Income Roulette

A study of UK household financial resilience: from early working life into retirement

Foreword

The fact that many of us are living for longer is a huge opportunity. For many of us, it means more years of feeling good and doing the things we want to, like time to take up new hobbies, learn new things, or spend time with our families and contribute to our communities.

But to make the most of later life, we need good health, meaningful social connections and a suitable home to live in. And, of course, we need to have the financial security that enables us to do the things we want to do.

Not everyone is in this position. Evidence suggests that 1.2 million pensioners have no income other than the State Pension and other state benefits. We know that many people in work aren't saving enough to maintain their living standards into retirement – especially women, due to a lifetime of lower pay, part-time work, and time away from work to care for children or loved ones. And the latest wave of the English Longitudinal Study of Ageing found that almost one-in-four 50-59-year-olds find they don't always have enough money for their needs.

This new research from LV= is therefore welcome. As the research shows, people at all life stages find themselves unprepared for a rainy day or for sudden shocks to their income.

At the Centre for Ageing Better, we recognise that the financial security of today's older people – and that of future cohorts – is essential. Having enough money is one of the things people cite as important for a good later life. Our work is focussed on people approaching later life, the so-called Sandwich Generation, because we believe that there are things we can do at this stage in our lives, like contributing to a pension or being more physically active, which can maintain and improve our wellbeing and have the best chance to enjoy later life.

This research will contribute to the growing interest in supporting people to be as prepared as they can be for their later life.

Dr Anna Dixon
Chief Executive, Centre for Ageing Better

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Introduction

We live in an increasingly uncertain world. We contend with high and rising costs of living, static wage growth, a more fluid and changing job market, shortage in affordable housing, a struggling NHS and worrying health trends such as mental health, obesity and diabetes – all of which can affect our everyday lives. It's no surprise that we can expect to face periods of financial difficultly during the course of our lives. But while some people are able to recover relatively quickly, others are ill-prepared and struggle to bounce back or cope.

At LV=, we believe protection insurance and the ability to help people plan for and into their retirement can play a vital role in helping them to safeguard themselves and their loved ones against the financial and emotional effects of unexpected life shocks. As a modern mutual, with a pedigree stretching back 175 years we exist to help our members – everyday individuals and families throughout their lives – to live more confidently, safe in the knowledge that they're sorted financially.

In this, the second LV= Income Roulette report, we investigate the financial resilience of UK households and their ability – financially and emotionally – to withstand a financial shock or change in circumstances, by surveying more than 8,500 members of the public.

As well as looking at younger and middle-aged groups, we also considered those facing the known income shock of retirement. This provides a more comprehensive study of financial resilience across the UK and uncovers how different groups are prepared to respond to life events that impact the level of their income.

We know the impact of a personal financial crisis goes far beyond any financial measure; people are affected emotionally too. In our research we also considered softer factors such as people's financial confidence, and their wider hopes and worries and attitudes towards their finances. This helped to build a picture of the mindset of people across the UK and the realities of their financial resilience.

While we've witnessed a marginal uptick in overall resilience from last year, many households remain poorly prepared to cope if they were hit with an unexpected life shock. Worryingly less than half (44%) say they have more than three months' outgoings in savings. And the picture isn't much prettier for those heading towards retirement, with too few unaware of what their income might be or how long it will need to last for. Our research provides further evidence that millions of individuals and households are not considering their financial situation in the long term – too few have a Plan A, let alone a Plan B.

Using our research findings, we have put forward a number of areas for action to help strengthen the financial resilience of UK households. These focus on how we can build confidence and empower people to consider their situation and make decisions about their finances. We advocate promoting the valuable role that financial advisers can play in helping individuals manage their finances and the creation of the new Single Financial Guidance Body gives us a real opportunity to address these issues.

We remain committed to work with advisers, the industry and wider government to improve access for everyone to receive financial advice.

John Perks
Managing Director

Financial resilience: state of the nation

Financial resilience describes the capacity to recover quickly from an unexpected financial or income shock. We know the impact of a personal financial crisis goes far beyond any financial measure, and people are affected emotionally too, but here we take the Money Advice Service benchmark as our start point.

The Money Advice Service (MAS) recommends that people have 90 days' worth of outgoings in savings to be financially resilient. Setting this as a benchmark, in our research we also considered softer factors such as people's financial confidence, financial status and their wider attitudes towards their finances.

