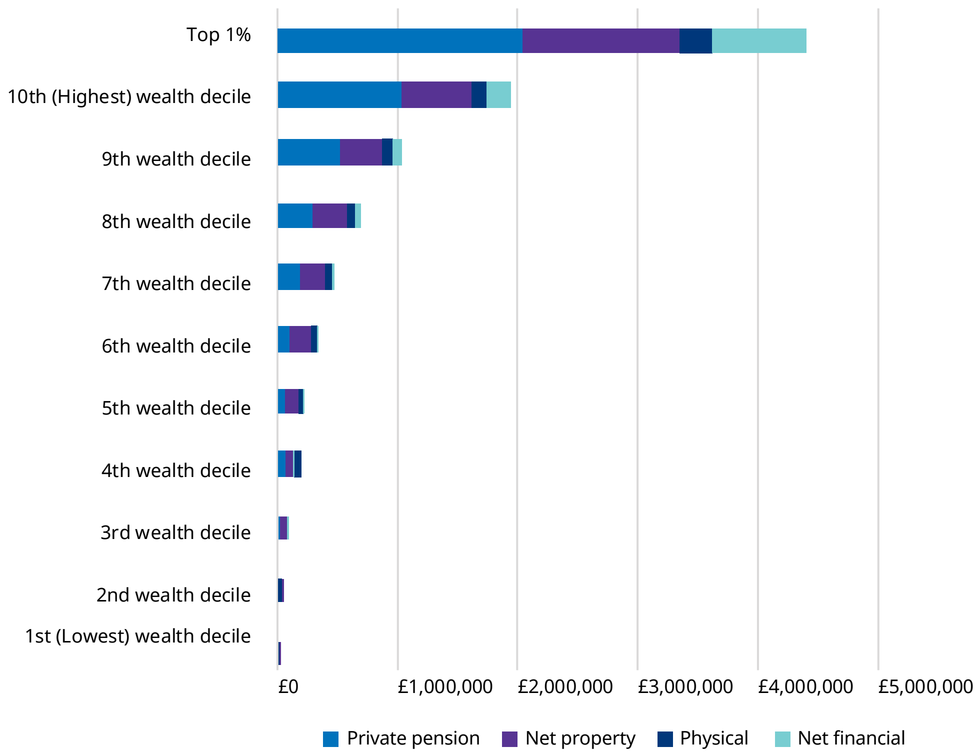
Source: ONS WAS.[2]

Background and trends in long-term savings

Wealth is more unequally distributed than income

The top 1% have median wealth of £4.4 million

Median wealth components by household total wealth decile, April 2018 to March 2020

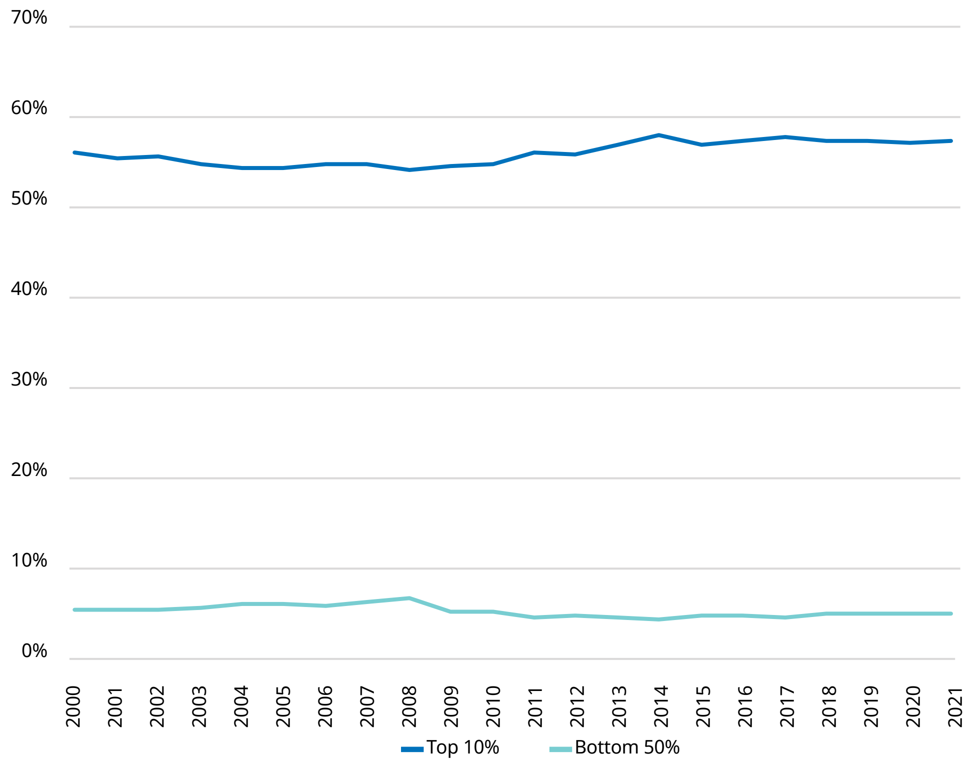


Source: ONS WAS.[2]

Wealth inequality has remained stable for the past 20 years

The bottom 50% hold 5% of aggregate household wealth

Share of aggregate household wealth in the UK, 2000-2021

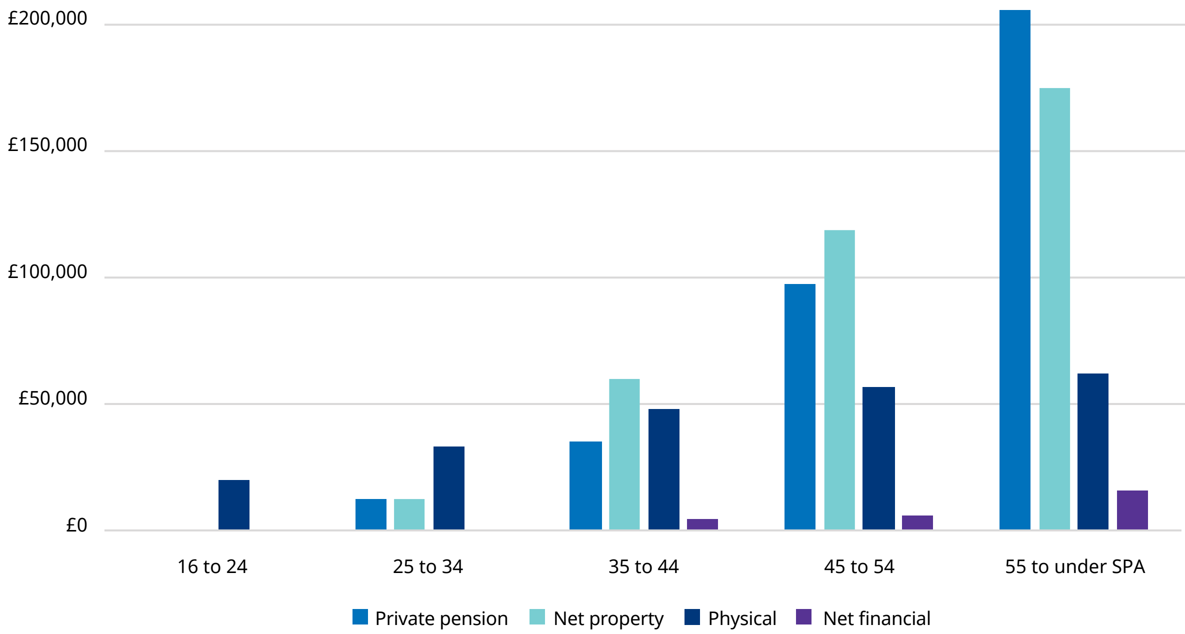


Source: World Inequality Report.[3]

Background and trends in long-term savings

Pension and housing are the dominant components of household wealth

Median total household wealth and components, by age of household reference person, April 2018 to March 2020



Source: ONS WAS.[2]

> On average since 1980, the UK has had the lowest aggregate saving rate in the G7 in four out of every five years.

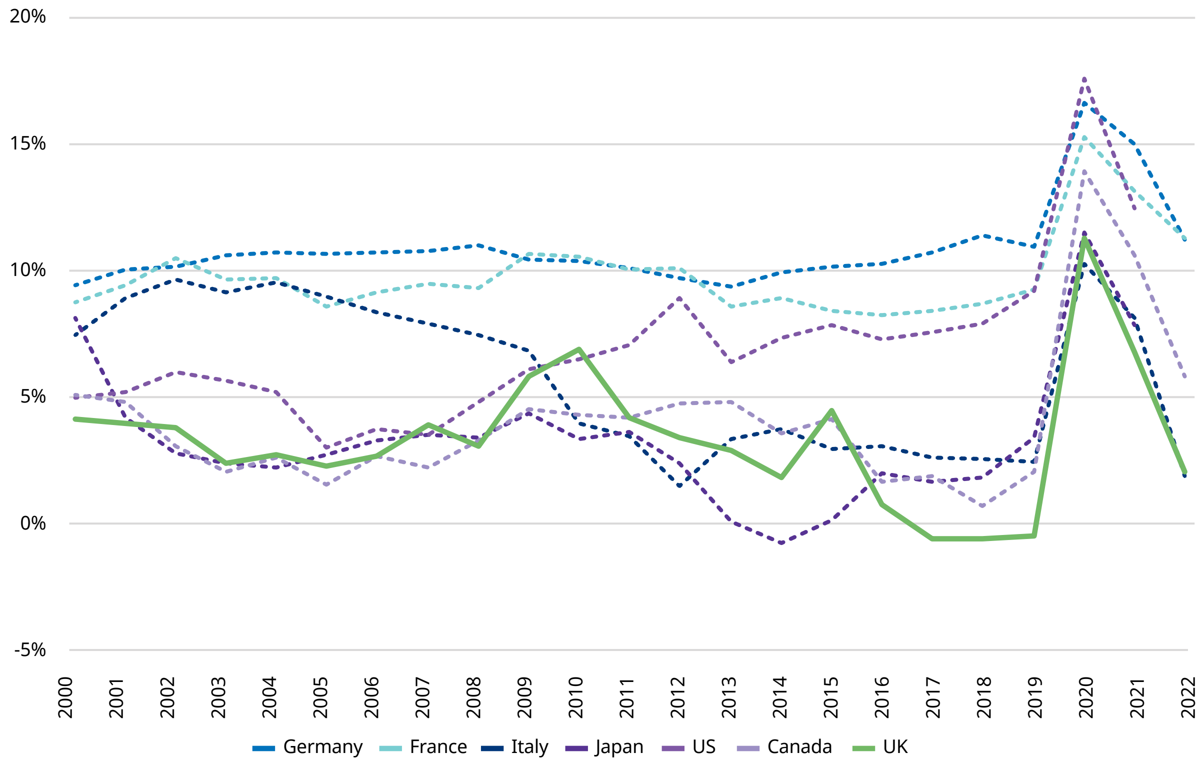
Source: Resolution Foundation analysis of OECD data.[5]

Background and trends in long-term savings

How do we compare to other nations?

The UK savings ratio has consistently lagged behind our G7 peers

Household Savings Rates (% household disposable income) over time



Source: OECD.[4]

People are struggling to navigate the current system

Pinch Point 1: People are struggling to navigate the current system

The UK has a financial literacy problem

The FCA Financial Lives Survey (2022) found that:

12.8m (24%) with **low confidence** in their ability to manage money.

