LLOYDS BRIEFING: WE NEED TO TALK ABOUT LIFETIME SAVINGS

LLOYDS BANKING GROUP

We all know we have to save more for the future. But we can't agree where to start. Building a pension? Getting onto the property ladder? Tackling problem debt? Planning for emergencies? Lloyds Banking Group believes we should start by bringing all those issues together to talk about Lifetime Savings. We should recognise that we can't consider pensions and property, savings and debt separately – they are all part of the Lifetime Savings challenge. Our experts in Scottish Widows have come up with proposals for helping everyone increase their Lifetime Savings that we want to share with you – and hope you might support.

Automatic Enrolment (AE) is one of the stand-out policy successes of recent years. A genuine cross-party initiative, it has transformed how people in the UK save for their retirement. Before the scheme began in 2012, fewer than 50% of employees were saving into a pension. Today more than 70% are.

But it is only a start. At current contribution rates, AE will not provide an adequate retirement income for many. What's more, it doesn't help the 4.8m self-employed people in the UK. Guidance, advertising, publicity and tax reliefs have all been deployed to make saving as attractive as possible; initiatives that are sensible in their own right, but still people aren't saving enough for their retirement. There is still a lot more to do. Consider these four critical issues:

1. Even with AE, savings levels are too low. The current AE contribution rate is 8% – with 5% of salary paid by an employee and 3% paid by the employer. This is substantially below the rate required to give most people a good retirement income. People are living longer, at a time when responsibility and risk has moved from businesses to individuals. We should increase AE contributions to 15% - split between employees and employers - to build better Lifetime Savings.

2. Housing has to be part of the solution. Current financial services policy, products and guidance assume that people own their own homes in retirement. Yet the Resolution Foundation forecasts that 35% of Millennials will be renting in retirement – and our data suggests that renters will pay 42% of average retirement income on rental payments. We calculate that the average person, planning to rent an average property in retirement, needs to save an extra £525 a month in addition to their current pension contributions.

People want somewhere to live, to call a home, to raise a family and they want the security of having somewhere to live through their retirement in the longer term. Having cash in a pension should not be a barrier to home ownership. We should be able to access our pension pots – our Lifetime Savings – to fund a deposit on a first home that will over time become an asset that contributes to our Lifetime Savings.

3. Financial hardship is widespread. The statistics for people who do not have sufficient savings are sobering: 14.5m people have no savings for emergencies while 9m pay for essentials on credit. They experience severe hardship when unexpected bills or expenses arise. Yet StepChange Debt Charity estimates that if the average household had access to just £1000 in savings, up to 44% of families could avoid problem debt. Some households may have pension pots but these are not considered savings to help with a short-term problem – current policy dictates that they cannot access these funds.

People would like to be financially resilient in both the short term and the long term, with the ability to deal with unexpected financial shocks while avoiding problem debt. We should be able to access longer term funds – our Lifetime Savings – in emergencies.

4. Complexity is a deterrent. Those who need help the most often find the range of products on offer so confusing that it puts them off asking for help. Research conducted by the Social Market Foundation shows that while people are generally unwilling to pay for advice, they do need help in choosing from an ever-growing range of products used to save for retirement or to get onto the property ladder. Each product may have its own contribution limits, tax rules, investment options and varying degrees of flexibility. We often look for a personal recommendation, but in financial services that crosses the 'advice boundary', making it something that is regulated, must be charged for and can be expensive to provide.

Ideally, we want help from experts when faced with difficult or important decisions but too often can't afford – or are reluctant – to pay thousands of pounds to professional advisers. We should develop a simplified Lifetime Savings system that can be navigated easily and does not require multiple advisors.

For too long policy makers have considered these challenges – pensions, housing, hardship, complexity – in isolation

All of these issues affect most of us at some point in our lives. Each requires a different product or solution, yet our circumstances can change. Saving for a house? Use a LISA. Rainy day funds? Find a suitable savings product. Pensions? Let your employer choose - or try to understand the huge amount of options available yourself. Need to replace the washing machine but don't have savings? HP or a credit card. The financial services industry is competitive and that means plenty of choice. It is also highly product focused, often with different rates and rules for different versions of the same product, depending on supplier, or even sometimes brand – all of which creates confusion for the consumer.

It also means there's a big gap between retirement savings – pensions – and property in the minds of most people, who tend to regard them as competing priorities to be dealt with separately. But the truth is that both can, and typically do, play an integral role in determining our standard of living in retirement. They are all part of our Lifetime Savings.