This helped to build a picture of the mindsets of people across the UK and the realities of their financial resilience.

Financial resilience across the UK:

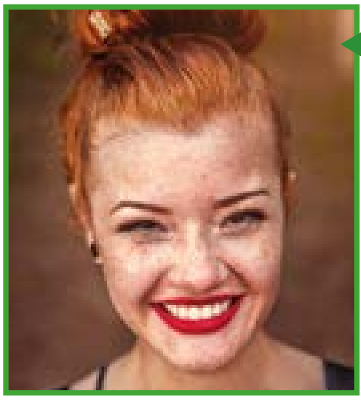
2018 Results	Change	2017 Results
Six in 10 (63%) believe they are financially capable	=	63% (no change)
34% don't think they could handle a personal financial crisis	+1	33%
29% are worried they'll never be able to **save for a rainy day**	-3	32%
Just 44% say they have the **recommended 3 months** of outgoings in savings	+7	37%

LV= VIEW

While we've seen a slight uptick in the level of savings people say they have, our research still paints a sobering picture. The majority don't have a minimum level of rainy day savings. It's clear that the three groups we highlight in this report each have their own concerns and characteristics. Yet across the UK, millions of households are ill prepared to weather an income shock and too few are actively engaged in planning towards their retirement. Our research signals increasing money concerns and worries for those in the Sandwich Generation and, potentially, bleak prospects for the financial resilience of younger workers – now and in the future.

Spotlight on three at risk groups

By surveying more than 8,500 members of the public we identified three separate groups who are financially vulnerable and who might struggle to cope or bounce back following a financial shock. These are not niche groups, they represent millions of individuals and households across the UK.



Peter Pan Generation

Who? People aged 30 - 35, of which there are almost 4.7 million in the UK, who are putting off life milestones as they don't feel financially mature enough.

The numbers:

This group are one of the least financially resilient groups in the UK with almost three quarters (73%) not having (or don't know if they have) the recommended three months of outgoings in savings.

They do not feel prepared to deal with the financial impact of major life milestones and 17% have put off major life events, such as having children and buying a home due to a lack of financial confidence.

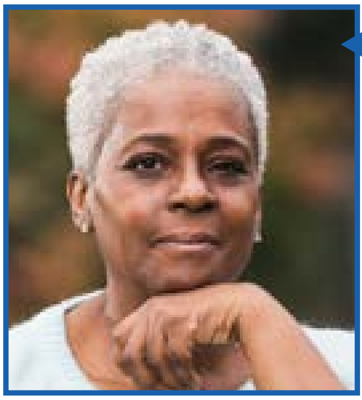
Sandwich Generation

Who? People in their 40s and 50s who have one or more children and consider themselves a carer for older relatives or a friend. This group of approximately 2.4 million people feel they are financially stretched, squeezed and strained and worry about what is around the corner.

The numbers:

More than half of this group are worried about the consequences of a serious illness affecting themselves or partner in the next year, and say their children are a constant source of unexpected expenses. They are more likely to hold debts on store cards and catalogue cards, and could easily find themselves in a financially precarious situation.

Although more than half of this group want to save, they struggle to put anything away at the end of the month and a quarter (25%) are not at all confident about the funds they will have for their retirement.



Reaching Retirement

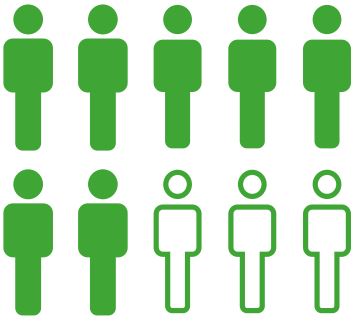
Who? In this group we look at people approaching retirement and those who have already retired. Although they tend to be more financially resilient, retirement is lasting longer and being seen as another phase of life, which brings new financial challenges.

The numbers:

More than a quarter (28%) of those approaching retirement don't know how much they have in their pension pots and only a third (37%) say they are confident and excited about their future.

However, those who have already retired have concerns about their future with a quarter (25%) worried about their financial stability in retirement and 42% say their financial situation has become worse since retiring.

PETER PAN GENERATION



Seven in 10

73% of this age group have less than, or don't know if they fall short of, the Money Advice Service **recommended amount of savings** in outgoings, versus the **national average of 56%**

Increasing life expectancy not only means people are living longer, but people are staying 'young' for longer.