10.0m (19%) rated themselves as **'not confident & savvy'** when it comes to financial services and products.

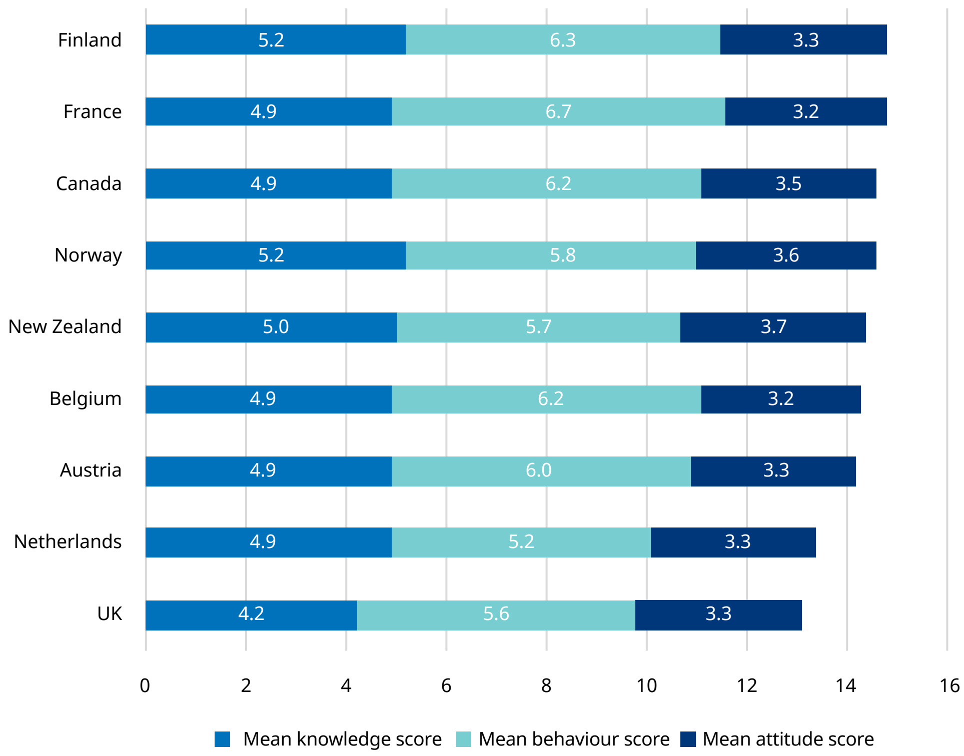
20.3m (38%) rated themselves as having **low knowledge** with respect to financial matters.

18.2m (34%) had poor or **low levels of numeracy** involving financial concepts.

Source: FCA FLS.[1]

The UK is ranked 15th out of 29 OECD countries in terms of adult financial literacy competencies

Financial knowledge, attitudes and behaviour of the UK and selected peers



Source: OECD.[2]

People are struggling to navigate the current system

Young people scored the lowest in terms of Financial Literacy

A more recent study (July 2023) by Wealthify and The Centre for Economics and Business Research (CEBR), found that **73% of the country fall below new Financial Literacy Benchmark**.

On average, every age group failed to meet the financial literacy benchmark of 6.5

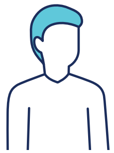
Average score by age group (out of 10)

Age group	Average number of correct responses
Under 18	2.3
18–25	3.5
26–30	4.1
31–40	4.5
41–50	5.7
51–60	5.6
61–70	6.1
71–80	6.2
Over 80	5.3

Only 46% of 16–18-year olds were able to correctly answer questions about the impact of inflation on savings

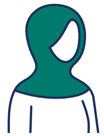
Source: Wealthify and CEBR.[3]

Is the lack of financial education a key problem?

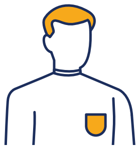


61%
of young adults do not recall receiving financial education at school

VS



29%
of young adults can recall receiving financial education at school



78%
of teachers surveyed stated that financial education lessons are being delivered in schools

Source: Moneymarketing.[4]

People are struggling to navigate the current system

Financial literacy seems to be correlated with good savings and investment behaviours

Contributing to a pension pot

7 in 10
respondents in the **TOP quartile** for financial understanding were making contributions to a pension pot

VS

4 in 10
respondents in the **BOTTOM quartile** for financial understanding were making contributions to a pension pot

Source: IFA Magazine.[5]

Savings rate

13%
savings rate for respondents in the **TOP quartile** for financial understanding

VS

8%
savings rate for respondents in the **BOTTOM quartile** for financial understanding

Source: IFA Magazine.[5]

Adults with at least £1k in savings

76%
of **ALL** UK adults have at least £1k in savings

VS

51%
of UK adults with **LOW financial literacy** have at least £1k in savings

Source: FCA FLS (rebased to exclude DK and PNTS).[6]

People are struggling to navigate the current system

A complex and fragmented lifetime savings system compounds these issues

10 different types of open **tax-advantaged savings & investment wrappers** available to the everyday person.*

Saving	Cash ISA	Junior Cash ISA	Lifetime ISA	Help-to-Save	Premium Bonds
Investing	Stocks & Shares ISA	Junior Stocks & Shares ISA	Lifetime ISA	Innovative Finance ISA	
Pension	Workplace DC	Self-Invested Personal Pensions (SIPPs)	Lifetime ISA		

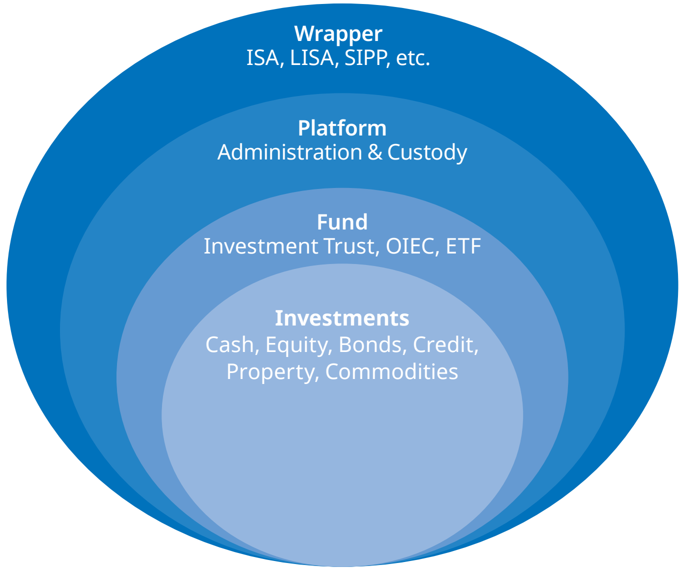
Moneyfacts found 1,771 savings accounts (FSCS protected), 1,247 non-ISA and 524 cash ISA products

Source: Moneyfacts.[7]

AJ Bell offers 19,000+ shares, 2,100+ funds, 3,400+ ETFs, and 400+ investment trusts, with 194 different global equity ETFs

Source: AJ Bell.[8]

Self-Investing requires several layers of choice:



Source: Schroders. For illustrative purposes only.

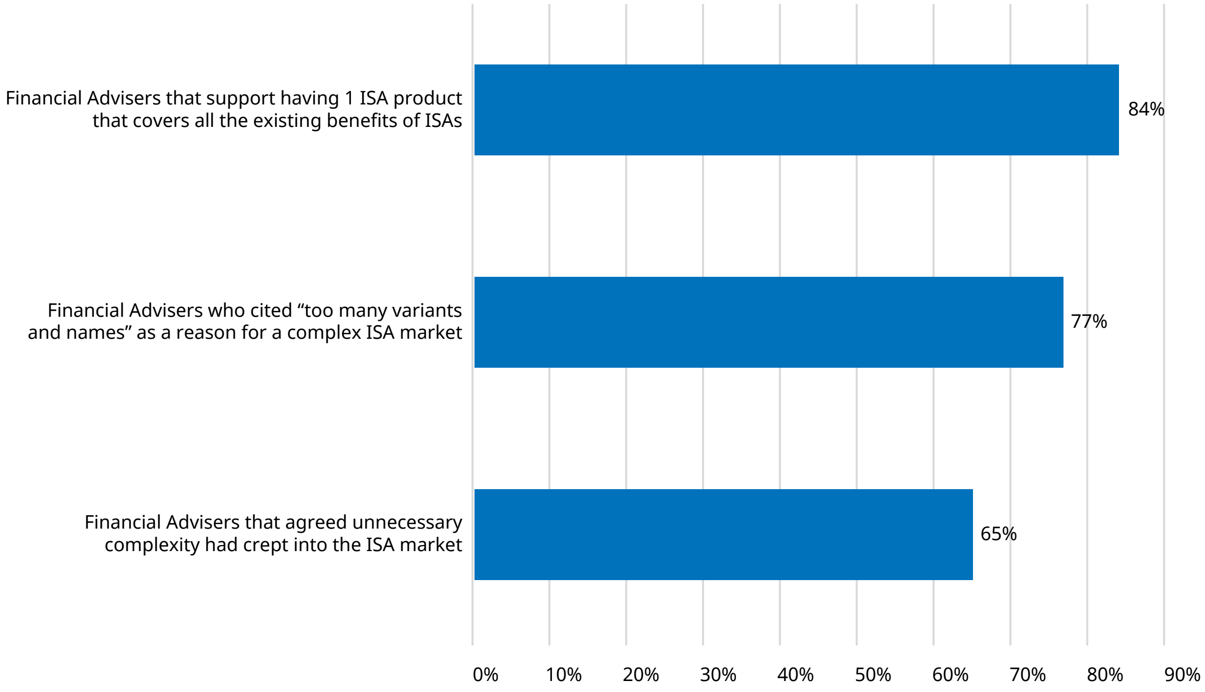
*Excludes Venture Capital Trusts (VCT), Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Social Investment Tax Relief (SITR). Excludes Child Trust Funds and Help-to-Buy ISAs which are closed to new accounts.

Source: Schroders. For illustrative purposes only,

People are struggling to navigate the current system

ISAs are too complicated to understand

AJ Bell conducted a survey with 349 Financial Advisers (August 2023) which showed :



Source: FT Adviser.[9]

50%
of British people
can identify the different types of ISA

Source: FT Adviser.[9]

32%
of British people
do not know the annual ISA allowance

Source: Moneymarketing.[11]

50%
of British people
agree that the different versions of ISAs make them too complicated

Source: FT Adviser.[9]

> "ISAs remain the ideal tax efficient savings vehicle to complement pensions, but there is a real danger creeping complexity will leave new investors completely bamboozled."

Tom Selby,
Head of retirement policy at AJ Bell

Source: FT Adviser.[9]

> "Once touted as a simple tax-efficient saving solution, ISAs have become unduly complicated, with a baffling array of titles."

