



Pension Report

Savers vs Spenders



Exec summary

Recent government figures show that while the number of people saving for retirement is at a record high, the average amount they are saving is at a record low.

This report provides analysis of UK consumers' mindsets when it comes to their financial habits and provides steps that can be taken to improve long-term financial health.

2,010 employed adults aged 22-65 were surveyed in 2018¹ on a range of topics around their current finances and their potential financial situation in the future.

The research found:

- More people view themselves as a saver rather than a spender (43% vs 28%)
- Leeds has the highest proportion of savers
- Almost a third of people do not know how much they have saved for retirement

The research shows that people do understand the importance of saving and that they have concerns about their current savings levels.

Recommendations from this report include encouraging people to take more ownership of their pension savings and an increase in financial education in the workplace.

Aviva continues to call on the government to extend auto-enrolment minimum contributions to 12.5% by 2028.

¹ Survey of 2,010 UK employed adults, aged 22-65, surveyed by Censuswide on behalf of Aviva in February 2018

Foreword

Saving for retirement has been revolutionised in the past six years. The introduction of auto-enrolment in 2012 has led to almost 10 million people being introduced to pension saving.

The most recent report² from The Department for Work and Pensions revealed that employee participation in workplace pensions is at a record high.

So, it was slightly disheartening to read in the same report that the average amount being saved every year is now at a record low.

That was always going to be the challenge with auto-enrolment. Low minimum contribution levels – starting at 2% of earnings and rising to 5% in 2018 – have encouraged more people to stay opted in. The power of inertia (employees have to take action to opt out) has done the same, but people are only saving small amounts.

It's obviously a huge positive that so many people are contributing to a pension, but they are not saving enough. Even the increase in minimum auto-enrolment contributions to 8% in 2019 will still leave most people short when they come to retire.

However, as you will read in this report, there are encouraging signs. More people identify themselves as a saver than as a spender - even if the facts seem to counter this self-perception - and there is an awareness among a large proportion of people that they should be saving more.

We have even ranked cities in the UK to show the regional differences in whether people see themselves as savers or spenders.

I am encouraged by the findings in this report but it is clear there is more to be done to prepare people for retirement and improve their financial resilience.



Colin Williams

Managing Director
Workplace Benefits, Aviva

² www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2007-to-2017

Part 1: Who are the savers and spenders?

If you only take three things away from this chapter:

- 43% of people describe themselves as ‘more of a saver’ with 28% ‘more of a spender’
- 22-30 year olds are the most likely to call themselves a saver (49%)
- Leeds has the highest proportion of people who see themselves as savers while London scores highest for those who describe themselves as spenders.

The first thing to say about savers and spenders is that there is not a right or wrong answer. In reality, many of us straddle both at different times of our lives, different times of the year and even around pay day.

The research carried out for this report supports that. Almost a third of people (29%) said they are neither a saver nor a spender.

And there is a desire to change financial habits, regardless of whether you see yourself as a saver or spender. Over three quarters of people (79% of those who identified as spenders or as neither) said they would like to change their spending habits to be more of a saver. But close to half (44% of those who identified as a saver or neither) would like to be more of a spender.

Who are the savers and spenders?

Table 1: Would you describe yourself as more of a saver or a spender?

	Total	Male	Female	Age 22-30	Age 31-45	Age 46-55	Age 56-65
Savers	43%	45%	41%	49%	42%	41%	43%
Spenders	28%	29%	28%	30%	33%	22%	20%
Neither	29%	27%	31%	21%	26%	37%	37%

Figures have been rounded to nearest percent

As Table 1 shows, the saver or spender mentality doesn’t appear to be influenced by gender, but age does have a role to play.

Perhaps surprisingly, the youngest age group surveyed, 22-30 year olds, had the highest proportion describing themselves as savers. But the popularity of auto-enrolment among young people, and the British obsession with getting on the property ladder, may go some way to explaining this.

The results also indicate that the proportion of those identifying as a spender starts to drop off as people get older, peaking at a third (33%) of 31-45 year olds, but falling to just a fifth (20%) of those aged 56-65.

Part 1: Who are the savers and spenders? (continued)

Where are the savers and spenders?

Table 2: Percentage of people who identify as a saver or a spender based on the city they live in³

	Savers League Table	Spenders League Table
1.	Leeds (47%)	London (34%)
2.	Glasgow (45%)	Glasgow (33%)
3.	London (45%)	Sheffield (32%)
4.	Manchester (44%)	Leeds (32%)
5.	Norwich (43%)	Edinburgh (30%)
6.	Newcastle (43%)	Cardiff (28%)
7.	Sheffield (42%)	Nottingham (26%)
8.	Birmingham (42%)	Newcastle (26%)
9.	Edinburgh (41%)	Liverpool (25%)
10.	Southampton (40%)	Norwich (25%)
11.	Liverpool (38%)	Birmingham (25%)
12.	Cardiff (38%)	Southampton (23%)
13.	Bristol (36%)	Manchester (23%)
14.	Nottingham (34%)	Bristol (21%)

Figures have been rounded to nearest percent

The research shows that Leeds has the highest proportion of people who see themselves as a saver, closely followed by Glasgow.

