Wealth and Wellbeing Research Programme

Edition 12

Contents

Introduction

Welcome to edition 12 of the LV= Wealth and Wellbeing Research Programme

In this report we share the latest insights from our LV= Wealth and Wellbeing research. Established in June 2020, this longitudinal study has tracked UK adults' behaviours around their finances and wellbeing during a period of exceptional market turmoil and change.

This quarter's Wealth and Wellbeing data, surveyed in March 2023, is the most optimistic we've seen since March 2022 and confirms the trend of a gradually improving picture. This appears consistent with the 0.1% growth in GDP in Q1 2023 announced by the ONS. To frame this, many of our financial indices are still negative, but it is good news to see Spring's data showing signs of recovery.

In this report, we have revisited the theme of pension scams that we previously explored in the Wealth and Wellbeing Research Programme two years ago. Disappointingly, not much has changed and many consumers are still being targeted by scammers. Consumers are keen for education on how to identify and report scams and we, as an industry, should task ourselves with helping facilitate this.

We have also explored retirement finances. From having to retire unexpectedly early, to having to pay off mortgage debt at retirement using pension savings, there are many reasons that people may be reaching retirement with less than ideal pension savings. Consumers in this situation may need to consider other ways to help fund their retirement, such as lifetime mortgages (which are also explored in this report).

Our next wave of data will mark three years since we started the Wealth and Wellbeing Research Programme. Our data has tracked changes to consumers' wealth and wellbeing throughout the coronavirus pandemic and the recent cost of living crisis. We will explore themes from this data in our next edition.

David Hynam

Chief Executive Officer, LV=

Wealth and Wellbeing Research Programme

Edition 12 key findings

Consumer outlook is negative

but continues to show improvement

Some of our financial indices (despite still being negative) have shown small improvements over the last two quarters. A number of our other longitudinal metrics, such as levels of stress/anxiety and worries about energy bills have also improved.

Many consumers are still struggling, but it's encouraging to see improvement after over a year of decline.

44% of retirees

wish they'd saved more into their pension

When asked what retirement advice they would give their younger selves, the advice most commonly given was to save as much as possible for retirement.

Pension savers may have less time to save than they think, as many people retire unexpectedly early (due to health reasons, redundancy, to care for a relative, etc.).

1 in 10

retirees still had mortgage debt when they retired

Some retirees are reaching retirement age without having fully paid off their mortgage. We found that one in ten still had mortgage debt when they retired.

In order to pay off this debt, many used their pension or lump sum (63% did so). This can be a sensible action to take, but will have reduced their retirement income.

High income households

targeted by pension scammers

Those with higher household incomes (£100k+) are more than twice as likely to have been targeted by pension scammers (39% of this group have been targeted).

This group is especially worried about pension scams (over half are worried) and half of this group wish they knew more about how to identify/ prevent pension scams.

28% of homeowners

would consider a lifetime mortgage

One way to boost limited pension savings is unlocking some property capital via a lifetime mortgage. We found 28% of homeowners would consider a lifetime mortgage.

31% of those who would consider a lifetime mortgage said they would be more likely to take out a lifetime mortgage because of the current economic conditions.

Only 1 in 4 bond investors

has a good understanding of bonds

Bonds can be a useful low risk investment, but many bond investors do not have a good understanding of them.

Only one in four bond investors understand the tax rules relating to bonds. Just one in four has a trust associated with their bonds, meaning their bonds would be subject to inheritance tax if they were to pass away.

Wealth and Wellbeing indices

Since the LV= Wealth and Wellbeing Research Programme began in June 2020 we have asked a number of consumer finance questions to track changes in consumer spending, saving and financial outlook.

Our data is converted into indices by taking the percentage who stated a positive change over the past three months (e.g. increase/better) and subtracting the percentage who stated a negative change over the past three months (e.g. decrease/ worse) to work out the overall impact. The data behind the indices can be found in the appendix.

Consumer outlook is negative but continues to show improvement

Many of our Wealth and Wellbeing indices have shown small improvements over the last two quarters. The indices are still reflecting the high cost of living, but it is good news to see things moving in a more positive direction after over a year of downturn.

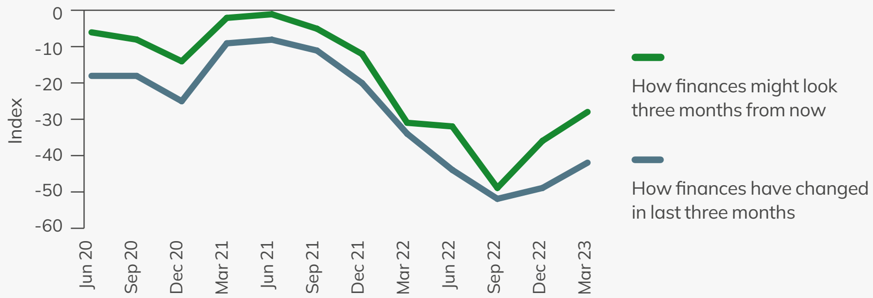
Two indices that have shown improvement over the last two quarters are the indices for current finances and outlook indices. These indices are still low (due to high cost of living), but are moving upwards.

The savings contributions index and socialising spend index also remain low (as the increased cost of living means some have less disposable income to spend or save), but these indexes have also improved over the last two quarters.