The Peter Pan Generation is a significant group of almost 4.7 million people, but let's consider the context of their day-to-day living. Plagued by high living costs and financial insecurity, they really are struggling to plan ahead.

This group, in their early thirties, shows clear signs of putting off growing up and deferring taking financial responsibility.

Peter Pans are delaying major life milestones because they feel worried, unconfident and ill-prepared financially. 17% say they have put off starting a family or buying a home because they do not feel financially mature enough. And around a quarter (24%) are worried about the financial impact of potential life events.

7 in 10 (73%) of this age group have less than, or don't know if they fall short of, the Money Advice Service recommended amount of savings in outgoings, versus the national average of 56%.

Specifically, one in five (22%) don't know how long they would be able to cope financially if they found themselves unable to work – for instance, due to a long term illness or accident.

If they found themselves out of work, a third (34%) would borrow money from their family and a fifth (20%) would put things on a credit card.

Debt remains a problem for this group with almost two fifths (39%) citing credit card debt as the biggest source of debt, which is one and half times the national average (27%).

KEY STATS

- Almost half (43%) do not feel confident they could handle a personal financial crisis, compared to the national average of 34%
- Only a quarter (27%) say they could cope financially for three months if unable to work, much less than the national average of 44%
- One in four (24%) feel worried about the financial impact of life milestones
- One in six (17%) of this group have put off major life milestones, such as having children and buying a home due to a lack of financial confidence
- Housing is the biggest financial burden, a mortgage is the largest burden for 20% and rent the biggest for 15%
- Credit card debt is the biggest source of debt for 39% of this group, which is one and a half times the national average of 27%.

Looking ahead

This group put little away for their future with almost half (47%) saving less than £125 a month, and a further fifth (22%) not saving anything at all.

They have low financial confidence with two fifths (43%) not feeling confident they could handle a personal financial crisis.

Rebecca

Rebecca is in her early thirties and lives with her husband, they are both freelancers. For her and many of her friends, the idea of obtaining a mortgage isn't something they feel in the position to take on. When Rebecca and her husband were looking into mortgage rates, they realised what a commitment it would be and it felt like a massive financial burden that they didn't feel ready for. Rebecca enjoys the flexibility of freelancing and says her and her husband sometimes feel guilty for the lifestyle they lead. They know that if one or both of them were to take on a permanent job, getting a mortgage may be a more realistic option.

"Sometimes it feels like the goal of buying a house keeps moving further and further away, but I'd still like to do it eventually. I think it's rare that people are able to make big financial commitments by themselves at this age, so when anyone does have that opportunity, I don't think it feels 'real'."

LV= VIEW

With no Plan A, or Plan B, there is a clear need for this generation to have a safety net – a form of 'independence plan'. It's crucial we give this group support in making financial decisions and supply them with the knowledge they need to have confidence to safeguard their future.

AREAS FOR ACTION

To help build financial resilience, particularly among the Peter Pan Generation, LV= proposes:

- The Single Financial Guidance Body should extend its financial capability remit and strategic focus to prioritise and promote building financial resilience among everyday working households. And target guidance around specific life events for the younger working generation – such as first-time renters and changes in tenancy, first time buyers, and those changing jobs.
- Our industry should develop a framework where those advising on mortgages have a protection conversation with every customer when they are looking to secure a mortgage, or signpost them to someone who can have that conversation.

SANDWICH GENERATION

57%

in the Sandwich Generation, almost **three in 5, fall short** of the Money Advice Service **recommended amount of savings** to be financially resilient

With people living longer, changing family dynamics and reduced state support, intergenerational factors are really starting to influence this group. The so called Sandwich Generation are taking responsibility for looking after their parents when in need, potentially adjusting their working lives and caring for older relatives, on top of balancing the time and support needed to look after their own younger family dependants.

The Sandwich Generation are typically in their 40s and 50s and have huge financial obligations, but are also worriers, with constant concerns about what could be around the corner. The pressure to care for older relatives and a trend of young adults returning to their parents' homes is also being exacerbated by the cost of living, with household spending higher than income for the first time in 30 years.

There are approximately 2.4 million in the Sandwich Generation and nearly three in five (57%) of people within this group fall short of the Money Advice Service (MAS) recommended amount of savings to be financially resilient. More than a third (34%) don't feel they could handle a personal financial crisis, such as finding themselves out of work due to sickness or an accident.