Tim Bennett,
partner at Killik & Co

Source: FT.[10]

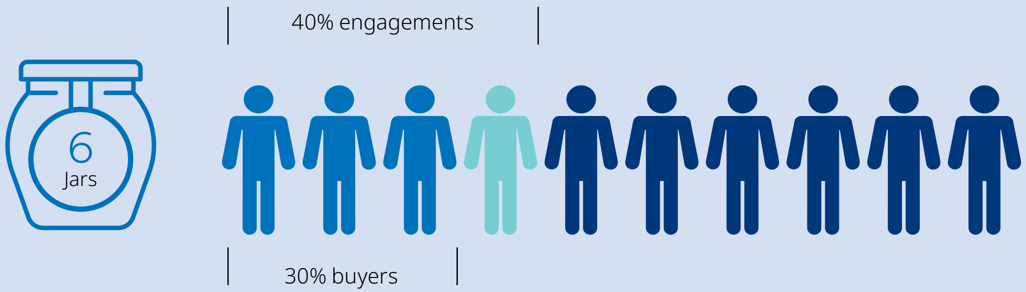
People are struggling to navigate the current system

The Choice Paradox

The 'Jam' Study

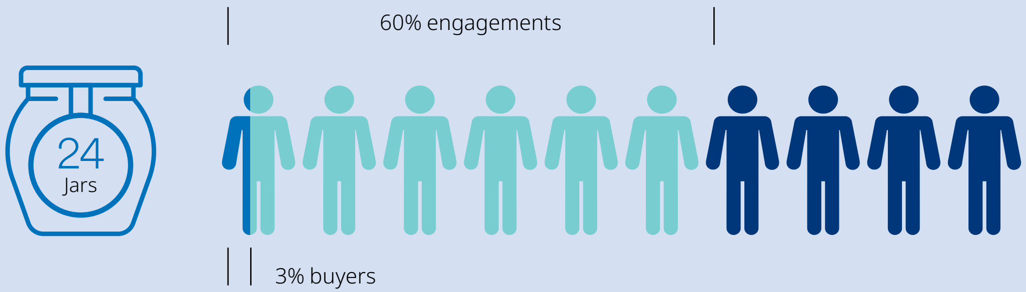
In a study conducted by Columbia University, researchers created two different displays, one with 6 jars and one with 24 jars, in busy supermarkets and encouraged free tasting.

When confronted with less choice, 10 times as many customers made a purchase



40%
of customers stopped to taste the jam

30%
of all customers made a purchase
(10 times higher than when there were 24 jars)



60%
of customers stopped to taste the jam

3%
of all customers made a purchase

Source: ModelThinkers.[12]

Is choice creating investment inaction?
When people that do not invest were asked about why:

23% said that they have "**not had time or got round to it**"

17% said that they **"feel overwhelmed by the number of options"**

Source: FCA FLS.[13]

People are struggling to navigate the current system

Most adults want support when making key financial decisions

Results of qualitative research excercise to understand financial decisions adults are comfortable making with and without support

Vast majority confident to make decisions themselves without support	Buying car insurance	Building a savings buffer in a savings account or cash ISA	
Even mix between those who are confident to make decisions themselves and those who want one-off support	Deciding whether you need to take out life insurance	Taking out a mortgage or switching mortgage	
	Deciding whether you need any protection in case of illness or disability	Thinking about whether you can afford to retire	
Majority want support Most who want support want **one-off** support	Taking out an equity ISA	Reviewing whether you are paying enough into a pension	Deciding what to do with your pension money at retirement
	Reviewing your financial situation to see whether you are doing the right thing	Deciding what to do with a substantial inheritance	Setting up a personal pension
Majority want support Most who want support want **ongoing** support	Managing any investments that you have		

Source: IgnitionHouse.[14]

Of adults with investible assets of £10,000+ that have not taken advice in the last 12 months:

19%
would be willing to make a sizable investment without support

17%
would be willing to set up a pension without support

18%
would be willing to decide how to take a sizable DC pension pot without support

19%
would be willing to take out a lifetime mortgage without support

Source: FCA FLS.[15]

People are struggling to navigate the current system

But there is a growing advice gap

> "The Advice Gap is not simply a question of who is and isn't receiving paid for advice. If the advice sector wants to increase the number of people paying for advice, it is vital to understand what is preventing the majority of the adult British population from doing so."

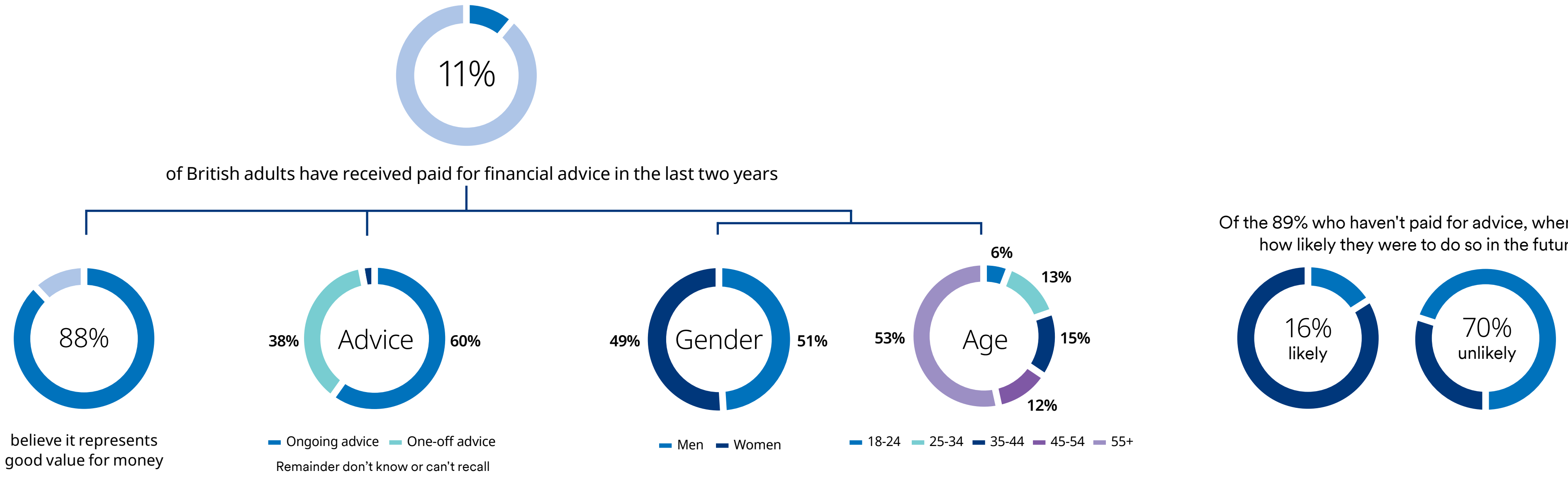
The Advice Gap 2023

	2015		2023	
The free advice gap Those who feel they would benefit from free advice but are unaware of, or unable to access, free services	**14.5 million**	↑	**24.3 million**	"The cost-of-living crisis has forced most of us to reassess our finances and almost half of respondents to our research agreed they would benefit from some help doing this but have not received it."
The affordable advice gap Those who are willing to pay for advice but think it is too expensive	**5.4 million**	↑	**6.5 million**	"There is a clear segment of consumers who are sensitive to costs, and this segment has been steadily growing. However, although this is clearly a barrier, we found that overall value for money and trust are also important considerations for consumers than just price when deciding whether to take advice or not."
The awareness and referral gap Those who lack awareness of the money advice that is on offer	**10.0 million**	↑	**19.1 million**	"Large numbers of people miss out on the benefits of advice because they don't know where to get it, who to get it from, or even that it exists."
The preventative advice gap Those where earlier access to advice could stop non-money issues impacting people's financial position	**23.0 million**	↓	**15.0 million**	"(Langcat) studies have shown significant demand for financial support at key moments in people's lives. If advice is offered at these key times, it can help people plan and prevent problems before they arise; so it is good to see that this gap has been getting smaller over time."

Source: The Lang Cat.[16]

People are not getting the most out of their savings

Who is paying for financial advice?



Of those who received paid for advice, their investible assets were

up to £49,999	£50,000 to £249,000	£250,000 to £999,999	£1 miliion+	don't know	prefer not to answer
32%	20%	18%	5%	5%	20%

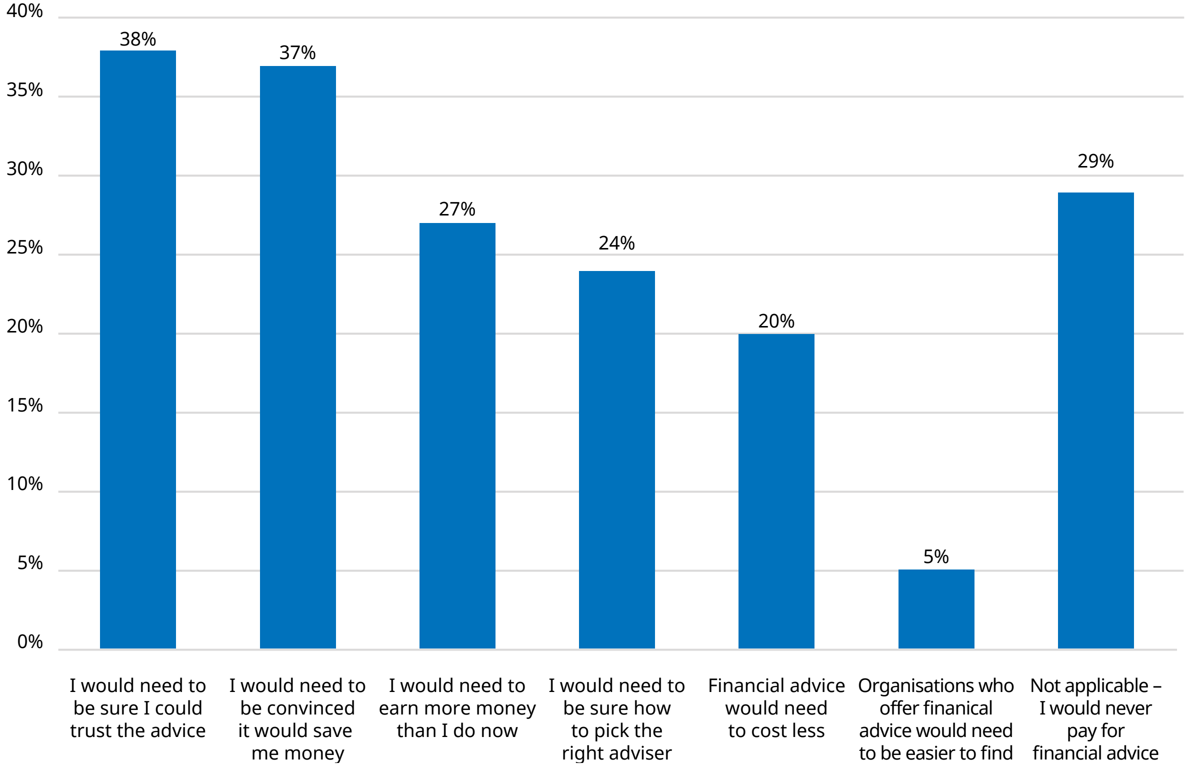
Source: The Lang Cat.[16]

People are struggling to navigate the current system

What would make people pay for financial advice?

What would make you pay for financial advice?

Of those who haven't paid for advice in the last two years and are unlikely to do so in the future:



Barrier 1 – Trust

Out of the 70% of people who would not consider paying for advice

38%

of people said they would consider paying for advice if they could trust it.

Barrier 2 – Awareness

Out of the 70% of people who would not consider paying for advice

37%

of people said they would consider paying for advice if they believed it would save them money.

Barrier 3 – Confidence

Among those who have paid for advice in the last two years, a lack of confidence in managing money is one of the main drivers for taking advice, especially for those who have complex financial matters. Conversely, high levels of confidence might prevent individuals from seeking advice, even if they might benefit from it.

