

SCOTTISH WIDOWS

official pensions and investment provider



Scottish Widows Savings and Investment Report 2011

Preparing for the Future:
Britain's Savings and
Investment Landscape



Contents

Part 1: Executive Summary	3
Part 2: Current Attitudes to Saving	4
Part 3: The National Picture	6
a) The Regional Look	6
b) Focus on Short Term Savings	6
c) Shortfall in Long Term Savings	7
Part 4: Barriers to Saving	9
Part 5: Investments	10
Part 6: Saving for Relatives	12
Part 7: Conclusion and Key Challenges	13

Foreword

Scottish Widows has performed a service for us all with their series of savings & investment reports, which have given us a consistently illuminating perspective on people's savings behaviour. This year's report is no exception.

The background is one of fundamental change in long term saving. Up to the late 1990s, savings products often embodied promises to investors, for example, through the medium of final salary pension scheme or endowment policies. But a punishing decade of poor stock market returns has helped to put paid to that. As I write this, the FTSE 100 index stands where it did more than 12 years ago, and those promises have become unaffordable. Such lengthy periods with little or no reward are part of the stock market cycle – this is the fourth such period of more than ten years since the start of the 20th century. But when we do finally emerge – and all I can offer by way of comfort is that we are at least 12 years closer to the next bull market than we were in 1998 – nobody will be reinventing the old promises in a hurry.

That means that people are going to have to take charge of their long term savings, including retirement income. And that means managing the associated risks, although it is to be hoped good governance, advice and good default fund design will mean that people are not left completely on their own. Interestingly, this message has clearly been taken on board by respondents to the survey.

Governments have done their bit, by thoroughly overhauling the system. The first big change was the simplification and streamlining under the “A day” reforms which took effect in 2006. These have resulted in more competition, lower prices and better investment options. Then the Pensions Commission recommended auto-enrolment and NEST, which after a long debate was adopted by the last Government and confirmed by the present one. That will revolutionise the savings landscape after it takes effect from late 2012.

And now the Coalition is making good on the Election promise to abolish compulsory annuitisation, a move which will at last allow serious innovation in the market for post-retirement income products.

The building blocks are in place, but behavioural change still has a long way to go. People are saving: the IMA's figures show that over 2009 and 2010 savers added nearly £50 billion to their holdings of retail funds, which is by far and away a record. But that may be partly driven by poor returns on deposits and on housing investments. And, as the report points out, the focus of savers still seems to be predominantly on the short rather than the long term.

Perhaps auto-enrolment and NEST will change this: in future many millions who have not previously had access to investment products will be discovering what it means to own their own investments. Do not underestimate the impact that will have: you only have to see how it is now commonplace to hear people talking about their mutual fund portfolios in the US or their “super” in Australia. But the report's conclusion about the need for greater consumer capability is undeniable. The work starts here.

Richard Saunders,
**Chief Executive of the Investment
Management Association**

Part 1: Executive Summary

This is the fifth annual Scottish Widows Savings & Investment Report. In each case, we've based the report on a national representative sample of the UK population. The survey was carried out online by YouGov who interviewed a total of 5161 adults between 13th and 20th December 2010. This allows us not only to understand how the UK population feels about saving at a headline level, but also to drill into segments of the population to understand how their attitudes and behaviours vary from the norm.

We also have the unique ability to draw out trend information over the five years covering a period where we moved from relatively buoyant economic conditions into recession and out again, while we remain in a highly uncertain economic climate. We will look in this report at how this has impacted savings habits and lessons we might learn for the future.

Current attitudes to saving

- The broad conclusion from this year's report is that the UK population continues to save at modest and relatively stable levels, but with a continued focus on short term goals.
- Overall savings levels are in line with last year with just under two-thirds (64%) of the population saving in some capacity. However, a worrying sign is that the remaining third are not saving at all for the future.
- Half of the population are saving for the "short term", with the majority of this group saving for a "rainy day" rather than a specific purpose.
- Over half of the UK population are not saving for the longer term, either because they are prioritising short term saving or for reasons of affordability.
- Just over half of the population met their savings goal last year, though the average level of saving was relatively modest at £2400. This was down from over £2600 last year.

