The Savings Ladder

A manifesto to get Britain investing

February 2024

abrdn.com

Contents

"The development of a greater saving and investing culture in the UK, and having more straightforward ways to save and invest, are critical to people up and down this country securing the futures they want for themselves and their families. Ensuring that the UK has the right frameworks and products to provide savers with the returns that meet their needs and companies across the country with the funds they need to grow (and in turn to employ those same savers and their families) is a critical project."

"I welcome abrdn's report which shines a straightforward light on a problem statement and solution that can seem complex, but in its intent is both simple and essential."

Julia Hoggett
CEO, LSE Plc

Executive Summary

"If we can encourage more people to get on the Savings Ladder, and start climbing, then that will be good news for everyone."

Stephen Bird
Chief Executive Officer

Property shows on TV, the drumbeat of media chatter around house prices, the mortgage lens routinely applied to rates shifts – these are all common cultural factors that underline an interesting truth in the UK. For many Britons, the idea of home ownership has become central to how they think about their financial lives.

For decades, successive governments, of all colours, have helped to create an environment where property has become something of a national obsession. From stamp duty holidays to mortgage support schemes, an array of policy tools have been devised and deployed to ensure the housing market is supported.

And it's not just politicians. The 'bank of mum and dad' put up around £17 billion each year to help their children, according to the **Institute for Fiscal Studies**, with property the leading reason.

All of which begs an important question: what lessons we can learn from the nation's devotion to the 'property ladder' that can be applied to another critical issue that society urgently needs to address – the savings gap?

We have seen spikes in recent years, not least the rise of the armchair trader during lockdown. We see it in our business, where growing numbers of customers are taking charge of their financial lives and retirement planning. But none of these moments in time yet come anywhere close to the broad cultural movement that has built up around property and home ownership and which we need to help build the nation's financial resilience.

With the state pension age edging up, pressure on how far governments can go to support an ageing population, and retirement provision increasingly resting on the individual, we are now looking at a future where peoples' finances fall far short of what is required to give them the retirement they desire.

In that context, we need to think about how we might develop the same enthusiasm for a 'Savings Ladder' where people can see the benefits of starting early, building their pot, investing to grow it, and ultimately delivering the retirements they want and deserve.

Albert Einstein articulated it best, reportedly describing compound interest as the "eighth wonder of the world", to explain how returns can snowball over time. The stock market has the potential to do much of the heavy lifting for us over the long term. With dividends stripped out, the FTSE All Share is up just 27.8% over 30 years to 31 December 2023 versus 258.6% with dividends reinvested even when factoring in inflation.[1]

Another critical step to building the savings culture we need is to substantially increase, and ideally double, the minimum payment thresholds into defined contribution pensions.

The politics of this is difficult, but as many look enviously to models in counties like Australia, there aren't many people in the industry who don't believe that this is a nettle that needs to be grasped.

abrdn is a business that stretches from asset management, where we look after the investments of millions of people, to supporting a large proportion of the UK's financial advisers, to offering one of the leading direct investing platforms on the market.

It's certainly in our interest to see more people plan, save and invest for the future, but it's also a critical challenge for our society. If we can encourage more people to get on the Savings Ladder, and start climbing, then that will be good news for everyone.

[1] Source: abrdn using Haver Analytics with returns adjusted for inflation using the UK Consumer Price Index. Past performance is no guide to the future. The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.

Property versus saving: research overview

Attitudes to property vs saving: the research overview

New research commissioned by abrdn at the turn of the year underlines how property is seen as the gateway to financial freedom, often at the expense of all else.

Putting our hypothesis to the test, research was conducted on behalf of abrdn by Opinium research between 29 December 2023 – 3 Jan 2024, amongst a nationally representative sample of 2,000 UK adults.

Half of the UK population (48%) think that property is a better long-term investment strategy than a pension. Only one in six (16%) of people think pensions are a better investment option, with the rest undecided or not persuaded on either.

Those even more likely to favour property over pensions are the young aged 18-34 (53%), those living in London (56%), those on higher incomes of £50k+ (53%), and those that own their own home (53%).

Property and pensions are not mutually exclusive, but the tendency to favour property over pensions feels like a collective industry and policy challenge.

And while three quarters of UK adults are savers, cash is favoured by three in four.

At a time when the UK's mass intergenerational transfer of wealth has barely begun, how that wealth is put to work is an area that Government and policy makers urgently need to dwell on.