This disconnect is exemplified by the failure of most guidance to take account of the critical role that home ownership plays in retirement. We know most calculations about the income required in retirement assume that people own their own home. Yet this doesn't help the growing minority who may have to rent in retirement – individuals who will need to save significantly more in order to achieve an equivalent standard of living. Financial advice is sometimes not flexible enough to consider this.

At present, FCA rules covering mortgages and equity release sit separately from those related to pensions, savings and investments. Advice on the former is provided by mortgage brokers and on the latter by independent financial advisers. This leads to disjointed, duplicated advice that creates unnecessary costs and the potential for poor outcomes. And that's if you can afford it. We believe that by aligning the rules, the cost of advice services for everything from face-to-face consultations through to digital self-service tools could be reduced, leading to lower costs and better results for customers.

What's the answer?

The challenges our research has identified need to be addressed together. With AE the Government has shown what concerted action can do, but it needs to go much further. We need to integrate our approach to retirement savings and property to allow the development of genuine, all-encompassing Lifetime Savings products that would in turn allow individuals and households to save for both their retirement income and their future home.

Scottish Widows has more than a century's experience in helping the nation to save for the future. Its experts have come up with a set of four specific proposals for how we could start to tackle this challenge. We have discussed them with officials in the Department for Work and Pensions and in Her Majesty's Treasury, and tested them at round-tables at party conferences. We'd be delighted to share their feedback with you.

David Willets, who chairs the Resolution Foundation, described them as 'bold and ambitious'.

Our proposals:

- **Increase contributions to 15%, split appropriately between employee and employer.**
- **Allow savers to withdraw up to 50% of their pension pot to fund a deposit of up to 10% on their first home.**
- **Allow savers to withdraw up to £1000 on up to five occasions from their lifetime savings product.**
- **Enable retirement advice and mortgage advice to be combined, making joined up advice cheaper and more accessible.**

Join the conversation

Lloyds Banking Group believes the public policy aim of encouraging greater long-term savings would be served if the complex world of savings and pensions products was encouraged to evolve into a single, simplified Lifetime Savings approach – one which would genuinely engage people, by recognising their needs for tangible benefits throughout their lives and not just at the point of retirement.

Across this industry there is a range of views on the future of retirement savings, and the detail of our proposals can be debated and developed. But we believe the principles behind them, including the need for higher savings and the imperative of considering property and retirement savings jointly, are critically important if we are to build on the successes of AE.

Equally crucial is the long-term nature of our proposals. As one of the UK's oldest and most established pensions and savings providers – Scottish Widows was established in the 19th century to provide for the widows of the Napoleonic wars - we want to play our part in setting a clear direction for policy for decades to come.

We have started discussing our ideas with a range of people and organisations but it's still the early stage of what we recognise is a long conversation. From business groups to debt charities – and politicians of all parties – we are reassured to have found widespread agreement about our starting point: helping people save for their future means simplifying the system and considering all of life's savings needs in the one place. We need to talk about Lifetime Savings.

There's a lot of work still to do to develop our idea and turn our four proposals into policy that Government can study, endorse and – we hope – implement. We recognise that each throws up specific challenges and sometimes objections. Politicians and policy makers can help by participating in the conversation and testing the idea of a single approach to Lifetime Savings based on allowing access to pension savings to pay for housing, or to draw on in times of hardship.

We would be delighted to introduce you to our Lifetime Savings experts in Scottish Widows – this is an area of policy that can be complicated, and our proposals, unsurprisingly, need to be considered within a wider context. For example, one argument against using a pension fund to pay for a mortgage deposit is that many people don't have a pension fund, or that removing money from it is irresponsible. We don't agree: we believe our proposals would see more money being paid in, from an earlier age, and therefore the fund is replenished early enough that there is not a material impact on the final fund value. We have a lot of detail behind our proposals that we would be glad to share with you.

What next?

Fundamental Lifetime Savings reform is a substantial undertaking for any Government. However, the longer changes are avoided, the bigger the savings gap will grow and the more difficult it will be for many millions of people to save enough for their retirement. Saving early is far easier and less costly than saving later. The policy choices will only get harder. To that end we would support the establishment of a cross-party Lifetime Savings Commission to lead the debate and develop the solutions.

We hope we can work with you to make this happen.

If you would like to know more, to support us or think we can help you advance the argument on this critical issue, please get in touch.

Our public affairs team at Lloyds Banking Group is here to help.