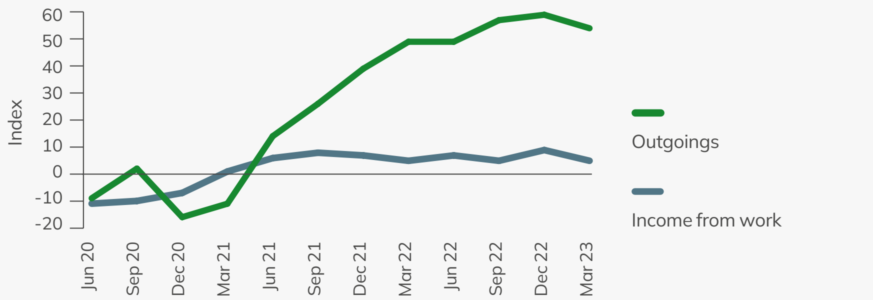
Two indices that were not showing improvements last quarter were the outgoings index and the supermarket spend index. Both of these, although still high, have now turned and have reduced since last quarter.

Overall, the Wealth and Wellbeing indices indicate that many consumers are still struggling, but we are also seeing improvements after over a year of declines.

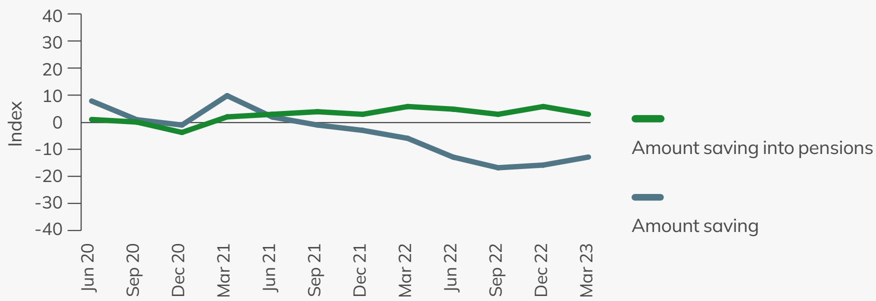
Current finances index and future outlook index



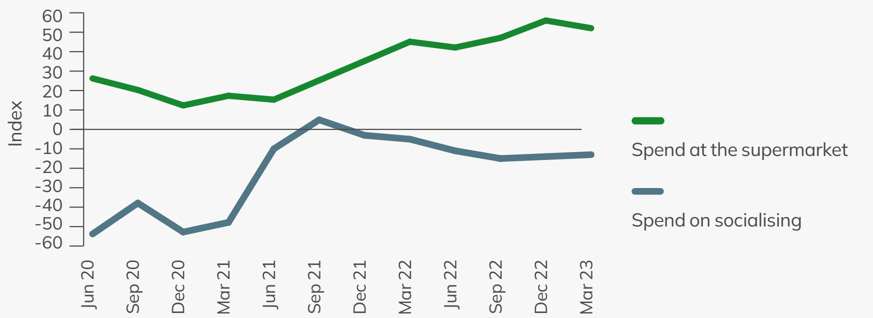
Income index and outgoings index



Savings index and pension savings index



Supermarket spend index and socialising index



State of the nation

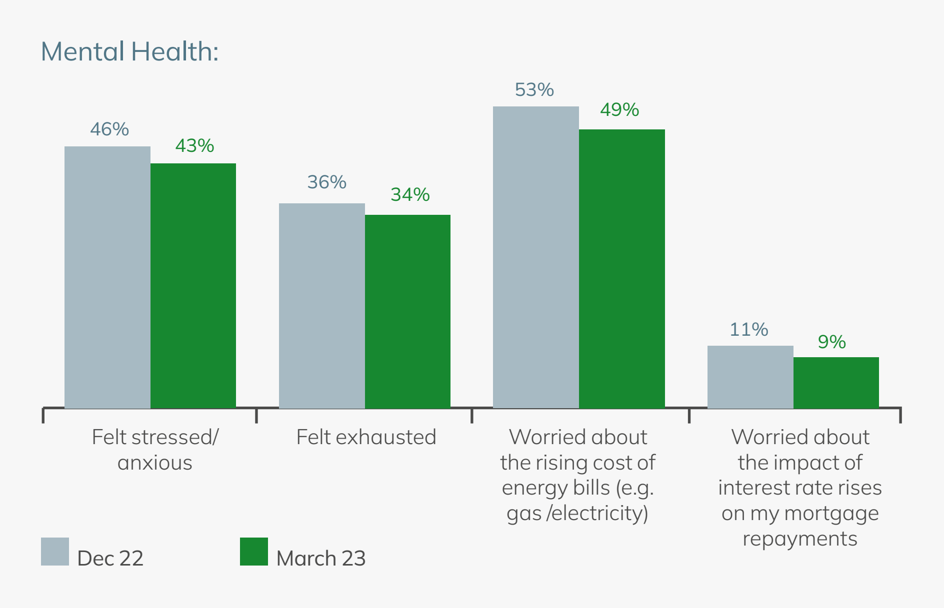
Longitudinal data shows small signs of improvement