We welcome the spirit behind consultations to make capital markets, pensions, advice and guidance work better for people.

Imagine the impact on people's long-term financial resilience, not to mention the wider economy and UK capital markets, if we could also embrace a culture of investing. If people are to get on the first rung of a Savings Ladder, we believe that we need a broader cultural movement.

This manifesto, including policy suggestions, is the result of collaboration and insights from across the abrdn business, with a team approach. For anyone who wishes to share thoughts or ask questions, we have provided contact details at the end.

Bring back Sid

"It's time to get Sid investing again," Chancellor Jeremy Hunt quipped during his 2023 Autumn Statement, setting out the Government's intention to sell its remaining stake in NatWest to the general public.

For anyone over the age of forty, this was an obvious reference to the Thatcher Government's famous advertising campaign around the denationalisation of British Gas.

But it also played to the need for an investing culture, although this is out of reach for many. Our research suggests 13% of UK adults are just about getting by each month through active budgeting, 5% are paying off debts each month, and 2% of British people are overdrawn at the end of each month.

Three quarters (74%) of British adults are savers outside of their pension, but cash is king. For those investing in listed company shares (19%), four people in 10 do not use an ISA tax wrapper. Only 11% of adults are investing in funds or investment trusts, which diversify risk, but ISA take up is much higher in this group (81%).

And when it comes to pensions, people often don't realise they own stakes in companies. According to research from **Boring Money** in 2023, one in five people with money invested in a workplace pension don't know it is being invested.

Our research found that property is the long-term end game for a quarter (24%) of all British savers, whether that's for house deposits (9%), renovations (8%) or to help children/ grandchildren on the property ladder (7%).

Housing affordability is a perennial issue frequently hitting the headlines, and rightly so. Saving to get on the property ladder is hard. The **Resolution Foundation** estimates that it now takes a young family 14 years to save for a deposit, up from eight years in the 1990's.

Indeed, the Bank of Mum and Dad can't help everyone, and may itself be at growing risk of default as more and more people find themselves either renting, or still paying off a mortgage, in retirement.

Our research has found that 19% of all 35-54 year olds not on the housing ladder think they will never own their own home, and 18% of those aged 55+ and not on the housing ladder think the same.

The cost of home ownership also has implications for mortgage holders. **According to the Institute for Fiscal Studies**, 83% of people with mortgages are still in employment aged 55-65, compared to 57% of people who own outright. While there could be a myriad of other reasons, it seems likely that many carry on in paid work due to mortgage commitments.

Meanwhile, private rental prices in the UK were up by 6.1% in the 12 months to October 2023, according to the **ONS**, the highest annual percentage change since this UK data series began ten years ago.

At the same time, retirement affordability tools, of which the Pension and Lifetimes Savings Association's Retirement Living Standards is the industry benchmark, assumes outright home ownership. That's something that may become less of a norm for future generations given the massive structural issues facing the housing market.

19%

of 35-54 year olds think they will never own a home

18%

of 55+ feel the same

Property and investing: it's emotional

Amongst our own UK representative research sample, 64% of UK adults own their own home (and 37% do so outright, with over three fifths of these aged 55 and over).

Of those who don't own their own home, almost half (51%) want to, with 17% actively saving to get on the housing ladder. For those who don't want to get on the property ladder, over a fifth are resigned to it simply being financially unrealistic.

Owning your own home is an aspiration most of us want to achieve, with the emotional and financial considerations often inextricably linked, and not surprisingly given that property forms such a significant chunk of household expenditure.

According to the **ONS**, private renters in England on a median household income spend 26% of their income on a median-priced rented home in England, ahead of Northern Ireland (25%) and Wales (23%).