Barriers to saving

- Over half of the population is saving less than they were two years ago, with lack of money being the biggest barrier to saving.
- This has been a consistent theme of our research and we cannot expect this to change significantly without people making important lifestyle choices.
- Consumers accept that responsibility for saving falls mostly on themselves, with very few believing that the Government is responsible.

Investment

- The most commonly held savings are cash based, in line with the short term savings outlook.
- For similar reasons, the significant majority are not planning to invest in the stock market over the next 12 months.
- There are various reasons for this, including know-how and risk appetite.

Saving for Family Members

- The UK population continues to give or loan money to their children, a phenomenon that has grown rapidly in recent times.
- This year, the 'Savings Sap' – or the amount that parents have loaned to their children stands at £16,000, up from £14,000 last year.
- There are a number of reasons for this; whether for specific purchases, repaying debt or meeting everyday expenses.
- This can represent a significant hit to the parent's savings at a potentially difficult time; but very few people are actively saving on behalf of a relative.

Part 2: Current Attitudes to Saving

How much is the UK Population Saving?

Just under two-thirds (64%) of UK adults are saving in some capacity, either for the short-term, long-term or both. The remaining third (36%) are not saving at all.

This represents a significant shift since 2009 when only 20% of the population were not saving, which could be seen as a direct consequence of the move into a tough economic climate.

In the past twelve months, 62% of the UK population has actually saved money. In last year's report, the average person aimed to save around £2,300 in the year ahead, however they actually did slightly better than expected, saving £2,400. The results from this year's research shows that the average person again aims to save around £2,300. However there are big deviations across the population, with one in five (22%) not planning to save at all.

Chart 1: How much did you actually save last year?

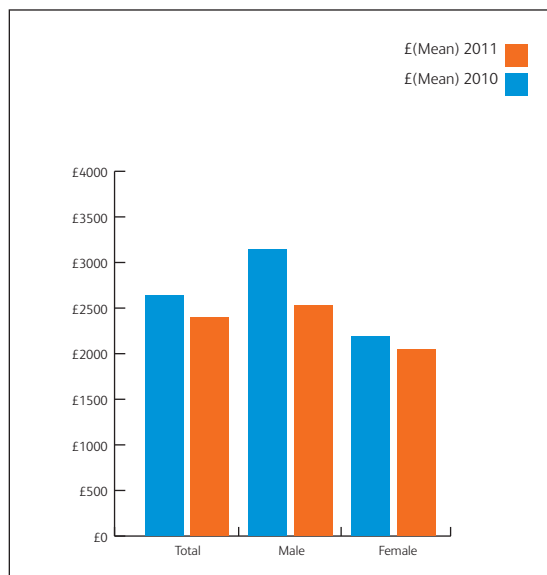
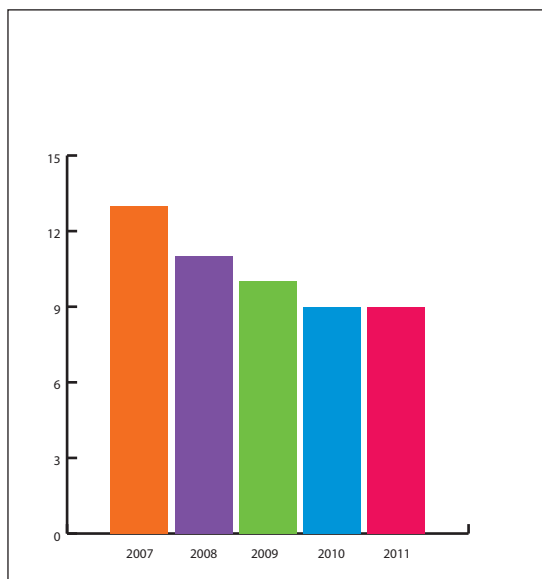


