How can the UK close its saving and investing gap?

abrdn launches new Savings Ladder Index to track progress

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Introduction

It is the truth we all want to ignore: as a nation we are not saving enough. Widespread research shows the majority of Britons will not enjoy the standard of life they are used to in retirement because of insufficient pension savings.[1]

The UK urgently needs to establish a national culture of saving for later life. Just as so many of us save to get on the property ladder, at abrdn, we think there is equal need for a **'Savings Ladder'** – with clear steps that can help people on their journey to a happy, comfortable retirement.

That's why we have launched a new 'Savings Ladder Index' to track changes over time in how Britons are thinking about saving and investing for the future – as well as how much they are saving and investing.

The index will measure the country's overall 'Propensity to Save and Invest' every six months by looking at people's 'Propensity to Save', their 'Propensity to Invest' and their outlook for the economy – generating a score for each.

The scores consider factors including: how well people understand savings and investments, their risk tolerance, and their confidence in taking out and managing financial products.

As part of the Savings Ladder Index, we have also established the first ever on-going barometer of adult financial literacy in the UK. By regularly gauging levels of financial capability, we will be able to see how this interacts with people's financial outcomes and resilience.

[1] First 100 days of government: Support adequate pension saving | PLSA

The Index

In a poll of 3,000 UK adults conducted by Opinium, abrdn's first Savings Ladder Index found that Britain's average Propensity to Save and Invest was 45/100.

While this is only a first benchmark and, for the moment, lacking comparison, it does suggest a low propensity to save and invest – potentially reflecting the current economic climate and the on-going cost-of-living crisis. We will be able to track the impact of the General Election in the next wave of research.

UK adults overall had a higher propensity to save, pulled down by a lower propensity to invest and economic outlook score.

The Propensity to Save and Invest score was made up of:

An average Propensity to Save score of 53/100

Measures:
- understanding of savings products
- likelihood to increase savings in the next six months
- likelihood to take out new cash savings products in next six months
- confidence in taking out and managing savings products

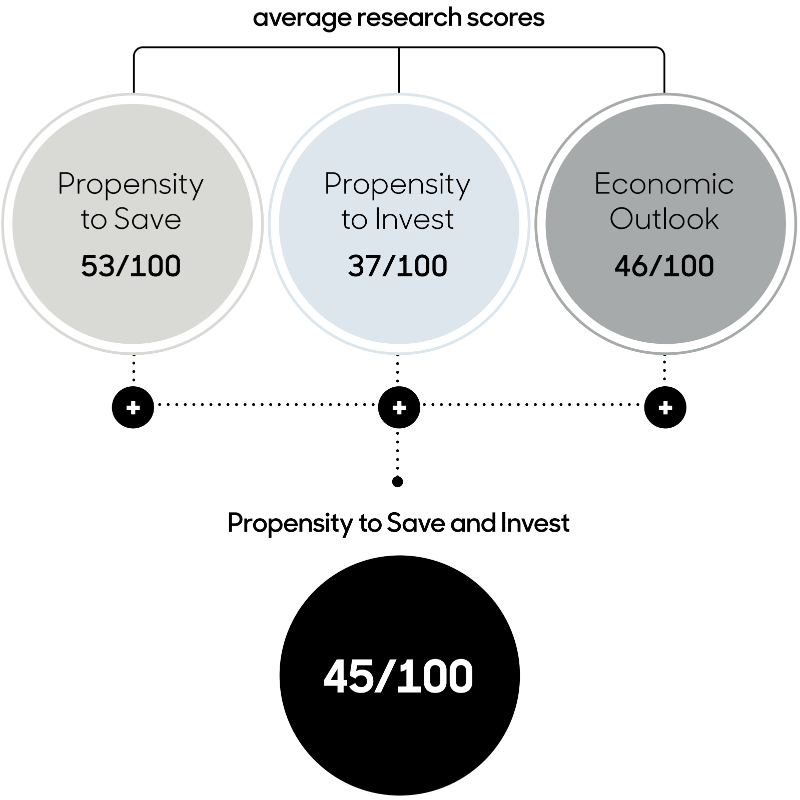
An average Propensity to Invest score of 37/100

Measures:
- understanding of investment products
- likelihood to increase investments in the next six months
- likelihood to take out new investment products in the next six months
- confidence in taking out and managing investment products
- how much of a priority long-term investing is
- enjoyment of reading about investments
- risk tolerance

An average Economic Outlook score of 46/100

Measures:
- confidence in the UK economy
- confidence in the UK stock market
- how confident they are about their personal financial situation

abrdn's first Savings Ladder Index found...