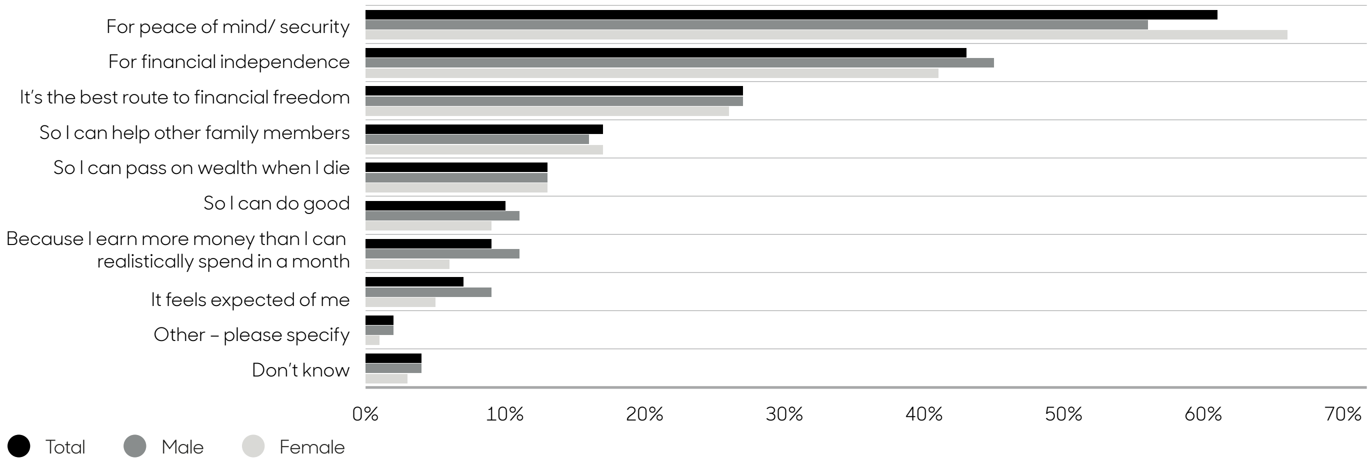
The top reasons for wanting to get on the property ladder, according to our research, boil down to peace of mind and security (80%), paying your own mortgage, not someone else's (31%); liking the idea of home ownership (30%) and home ownership as the best route to financial freedom (19%). Security and peace of mind scored highly for all, and even more so for women, who also felt more strongly inclined towards paying off their own mortgage, rather than someone else's.

What is the main reason why you want to/ wanted to get on the housing ladder (i.e. owning your own home)? Please select your top 3 answers.

What is striking is that amongst our sample who are saving and investing, their top three long-term motivations, in rank order, were similarly more emotional: peace of mind/ security (61%), financial independence (43%) and financial freedom (27%). While a priority for all, women were 9 percentage points less likely to save for peace of mind and security (and 6 percentage points less likely to invest in funds, and 9 percentage points less likely to invest in shares).
But with cash by far the nations favourite long-term way of saving, those outcomes are likely to be compromised.

Property and investing: it's emotional

You said previously that you save money. What are the main long-term motivations behind you saving/ investing money? Please select your top three answers.



While our research focussed on people who save outside of a pension, we also know that many people don't have adequate pension provision. Over a fifth (22%) of UK adults have no pension savings (source: interactive investor **Great British Retirement Survey 2023**), and 38% of the self-employed say they have never saved into a pension.

"Over a fifth (22%) of UK adults have no pension savings and 38% of the self-employed say they have never saved into a pension."

Interactive investor Great British Retirement Survey 2023

Helping solve the productivity puzzle: a note from Paul Diggle, Chief Economist, abrdn

There could be wider macroeconomic benefits from building a Savings Ladder culture, including for the UK's dismal productivity performance.

The UK's productivity performance since the financial crisis has been woeful, and has fallen significantly behind comparable economies. Labour force productivity grew just 0.4% per annum over that period. Resolution Foundation analysis suggests that if UK productivity had increased in line with the average of France, Germany and the US since 2008, Britons would be on average £3,400 better off.

There are a complex variety of reasons for the UK's productivity 'puzzle', including political uncertainty, regulatory barriers, and a rigid planning system. However, part of the story is the UK's lower level of gross fixed asset investment as a share of total economic activity. In the 40 years to 2022, fixed investment in the UK averaged 19 per cent of GDP, the lowest in the G7.

Capital depth – the amount of machinery, computing power, and research and development that employees have to work with – is a crucial determinant of productivity.

Yet, in an economic sense, higher fixed asset investment has to be funded, either through greater borrowing from abroad or lower consumption and more saving at home. The UK's current account deficit, the mirror of overseas investment in the UK, is already large, and government policy shouldn't be directed at becoming even more reliant on the "kindness of strangers". As such, further investment will need to be paid for by higher domestic savings and investment. In the short term, this may mean lower consumption – but in the longer-term the boost to potential growth would make the economic pie bigger for everyone.