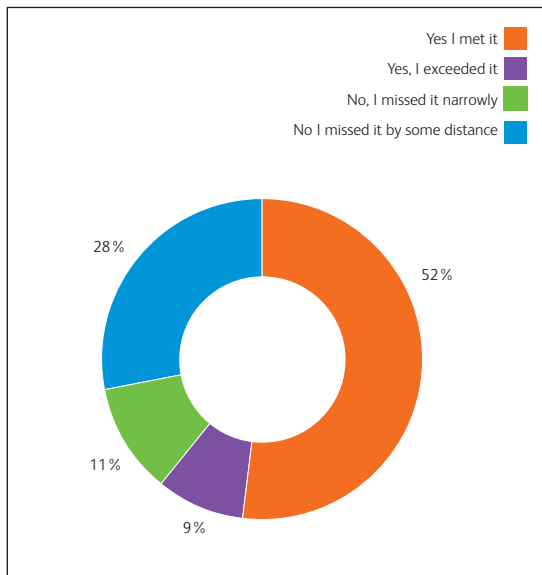
Chart 2: Savings as a percentage of salary



These figures illustrate quite clearly how difficult it has been recently for many people to continue to save the same levels as they have done in the past. When we look back at our very first Savings and Investment report in 2007, the level of saving, expressed as a percentage of salary was 13%, however in the last couple of years, perhaps with rising living costs and other economic factors we have seen a sharp fall to around 9%. It will be interesting to see whether this downward trend is set to continue in future years.

In the past year, just over half (52%) met their savings goal, however 28% state that they missed it by 'some distance'. All of this demonstrates that many people are not saving as much as they might like, and indeed we might question whether the remainder are saving enough towards their future.

Chart3: Did you meet your savings goals?



Part 3: The National Picture

The Regional Look

With a large scale survey such as this, we can drill into various different segments to look at variations across the population and how these change over time. In the table below, we look at how percentage of “savers” varies by region now and how this had changed since 2009. We have already commented on the generally lower level of saving since 2009.

We can draw some interesting conclusions from this analysis:

- In 2009 the West and East Midlands saw the highest proportion of the population who were saving.
- This has completely changed in 2011, with the highest proportions now being seen in the South East. Indeed we have seen a major shift in the East Midlands which now has a lower saving rate than the UK average.

The areas with the lowest proportion of the population saving in both years has been the North West and North East

This provides an interesting perspective of economic conditions, not only on the UK population’s ability to save, but also on how the regional picture has changed over a particularly difficult period.

Chart 4: % of people saving across regions

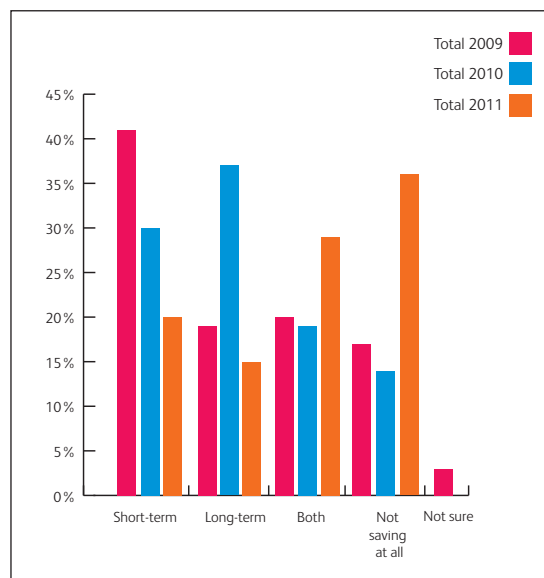


The Focus on Short Term Savings

Half the UK population (50%) are saving for the short-term, with just over half (55%) saving nothing for the long-term.

