GENERATION

BREXIT AND BEYOND

AUSTERITY

INTRODUCTION

MRM's fourth annual Young Money Report, "Generation Austerity: Brexit and beyond", looks at the attitudes to finance of 1,000 18-25 year olds who have grown up in the dark shadow of austerity. The study considers the views of young people on a range of topics including pensions and benefits, advice and access, saving and spending and investing and the economy, as well as featuring contributions from key industry experts across the financial services industry.

Much of the writing and research of this report took place in the wake of the UK's momentous decision to leave the EU. Many hadn't expected this, including the markets, with sterling crashing on the news and the stock markets plummeting.

There was an unprecedented period of national soul-searching in the days that followed and it was to young people that a lot of attention turned. The first stats which emerged showed that they had gone against the status quo, with 71% of 18-24 year olds voting to remain.[1] However, the turnout stats told a different story. Research by Sky Data indicated that of 18-24 year olds, only 36% had actually bothered to vote.[2] So a familiar story emerged of young people watering down their bargaining power in important matters by not exercising their constitutional rights.

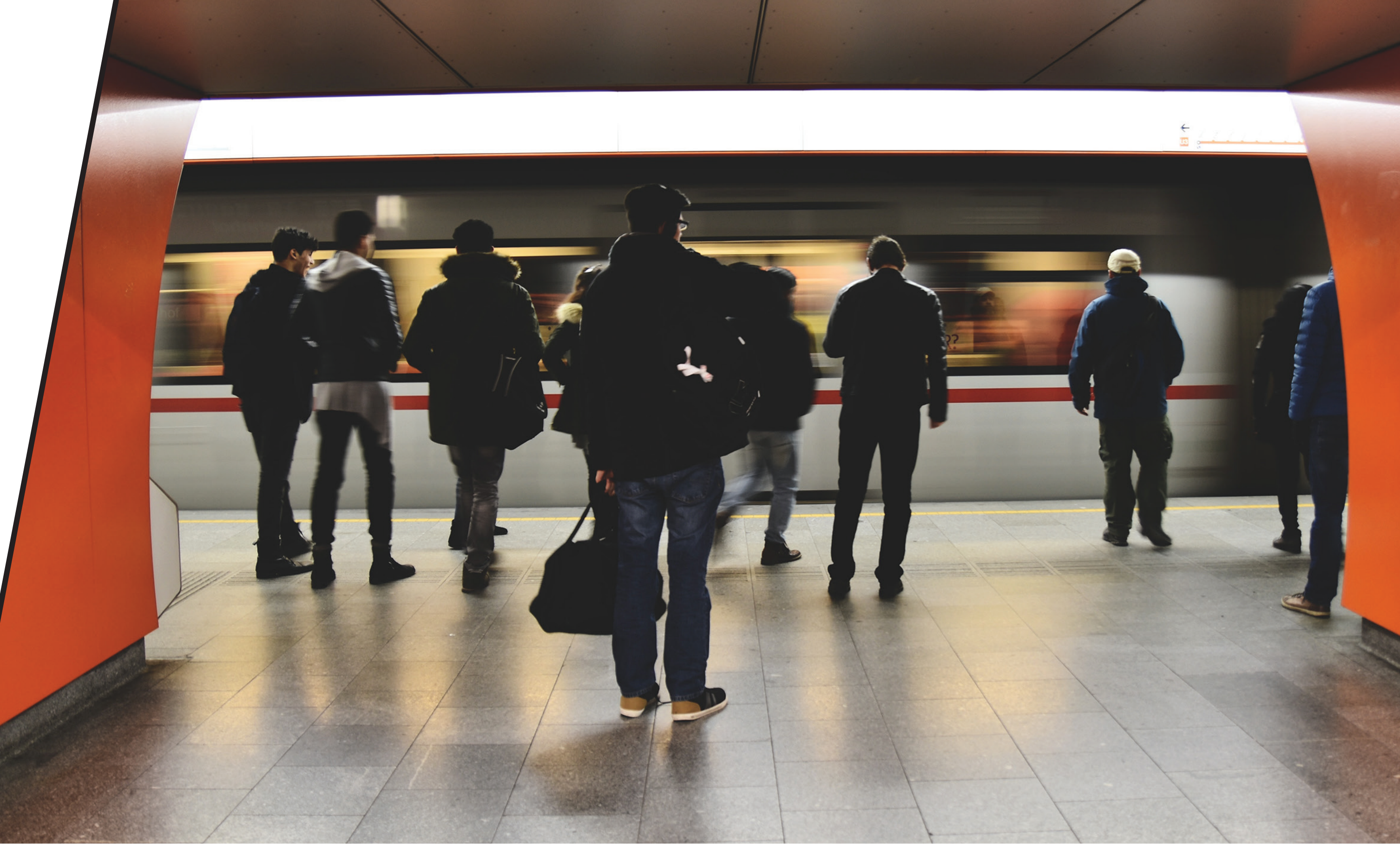
We saw a similar narrative around a lack of engagement creeping into the results of our survey. What is clear from our findings is that trust in financial services is low, and apathy high. Many young people are unwilling to engage fully in key areas of financial services including pensions, saving and investing – all of which are vital to the financial wellbeing of the population.