Building a Savings Ladder: policy proposals

Financial freedom and security are front of mind when it comes to the nation's long-term goals. But until a nation of savers become a nation of investors, outcomes are likely to be compromised by the long-term effects of cash drag.

In an election year, we would like to see UK political parties commit to a new Savings Ladder culture, so essential to building the nation's financial resilience.

We have a number of policy proposals, with financial literacy front and centre, but with some suggestions on how we can 'nudge' behaviour too.

This Autumn will mark 10 years since financial education was put on the curriculum in Secondary schools in England, but too few pupils have been taught it. The link between the need for financial education and financial deprivation has also been shown to be strong, highlighting the broad need for financial education.

With real life skills increasingly (and rightly) a talking point amongst the main political parties, financial education in schools is due a rethink, and consistency across the nations is key.

These recommendations are the result of collaboration from across the abrdn business, but for anyone wishing to discuss this or the broader report, we have included contact details at the end.

Building a Savings Ladder: policy proposals

Recommendation 1: Start a conversation

The Government needs to start a national conversation on the same eye-catching scale as 'Tell Sid', but for the digital age.

Crucially, any Government campaign should not be solely focussed on the disposal of NatWest shares – it should be a broad campaign relating to investing. ISAs should be promoted as part of share ownership, particularly as this tax wrapper celebrates its 25th anniversary in April 2024. While in many ways a success story, our research suggests that four in ten investors with direct shares outside of a pension are not holding them in an ISA.

We welcome measures by Government to help stimulate investment in UK capital markets. But while UK pension funds allocation has been front and centre to the conversation, the potential and more direct role of the general public has been largely overlooked, despite it being so crucial to the nation's long-term financial resilience.

We are only scratching the surface in the UK when it comes to promoting a savings culture.

We have Talk Money Week in November, and Pensions Awareness week in September. We also have an excellent 'Pay Your Pension Some Attention' ongoing campaign.

Investment companies are increasingly turning to TV advertising, and we have also seen a string of consumer centric regulation and awareness campaigns from the FCA.

But the FCA and industry can't solve this alone, and this is particularly striking when we look at how little the general public consume online financial content (see appendix).

Recommendation 2: Make saving easier

Government should take forward ISA simplification proposals. We and many others have argued that the ISA brand has been stretched too far, with several different types of ISA. This is a barrier to engagement and getting started.

Government arguably has a duty of care to promote and simplify ISAs given the effects of fiscal drag, not least the halving (again) of the dividend and capital gains tax allowances from April. Take up amongst people with direct shares is nowhere near where it should be.

We would also like to see **better engagement through better retirement planning tools for consumers**. We believe the financial services industry and Government-backed websites need to develop more flexible, engaging retirement tools to suit a broader range of people, allowing people to plug in other assets such as ISAs.

Recommendation 3: Remove stamp duty on UK shares and UK domiciled investment trusts.

From stamp duty holidays under labour in 2008 on homes worth up to £175,000 and again in 2020 under the Conservatives on homes worth up to £500,000, UK investors have not had the same number of signals that Government sees share ownership as a habit worth supporting.

Over successive parliaments we have created disincentives for money to be invested in pension and savings pots, depriving UK markets of an obvious source of capital and inhibiting consumers from building financial resilience. Just as stamp duty holidays on property have been shown to have **wider economic benefits**, a savings nudge via the total removal of stamp duty could also be more broadly beneficial to the economy.

Stamp duty on UK share purchases impacts private investors both directly and indirectly. Directly, investors pay stamp duty on UK shares purchases (including UK domiciled investment trusts). Indirectly, investors also ultimately bear the costs of stamp duty paid by asset managers within the funds and investment trusts that they manage. In 2023, stamp duty on all abrdn's UK buys amounted to around £20m.

Stamp duty on UK shares is economically destructive. It constricts liquidity in the marketplace, leads to lower economic growth, and incentivises flow to other markets and products.

Building a Savings Ladder: policy proposals

Recommendation 4: Boosting financial literacy

Financial literacy is not structured to succeed in the UK, because it isn't measured.

The **OECD** collate and publish data on financial literacy levels across 39 countries, and it is striking that the UK does not take part. We don't know the reasons why, but we would like to see a roadmap on how we can move towards measuring UK financial literacy in the future.

This data would be a valuable way to identify policy measures to more effectively target and fund financial literacy at scale in the UK.