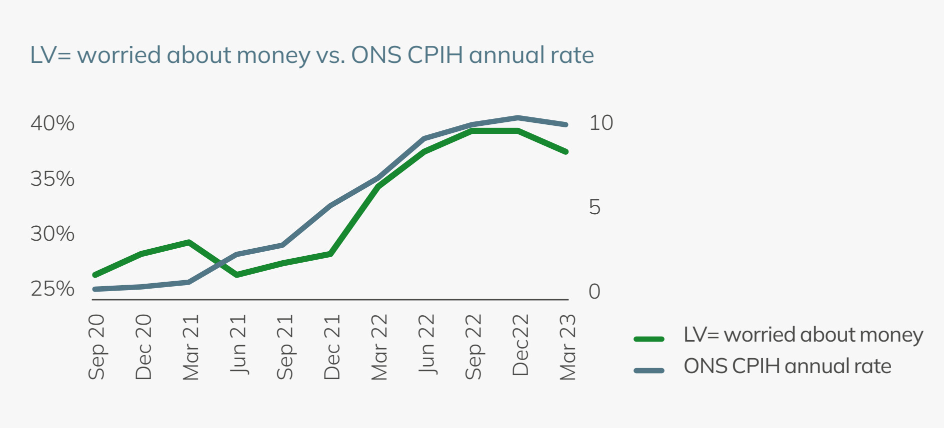
Like our Wealth and Wellbeing indices, many of our longitudinal metrics are also showing small signs of improvement. The proportion of people feeling stressed/anxious has decreased 3% since last quarter, to 43%. The percentage of people feeling exhausted has decreased 2%. We've also seen a 2% increase in those saying they are eating more healthily.

Our longitudinal data on worries is showing small signs of improvement. This includes a 5% decrease (quarter on quarter) in those worried about rising energy bills and a 2% decrease in those worried about the impact of interest rate rises on mortgage repayments.

All of these metrics suggest that anxieties around the cost of living crisis, although still high for many, may be starting to lessen for some people. This may be due to some living costs levelling off, or it could be due to consumers simply becoming more used to the high cost of living and having made changes to their household budgets to address this.

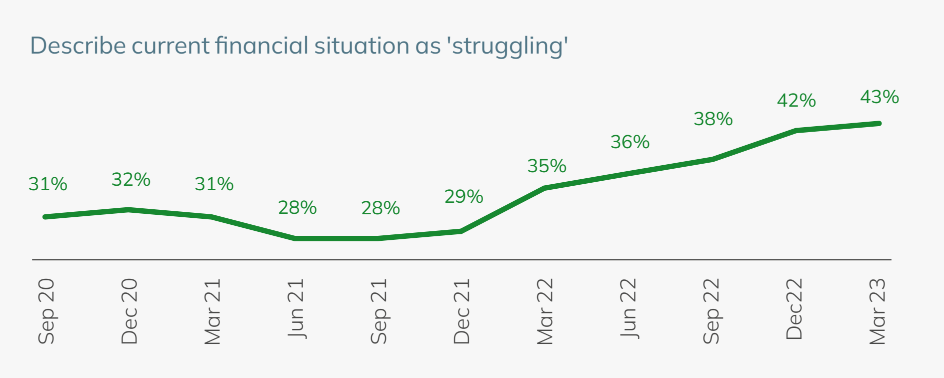
The latest data from the Office for National Statistics (ONS) shows that inflation based on the Consumer Prices Index including owner occupier housing costs (CPIH) annual rate in March 2023 showed a slight decrease from the last quarter. Inflation remains closely correlated with our measure on money worries, as you can see in the line graph. It has been interesting to see them track so closely as our data is received a month ahead of the ONS figures.





Many consumers still struggling financially

When we see these small positive movements in the data, we must remember that many consumers are still struggling with the high cost of living. In our longitudinal data, the proportion of UK adults describing their financial situation as "struggling" is still high (43%). However, it appears to have slowed its ascent, increasing 1% since last quarter. With our indices showing signs of improvement, it suggests that we may start to see this metric petering off in future quarters.



Pension scams

High income households targeted by pension scammers

Two years ago, we explored the theme of pension scams and this quarter we chose to return to the subject to see if anything has changed.

The new data shows that 15% (8m) of UK adults have been contacted by someone other than their pension provider or financial adviser encouraging them to move or transfer money from their pension. This is a similar amount to the 14% who said they'd experienced this two years ago. It is disappointing that things haven't improved over the last two years, and pension scams are still as rife as they were.

The data showed that those with higher household incomes (£100k+) are more than twice as likely to have been targeted by pension scammers than the general public (39% of this group have been targeted). Those with higher household incomes are especially worried about pension scams (over half are worried) and half of this group wish they knew more about how to identify/prevent pension scams.