However, the report also reveals that they face a number of barriers that their parents didn't. Job uncertainty and few opportunities to get on the housing ladder, coupled with soaring rents and a lack of disposable income have all contributed to the inability of 'Generation Austerity' – let's call it 'Generation A' – to engage with the sector. Nearly half of those we surveyed (48%) expected to be worse off following Brexit.

In this report, we explore some of the reasons behind this, and together with the contributors, examine how we can encourage Generation A to interact more effectively with financial services, particularly as we consider the Brexit fall-out. This debate is certain to run on and we hope to raise as many questions as we answer.

Sophie Robson,
Consultant, MRM and author of the
Young Money reports

[1] https://yougov.co.uk/news/2016/06/27/how-britain-voted/
[2] http://news.sky.com/



PENSIONS AND BENEFITS: THE UNCERTAIN ROAD TO RETIREMENT

Pensions have rarely been out of the headlines in recent years. From the introduction of auto-enrolment for workers aged 22 and over and the simplification of the state pension, to former chancellor George Osborne's pension freedom policies, there has been much scrutiny of this sector. Despite this, there are well-founded concerns that people are simply not saving enough: a recent report by Deloitte estimated that there could be a 'pension gap' of up to £350bn by 2050, which represents around £8,000 per person per year. [3]

We sought to find out at what age Generation A thought they would be able to retire, and how much they would need to save up to be able to live comfortably in their post-work years. We also wanted to know how they expected to fund their retirement.

An aspiration to retire at 67

Across the board, Generation A thought they would be able to retire at 67. This is slightly higher than the average age of retirement, which is 64,[4] and exactly the same as the state pension age for this age group. But, by definition, an average will not be true wherever one looks and there were significant swings one way or the other.

A fifth (20%) of Generation A thought they would be able to retire by the age of 60, while nearly four in 10 (39%) thought

GENERATION A THOUGHT THEY WOULD BE ABLE TO RETIRE AT

67

[3] http://www2.deloitte.com/uk/en/pages/press-releases/articles/uk-savings-gap-to-reach-350b-by-2050.html
[4] https://www.gov.uk/government/organisations/department-for-work-pensions

they would have hung up their working boots by the age of 65. This optimism was especially abundant in 18-25 year old men: 47% thought they would be able to retire by the age of 65. Regionally, 50% of those in the North East believed they would be able to finish work at the age of 65, compared with 22% of those in East Anglia.

However, despite this, 17% thought they would not be able to retire until they were at least 75. In Wales, this figure rose to 22%, pushing the expected age of retirement up to 69.

But is Generation A saving seriously?

Our research does suggest a disparity between Generation A's plans for retirement and the reality of achieving them. Not only is nearly a quarter (24%) not saving at all, others appear to be underestimating the amounts they think they will need to save.

On average, Generation A thought they would need to save £287,150. Women thought they would need £292,480, while men estimated they would need £280,770. Yet, this appears naive. Based on an expected retirement age of 67 and a life expectancy of around 81, we estimate that they would need to save around £336,000 – meaning they would need to save the equivalent of another £3,490 per year on top of their estimates.[5]

From where will the money come?

The highest number, 42%, thought they would fund their retirement mainly through the state pension. Under the new state pension, each individual receives £155.65 a week (£8,092 a year), so this alone will not be enough for those targeting the £287,150 amount specified above.

The results also suggest that ISAs are beginning to overtake defined contribution (DC) schemes as the saving scheme of choice for young people, with just under a third (29%) expecting to fund their retirement through an ISA, but only one in five (21%) planning to fund their post-work years through a DC workplace pension.

Despite the closure in recent years of many defined benefit (DB) pension schemes, 17% still expected to be able to fund their retirement this way.