The index also helped to identify groups at risk of falling behind on savings and investment – including women, people with low financial literacy and the self-employed.

Women typically have lower index scores than men. This is true across the three pillars – although the gap was biggest in women's Propensity to Invest and their Economic Outlook.

	Male	Female
Propensity to Save Pillar	57	49
Propensity to Invest Pillar	44	32
Economic Outlook Pillar	52	41
Combined Propensity to Save & Invest Index	51	41

This could help to explain the large average gap in size between men's and women's pensions.

There were also geographic differences. Individuals living in London had higher average index scores (51), while people in Wales (43), Northern Ireland (44), Yorkshire and Humberside (43), and the South West scored the lowest (44). Scotland also scored poorly – at 45. These differences are likely explained by the UK's recognised regional wealth gap.

The self-employed are another potentially at-risk group. Their average Propensity to Save and Invest score was 45 vs 48 for employees. This is concerning given the self-employed do not benefit from auto-enrolment.

Appetite for risk and economic outlook

The overall Propensity to Save and Invest score was pulled down by people's low appetite for risk and gloomy economic outlook.

The majority of UK adults (55%) have a "low risk tolerance" when it comes to investing, the index found. This would see them holding their savings mostly in cash or bonds.

Risk aversion is high across age groups – 40% of 18–34-year-olds define themselves as having a low appetite for risk, as do 53% of those aged 35-54 and 66% of the over-55s.

The fact that two-fifths of 18-to-34-year-olds aren't willing to lose money for the potential of better long-term returns (a key mindset when investing in stocks and shares) is concerning. This is usually the age group with longest time horizon for their savings and therefore the group best placed to take more investment risk over the long-term.

A gloomy outlook is also hampering how likely people are to save and invest. Less than a fifth are confident about the short-term performance of the UK stock market (17%) and UK economy (16%), the index found.

Even so, when thinking about the long-term term, UK stocks and funds were people's top choice for where to invest their money. More than a third of people chose the UK (35%) followed by the US (16%) and Europe (11%).

Financial Literacy

As part of our Savings Ladder Index, we have also created the first ever on-going barometer of adult financial literacy in the UK.

With permission from the Global Financial Literacy Excellence Centre, we put to our research sample its 'Big 3' financial literacy questions[3]. These questions – which cover key financial concepts such as how inflation and interest rates work – are used as an international standard for comparison.

A fifth of UK adults (20%) were unable to correctly answer any of the "Big 3" financial literacy questions asked of them. A quarter (24%) only answered one question correctly. This means that 44% of our respondents – equating to 23.3 million UK adults – would be classified as having poor financial literacy.

The research suggests that having low levels of financial literacy also translates into real life penalties. These people are less likely to have pensions and hold less in them when they do.

Just a third (33%) of people with poor financial literacy hold workplace defined contribution (DC) pensions or private pensions/SIPPs compared to just over half (51%) of people with good financial literacy. Their pots are also on average 18% smaller – £17,500 on median average vs £37,500 for the more financially literate. This equates to a 'pension penalty' of £20,000.

£17,500

average pension size for those with low financial literacy

£37,500

average pension size for those with high financial literacy

However, there are likely to be related factors, including low pay and socio-economic background, contributing to these gaps.

We also identified an investment and risk gap. Those with high financial literacy scores are almost twice as likely to hold investments as those with poor financial literacy scores (39% vs 21%).

Similarly, those with the lowest financial literacy levels (scoring 'very poor') were around double as likely to have a low risk tolerance than those with the highest (scoring 'very good') – 62% vs 34%.