8 million **UK adults**

have been targeted by pension scammers

Those with £100k+ household incomes are

more than twice as likely

to have been targeted

15m fear falling victim to pension scams

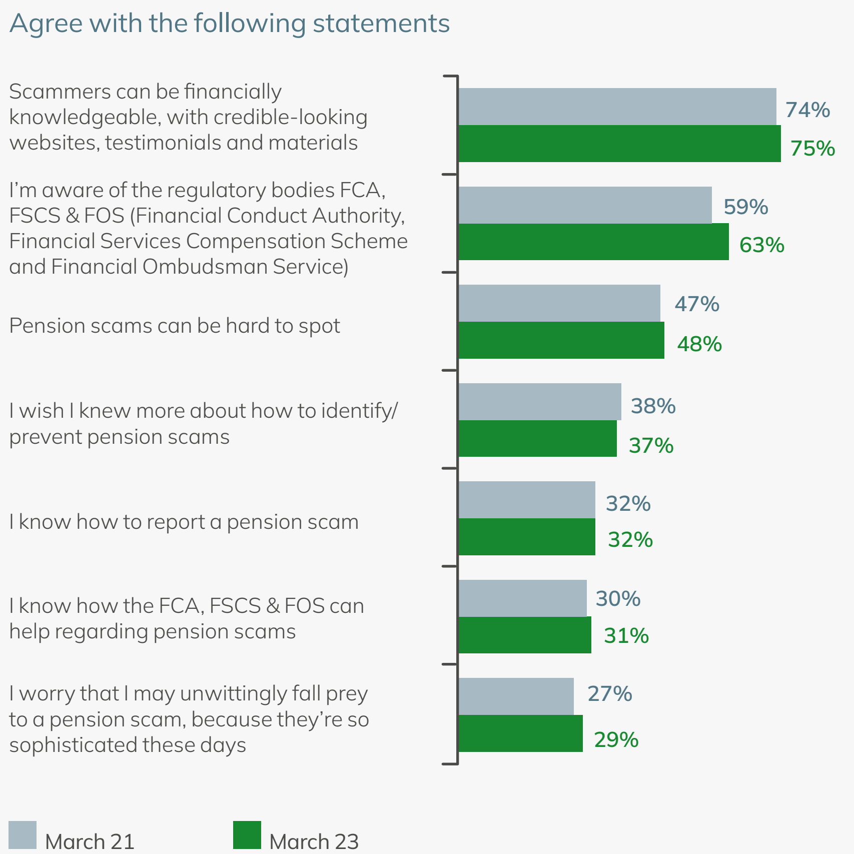
We explored consumers' perceptions of scammers. The majority of consumers know how convincing scammers can be, with three quarters acknowledging that scammers can be financially knowledgeable, with credible-looking websites, testimonials and materials. Nearly half (48%/26m) of UK adults say that pension scams are hard to spot and 29% (15m) are worried that they may unwittingly fall prey to a pension scam.

Consumers would like help protecting themselves against scammers. 37% said they wish they knew more about how to identify/spot potential scams.

Awareness of the regulatory bodies Financial Conduct Authority (FCA), Financial Services Compensation Scheme (FSCS) and the Financial Ombudsman Service (FOS) has increased in the past two years (from 59% to 63%). However only 31% say they know how these regulatory bodies can help regarding pension scams, and this has only increased by 1% in two years.

Knowledge of how to report a scam remained static with only a third (32%) of UK adults knowing how to do this.

All of these statistics suggest that the industry could do more to help consumers become better at spotting and reporting scams.



Retirement regrets

A third of retirees retired earlier than originally planned

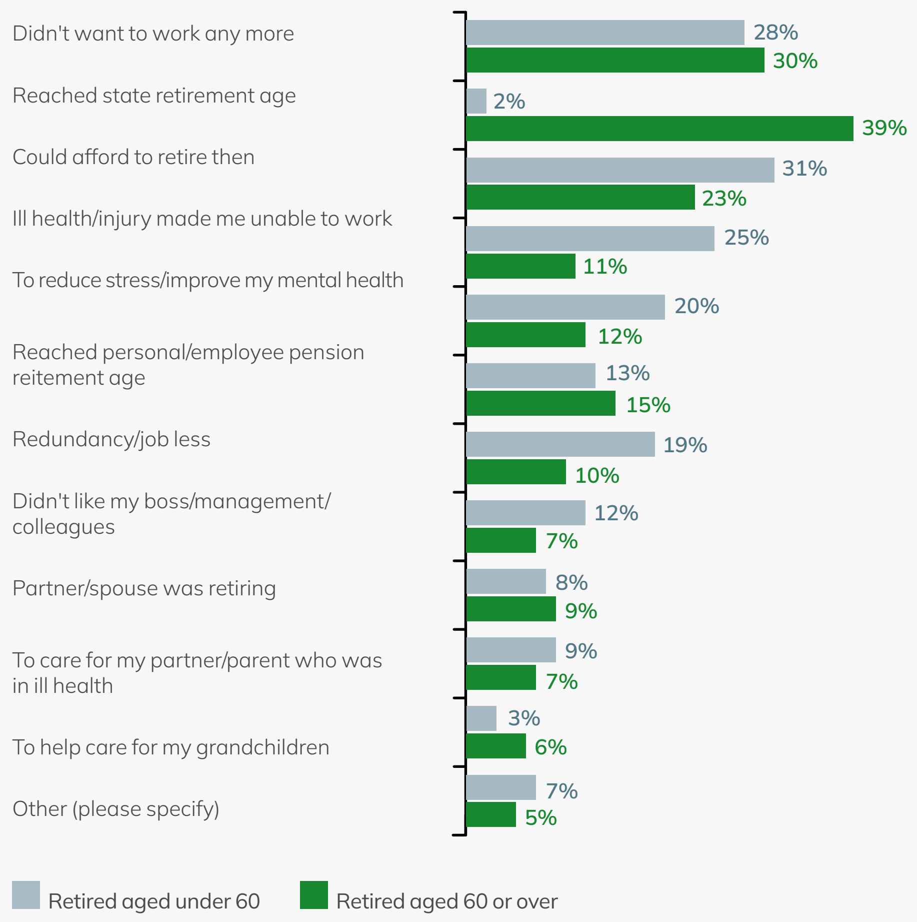
In this quarter's survey we looked at whether people's retirement went as planned, and whether they wish they'd done anything differently in the lead up to retirement. Many found they did not retire as planned with a third of retirees saying that they retired earlier than originally planned and 10% retiring later than planned.