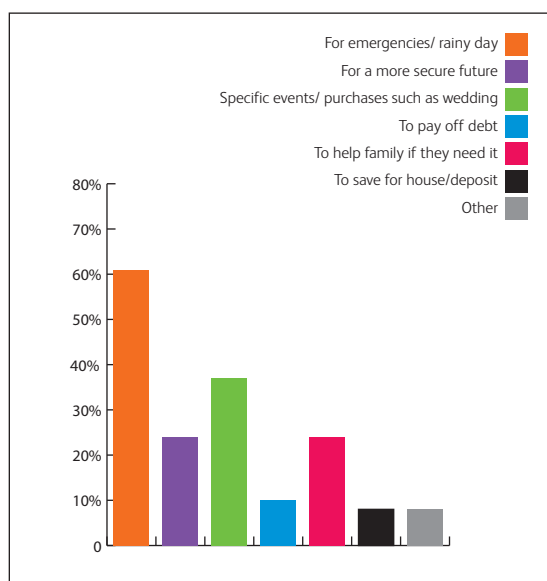
Over the past three years, there has been a large shift in savings habits. The number of non-savers has almost doubled in the last three years, even taking into account a slight drop last year. The number of non-savers has doubled in the last three years. We also saw a large spike in long term savers last year, however this has again tailed off this year. The good news from this years results is that there is a big increase in those saving for both the short and long term.

Chart 5: At present, are you saving for the short-term, long-term or not at all?



When we look at the priorities of short term savers, we can see how the influence of recent difficult economic conditions can play its part. The majority of short term savers (61%) are saving for a 'rainy day', perhaps fearful of future employment prospects, debt, or rising costs. A further one in four (24%) say they are saving to support others including family members, a theme that will be explored later in this report.

Chart 6: What are the main reasons for saving for the short term



We asked respondents to select all that applied

When we drill into population segments, we see specific trends:

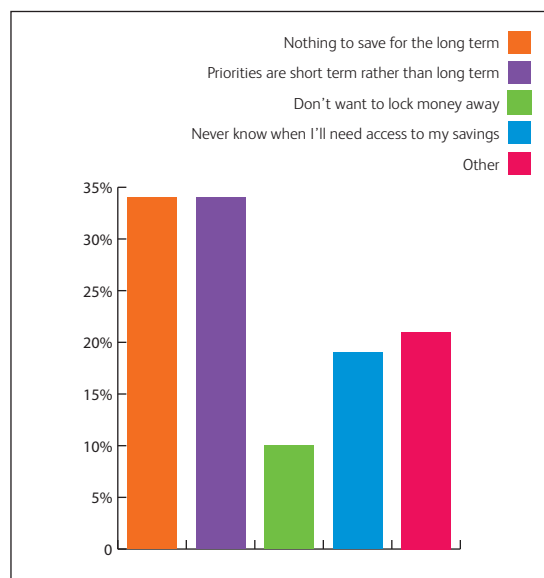
- Half (49%) of the younger population (aged 18-34) are saving for a specific purchase – perhaps a car or deposit for a mortgage compared with 32% of those aged 35+.
- Two thirds (65%) of those aged 35+ are prioritising 'rainy day' savings, compared with 51% of those aged 18-34.
- Similar differences can be seen between males and females, with females more likely than males to save for a 'rainy day' (63% and 59% respectively).

The Shortfall in Long Term Savings

When the industry talks about long-term savings it usually means 10 years or more. Our survey shows that almost a quarter (24%) of savers consider the long term to be just 3-5 years, which is more in line with what the industry would consider as short term. When we asked what length of time savers believe as being short-term, almost half of respondents (49%) believe the timeframe to be just 1-2 years, with a third (33%) stating less than a year.

The priority of short term savings seems to have direct implications, in terms of both how much people are saving for the long term – and even their willingness to consider longer term issues. When we asked about the reasons for not saving for the longer-term: one third (34%) indicated they have nothing to save in the long-term, with a further third (34%) stating their priorities are in the short-term.

Chart 7: Reasons for not saving for the long term?