Just over half (52%) are worried about the consequences of a serious illness affecting themselves or their partner in the next 12 months (compared to the national average of 35%). They are also nearly two times more likely to worry about the prospect of themselves or their partner dying and leaving the family without an income (29% compared to 17% national average).

Nearly two in five (37%) have less than £125 of disposable income each month, with nearly half (46%) of this group citing their children as a constant source of unexpected expenses.

As those in the Sandwich Generation become older, these issues are set to intensify.

More than half (54%) say they want to save but can't afford to do so – which also means they struggle to top up their pension pots. More than a third (36%) have no idea how much they have in their pension savings.

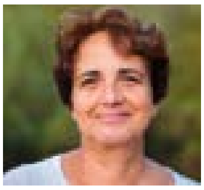
KEY STATS

- 57% of people within the Sandwich Generation do not have three months of outgoings in savings
- More than half (52%) are worried about the consequences of a serious illness affecting themselves or partner in next year
- Nearly two in five (37%) have less than £125 of disposable income each month
- More than half (54%) want to save but can't afford to do so
- The average expected retirement income is just £254 a month.

Looking ahead

On average, this group has around £60,000 to retire on, while expecting these savings to last at least 20 years, which leaves an average retiree with a monthly income of about £250.

This group are worriers, and although they seem fairly resilient, their finances and time are being pulled in many directions. It's a balance that could tip at any point, so getting a proper plan in place can be key to avoiding a financial crisis. We need to ensure that this group have protection against income shocks which will help to allay their worries, and also encourage the importance of saving so they can enjoy their retirement.



Tracy

Tracy has a 10 year old son and also cares for her husband. Tracy's husband was diagnosed with cerebral vascular dementia in 2014, as a result of contracting sepsis in 2012. Since then he has been unable to work. Tracy felt she had no other choice than to become a full-time carer for her husband.

Having to care for both her husband and her young son full time has also affected the amount of income that Tracy is able to generate herself. Tracy is now unable to save any money at all and is forced to live day-to-day in terms of her finances.

"Daily life is very difficult since my husband became ill. He was a coach driver, a job he'd loved doing for 40 years. This is not how I imagined our family life. Caring for both my husband and son is a huge responsibility. Thinking about how they'd cope if anything happened to me is a constant worry."

LV= VIEW

Understanding the retirement options available is essential to this group being prepared for a more secure financial future. This can provide peace of mind against income shocks, and help people to recognise and put away what they need for their retirement.

AREAS FOR ACTION

To help build financial resilience, particularly among the Sandwich Generation, LV= proposes:

- The Government should reconsider current policy around means testing and Universal Credit and its interaction with protection insurance, to avoid people being penalised for doing the right thing by taking out protection insurance.
- The Single Financial Guidance Body should consider targeting guidance for carers of older relatives – offering a live chat tool, phone and online services to put people in touch with experts to help them understand their financial options and support available.
- The Government should continue to support a 'mid-life financial MOT' to give people a rounded view of their finances and help build confidence around money and savings, and preparing for retirement.

REACHING RETIREMENT

28%

of those approaching retirement **don't know how much they have in their pension pots** and

more than a fifth (22%)

have less than £50,000 in their pension pot.

Three years on from the introduction of the pension freedoms, we are seeing a different landscape of financial outcomes for those who have finished their working lives and for whom retirement is lasting longer. Retirement is arguably being seen as another phase of life, rather than the focus being on the historic perception of a 'pensioner', so being better prepared for this phase of life is now more important than ever.

Approaching Retirement

However, more than a quarter (28%) of those approaching retirement don't know how much they have in their pension pots and 16% feel confused about financial matters. Only a third (37%) of those approaching retirement say they are confident and excited about their future.

Two thirds (66%) of this group could cope for more than three months without their main source of personal income, compared to the national average of 44%.

Just over half (51%) expect to spend their retirement funds on holidays, two fifths (40%) on leisure activities and a fifth (23%) on home improvements. Only 3% expect to buy a second or holiday home or buy to let property.

However, although those approaching retirement have outlined what they'd like to spend their retirement funds on, more than a fifth (22%) have less than £50,000 in their pension pot.

For this group, the earlier they start to plan and access the necessary advice, the easier their transition into retirement will be, to make sure they can sustain the lifestyle they expect throughout their retirement.

In Retirement

The research shows a different picture when you look at those who have already retired, who on average tend to be better off. More than three quarters (77%) consider themselves financially capable compared to the national average of 63%. The majority (68%) feel confident that they can make the right financial decisions about their retirement.