To identify what is driving this change in retirement plans, we asked retirees why they retired from work. For those with higher levels of savings, their most common reasons for retiring were that they could afford to retire and they didn't want to work anymore. Reaching state retirement age was the top reason for retiring for renters, those with low savings and for women.

For those who retired before age 60, some retired because they could afford to (31%). But many others who retired before 60 did so due to something unexpected e.g. ill health (25%), mental health (20%), redundancy (19%), or to care for a relative (9%).

Pension savers need to be aware that they might have less time than they'd thought to save for retirement, as many people end up having to retire unexpectedly early.

Why did you retire from work?



44% of retirees wish they'd saved more into their pension

We asked retirees whether they wish they'd done things differently in the lead up to retirement. 44% of retirees wish they'd saved more into their pension and 38% wished they'd started planning for retirement sooner. Additionally, over one in ten (12%) wish they'd spoken to a financial adviser about retirement.

We also asked an open question – "What one piece of advice would you give your younger self regarding planning and saving for retirement?" The advice most commonly given was to save as much as possible for retirement. The second most common response was to start paying into a pension as early as possible. Other advice included: planning and researching as much as possible, getting financial advice, and not retiring too late. It would be great if the financial service industry could use retirees' hindsight to help motivate younger people to better save for their retirement.

What one piece of advice would you give your younger self regarding **planning and saving for retirement?**

"Take out a pension plan as soon as possible"

"Put as much money as possible into your pension"

"Plan as early as possible and research your options"

"Seek financial advice"

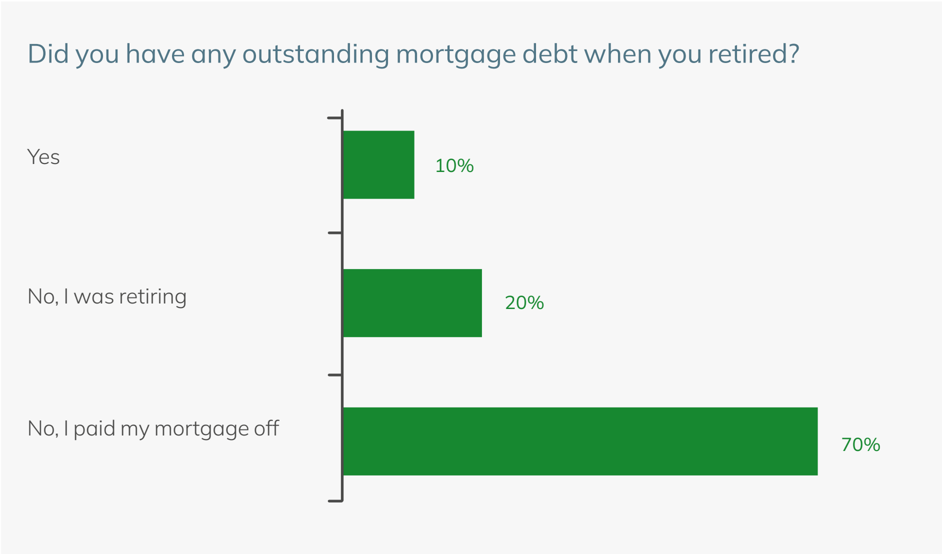
Housing in retirement

One in ten retirees still had mortgage debt when they retired

Many mortgage holders are finding themselves at retirement age without having fully paid off their mortgage. We found that one in ten still had mortgage debt when they retired.

The average mortgage debt outstanding at retirement was approximately £38k. In order to pay off their mortgage debt, many retirees used their pension or lump sum (63%). This can be a sensible action to take, but will have reduced their retirement income. With this reduced income, they may find they have to look at additional ways to help fund their retirement, such as releasing some of their property capital via downsizing or lifetime mortgages.

Our data also showed that 20% of retirees were renting when they retired. Renting can be an extra strain on retirement finances, especially at times like now when rental costs are increasing.

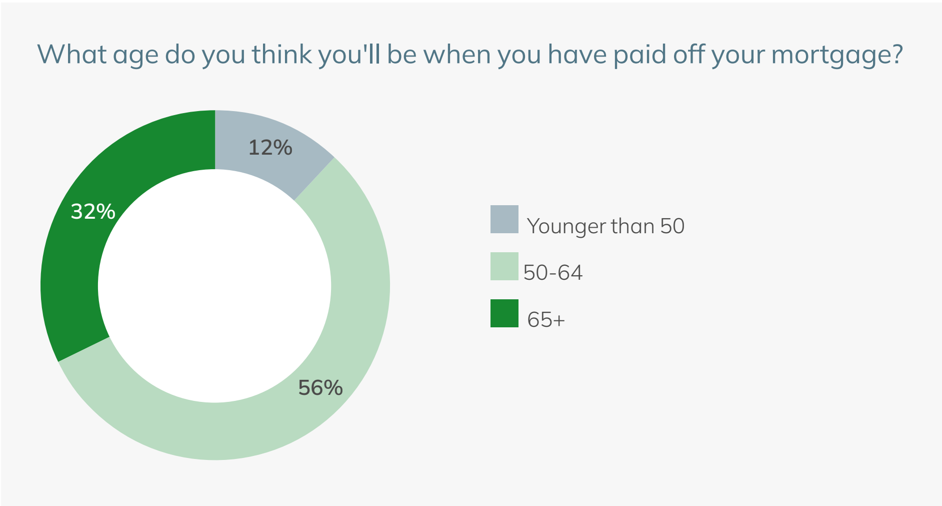


A third of mortgage holders don't think they'll have paid off their mortgage by age 65

Due to property price inflation, mortgage terms today are much longer than they were historically, and therefore many people may find themselves at retirement age without having fully paid off their mortgage.