In a nod to the enduring dream of homeownership, 12% expected to fund their retirement through the sale profit received from downsizing to a smaller property. However, high house prices and poor interest rates are preventing many young people from getting on the housing ladder, which could perhaps affect their ability to be able to take advantage of this as a means of funding their retirement.

ON AVERAGE, GENERATION A THOUGHT THEY WOULD NEED TO SAVE

£287,150

FOR RETIREMENT

[5] This calculation is based on research by Which? Which estimated that their members spend around £24,000 per year. For our estimate of £336,000, we multiplied £24,000 by the difference between a life expectancy of 81 and a projected retirement age of 67.

VIEWS FROM THE EXPERTS:

"A lack of understanding and trust are the key areas that stand out for me in the survey results. Whilst there has been much publicity over the new state pension provision, I'm concerned that 42% of 18-25 year olds believe that the state pension will fund their retirement. The UK state pension is really a welfare benefit to alleviate poverty, not a comfortable retirement fund.
Nearly half of respondents said they didn't have money to invest. This appears to be ratified by a number of studies that show today's workers are worse off in real terms than the 'baby boomers'. However, as a millennial myself, it is my belief that our saving and spending behaviours are also very different to older generations.

To me, societal and government pressures have encouraged a hyper consumption mentality among these generations. It seems this has contributed to a hand-to-mouth, casual approach to money. There is a belief it will always be there. To contrast, today we expect to have one, two, maybe three foreign holidays a year, whereas my parents would have gone to Cornwall or Wales. If we scrapped even one of those, while we might not manage an annual holiday in retirement, we might avoid living off beans and toast in our twilight years.

29% of the sample say they don't understand enough to feel comfortable about investing, and yet 28% still wouldn't consider using a financial adviser. It would be interesting to compare this to those who would ask for the assistance of an accountant with their accounts, or a solicitor with buying a home or writing a will. I suspect the reason for this is a continued lack of trust in pensions and the profession, which is something we need to change to improve individuals' understanding of retirement funds."

CHARLES GOODMAN,
Employee Benefits Consultant, Mattioli Woods

VIEWS FROM THE EXPERTS:

"Whilst the responsibility for pension saving has been placed squarely on the shoulders of individuals there has not been a corresponding effort to financially educate the young. This means that young people are not being given the understanding or the knowledge that they need to make informed decisions.

On the retirement date expectations, we fear that the optimism cited in the report will not be borne out through time. Given increased life expectancy, we expect the Government will be forced to push back retirement dates through time as the cost of providing state pensions for people increases as people live longer and the UK population continues to age. Similarly, the expectation that the State Pension will provide a significant portion of an individual's retirement income is unlikely to materialise. For those earning more than £15K p.a. the State Pension will not provide an income at a desirable replacement ratio (50-75% of working income).

The lack of appetite to pay for financial advice at a level where it becomes economically viable compounds the issue. If young people are not well enough educated to make decisions for themselves and are unwilling to pay for advice, this will inevitably lead to bad decision making and poor outcomes.

The solution is a mix of education (ensuring people understand retirement saving), policy (ensuring the system provides good incentives and vehicles for saving) and communication (getting the right messages to people at the right time in a way that they are likely to respond and engage). This will result in more accurate expectations, a greater understanding of retirement saving and most importantly, more saving and informed decision making."

FREDDIE EWER,
Co-Founder, RedSTART; Consultant, Redington

VIEWS FROM THE EXPERTS:

"The lack of serious saving amongst Generation A illustrates the importance of auto-enrolment and more importantly, the need of the government to continue increasing the rate of the minimum contributions within auto-enrolment.

The fact that 42% of people think that they would be able to fund their retirement using the state pension shows good awareness of the state pension, but poor awareness of the level of income required in retirement.

For a young person, it is really difficult to try and imagine how you might save a large enough amount to fund your retirement. Couple that with current low interest rates and the whole situation becomes rather complex. The lack of trust in stocks and shares does not help and it shows that the industry will need to do more to educate here.

The income profile for Generation A will also look very different to the income profile of current retirees, where a significant proportion own their own property and therefore do not have to pay for accommodation. With a smaller percentage of Generation A being able to get onto the property market, their income requirements in retirement may well be much higher as they will have to factor in rent.
The preference for younger people to save into ISA products is no major surprise. The desire to own their own property and the quick access these products give them to money when they need to do so are two key drivers. Brexit, long term financial instability, higher number of jobs per lifetime and a change in when life events may occur for Generation A are all factors that would require people to have greater flexibility with the savings they have. It therefore makes sense to prioritise saving into ISAs."