We have no shortage of data in the UK on consumer trends, spending, employment, consumer debt and savings. And yet we have no measure of financial literacy levels, which can underpin much wider consumer behaviour.

If we want to build a national strategy for financial engagement, and increase public awareness, we need to start measuring it and assessing it with internationally comparable data.

We also have key recommendations around financial literacy:

- **Extend mandatory financial education to primary schools and Sixth Forms in England to ensure fewer young people miss out on a financial education.**
- **Embed financial education more closely into the curriculum in England, integrating finance into relatable subjects, from maths, economics, citizenship and food tech. Scotland already integrate personal finance across the curriculum, and we would like to see consistency across all four nations.**
- **With political appetite growing for a Skills Revolution around vocational qualifications, we would like to see discussion around a new GCSE and sixth form qualification that focusses on financial skills.**

This may be a hybrid between personal finance/ business and economics that can be useful in life and the workplace, and delivered across the UK's major exam boards to ensure it is treated as a mainstream subject.

September 2024 will mark 10 years since financial education became part of the secondary school curriculum in England, but progress getting it onto the curriculum has been squandered. Less than half of pupils report having received it, according to the **Money and Pension Service**.

The subject is part of 'Citizenship' in Key Stages 3-4 in England, competing for space amongst a range of topics, and not compulsory in primary schools, academies, private schools, faith schools or Sixth Forms.

The link between the need for financial education and financial deprivation has been measured by the charity sector. **Research from The Centre for Financial Capability and the charity MyBnk** shows 76% of schools with children most in need of financial education are in more deprived areas.

Our own research illustrates that 38% of low earners don't access any form of financial guidance or advice (including not speaking to family and friends), fourteen percentage points higher than the national average, further illustrating that this group has even more to gain from more financial education.

Tackle the need for higher pension contributions

Recommendation 5: Double the minimum payment thresholds into defined contribution pensions. And make default funds easier to track.

Auto-enrolment has significantly helped increase financial resilience, particularly for younger workers, but to avoid a future retirement crisis, we all need to be saving more.

This is a policy that could make a difference, on a phased basis. There's no doubt that the politics of this is difficult, but there aren't many people in the industry who don't believe that higher contribution levels is a nettle that will need to be grasped at some point. Higher contributions could be particularly helpful for those closer to retirement who have not benefited from auto enrollment from the get-go, and who have more catching up to do.

We have an industry where funds and investment trusts rightly publish their performance over a range of timeframes, updated monthly and widely accessible in the public domain, for example investment platform websites.

And yet it is difficult for people to see and compare how their workplace pensions are performing. This makes it harder for people to make decisions, and this lack of transparency is against the spirit of consumer duty.

"Both higher contribution levels, as well as greater scrutiny of default schemes, are already embedded in the Australian model."

Final observations underpinning policy recommendations

Complementary consumer regulatory background

July 2024 will mark one year since Consumer Duty became a reality, putting good consumer outcomes front and centre, giving people greater clarity of what they are getting (or could be getting) for their money, and how much they are (or would) pay for it.

The review of the **advice/guidance boundary** is another crucial step, and will hopefully allow regulated firms to better help consumers without stepping into financial advice. But engagement is key to success. You can only be 'nudged' if you are part of a conversation.

Equally, the '**pot for life**' proposals set out in the Autumn Statement is a potential positive: by giving people the freedom to ask employers to pay pension contributions into the pension of their choosing, it has potential to make pensions something people can actively engage with, rather than something that is done to them. But again, in order to work, we again need to start a conversation.

Appendix

Research in more detail

Almost half of UK adults think that property is a better long-term investment strategy than pensions, with a quarter undecided and 10% choosing neither option. While only 16% of the nation thought pensions were a better long-term investment, this rose to over a fifth of men, with men more than twice as likely to favour a pension as a long-term investment strategy.

Which of the following investment strategies do you think is best for making long-term investments?

		Gender	
	Total	Male	Female
Property	48%	47%	48%
Pension	16%	22%	10%
Neither	10%	11%	10%
Don't know	26%	21%	31%

Three quarters of UK adults are savers – but cash is King

Outside of pensions, three quarters (74%) of UK adults are savers, including 38% who save regularly every month outside of their pension. A further 13% save most months and a quarter (23%) save when they can. Overall, men are more likely to save than women (77% versus 71%).

