Promoting Financial Wellbeing for the UK

Savings and Investments Policy project

Overview and Proposals

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Overview

- The Savings and Investments Policy project was set up to pro-actively develop policy proposals and influence change across financial services
- A unique group of 50 organisations representing all the key segments, major trade bodies and consumer groups
- Actively developing and promoting solutions that address the low savings rate in the UK to restore financial wellbeing and security
- Target market are lower and middle income families
- Scope covers whole of life savings from children through to retirement
- Transitioning UK consumers from a culture of debt to one of savings

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Executive Committee members

- Aviva
- AXA Wealth
- BlackRock
- BNY Mellon
- Ernst & Young
- Henderson Global Investors
- Invesco
- J.P. Morgan Asset Management
- Legal and General
- Lloyds
- Nationwide
- Northern Trust
- Old Mutual
- Openwork
- Pinsent Masons
- RBS
- Threadneedle
- TISA

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Advisory Board members

- Association of British Insurers
- Association of Consulting Actuaries
- Association of Professional Financial Advisers
- Age UK
- Ascentric
- Barclays
- Bravura
- Building Society Association
- Fair Life
- Financial Services Consumer Panel
- Friends Life
- Hargreaves Lansdown
- ILAG
- Intrinsic
- Money Advice Service
- Microsoft
- Parker Fitzgerald
- Rathbones
- Schroders
- Scottish Friendly
- Sesame Bankhall Group
- Simply Biz
- Standard Life
- TD Direct Investing
- The Investment Association
- The Pensions Advisory Service
- The Share Centre
- True Potential
- Yorkshire Building Society
- Zurich

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Key findings – Our Financial Future

- UK consumers are facing a future where their financial security and wellbeing are at risk
- **30%** of UK households have no savings at all and a further **20%** have less than £1,500 to cope with an unexpected event without going into debt
- **25%** of households would not be able to pay a monthly mortgage payment increase of **£250**
- Relative salaries have been **increasing** since the 1940's but every generation since then has been **spending more** and saving less, reducing household financial security
- High levels of **consumption** and easy access to cheap **credit** has resulted in unsecured debt rising from £50bn in 1993 to **£158bn in 2013**, peaking at over £200bn in 2008
- High **housing prices have increased** the average age of the first time home buyer to **29** and the large deposits required impacts their ability to save for other short and long term needs
- All these factors are interdependent and unless action is taken, the baby boomers will be the **last generation** to enjoy financial security during their lifetime, especially retirement

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Key findings – Our Financial Future

- Furthermore, over the past 25 years, the State and employers have significantly **reduced** the levels of income that consumers can expect in retirement, meaning much more must be saved just to match the income levels enjoyed by earlier generations
- This is compounded by the need to provide for increasing **longevity**, with consumers born after 1980 having **2** years in work for every **1** in retirement – down from 3 to 1 just 50 years ago
- **2035** is set to mark a **tipping point** when consumers aged 45 today will start entering retirement and will be less well off than earlier generations
- The generations **impacted most** by expensive housing, less saving and less generous pensions are those aged **35 or younger**
- This means that **low income** levels in retirement is set to accelerate between **2045 and 2060** as a second baby boom of up to **12 million** consumers retire
- Consumers are **failing** to recognise that financial security is their **personal responsibility**, are too reliant on the state, are not saving enough and need a new approach to avoid long term hardship

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Achievements to date

- Undertook and published a review of the savings issues facing UK consumers in March 2014 – "Our Financial Future"
- Developed a range of ideas to address the key issues
- Filtered ideas down to 7 prioritised policy proposals
- Engaged with all main cross political parties, Treasury, HMRC, DWP and FCA
- Developed a report with 6 policy proposals, 3 to be led by the industry and 3 to be led by the government
- Undertook initial consumer testing on attractiveness of proposals
- Identified a further 3 themes for consideration

One down……

- **TSIP Pensions Will: -**
  - Move from annuities creates more residual pensions pots
  - Tax on death of 55% no longer reasonable
  - Proposed rate 40% in line with IHT
  - Tax free if transferred to the beneficiary's pension
  - Create intergenerational pensions