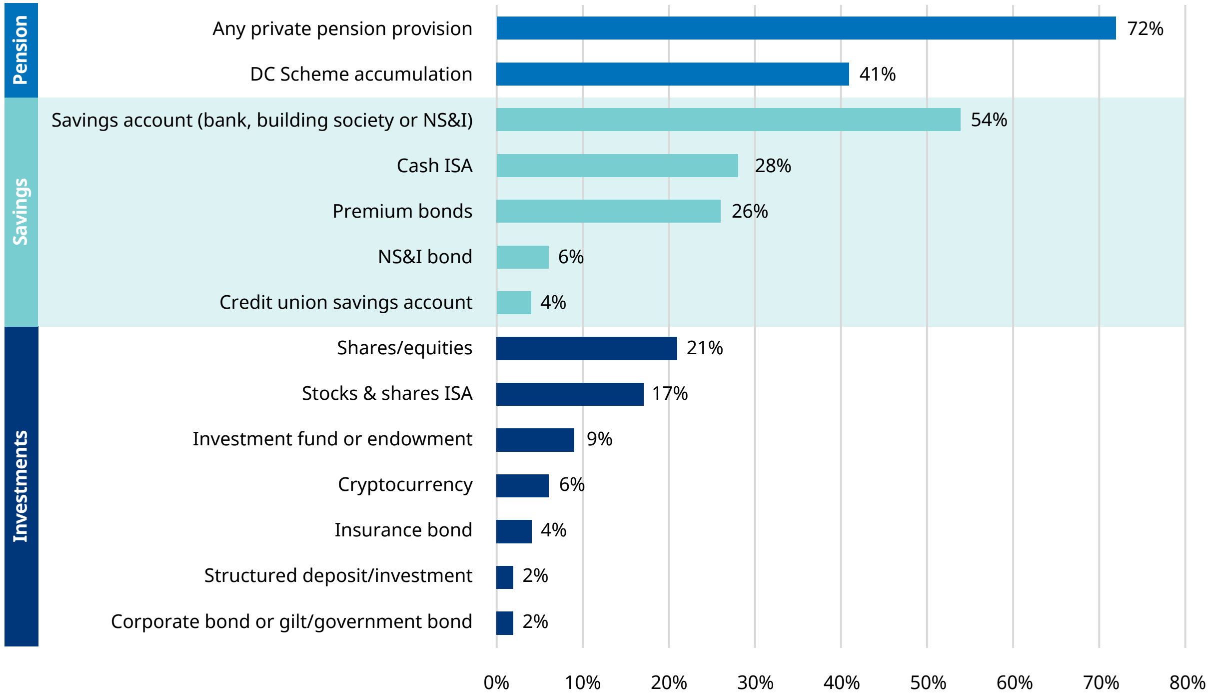
Source: The Lang Cat.[16]

People are not getting the most out of their savings

Pinch Point 2: People are not getting the most out of their savings

The UK loves cash savings

Excluding pensions, cash products are the top 3 most popular savings vehicles
% of UK adults who hold each product



Source: FCA FLS.[1]

Total household cash savings are roughly equivalent of the FTSE 100

£1.8tn
in cash savings

vs

£1.9tn
total market cap of the FTSE 100

Source: The Times.[2]

Recent statistics from UK Finance suggest that just

10.6%

of UK household financial assets are currently held in equity compared to 36.2% of US households.

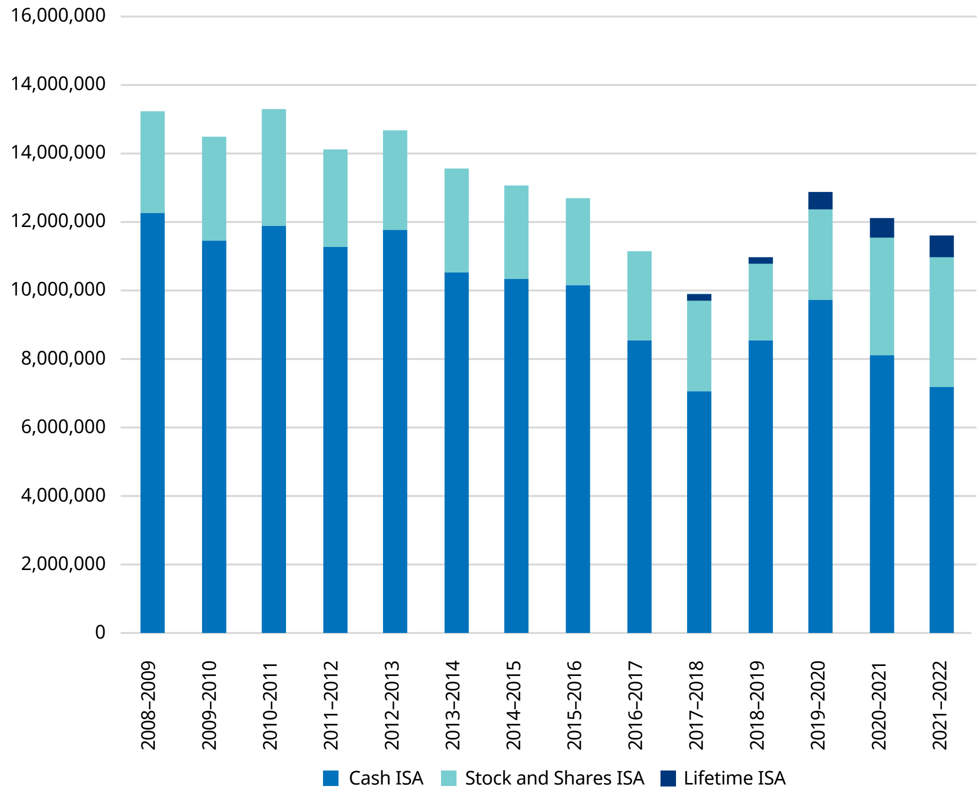
Source: UK Finance.[3]

People are not getting the most out of their savings

The ISA market shows us the same story

In 2021–22, cash ISAs subscriptions are 1.8 times higher than Stocks and Shares ISA subscriptions

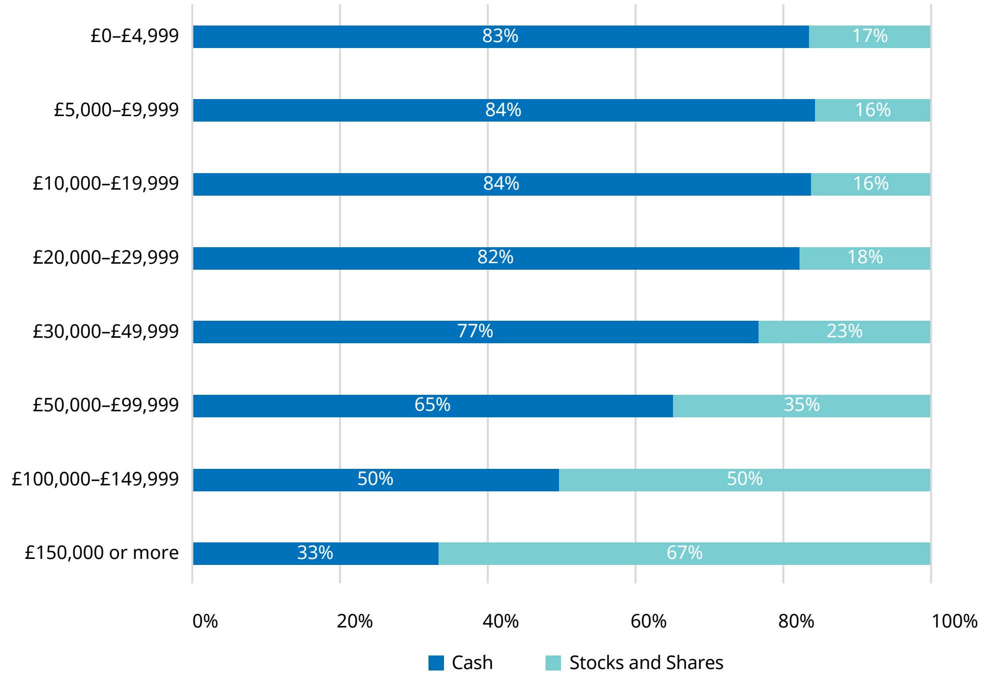
Number of Adult ISA accounts subscribed to during the financial year



Source: HMRC.[4]

Up to £100k salary, cash ISAs are more popular, with a stronger preference amongst lower income households

Proportion of Cash ISAs vs Stock and Shares ISAs, by income (April 2020 to April 2021)



Source: Schroders Internal Calculations based on HMRC data.[4]

90% of the least wealthy and 80% of middle-class families elect to open cash ISAs instead of vehicles that invest in equities.

Source: CPS analysis of HMRC data.[5]

People are not getting the most out of their savings

Many people are earning no interest on their cash savings

34%	34%	30%
of savers keep most of their cash in a current account	of UK savers never compare their savings rate to others available on the market	of UK savers never check what their rates are with their UK provider

Source: Building Societies Association.[6]

Many current accounts earn no interest

The following banks all offer 0.0% APR on their standard current accounts:

LLOYDS BANK
26 million customers

NatWest
19 million customers

Santander
14 million customers

Nationwide
16.3 million customers

HSBC
13.5 million customers

Source: Schroders, Santander[7], HSBC[8], Nationwide[9], Natwest[10], Lloyds.[11]
(All figures reported by banks themselves as at 2022). Logos are the property of the respective entities.

People are not getting the most out of their savings

And do not shop around for the best rates

33%
of UK adults did not compare savings accounts from two or more different providers before opening their account

Source: FCA FLS.[12]

75%
of UK adults have their savings account with their main current account provider

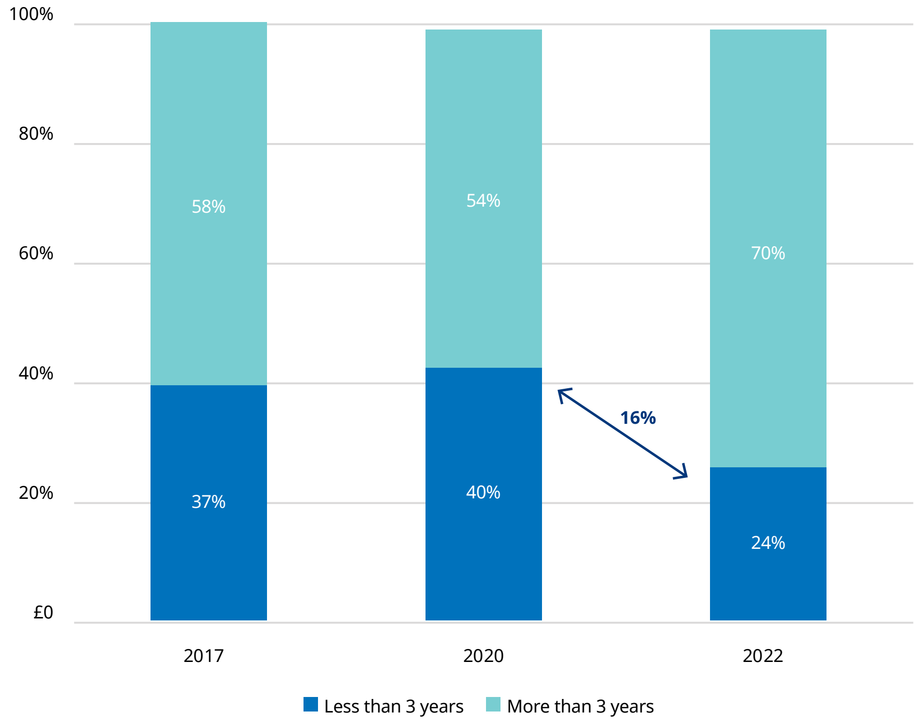
Source: FCA FLS.[13]

50%
of savers do not know what interest they are currently receiving on their easy access savings accounts

Source: FCA.[14]

Most UK adults keep their savings in the same savings account for more than three years

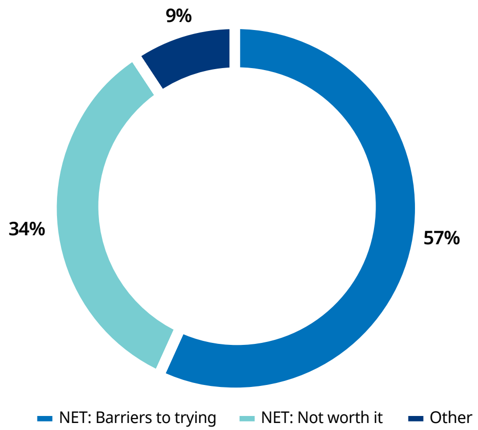
How long have UK adults had their savings account?