KEY STATS

- Two thirds (66%) of those approaching retirement say they could cope for three months or more if they were to lose their income, compared to the national average of 44%
- More than a quarter (28%) of those approaching retirement don't know how much they have in their pension pots, and 22% have less than £50,000
- More than three quarters (77%) of those in retirement consider themselves financially capable, compared to the national average of 63%
- Two fifths (42%) said their financial situation has become worse since retiring.

Looking ahead

These baby-boomers are enjoying a financial golden age, but there are shortfalls in some areas. Despite being better off on average, more than two in five (42%) of those already retired still don't feel they're saving as much as they want to. Since they are no longer working, the same proportion (42%) also feel their financial situation has worsened since retiring. This is mainly due to health worsening, unexpected costs, or not having saved enough before retirement.

The transition into retirement is a challenge for a quarter (25%) of those who are already retired as they are worried about their financial stability in retirement. Around one in six (16%) are worried they would not be as intellectually stimulated.

Peter

Peter retired when he was approaching 63 years old, having worked in the public sector for 41 years. His job roles progressed over the years from teacher, headteacher, university lecturer and finally the head of a university department.

Peter was not able to prepare ahead for his retirement, as he only knew he would be retiring eight weeks in advance. However, he feels he made all the right decisions earlier in life, and was lucky to have a really good pension in place as part of his job. He had also saved a small amount into a private pension. Peter sees retirement as a new exciting stage of life and urges people to make the most of this opportunity.

"I think I was one of the early people who employed an independent financial adviser and I'm reaping the benefits of that right now. Retirement for me meant an opportunity to enact a third period in my life and make that as fulfilling as I possibly could."

LV= VIEW

The earlier people start planning and seeking the necessary advice, the easier their transition into retirement will be. Speaking to a financial adviser can give people confidence and control over their savings to ensure they are ready for retirement.

AREAS FOR ACTION

To help build financial resilience, particularly among those Reaching Retirement, LV= proposes:

- The Single Financial Guidance Body should provide targeted guidance for those who are approaching retirement with provision of regular check-ins to encourage greater awareness of their retirement provision and more engagement in their retirement planning.
- Further development of the pension dashboard, ideally offering a single comprehensive view of all pension arrangements (occupational, private and state). This would provide a valuable tool for individuals to understand their pension provision and help signpost what guidance and options are available to them
- The Government should consider incentives such as a regulated 'advice voucher', for those approaching retirement to use with an authorised adviser of their choice, which should incentivise the take up of advice.

CONCLUSIONS

Why each generation is playing Income Roulette

The research for our second Income Roulette report shows that as a nation we are poorly prepared to withstand income shocks. Suffering an 'income shock' without savings to cover monthly outgoings can lead to both financial and emotional upheaval for individuals and their families.

By taking an in-depth look at the financial situation of the three groups identified at different stages in their lives, we have identified issues facing millions of individuals and households. The Peter Pan group, the Sandwich Generation and the Reaching Retirement group all face different financial pressures and barriers to saving.

Safeguarding people's most valuable asset – their income – is absolutely fundamental to their financial security and their ability to maintain mortgage or rent payments and other essential financial outgoings, plus provision for their future. This applies from a person's first job and right through into their retirement.

Worryingly, less than half (44%) of the UK population believe they have the recommended level of savings put aside to withstand a financial crisis and almost a third (29%) are worried they'll never be able to save for a rainy day.

Without having sufficient savings in place, people are at risk of relying on friends and family, the state, further credit card debt, or even payday lenders if they lost their income. And it's not just necessary to have savings to cope with an income shock; the lack of pension savings is also a concern if people are going to live a happy retirement.

Building financial resilience among UK households and encouraging people to save for their retirement needs to be a priority. Rising inflation, low interest rates on savings and increased economic uncertainty present financial pressures for consumers, while changes to the welfare state mean that individuals can rely less on the state for support.

Financial advice can play a valuable role to help individuals and their families make sure they protect themselves against income shocks and help people prepare financially for retirement. A pressing priority is to help people understand how, where and when to access financial advice.

Government, industry and the new Single Financial Guidance Body should also work together to improve the financial resilience of UK households. Everyone should be able to feel safe and confident in the knowledge that they are financially secure, and able to cope with whatever is around the corner.