It's perhaps not surprising to see London, where living costs are typically highest, at the top of the spenders' leader board, although more people there actually identify themselves as a saver.

One clear trend is in Manchester which is close to the top of the savers' table but is second from bottom when it comes to the number of people identifying themselves as a spender. But it doesn't mean the people of Manchester are complacent about the importance of saving. Almost half (47%) of people living there went on to say they feel they need to be saving more.

It is interesting to note that far more people identify as a saver (43%) than as a spender (28%) despite the latest figures from the Office for National Statistics revealing that the UK household savings ratio⁴ has fallen to 4.1%⁵ - down from 10% in 2015.

³ Data excludes cities with lower than 50 respondents to the survey

⁴ The percentage of disposable income that is saved

⁵ www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea

Part 2: How much are the savers saving?

If you only take three things away from this chapter:

- Almost a third of people (31%) do not know how much they have saved in their pension pots
- That increases to two in five (40%) of 46-55 year olds - the highest proportion of all age groups
- 1 in 5 (21%) people have no additional savings other than a pension

In Part 1 one of this report we heard that more people identify as savers than as spenders. So where is that saved money going?

Pensions appear to be one of the most popular options for saving. Figures released earlier this year by the Department for Work and Pensions revealed that pension participation is at an all-time high at 84% of eligible employees⁶. However, the average amount being saved per active saver is at a record low, at £5,110 for the year 2017 (and this figure may be inflated by higher earners saving a greater proportion of their salary).

But despite record participation, many people are not tracking how much they are saving towards retirement.

⁶ www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2007-to-2017%20 <https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2007-to-2017>

Table 3: To the best of your knowledge, how much do you currently have saved in your pension pots?

Answer	Total
I don't know	31%
£1 - £500	4%
£501 - £1000	4%
£1001 - £5000	8%
£5001 - £10,000	7%
£10,001 - £25,000	9%
£25,001 - £50,000	8%
£50,001 - £75,000	6%
£75,001 - £100,000	6%
£100,001 - £200,000	7%
£200,000+	5%
I do not have pension pots	5%

As Table 3 demonstrates, almost a third (31%) of people don't know how much they have saved. Interestingly, the demographic most in the dark about their level of savings are those aged 46-55 (40%). This age group are approaching the point when retirement savings can be accessed so it is concerning to see such a high proportion of people are unclear on how much they have saved.

The good news of course is that the majority of people across all age groups say that they do know how much they have saved towards retirement.

Part 2: How much are the savers saving? (continued)

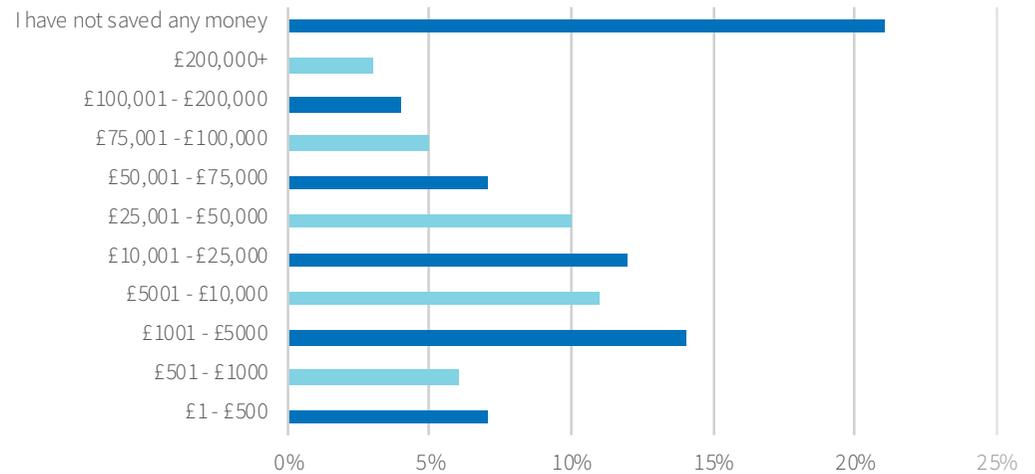
Based on these figures, the mean amount people have saved in a pension is just over £49,000⁷. For someone with years of pension saving ahead of them, this size pension pot is encouraging.

However, anyone close to retirement should be aware that a £50,000 pension pot would provide an annuity income of approximately £2,516 per year⁸.

But what about savings beyond pension pots?

As Table 4 shows, 1 in 5 (21%) people have nothing saved and 13% of people say they have £1,000 or less. In fact, over a quarter of people (27%) have £5,000 or less in savings outside of their pension, providing a very small buffer should their circumstances change.

Table 4: How much do you currently have saved in addition to your pension pots (e.g. general savings account, ISA)?



7 The survey asked, 'To the best of your knowledge, how much do you currently have saved in your pension pots?'. Respondents were not asked to differentiate between their defined contribution or defined benefit savings

8 Based on person aged 65, normal health, non-smoker, 50% spouse pension where spouse 3 years younger, postcode EH42 (near UK average life expectancy) Not Inflation linked.