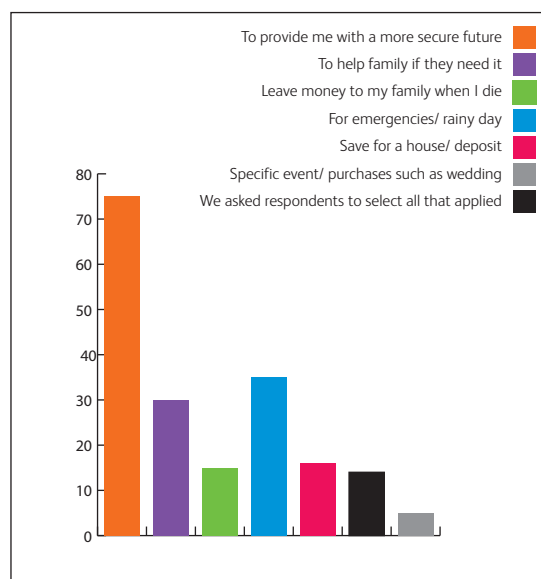
We asked respondents to select all that applied

The specific reasons for not saving for the long-term can be linked to life-stage:

- 37% of 35-44 year olds do not save due to not having available means, compared to 30% of those aged 18-34.
- 43% percent of those aged 18-34 say their short-term needs are more important than their long-term needs, in comparison to 31% of those aged 35+.
- A third of males (36%) state they do not have money available to save, slightly ahead of 32% of the female population.

Amongst long-term savers, future security for themselves and their family is clearly the dominant motivation. Three quarters (75%) save for their own security, 35% to support themselves in case of an emergency and a further three in ten (30%) to support family members if they need it. This all makes sense in an environment where people are taking responsibility for their financial future, rather than looking for the State to support them. However, the alarming conclusion from our survey is that too few people are willing and/or able to prioritise to save for the long term.

Chart 8: What motivates you to save for the long term?



Amongst the group of long-term savers, only one in four (27%) feel they have saved enough for their future needs. Thirty-one percent believe they are not far off achieving their aim, however 38% do not feel they are anywhere near their target.

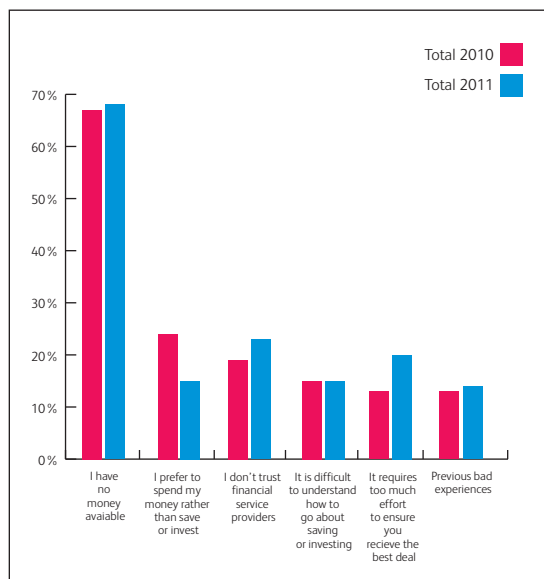
Interestingly, the male population appears to be much more confident in this respect. Around one third (31%) of males saving for the long-term believe they are saving enough for their future needs, compared to 22% of females. Nearly half (47%) of females believe they are not saving enough, a result which is significantly higher than amongst their male counterparts (29%). We believe that much of this can be attributed to the higher amounts actually saved by males, although this perception may also be influenced by the level of confidence in financial matters.

Part 4: Barriers to Saving

Not only are many people unwilling or unable to save, our survey results tell us that over half the UK population (57%) is saving less than they were two years ago. This is due to a combination of less disposable income and rising costs of living.

Two-thirds (68%) of the UK population state that having no money available is a major barrier to saving. Amongst these, the reasons for this perceived barrier include, daily living costs (67%), low income (50%), commitments including paying off debts (31%), mortgage payments (25%), and 'high taxes' (19%).