Consistent with this, we found that a third (32%) of current mortgage holders don't think they'll have their mortgage paid off by age 65. This suggests the number of people reaching retirement with outstanding mortgage debt will increase considerably from the current one in ten.

Lower income households were least likely to think they'll have paid off their mortgage by age 65 (38% felt this way).



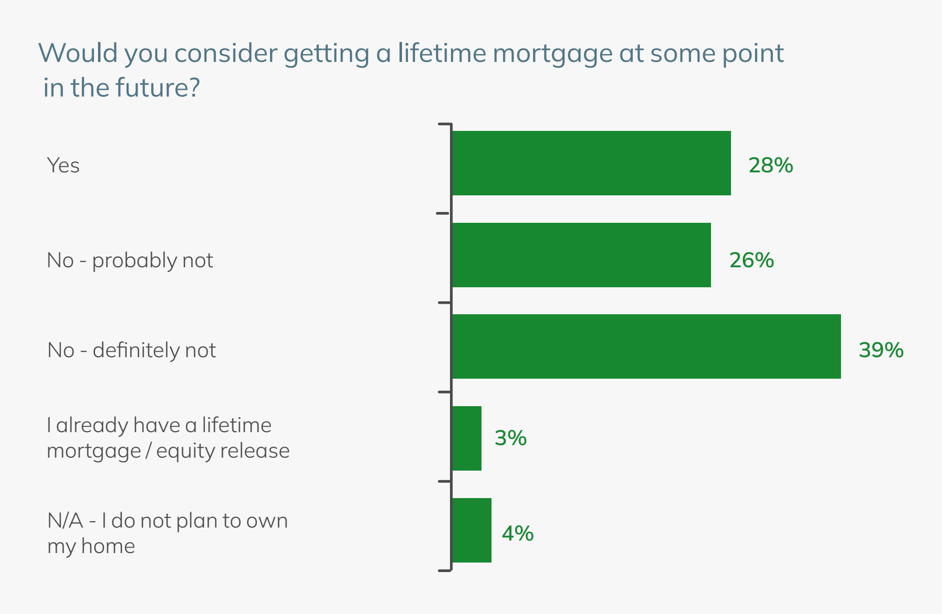
Lifetime mortgages

28% of homeowners would consider a lifetime mortgage

One way to boost limited pension savings is unlocking some property capital via a lifetime mortgage. We assessed perceptions of lifetime mortgages and found that 28% of homeowners would consider a lifetime mortgage, plus an additional 3% already have a lifetime mortgage.

Interest in lifetime mortgages was highest amongst younger age groups, parents of young children and high income households.

31% of those who would consider a lifetime mortgage said they would be more likely to take out a lifetime mortgage because of the current economic conditions. Mass affluent (those with assets of between £100,000 and £500,000 excluding property) and those with a high household income (£100k+) were more likely than average to say that they would be more likely to take out a lifetime mortgage because of the current economic conditions.



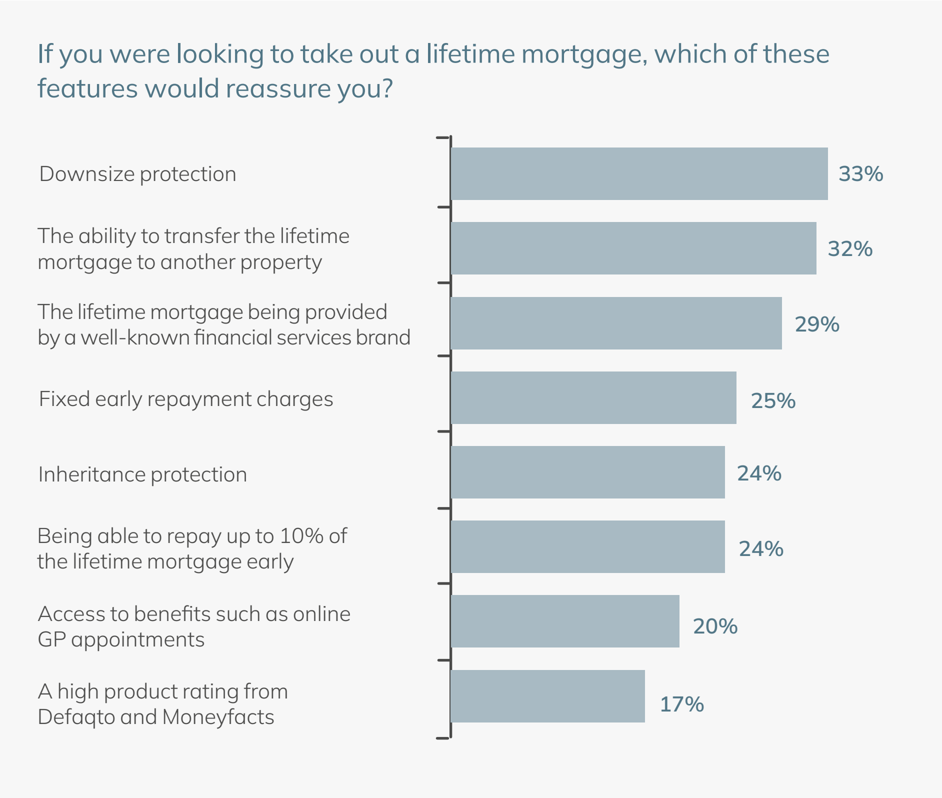
Those who would consider a lifetime mortgage stated that they would find downsize protection reassuring