Source: FCA FLS.[15]

Reasons why consumers haven't switched accounts in the last 3 years

How long have UK adults had their savings account?



Source: FCA FLS.[16]

The FCA cash savings review shows consumers overestimate the cost and time involved in switching providers and underestimate the benefit from opening another account

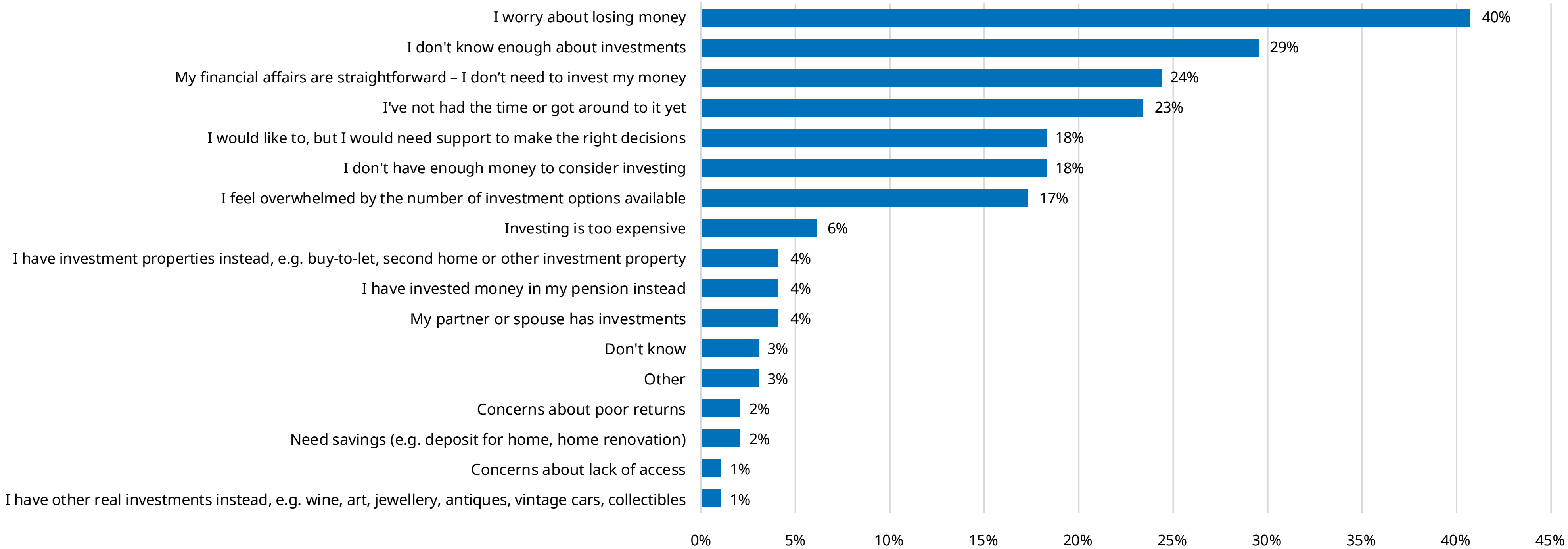
Source: FCA.[17]

People are not getting the most out of their savings

People who don't invest fear losing money

For those who do not invest, the most common reason given was "I worry about losing money" (40%), followed by "I don't know enough about investments" (29%)

Reasons given for why people have not invested any of their savings



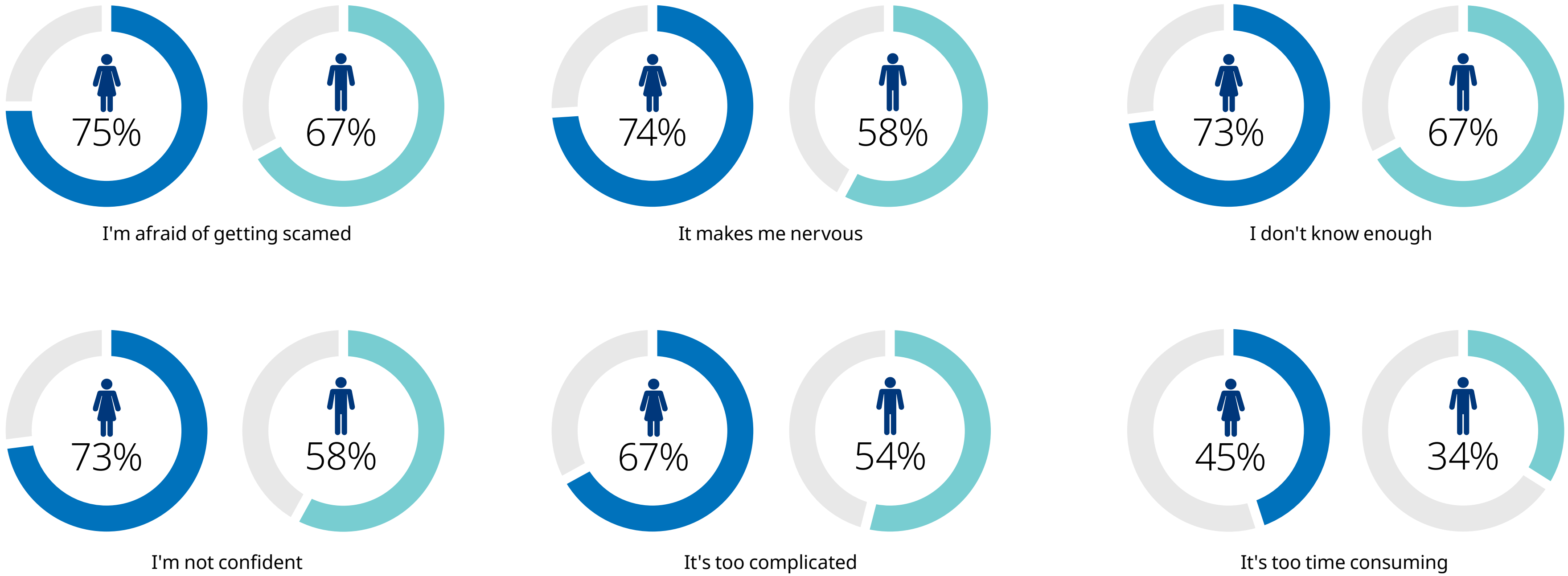
Source: FCA FLS.[18]

People are not getting the most out of their savings

There are stark differences in the attitudes of men and women

Wealthify surveyed 2,000 people from the British public that have £5,000+ in savings but haven't invested before to uncover the main reasons why people don't invest.

73% of women do not feel confident investing their money compared to 58% of men

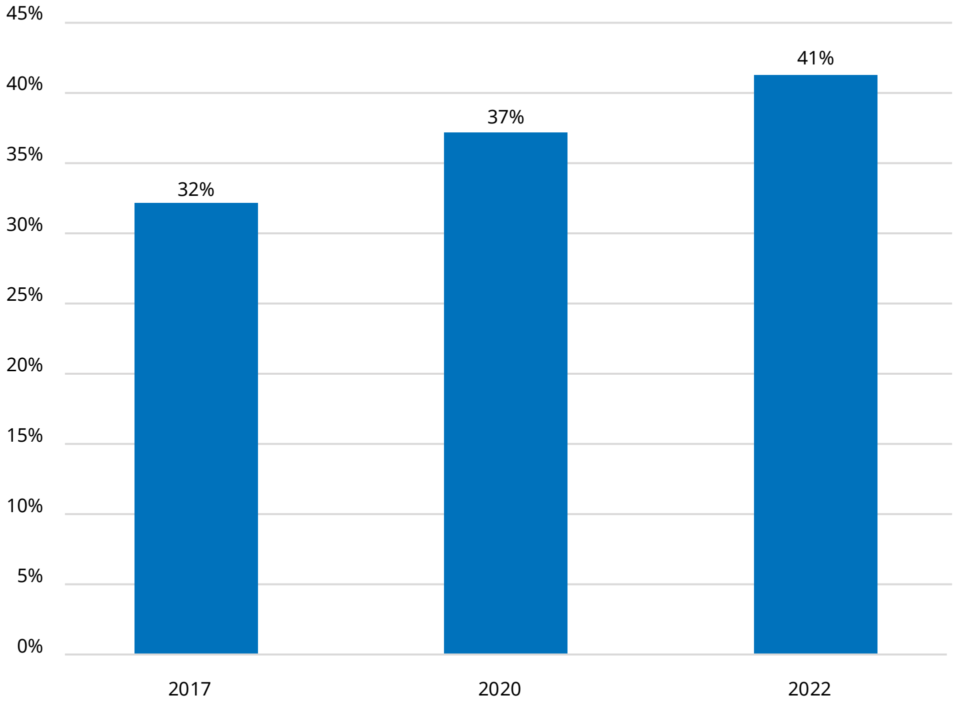


Source: Wealthify.[19]

People are not getting the most out of their savings

However, investing is on the rise...