Chart 9: Major barriers to saving



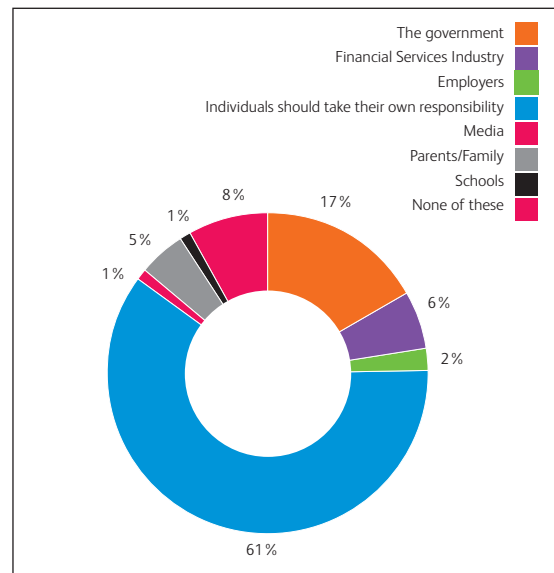
These barriers to saving are broadly consistent with last year's report. As such, we might regard this as representing a return to "steady state" after the extreme results of 2009, when "no money available" was highlighted as the barrier in 85% of cases, a very immediate and direct response of highly stressed financial conditions.

As we might expect, those with a gross personal income of less than £10,000 per year (79%) are significantly more likely to consider not having enough money to be a barrier, compared to 66% of those with gross personal income of £10,000+.

17% of the UK population state that their preference for spending over saving and/or investing is a major barrier. This demonstrates that for many people the barrier to saving is largely one of priority, in that they choose to spend their money in different ways. When we look at this in conjunction with the reasons for not saving, we can conclude that many people will face difficult lifestyle choices if they are to save more. Put simply, are people prepared to look at ways to cut their expenditure with a view to saving the balance?

The good news here is that the population understands that it is their own responsibility to save. Indeed 61% of the population believe responsibility for encouraging saving falls mainly on the individual. Less than one in five (17%) think it is the Government's responsibility. Even smaller proportions think it is the responsibility of financial service providers, family, media and schools.

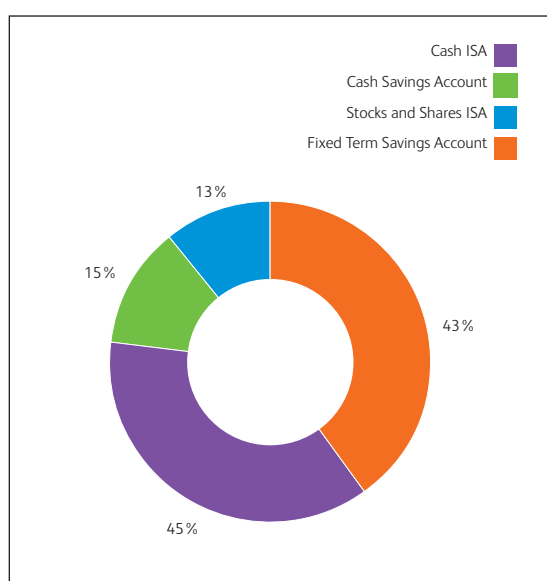
Chart 10 Who would you say had the most responsibility to encourage people to save more?



Part 5: Investments

We find that the most commonly held savings products in the UK are cash-based.

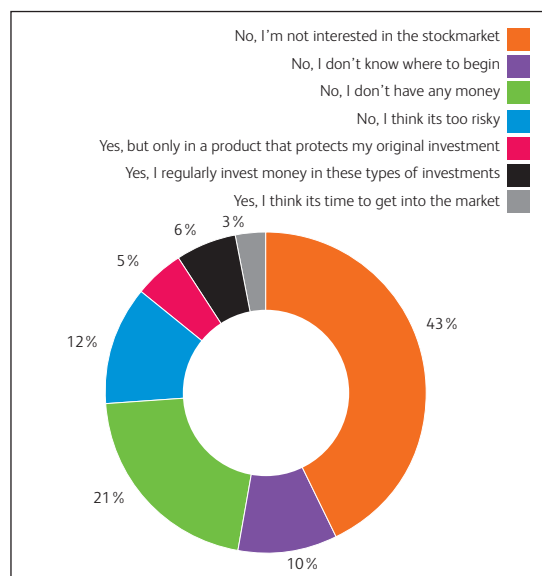
Chart 11: Most commonly held savings products



This bias towards cash investments is reflective of short term savings goals. By contrast, investment in stocks & shares can produce volatile outcomes in the short term. However stocks & shares have their place in a longer term portfolio, particularly when we bear in mind the risk that the value of cash can be eroded in real terms by inflation, particularly in a low interest rate environment.