We asked consumers - "If you were looking to take out a lifetime mortgage, which features would reassure you?" A third of those who would consider a lifetime mortgage stated that they would find downsize protection reassuring. Downsize protection allows you to pay your lifetime mortgage back early if you move to a home of lower value, without incurring any early repayment charge.

Other popular features were:

- The ability to transfer the lifetime mortgage to another property
- The lifetime mortgage being provided by a well-known financial services brand
- Fixed early repayment charges (so you know how much you'd be charged if you repaid the lifetime mortgage earlier than expected).

One thing that many of the top features have in common is that they allow the property owner flexibility if their circumstances or needs change. It can be difficult to predict what will happen throughout retirement, so a product allowing flexibility is important.



Investment bonds

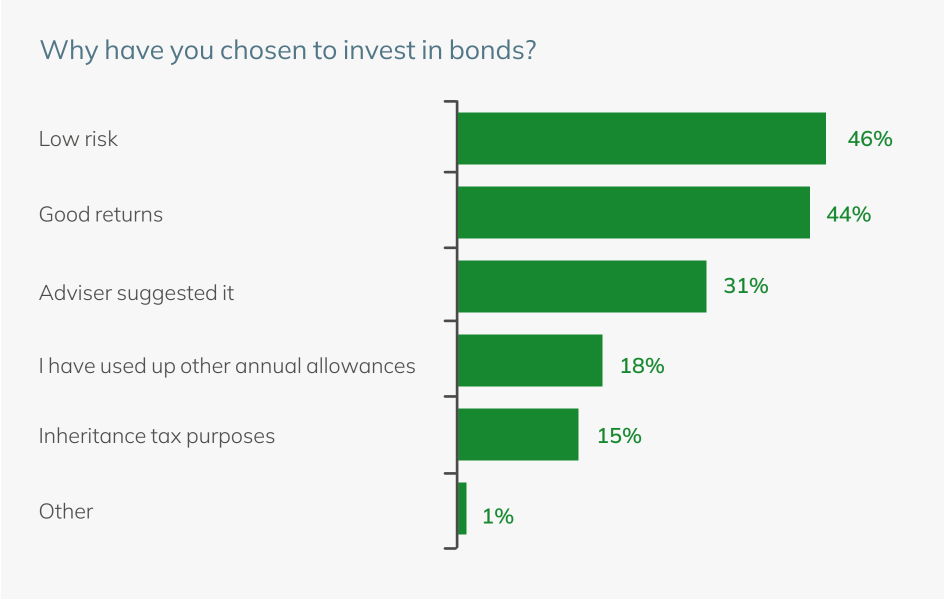
The top reasons given for investing in bonds was that they are low risk and offer good returns

This quarter we explored the theme of investment bonds. We asked consumers who had invested in bonds why they did so and the top reason given was that they are low risk. This was a particularly important reason for retirees (53%). Bond investors are typically approaching retirement or are already retired, so are often more concerned about conserving capital rather than taking on too much investment risk in the search for growth.

44% said they invested in bonds for the good returns, and for 31% it was because their financial adviser suggested it.

We also asked those who currently do not hold bonds, whether they would consider it. 18% would consider investing in bonds. This equates to 9m UK adults open to the idea of bonds, but not currently invested in them.

Those who are particularly interested include the mass affluent (those with assets of between £100,000 and £500,000 excluding property), those with a high household income (£100k+), those aged 18-34 and parents with young children. Tax changes in November's Budget to Capital Gains Tax (CGT) and tax-free dividend allowances should make investing in bonds more attractive to mass affluent investors who have used up other tax allowances.