% of UK adults who own any form of investments



Source: FCA FLS.[20]

The uptake of investors since 2020 have been driven by younger investors

10%
increase in young investors

Source: FCA FLS.[21]

70%
of new young investors are men

Source: FCA FLS.[21]

Average UK investor plans to invest 19% more each month post-covid, rising to
70% for Gen Z investors

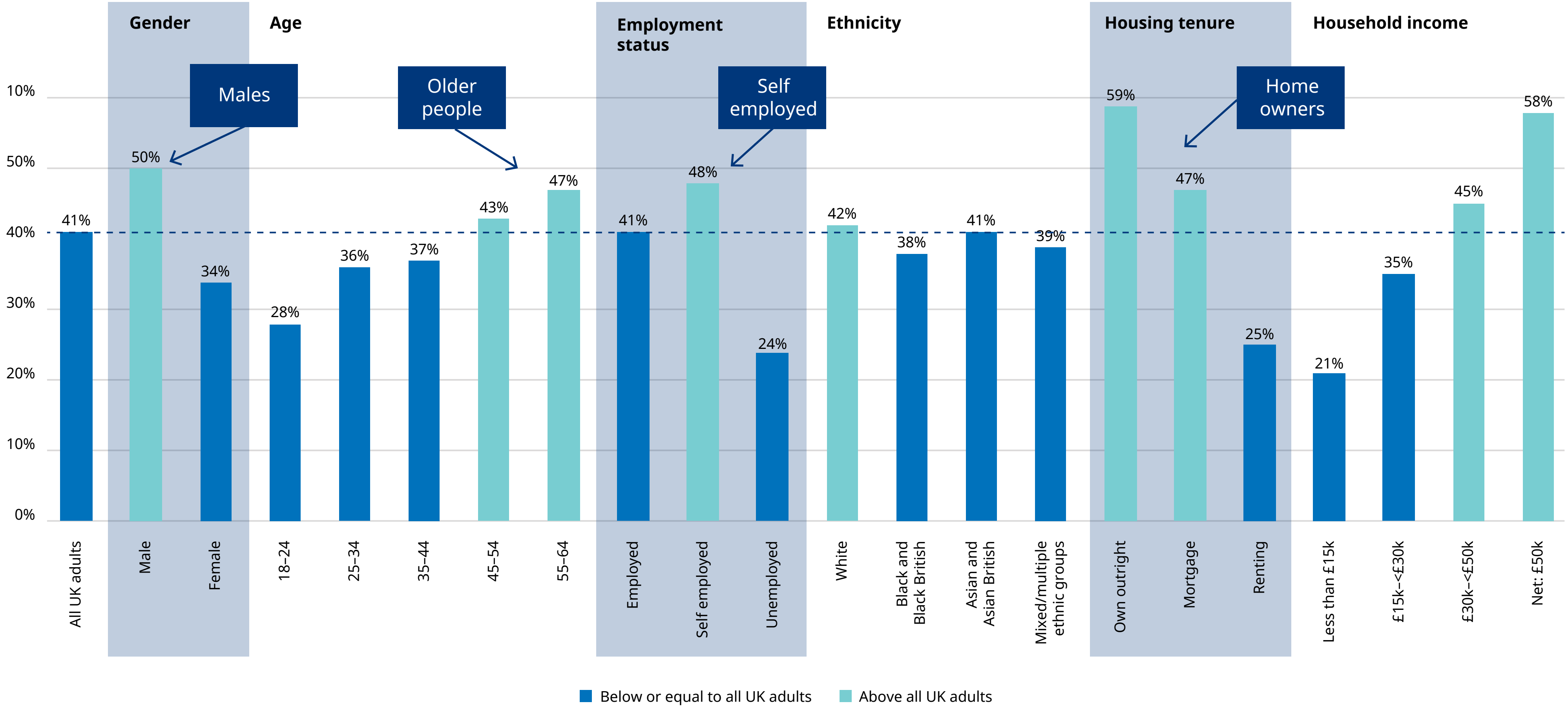
Source: Barclays.[22]

Note: Gen Z are those born between 1997 and 2012.

People are not getting the most out of their savings

Who is investing?

% of adults who own any investment product, by demographic groups (2022)

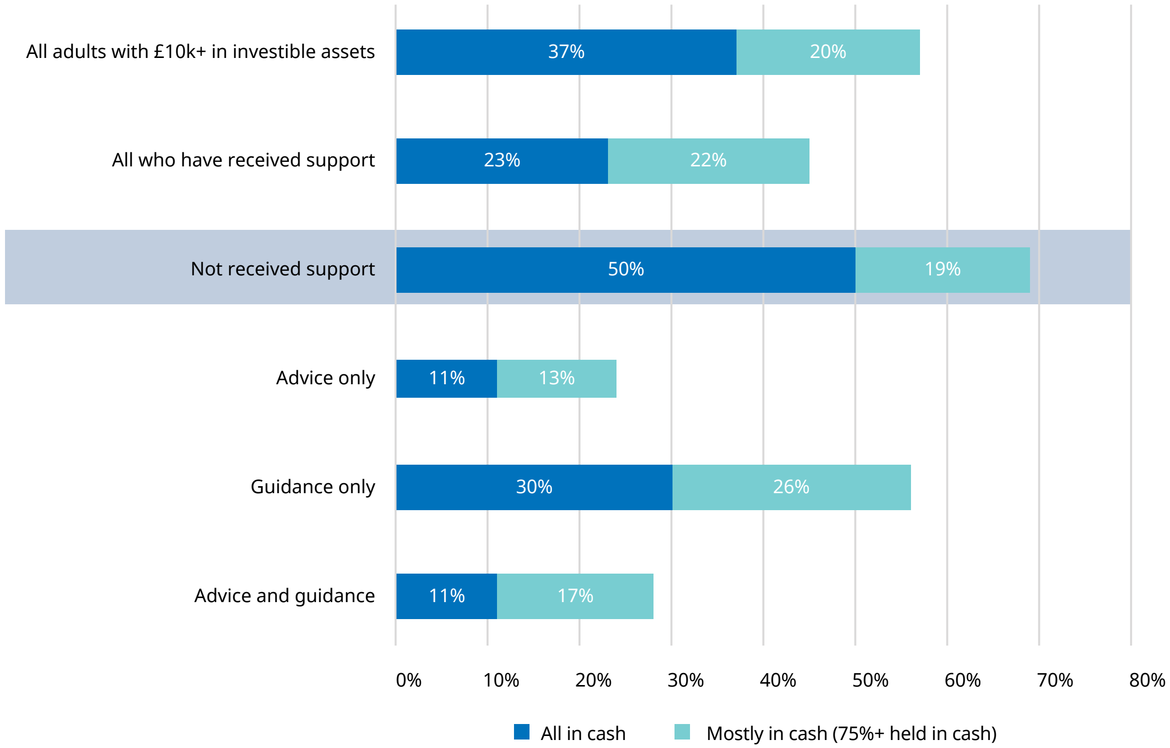


Source: FCA FLS.[23]

People are not getting the most out of their savings

Adults who receive financial support hold a greater portion of their assets in investments

Proportion of investible assets held in cash savings vs investment products, for adults with £10k+ in investible assets, by whether or not they have received support in the last 12 months (2020)



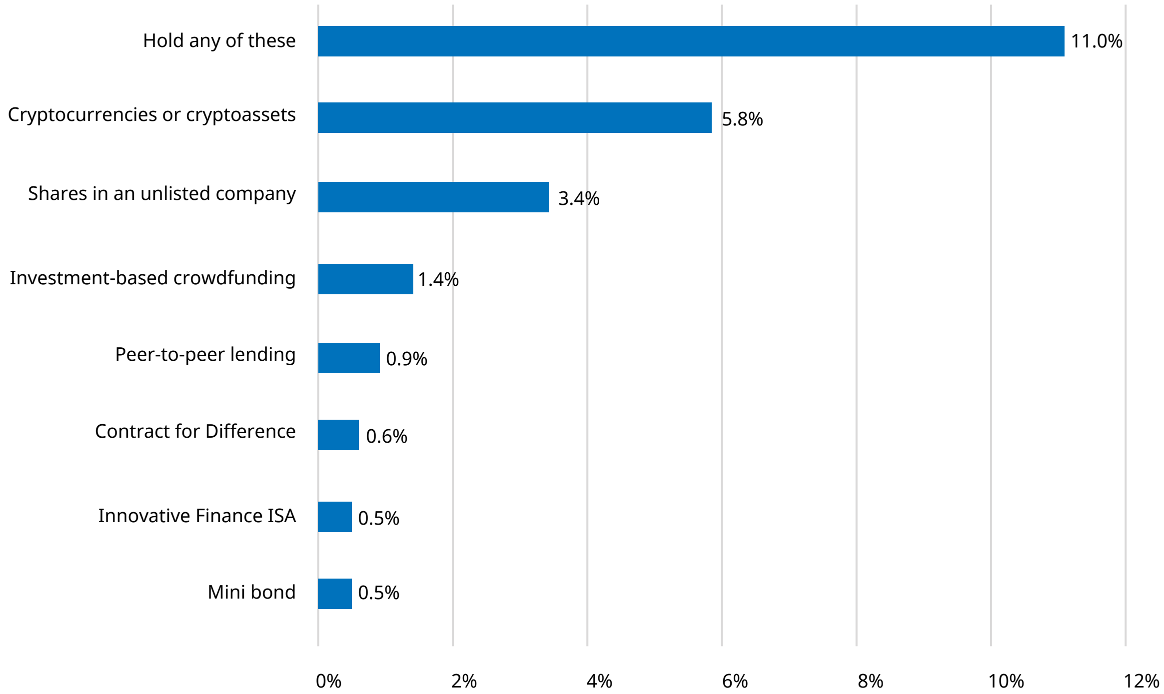
Source: FCA FLS.[24]

People are not getting the most out of their savings

There is a growing interest in high-risk investment (HRI) products

11% of UK adults hold high-risk investment products

% of UK adults holding HRI products (2022)



Source: FCA FLS.[25]

14%

average proportion of investible assets held in high-risk investments

Source: FCA FLS.[26]

18%

of HRI investors hold at least 1/4 high-risk products in their portfolio

Source: FCA FLS.[26]

1 in 3

adults with HRI said their current or future lifestyle and wellbeing would be impacted if they experienced a significant loss

Source: FCA FLS.[27]

People are not getting the most out of their savings

The rise of crypto investing

2018

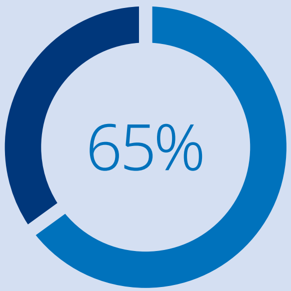
1.5 million British people invested in crypto

+120%

2023

3.3 million British people invested in crypto

Source: Finder.[28]



of crypto investors had first invested in the asset less than 2 years ago (2022)

Source: FCA FLS.[29]

2 in 3

UK crypto investors are men

1 in 10

millennials have invested in crypto

7 in 10

crypto investors are aged between 18-44

Source: Finder.[28]

The dangers of high-risk investing

The FSCS has identified that recent acquirers of cryptocurrency, those who have held it for less than a year are

more likely to get into debt

that those who hold it for longer

23%

would consider getting into debt to buy crypto currencies, increasing to 34% for young investors

54%

of crypto investors say that they could end up regretting investing into it

Source: FSCS.[30]

People are not getting the most out of their savings

Why do people take on the risk?