The majority of the UK population (85%) are not planning to put money into stock market related investments in the next twelve months and less than one in ten (6%) actively participate in stock market based investing. Forty-three percent are simply not interested in investing in the stock market, and just over a fifth (21%) do not have the money to invest, while 12% deem it 'too risky'. This may be appropriate for short term investments, but might be a concern in relation to long term investment, where the stock market has historically produced strong returns for many investors.

Chart 12: Are you planning to put money into stock market related investments in the next 12 months?



The survey results show a general aversion to taking risks in savings and investments:

- Only one in five (19%) agree they are willing to take a risk in the knowledge they could make money on their investment. Indeed, 9% percent agree that they find 'taking risks' with their savings and investments exciting.
- Over half (55%) agree they would be willing to accept a low interest rate in the knowledge that their savings and investments are safe. Conversely, only a fifth (22%) agree that due to low interest rates, they need to take risks in order to make a return on investment.
- The 'cautious' theme continues with nearly three in five (59%) stating they agree that they will not consider products which put their original investment at risk.
- The current economic climate has undoubtedly had an influence in this area, with 42% agreeing that they are less likely to take financial risks than they were three years ago.
- Generally speaking, those who are 'more willing' to take risks in their savings and investments tend to be male, those aged 18-34 and social grade ABC1.

In the short term, the challenge for the financial services industry is to produce attractive products (as an alternative to cash) that recognise and embrace the concerns of their customers. So for example, there is clearly a place for products that protect capital while providing some upside investment exposure.

In the longer term, the challenge is to build consumer confidence in investing in a broader range of assets. While short term volatility is an inherent characteristic of the stock market, we can help customers understand that it can have an important place in providing returns within a long term investment portfolio. This will be particularly relevant when focus moves towards longer term priorities, such as planning for retirement.



Part 6: Saving for Relatives

Our surveys in previous years have highlighted the phenomenon of parents giving or lending money to adult children, something we have named the “Savings Sap”. This continues to be a major feature of the financial landscape this year.

The driver for these gifts and loans becomes apparent when we look at the savings habits of 18-34 year olds. In 2009, only 13% of this group were not saving, a figure that increased to 33% last year and has remained at 33% in this year’s survey.

Amongst those with adult children, a quarter (24%) have given or loaned money to their children, most of them recently. Half had given or loaned money to their children in the past year (50%), and a further 21% in the past 1-2 years. Parents giving or lending money to their children do so for a number of reasons: around one third (31%) cite spending money and living expenses (31%), a further third (34%) to help children pay off their debts; 27% for a car; 15% for education related expenses such as fees and 14% for other education-related costs such as books and trips.

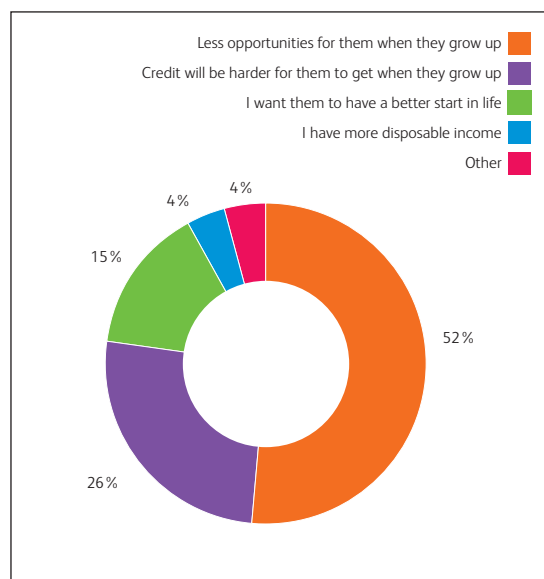
Amongst those who have given or loaned their children money, the mean amount was £16,000. Nearly half (47%) of parents who have given or lent money expect to do so again in the future. On average they expect to give or lend their children £20,000.