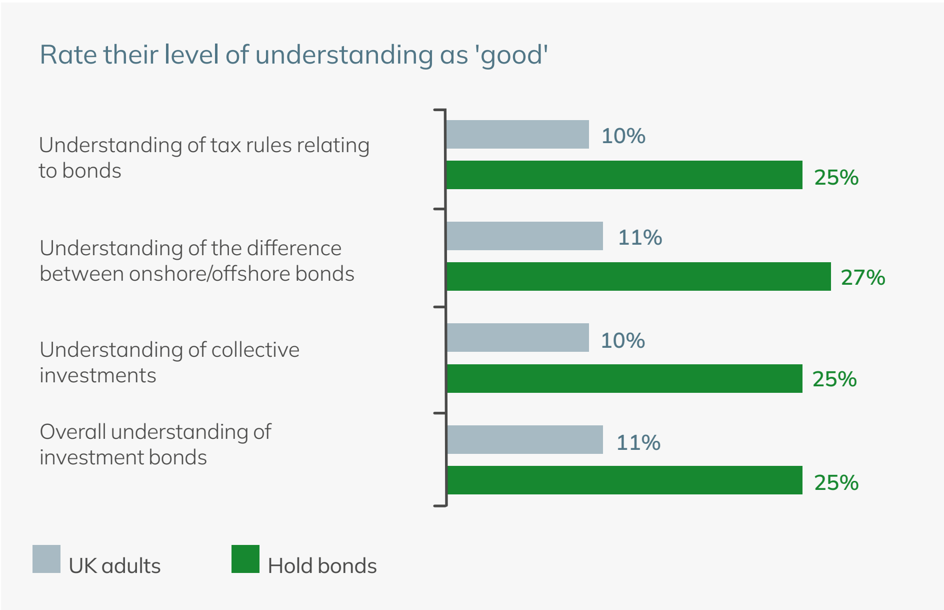


Only one in four bond investors have a good understanding of bonds

Our research found that UK adults do not have a good understanding of investment bonds. Only one in ten said they have a good understanding of: tax rules relating to bonds, the difference between onshore/ offshore bonds, or collective investments.

Even those that already hold bonds do not have a good understanding of them. Only one in four say they have a good understanding of bonds, and only one in four understand the tax rules relating to bonds. This demonstrates why financial advisers have an important role to play in explaining the benefits of bonds to clients and helping them find an investment that matches their investment risk profile.

The majority of people who already hold bonds are planning to keep them for over five years suggesting they are investing for the medium to long-term. One in five (19%) did state that they only anticipate investing in the bonds for five years or less. This again highlights a potential lack of understanding as bonds are not typically ideal for a short-term investment.



Only one in four has a trust associated with their bonds. Those who would like to pass on money held in bonds as inheritance should consider writing the bond into trust; otherwise it will be subject to inheritance tax if they were to pass away.

Appendix

Wealth and Wellbeing Research Programme indices data

How finances might look three months from now

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Improve	18%	17%	15%	14%	10%	11%	8%	10%	**12%**
Worsen	20%	18%	20%	25%	42%	43%	57%	46%	**40%**
Index*	**-2**	**-1**	**-5**	**-12**	**-31**	**-32**	**-49**	**-36**	**-28**

Amount saving

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	27%	21%	18%	16%	18%	17%	16%	17%	**15%**
Decrease	17%	19%	19%	20%	23%	30%	33%	33%	**28%**
Index*	**10**	**2**	**-1**	**-3**	**-6**	**-13**	**-17**	**-16**	**-13**

How finances have changed in last three months

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Better	18%	16%	15%	13%	10%	9%	7%	9%	**9%**
Worse	27%	25%	26%	33%	44%	53%	59%	58%	**51%**
Index*	**-9**	**-8**	**-11**	**-20**	**-34**	**-44**	**-52**	**-49**	**-42**

Amount paying into pensions

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	10%	10%	10%	11%	13%	14%	13%	14%	**11%**
Decrease	8%	7%	6%	7%	6%	8%	10%	8%	**8%**
Index*	**2**	**3**	**4**	**3**	**6**	**5**	**3**	**6**	**3**

Income from work

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	16%	18%	17%	17%	16%	17%	17%	19%	**15%**
Decrease	15%	12%	9%	10%	11%	10%	12%	10%	**10%**
Index*	**1**	**6**	**8**	**7**	**5**	**7**	**5**	**9**	**5**

Spend at the supermarket

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	33%	29%	36%	46%	56%	58%	63%	68%	**63%**
Decrease	15%	13%	10%	10%	10%	15%	14%	12%	**10%**
Index*	**18**	**16**	**26**	**36**	**46**	**43**	**48**	**57**	**53**

Total monthly outgoings

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	22%	31%	38%	48%	58%	61%	67%	69%	**63%**
Decrease	33%	18%	12%	9%	9%	12%	10%	10%	**8%**
Index*	**-11**	**14**	**26**	**39**	**49**	**49**	**57**	**59**	**54**

Spend on socialising

	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Increase	7%	22%	28%	21%	20%	21%	19%	19%	**17%**
Decrease	54%	31%	22%	23%	24%	31%	33%	32%	**28%**
Index*	**-47**	**-9**	**6**	**-2**	**-4**	**-10**	**-14**	**-13**	**-12**

About this report

This report was developed by LV=, drawing on public data where indicated and independent research among 4,000 UK adults each quarter conducted by Opinium Research.

All figures quoted are for March 2023 unless otherwise stated. Population estimates based on UK adult population of 53.2m.

While care is taken in the compilation of the report, no representation or assurances are made as to its accuracy or completeness.

About LV=

LV= is a protection, investment and retirement specialist and one of the UK's leading life and pensions mutual insurers. When we started in 1843 our goal was to give financial security to more than just a privileged few and for many decades we were most commonly associated with providing a method of saving to people of modest means.

Today we follow a similar purpose, helping people to protect and provide for the things they love, although on a much larger scale and through a wide range of financial services including insurance, investment and retirement products.

* Source: NHS England
https://www.bma.org.uk/advice-and-support/nhs-delivery-and-workforce/pressures/nhs-backlog-data-analysis

You can get this and other documents from us in Braille or large print by contacting us.

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