The FCA surveyed 1,000 people aged 18 to 40 who invest in high-risk investment products:

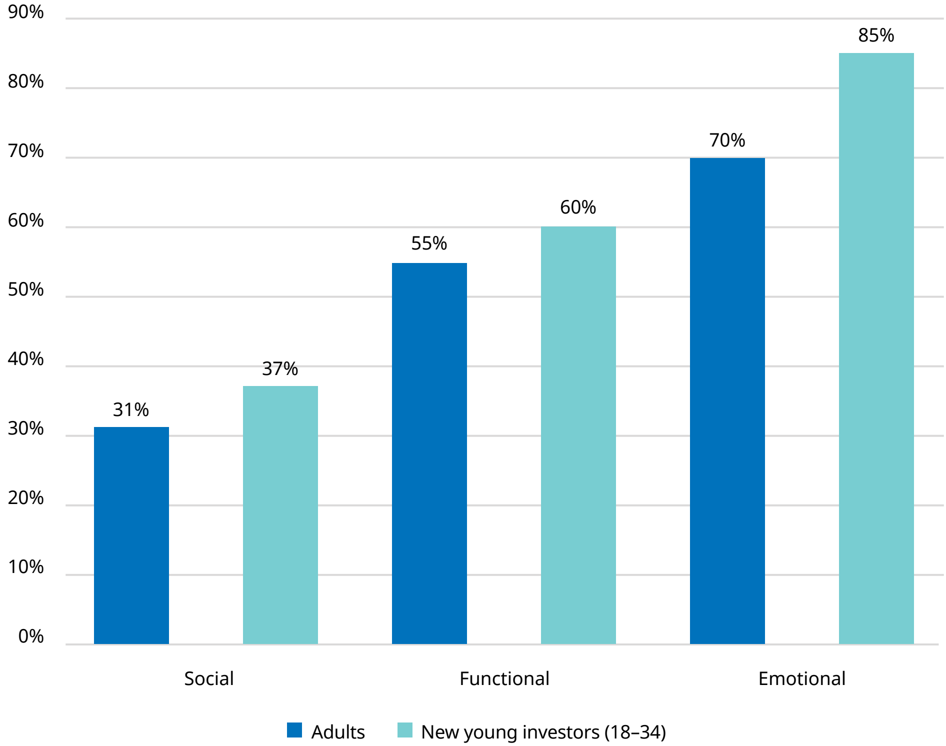
76%
said they felt a sense of competitiveness when investing in HRI with 68% likening it to gambling

1 in 5
were considering holding their investment for more than 1 year despite 60% saying that they prefer more stable returns to purchase HRI investments

58%
of respondents agreed that constantly hearing about certain investments on the news and social media encouraged them to purchase HRI investments

Source: FCA.[31]

Drivers for investing in HRI (2022)



Source: FCA FLS.[32]

The FCA has intervened

The InvestSmart advertising campaign was launched in October 2021

It is a 5yr, £11m campaign aimed at helping consumers make better informed investment decisions

It is targeted at inexperienced investors who are more likely to invest in HRIs, driven by social media and investment hype

Source: FCA.[31]

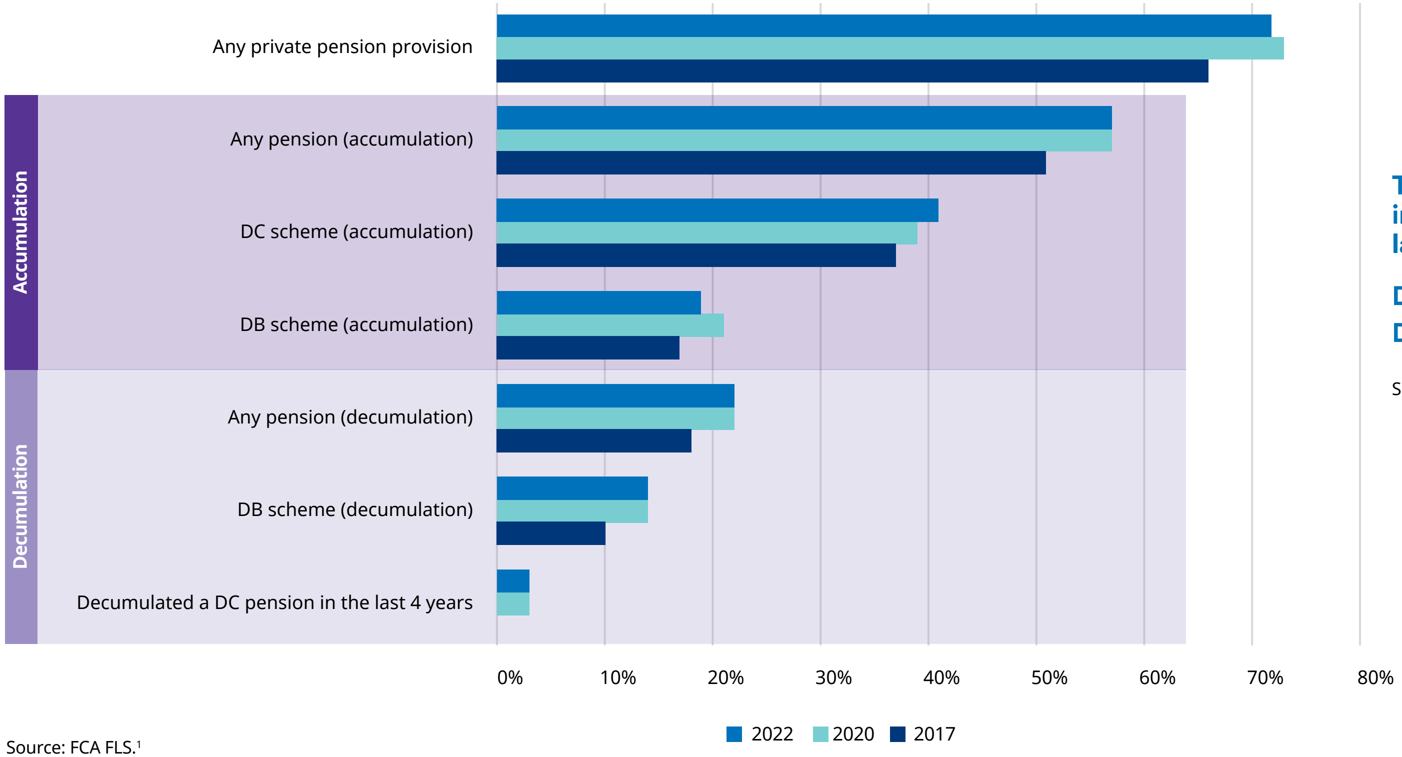
People do not accumulate enough for retirement

Pinch Point 3: People do not accumulate enough for retirement

The long-term savings landscape is dominated by pensions

72% of UK adults hold a private pension. The decline of DB means that DC schemes are now the dominant type of private pension

% of UK adults that hold a private pension, by pension type



Source: FCA FLS.[1]

There is £2 trillion of savings in UK Pension Schemes – one of the largest pension markets in Europe

DC: £0.70 trillion

DB: £1.3 trillion

Source: ONS.[2]

People do not accumulate enough for retirement

Who holds private pensions?

Homeowners, males, and the employed are more likely to hold a private pension

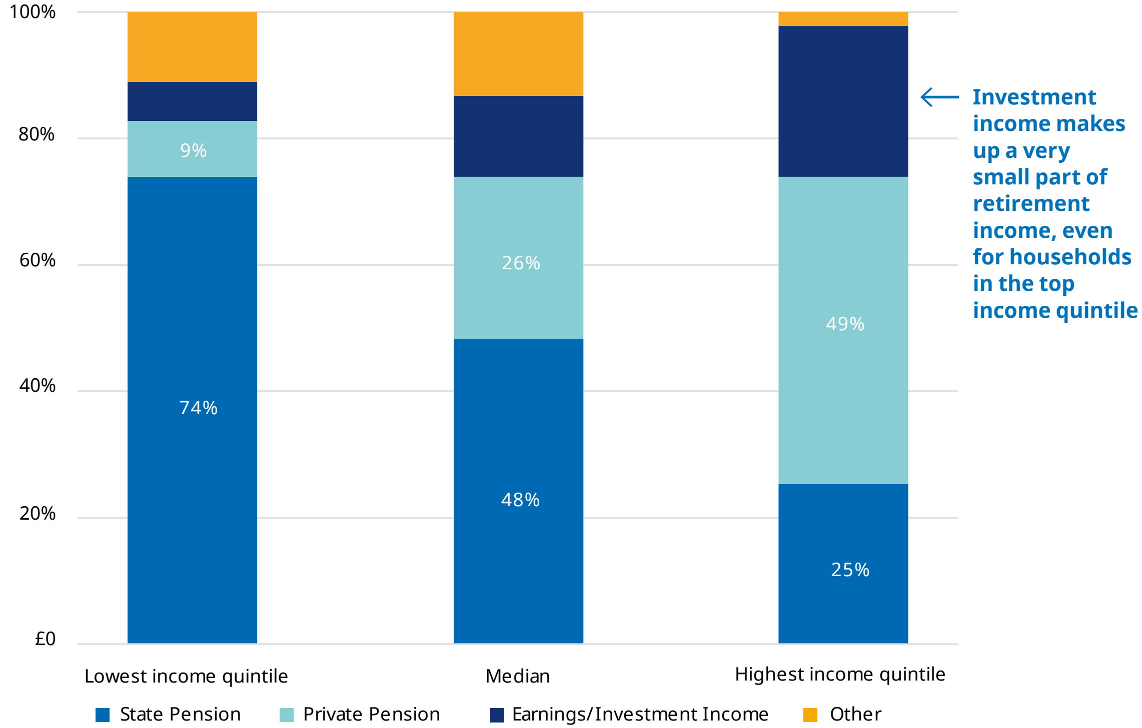
Source: FCA FLS.[1]

People do not accumulate enough for retirement

Pensions are the bedrock of retirement income

Pensions (state and private) account for over 70% of household income for people past retirement age

Proportion of disposable household income coming from each source, by equivalised income quintile (2022), 66–74 (not employed)



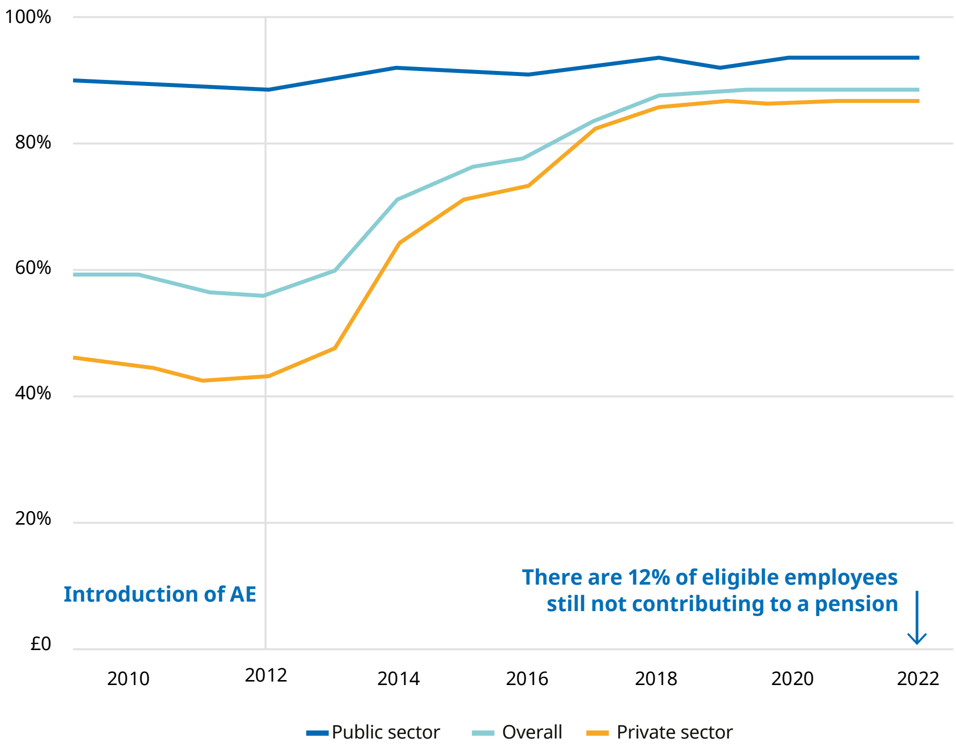
Source: IFS.[3]