[3] The multiple-choice questions were:

1. Suppose you had £100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?
2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, what would you be able to buy.
3. Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a fund [that invests in the stock market on your behalf].

SECTION 4

Savings, Investments and Pension Gaps

While it seems clear that as a nation we are not saving enough, this only tells half the story.

The UK also has a significant investment gap, whereby the bottom half (51%) of UK investors by value hold far less collectively than the top 5% of investors.

The top 5% of people with the most investments hold almost half (47%) of all investment wealth in the UK (or £1.1 million per person on average). This 5% of investors equates to a fairly small pocket of the UK population, around 798,000 UK adults.

At the other end of the scale, the bottom 51% of investors by value hold just £14,900 on average – 7% of total investment wealth. This is a much larger group and equates to around 8.46m UK adults in the population.

The largest gaps in saving and investment levels are between women and men, between those with low incomes and high incomes, and between those with poor financial literacy and those with high financial literacy.

Such a large gap between the richest and poorest investors is likely down to a score of problems and deeprooted inequalities. However measuring the gap over time and assessing its demographic differences are important steps in the journey to closing it.

£1.1m
on average
47% of the UK's total investment wealth

owned by the top 5% of investors

owned by the bottom 51% of investors

£14,900
on average
7% of total investment wealth

SECTION 5

Property vs Pensions

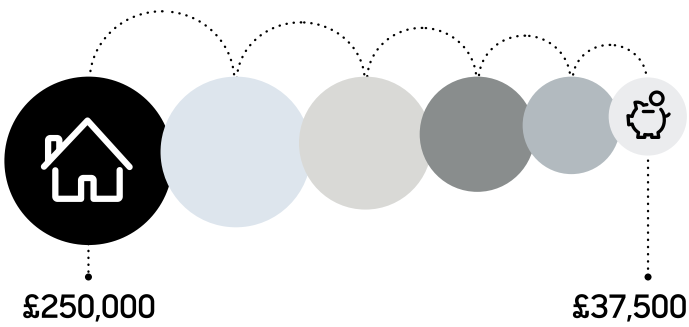
As we argued in our Savings Ladder Manifesto, Britain's love affair with home ownership has left many people prioritising property wealth over pensions or other investments.

Our research found that the average person's property is worth around seven times more than the value of the average pension – £250,000 compared with £37,500 (excluding people with defined benefit pensions).

Even those with high incomes (£60,000+) have only saved 27% of their property value into their pensions (median £175,000 vs £650,000).

Almost half (44%) of people think property is the best long-term investment for their savings. The answer is more nuanced, and while it need not be one or the other, the tax benefits and compound interest benefits from pensions and ISAs are often overlooked. Less than one-fifth (17%) of people chose pensions and more than a quarter (28%) didn't know.

UK wealth is skewed towards property over pensions



the average home is worth 6x more than the average pension pot

Conclusion

Our first ever Savings Ladder Index has provided clear indications of where policymakers should focus their attention if they want to solve our long-term savings crisis.

Educating the public about investments (including appropriate risk tolerance and the long-term benefits); and raising financial literacy levels across all four home nations – would be obvious places to start

As our Savings Ladder Manifesto argued, there are powerful interventions any future government could make on these issues – including scrapping stamp duty on UK shares and UK domiciled investment trusts, a shake-up of financial education in schools and simplifying the ISA system.

Millions of people are already heading for an uncomfortable retirement because of inadequate pension savings. If we want to prevent millions more from doing so, abrdn's view is that action must be taken now.

The benefits of solving this problem are great. By encouraging a national culture of saving and investing, the next government could boost capital markets, help to solve our low productivity puzzle and reduce our reliance on foreign investment.

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.

As the owner of Britain's largest flat fee investment platform, interactive investor, with £56.8bn under administration, abrdn's reach goes far beyond its own products. The purchase of ii in May 2022 ensured that flat fees remain a strong and compelling option for retail investors, however they want to invest.

abrdn's retail presence also extends beyond ii into intermediated retail, with abrdn's adviser platform accounting for £71.8bn assets under administration, making it Britain's second largest adviser platform.

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.

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