NATANJE HOLT,
Business Development Manager, Bravura Solutions

SAVING AND SPENDING: INTEREST RATES, WAGES, BENEFITS AND CONFIDENCE GRIND LOWER

Since the financial crisis of 2008, reducing the deficit has been high on the Government's list of priorities. There have been cuts to many services for young people, such as grants for the poorest students and housing benefit for those under 25, while benefits for older people, including free bus passes and the winter fuel allowance, have been protected.

Additionally, stubbornly low wages (the income of the average 22-30 year old remains 7% lower than it was in 2008),[6] historically low interest rates on bank accounts and the recent vote for Brexit, has eroded confidence in saving (and spending), with many Generation As anxious about the state of their finances.

We asked them about their financial priorities, whether they were saving and how. If they weren't saving, we examined what it was that was putting them off doing so.

The Brexit effect

The research indicates that Generation A is nervous about the economic situation following the vote for Brexit. Nearly half (48%) expected to be much worse off or slightly worse off following the result, while 13% said they were put off saving by uncertainty about the future of Britain. Those aged 18-20 were most likely to be put off saving as a result, with 16% in this age group expressing concerns. Regionally, those in Scotland were most pessimistic about their financial futures following the vote for Brexit: 60% expected to be much worse off or slightly worse off, with just 6% believing they would be better off. Those in the West Midlands were most hopeful following the referendum, with nearly a quarter (23%) expecting to be

[6] https://www.ifs.org.uk/publications/8373

GETTING ON THE HOUSING LADDER WAS RATED THE TOP FINANCIAL PRIORITY FOR THIS AGE GROUP, WITH

30%

EXPRESSING A DESIRE TO BUY A PROPERTY

better off. However, 41% of those in this region thought the result would have a negative impact on their finances.

The home-owning dream

However, despite the financial doom and gloom following the vote, it seems Generation A still has financial goals and aspirations. Getting on the housing ladder was rated the top financial priority for this age group, with 30% expressing a desire to buy a property. However, stubbornly high house prices, low interest rates, and the need to save a large deposit for a mortgage means many may experience difficulties in attaining this dream. Young women were more likely to prioritise this: 34% of them named this as their top priority compared with 25% of young men. There were also some regional variations: in East Anglia, 44% regarded it as their top financial priority compared with just 14% in the East Midlands.

A fifth (20%) said they were saving for a specific purpose. This was highest in Northern Ireland (32%) and lowest in the East Midlands (14%).

Pensions fall much further down the list of priorities for Generation A. Just 5% said their top financial priority was saving for retirement. However, this figure increased when we looked at older cohorts, suggesting that this does rise as people age: the proportion of 18-20 year olds who counted this as their top priority was 3% while for those aged 24 and 25, this had risen to 7%.

No money, no savings

However, as has been mentioned, 24% of those surveyed were not saving at all. Young men were less likely to be saving than women, with 27% saying they are not saving, compared with 21% of young women.

So, what is putting them off doing so? Many Generation As are being prevented from reaching key milestones by other pressures on their income. More than a quarter (26%) of Generation A say that clearing their debts (including student debt) is their top priority. Similarly, low wages are affecting young people's ability to save. Nearly half (47%) of those who were not saving said it was because they didn't have enough money to do so. The situation was even worse for young Scots: 67% said that they didn't earn enough to start saving.

A lack of confidence and understanding of financial products was apparent in the research. Of those who were not saving, 29% said they didn't understand enough about investing to feel comfortable doing it. Again, this figure was considerably higher among young women (36%) than young men (23%) suggesting that more could be done to educate women about investing.

Of those who were saving, almost four in 10 (38%) were saving into a bank or building society account, with a further 29% saving into an investment product such as an ISA.

VIEWS FROM THE EXPERTS:

"The media has heavily focused on young people's shock and bewilderment at the vote for Brexit. In reality, our goals remain unchanged; the fact that only 13% of us have halted our savings suggests that we've become used to living through economic turmoil. Likewise, 30% of us are still determined to save up for a home, despite the vagaries of the housing market and the possibility that we jeopardise other goals in the process. Stagnant wages and high living costs mean we have to prioritise. Since rents remain horribly high and many tenancy agreements are on (what my mum calls) a shoogly peg, home ownership seems to provide a degree of security that is positively Elysian. And let's face it, it's no good for the older generations to denigrate this goal when they have benefitted so much from it.