AREAS FOR ACTION

Our latest Income Roulette report adds to the debate – the level of financial resilience across UK households is woefully inadequate. Our research reveals greater insight into the financial concerns, confidence levels and attitudes of the three spotlight groups – the Peter Pan and Sandwich Generations and those Reaching Retirement.

Unsurprisingly, there is no silver bullet, but we are not starting from scratch and there are many helpful initiatives in development and in flight which are directed at greater financial awareness and wellbeing.

There is an important role for Government, the wider industry, providers and financial advisers to improve consumers' understanding of the importance and relevance of financial planning, and what steps they can take to improve their financial resilience. At LV=, we believe there are a number of areas for action that can help build financial resilience across the UK and, in particular, for the three groups we highlight in this report.

Several are interdependent, others build on existing thinking and action and there's a common theme in some for the future role of the Single Financial Guidance Body.

1. We would like to see the development of a financial resilience index. This could help increase awareness of financial resilience among consumers across the UK, measure household preparedness against life shocks, and help prompt more action and support. Furthermore, this could provide a helpful predictive and evaluative tool to determine the impact of policy changes or initiatives.
2. The Single Financial Guidance Body should extend its financial capability remit and strategic focus to prioritise and promote building financial resilience among everyday working households, and consider targeting guidance around specific life events, for example:
    - for the younger working generation – such as first-time renters and changes in tenancy, first time buyers, and those changing jobs
    - for carers of older relatives – offering a live chat tool, phone and online services to put people in touch with experts to help them understand their financial options and support available
    - for those who are approaching retirement – provision of regular check-ins to encourage greater awareness of their retirement provision and more engagement in their retirement planning.
3. Our industry should develop a framework where those advising on mortgages have a protection conversation with every customer when they are looking to secure a mortgage, or signpost them to someone who can have that conversation.
4. The Government should reconsider current policy around means testing and Universal Credit and its interaction with protection insurance to avoid people being penalised for doing the right thing by taking out protection insurance.
5. The Government should continue to support a 'mid-life financial MOT' to give people a rounded view of their finances and help build confidence around money and savings, and preparing for retirement. This should complement the pension dashboard, which will ideally offer a single comprehensive view of all pension arrangements (occupational, private and state). This would provide a valuable tool for individuals to understand their pension provision and help signpost what guidance and options are available to them.
6. The Government should consider incentives such as a regulated 'advice voucher', for those approaching retirement to use with an authorised adviser of their choice, which should incentivise the take up of advice.

About LV=

LV= is a leading financial mutual and serves over 5.8 million customers with a range of financial products, services and support.

When we started in 1843 our goal was to give financial security to more than just a privileged few. 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. We offer our services direct to consumers, as well as through registered financial advisers and brokers.

How LV= is helping to strengthen household financial resilience

As a modern mutual, with no shareholders to answer to, we can put our members, consumers and financial advisers at the heart of everything we do. And in a time of rapid technological, social and legislative change, that's more valuable than ever.

Safeguarding and building people's most valuable asset – their income – is absolutely fundamental to their financial security in work and in retirement.

LV= is a leading provider of individual income protection insurance (IIP), providing one in six new IIP policies bought by individuals through financial advisers in 2017. As well as providing a valuable safety net for thousands of families through our protection policies and services, LV= offers a range retirement income options for those approaching, and in, retirement. We also invest in supporting financial advisers and in a wider programme of policy, industry and consumer work to raise the profile of financial resilience throughout working life and into retirement.

References and sources

1. Approximately 2.4 million in the Sandwich Generation is an estimate from Carers UK.
2. **Methodology for consumer survey:** YouGov, on behalf of LV=, conducted online interviews with 8,529 UK adults between 20th and 26th June 2018. Data has been weighted to reflect a nationally representative audience. As well as asking bespoke questions around financial resilience, the respondents were also entered into YouGov Profiles, allowing access to over 300,000 additional data points with which to build audience segments. Data collection was carried out online, July 2018.
3. **Methodology for recognised benchmark of financial resilience:** Money Advice Service (MAS) guidelines for financial resilience state that 'people should hold an emergency fund of three months' income'. LV= identified the 'least financially resilient' groups based on the combined factors of how respondents fared against the MAS definition and how confident respondents reported to feeling about being able to manage a financial crisis.
https://www.moneyadviceservice.org.uk/en/articles/emergency-savings-how-much-is-enough

For more information visit:

www.LV.com/income-roulette

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