People do not accumulate enough for retirement

Automatic Enrolment has been very successful at increasing pension coverage

Since the introduction of AE, enrolment rates into private sector pensions have more than doubled from 42% to 88%

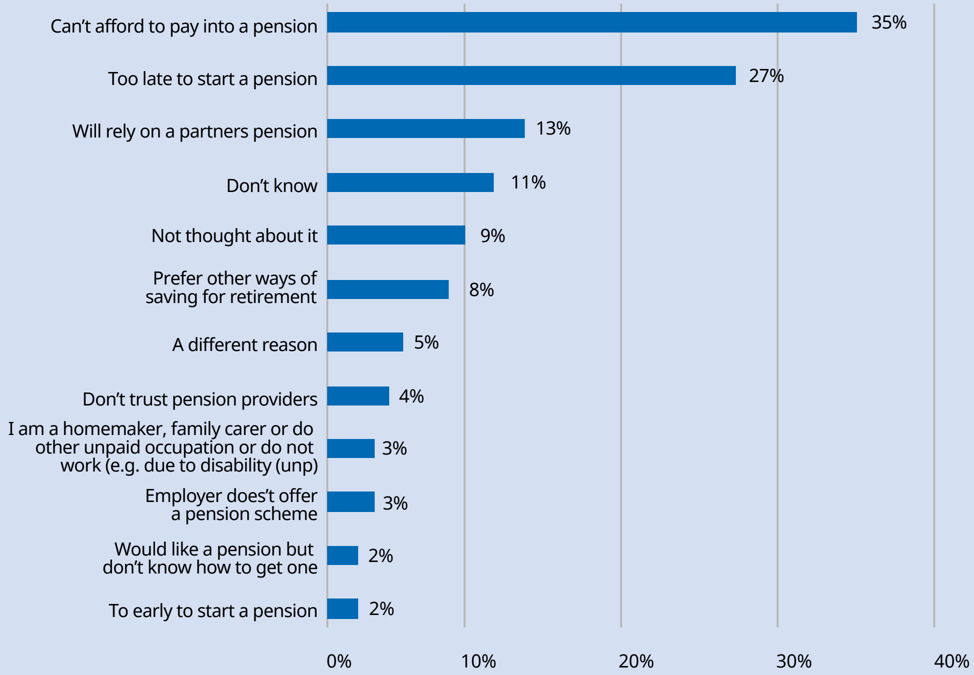
Eligible employee participation rate to 2022



Source: DWP.[4]

The most common reason given by the over 50s for not having a pension was that they couldn't afford to pay into it (35%)

Reasons for not having a pension scheme
(adults aged 50+ with no private pension provision)



Source: FCA FLS.[5]

People do not accumulate enough for retirement

Most AE pensions are only receiving minimum contributions

Half of employees in the UK are contributing the minimum legal requirement of 8% to their DC pension

Cross section of employee and employer DC contributions

	Employee pays the minimum	Employee pays more than the minimum	Employee doesn't know how much they pay
Employer pays the minimum	50%	14%	2%
Employer pays more than the minimum	6%	18%	1%
Employee doesn't know how much their employer pays	2%	1%	5%

Base: All DC employees who are making an employee contribution to their workplace pension (1,912)

Source: PPI.[6]

73% of AE savers think that the minimum contribution rate will give them enough for retirement*

49% of AE savers contributing the minimum (8%) thought they were on track for the PLSA's moderate lifestyle, and 12% thought they would have the PLSA's comfortable lifestyle

51% of AE savers contributing the minimum (8%) said it had not occurred to them to pay more money in

64% of AE savers contributing the minimum (8%) didn't know they could pay more than this, or were not sure

*They agreed with the statement "The contribution levels have been set by the government which means that the amount I am saving will be enough for my retirement" (or were not sure).

People do not accumulate enough for retirement

Low engagement levels are a key barrier to members increasing their contribution rate above the minimum

Detailed pension engagement metrics for adults currently contributing to a DC pension (2022)

Pension pot amount

29% do not know broadly speaking how much their pension pot is worth

47% have not reviewed how much their pot is worth in the last 12 months

Contributions

37% are not aware how much they or their employer contribute to their DC pension(s)

74% have not personally chosen to change their contribution levels in the last 3 years. 21% not aware they could

79% have never thought a lot about how much they should be paying into the DC pension

Charges and investments

29% are not aware their DC pension is invested

56% are not aware that fees are charged on DC pensions

79% have never reviewed where their pension is invested (or not reviewed since joined) or don't know if they have or not

Source: FCA FLS.[10]

51% of UK adults had low engagement with their pension

31% of UK adults haven't thought about how they are going to manage financially during retirement

23% of non-retired UK adults agreed with with the statement: "I keep putting off retirement planning because I am afraid I will make the wrong decision."

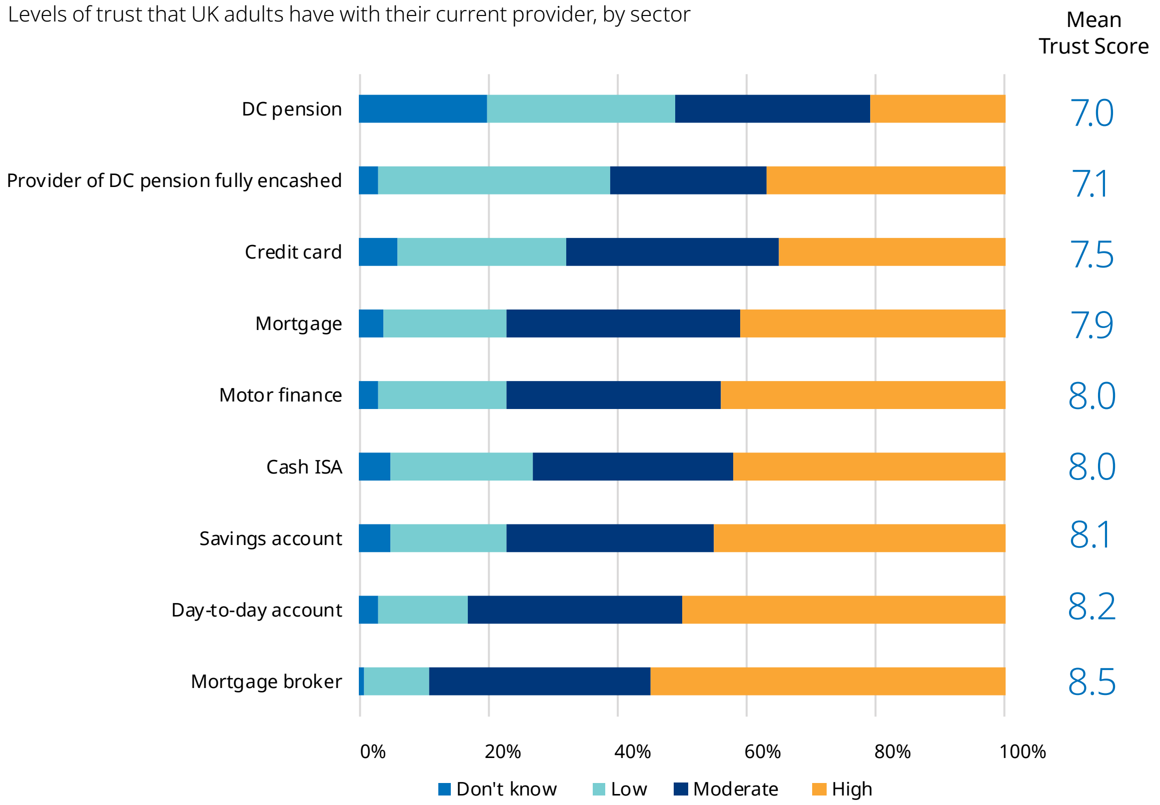
Source: FCA FLS.[7,8,9]

People do not accumulate enough for retirement

Limited engagement also makes it difficult to build trust in pensions

DC pensions rank last for level of trust that adults have with their own providers

Levels of trust that UK adults have with their current provider, by sector



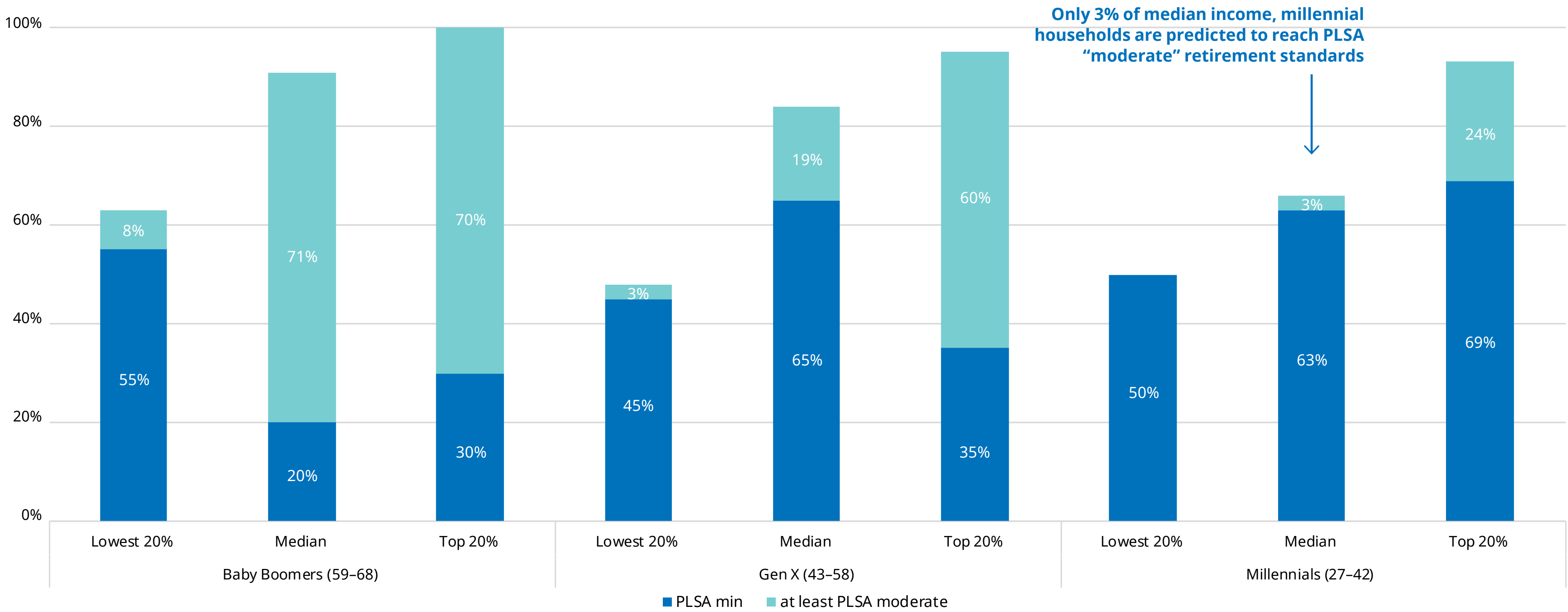
Source: FCA FLS.[11]

People do not accumulate enough for retirement

As a result , many people will struggle to reach a "moderate" retirement standard

Lower income and younger households are predicted to be less likely of reaching a "moderate" standard of living during retirement (according to PLSA retirement standards)

% of DC savers who are on track for "minimum" and "at least moderate" retirement standards, by income quintiles, for different generations



Source: The Peoples Pension.[12]

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Section – Long term savings

Pinch Point 3: People do not accumulate enough for retirement

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