Part 3: Pension Pride or Savings Stress?

So far in this report we have established whether people identify as a saver or a spender, and looked at where the savers are putting their money.

So, do people believe they are saving enough?

Table 5: What are your thoughts on the size of your savings (pension and otherwise)?

a record high (79%), but if many of those younger people are saving at the auto-enrolment minimum - currently 5% of earnings, moving up to 8% in 2019 – they may still want to think about saving more to provide them an adequate income in retirement. Aviva has called for auto-enrolment minimums to rise to 12.5% of earnings by 2028.

Answer	Total	Age 22-30	31-45	46-55	56-65
I think I need to save more	49%	47%	52%	50%	40%
I believe I am saving enough	28%	25%	26%	30%	38%
I think I can afford to save less	8%	15%	9%	3%	2%
I don't know	11%	9%	10%	13%	17%
I do not have any savings	4%	3%	4%	4%	3%

Table 5 shows that almost half (49%) of people recognise that they need to be saving more. This level of awareness is clearly a positive, although it needs to be acted upon.

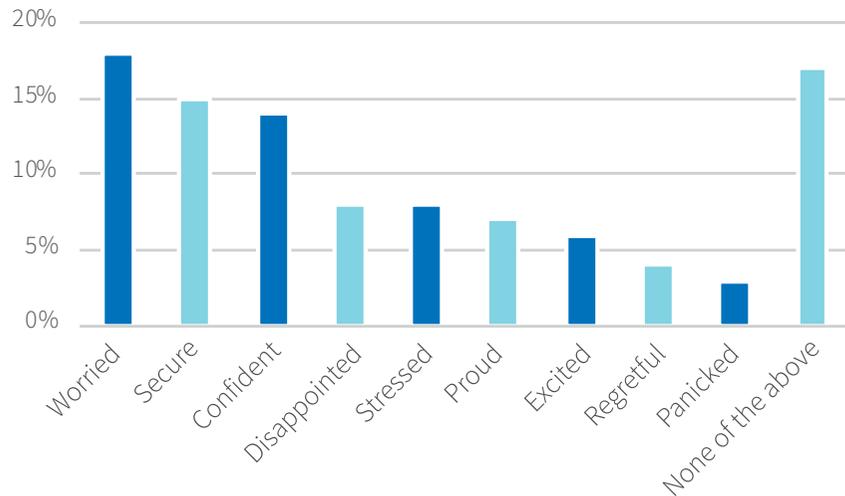
Age appears to influence confidence around saving as well. While almost 1 in 7 (15%) of those aged 30 and under feel they can afford to save less, that figure drops to just 2% of those aged 56 and over.

That confidence among younger people could be misguided. The proportion of under 30s saving into a workplace pension is now at

Part 3: Pension Pride or Savings Stress? (continued)

So, when it comes to their financial habits, do people have pension pride or saving stress?

Table 6: When you think about your current level of savings (pension and otherwise), which of following best describes how you feel?



While the most common emotion towards savings levels is a negative one – worried – it is encouraging to see more positive emotions – secure and confident – featuring in the top three.

Some of the responses did highlight stark differences between men and women. 23% of women said they felt worried about their level of savings compared to just 13% of men. And there was a big gap in confidence levels as well with 18% of men describing themselves as confident in their savings levels compared to just 10% of women.

Overall the proportion of positive responses (secure, confident, proud, excited – 42%) around savings levels is pretty much balanced alongside the negative ones (worried, disappointed, stressed, regretful, panicked – 41%). But there are indications of some wide divisions in society around feelings towards financial security. Having two in five people either worried or stressed about their finances is a concerning statistic.

Part 4: Rules of thumb for retirement saving

Aviva has previously made a series of recommendations⁹ to government on how to keep up the momentum of auto-enrolment, which has so far introduced almost 10 million people to pension saving.

One of these recommendations is to simplify how appropriate savings levels are explained.

We would like to see the following ‘rules of thumb’ adopted:

- 40 year rule: Aim to begin saving at least 40 years before your target retirement date
- 12.5% rule: Aim to save at least 12.5% of your monthly salary towards your retirement
- 10 times rule: Aim to have saved at least 10-times your annual salary by the time you reach retirement age

⁹ Aviva’s auto-enrolment pre-review - www.aviva.com/newsroom/public-policy-items/aviva-s-auto-enrolment-pre-review-2016/

Conclusion

This report gives a useful insight into savers and spenders and the feelings people have towards their financial security.

The people of Leeds are clearly leading the way when it comes to having a saver's mentality, but overall the findings show that people in the UK need to take control of their financial futures.

Knowing how much you have saved in your pension pots would be a good start. From there you can begin to understand how much you may need for an enjoyable retirement and set up a plan to achieve that goal.

Auto-enrolment has a major part to play in developing a saver's psyche but we cannot allow the low contribution rate to lull people into a false sense of security. We believe the minimum contribution level needs to rise to 12.5% by 2028 to give people a realistic chance of achieving a comfortable retirement.

Saving should not be stressful and it would be great to see more of us take pride from putting money aside each month. But people should also feel free to live a little and enjoy their spending if that is what makes them happy.



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