- **Chancellor's change:**
  - Affects income drawdown and value protected
  - Pension pot can be transferred to the beneficiary
  - Death before 75, income and lump sums can be drawn tax free
  - Death after 75, income and lump sums can be drawn at marginal tax rate

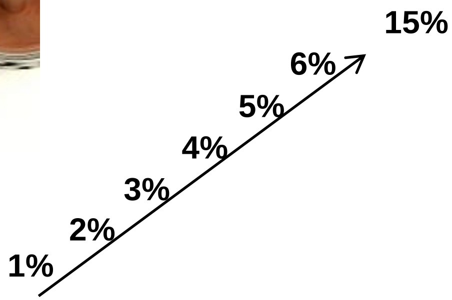
…….6 more in progress

Industry led initiatives

- Digital passport
- Financial capability
- Financial guidance

Government led initiatives

- Increased pension savings
- Auto escalation
- Savings Minister



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Digital passport

- Ambition is to make it as easier for consumers to save
- Cabinet office established IDAP to help transact with consumers
- 60% of Indian population already adopted iris recognition
- Voluntary system with consumer controlling personal information
- Initial focus is to help with AML and KYC
- Generating interest from range of government bodies including the DWP
- Wide range of potential uses

Increase financial capability

- 50% of people don’t actively manage savings, 1 in 6 struggle to read a bank statement and 17 million adults have numeracy skills of a primary school child
- MAS identified over 130 organisations delivering financial capability in the UK, 80% charities
- Need to educate consumers on need to save plus provide benchmarks
- Calling for a single body to responsible for co-ordinating financial capability delivery
- Create a financial services forum to enhance effectiveness of industry initiatives
- Use financial services media activity to support financial education campaigns

Greater access to guidance

- Providing advice is expensive and there is a growing need for guidance propositions to cater for the mass market
- Guidance Guarantee step in the right direction, but need solutions for whole of life needs
- What is guidance for some is advice for others
- Industry needs some comfort that it will not be sued or fined for generic guidance
- Develop kitemarked generic guidance concepts, key messages and savings principles
- Increase public access to generic guidance
- Permit guidance to sign post consumers to providers

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Pensions taxation

- Pensions relief "in play"
- Industry wants to engage with government to shape best outcomes
- Aiming towards moving pensions savings to 14% / 15% that DWP advocates
- Maintain current government contribution – focus on fixing the pension crisis
- Move to a mechanism that consumers can understand – matching contributions
- Use any reductions to higher rate pension relief to increase low and middle income savings
- Encourage savings with annual contributions
- Combine tax relief, matching contributions and auto escalation

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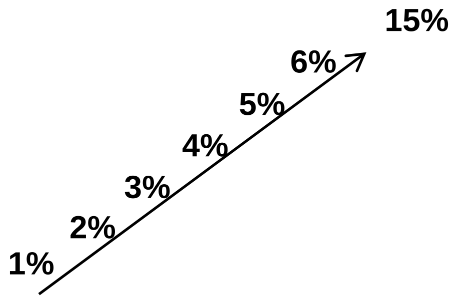
Auto escalation



- Auto enrolment created 5 million additional pension savers
- “Lumpy” staging between October 2017 and October 2018
- Save More Tomorrow deemed to be a success in the USA
- Propose adopting auto escalation as a mechanism to smooth AE staging
- Embed auto escalation within auto enrolment from 2018 and keep increasing the pension savings rates
- Create more flexibility within auto enrolment for young workers and help build the savings habit

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Savings Minister

- Create a Savings Minister with overall responsibility for savings
- Developing and co-ordinating savings policy and taxation
- Simplify tax policy
- Define and implement campaigns that actively change consumer attitudes towards savings
- Champion financial education, financial resilience and alignment of long term savings with "invest in Britain" focus
- Help consumers understand how individual savings can contribute to Britain's greater economic prosperity

Next steps

- Amplify project messages in the consumer press
- Continue engagement with Lords and government bodies as MPs go into purdah
- Develop greater detail around 6 proposals
- Start work on 3 new proposals
- Re-engage with new government once formed