Around a quarter of the general public are non-savers (26%), rising to 29% of women, 32% of those aged 35-54 and almost half (46%) of the low-income group (earning under £20k).

Savings goals

Having cash savings for emergencies is crucial, and a clear focus in our research. It is planning for the worse, rather than hoping for the best, which dominates the top two savings goals. A rainy-day fund for harder times (36%) is prized even above an emergency buffer (30%), holidays (29%), pensions (28%), and well above financial freedom (25%).

Saving for property related goals also scores highly (24%), through a combination of housing deposit (9%), house renovation (8%) or to help children or grandchildren onto the property ladder (7%).

There are large differences in motivation by age here, with those aged 55+ much more likely to be saving for a rainy day (43%), a safety buffer (35%) and for retirement (34%).

Leaving it to chance

Premium bonds are the nation's favourite investment (26%), despite more than half of all savers having **never won a prize** in the past two decades, according to freedom of information requests published last year.

That's more than double the number of people who own funds, investment trusts, or ETFs (11%). And it's well ahead of the number of people who own direct shares (19%) as opposed to funds. Cryptocurrency is held by 6% of UK adults, rising to 10% amongst 18-34 year olds.

Men are more likely to hold investments, including shares (24% versus 15% for women), Funds/ Investment Trusts/ ETFs (14% versus 8% for women) and cryptocurrency (9% versus 3% for women).

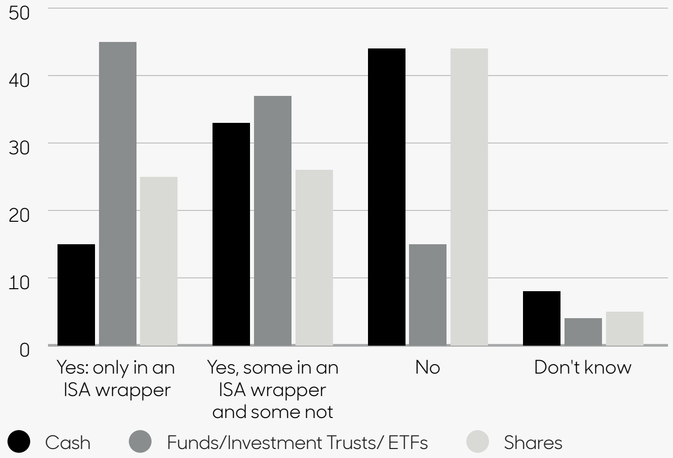
Those with high incomes and those who take financial advice are both more likely to hold shares (28% and 25% respectively) and they are also more likely to hold Funds/ Investment Trusts/ ETFs (17% and 16% respectively).

Appendix

ISA's a success story that could be even more successful

For funds, investment trusts and ETFs held outside of a pension, tax free individual savings accounts are well used. For cash the figure is much lower, perhaps due to people wanting instant access without impacting their annual allowance. But what is striking is that those who hold direct shares are far less likely to do so in an ISA.

Previously you said you hold cash/ shares/ funds/ investments trust/ ETFs outside of your pension. Do you hold these investments in any ISA wrapper?



Appendix

Not Cutting it

Neither impartial Government tools and websites nor the UK's financial services industry is to date securing engagement for their content at scale (all in the low percentage single digits).

Family is the nation's favourite financial adviser (26%), in joint place with Money Savings Expert. 18-34 year olds are even more likely to turn to family (38%).

About abrdn

abrdn is a global investment company that helps clients and customers plan, save and invest for the future. Our purpose is to enable our clients to be better investors. abrdn manages and administers £495.7bn of assets for clients (as at 30 June 2023).

As one of Britain's largest, listed, asset managers and an investment platform owner spanning retail and intermediated retail, abrdn plays a central role in helping people achieve the financial futures they deserve. With that comes a passion and duty of care to advocate for better tools, better outcomes, and better engagement. A more financially resilient and engaged consumer also means more investment in UK growth, vital to both the economy and capital markets, issues which abrdn is fully committed to.

Our strategy is to deliver client-led growth. We are structured around three businesses – Investments, Adviser and Personal – focused on their changing needs.

More information

This manifesto is the product of close collaboration from across the abrdn business.

For more information, please email jemma.jackson@abrdn.com

For more information visit abrdn.com

abrdn Group comprises abrdn plc and its subsidiaries. abrdn plc is registered in Scotland (SC286832) at 1 George Street, Edinburgh EH2 2LL.

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