To finance this, 68% have dipped into their own savings or investments. Given the amounts involved, this could potentially have a major impact on their financial planning, particularly for parents who are approaching retirement and have limited opportunity to make up the shortfall.

A possible solution is for parents and other relatives to start saving early for their children’s future. Unfortunately this happens only rarely. One in ten (11%) are actively saving on behalf of a relative, most of them on a regular basis. Of those who are saving, 36% are saving for their children and 17% for their grandchildren.

Parents are saving for their children for many reasons, most of which relate to their future financial security. Half (52%) believe there will be fewer opportunities for their children, particularly in relation to future employment, which makes it important to save on their behalf. One in four (26%) believe it is important to save for their children specifically in anticipation of credit being less readily available for them. 15% cite their own experience of the recession as a reason for saving for their children.

Chart 13: Reasons for parents saving for their children



So there are a small minority of parents (and grandparents) in the survey making regular contributions to support their children’s financial future, with a much larger number helping out on an ad hoc basis. For this reason, saving for children and relatives comes out strongly in our report as an important element of financial planning.

Part 7: Conclusion and Key Challenges

Review of findings

The 2011 Savings and Investment report sheds light on what has been a challenging year for savers.

It shows that we continue to be a nation where people's investment focus is short term, with a bias towards lower return cash products. There is clearly a disconnect when people are asked to consider what the long term is and there is not enough preparation being laid for the future.

On a more positive slant our findings show we are a nation where individuals know they are primarily responsible for their own savings.

The key question is how Government and industry engage with people to make them see the benefits that long term savings can bring to them – principal amongst these being a more secure future.

Affordability is a clearly a barrier perceived across the nation, but there are also questions of relative priority as individuals continue to prefer spending over saving.

Next Steps and how to achieve them

To achieve a real step-change in the population's savings habits we need to think about the broader environment and consider ways in which we can bring about large-scale change to consumer behaviour.

The introduction of auto-enrolment alongside the new NEST pension scheme is an excellent example of how to "nudge" people into making good choices. "Nudge theory" should be applied more widely to the savings and investments market – and we believe this should be a priority area of work for the newly formed Behavioural Insight Team within Government.

We would strongly reinforce the conclusions from our previous Savings & Investment Reports that we need a long-term commitment and strategy for improving the capability of customers to understand their financial needs. We strongly support the national strategy for financial capability which the Consumer Finance Education Body is charged with delivering.

However Government and the new Financial Conduct Authority need to bear in mind the need for the average consumer to have access to good quality and affordable financial advice, especially when the Retail Distribution Review is implemented.

For one group in society, parents, our reports have consistently shown that children are increasingly reliant on them to provide financial support – the trends appears to be that children are relying on their parents for longer and for more.

We need to investigate what other motivating factors exist which could prompt people to save. Of those who do save, 75% cited the number one goal was to provide themselves with a more secure future.

Recommendations

We would recommend that industry and government should

1. Develop a message for consumers that "Saving is good for you"
2. Encourage a greater savings habit across the UK by promoting the idea that everyone should start some form of regular savings as early as they can – however small the amount.
3. Support and promote efforts to educate the population so they motivate themselves to save
4. Focus on how to deliver the message that long term means over 10 years, and that it's wise to prepare for the future.
5. Investigate how public policy and product innovation can "nudge" people to begin saving or save more.
6. Encourage people to review their finances and look for ways to alter their current lifestyle to provide them with savings for the future.

Scottish Widows remains committed to encouraging and enabling people to save and we look forward to working with the Government, financial advisers and our customers to achieving this.



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