The fact only 5% of us save for our pension is no surprise. We're now expected to provide the bulk of our retirement savings from a far earlier age. It still won't be enough, of course, but many young people aren't even meeting the bare minimum. It's not all their fault; pensions are rigid and archaic structures that require urgent reform. The Lifetime Isa obviously won't be the answer. We need more flexible options and better education in the workplace rather than outdated lectures from the financial sector about how we need to give up Sky and booze.

30% OF US ARE STILL DETERMINED TO SAVE UP FOR A HOME, DESPITE THE VAGARIES OF THE HOUSING MARKET AND THE POSSIBILITY THAT WE JEOPARDISE OTHER GOALS IN THE PROCESS.

Research increasingly shows that young people are becoming more pragmatic in their outlook. Perhaps the notion of "personal responsibility", previously associated with selfishness and greed, will become more acceptable. The financial sector needs to do more to educate young people so that, even if they regard Brexit as bad news overall for the economy, some can snatch victory from the jaws of defeat."

IONA BAIN,
Freelance journalist and author of 'Spare Change'

"Getting on the property ladder seems to be ingrained into the psyche of young people who unsurprisingly prioritise that over saving for retirement.

UNDER 25S ARE FINDING IT INCREASINGLY HARD TO SCRAPE TOGETHER A DEPOSIT AND HAVE SELDOM SEEN A YEAR WHERE PROPERTY VALUES HAVE DROPPED...

House prices have surged in recent years, and so has monthly rent, especially in London and the South East. It means under 25s are finding it increasingly hard to scrape together a deposit and have seldom seen a year where property values have dropped, making it an attractive looking investment, as well as a place to make a home.

It can be also be extremely hard to save at that age. Many are finding their feet career wise – and those who do want to stick away money into a rainy day fund currently have little incentive to do so, thanks to savings rates crumbling.

I believe a targeted simple monthly savings product, similar to Pensioner Bonds, could really help young adults get into the habit of sticking money away to snowball into something bigger – and not just to use for a house purchase.

A silver lining to the research is the fact a quarter want to clear debts. They grew up in the backdrop of the credit crunch and will hopefully have learnt lessons – cheap credit will eventually catch-up and can have a nasty bite."

LEE BOYCE,
Consumer Affairs Editor at This is Money and Mail Online

VIEWS FROM THE EXPERTS:

"As someone sitting just outside of this age bracket, many of these findings are familiar. It's true that Generation A faces challenges that their parents did not, and that many have been dealt a tough hand, but there are some refreshing figures in this latest report.

WE MUST CONSIDER THE SPECIFIC NEEDS OF YOUNG PEOPLE AND DEVELOP SOLUTIONS THAT ARE ENGAGING AND RELEVANT TO THEM.

At first glance, it might seem worrying that a quarter of 18-25 year olds aren't saving. However, as more than a quarter are clearing their debts as a top priority, and many are still accruing student debt, it doesn't seem quite so scary.

It is clear that their intentions are good. Many are working towards specific financial goals and 30% are determined to get on the housing ladder. It's also encouraging to see that almost a quarter would be willing to attend workshops in order to better educate themselves about managing money!

Perhaps more concerning is the lack of confidence this research demonstrates, particularly amongst women, with over a third saying they don't understand enough about investing to consider it. With interest rates at a record low, it's important that we explain the potential benefits of investing to those with time on their side.

To engage the younger generation, we need to find new ways of communicating the importance of getting to grips with saving and investing, and the freedom this can offer later on. We also need to consider the specific needs of young people and develop solutions that are engaging and relevant to them.

Naturally this is something that we have prioritised at Moneybox and it's fantastic to see many other providers (both old and new) doing the same. Together, I hope that we will be able to empower this generation with the education and tools they need to take that all important first step towards achieving their future goals."

CHARLOTTE OATES,
Marketing and Product, Moneybox

"At the end of September 2016 the Money Advice Service published a survey revealing that 16m people in the UK have savings of less than £100. The survey also stated that in five areas of the country, more than half the adult population has savings below that level. So what is it that we as a savings industry can do to help those young people who don't (or can't) save?

That young people lack understanding of financial products to save or invest is no surprise. Ikano Bank's own customer research tells us that UK consumers want simple savings products, with fair terms, fair rates of return and no hidden catches. As is said in Sweden, 'Lagom'…delivering just want is needed…and no more.

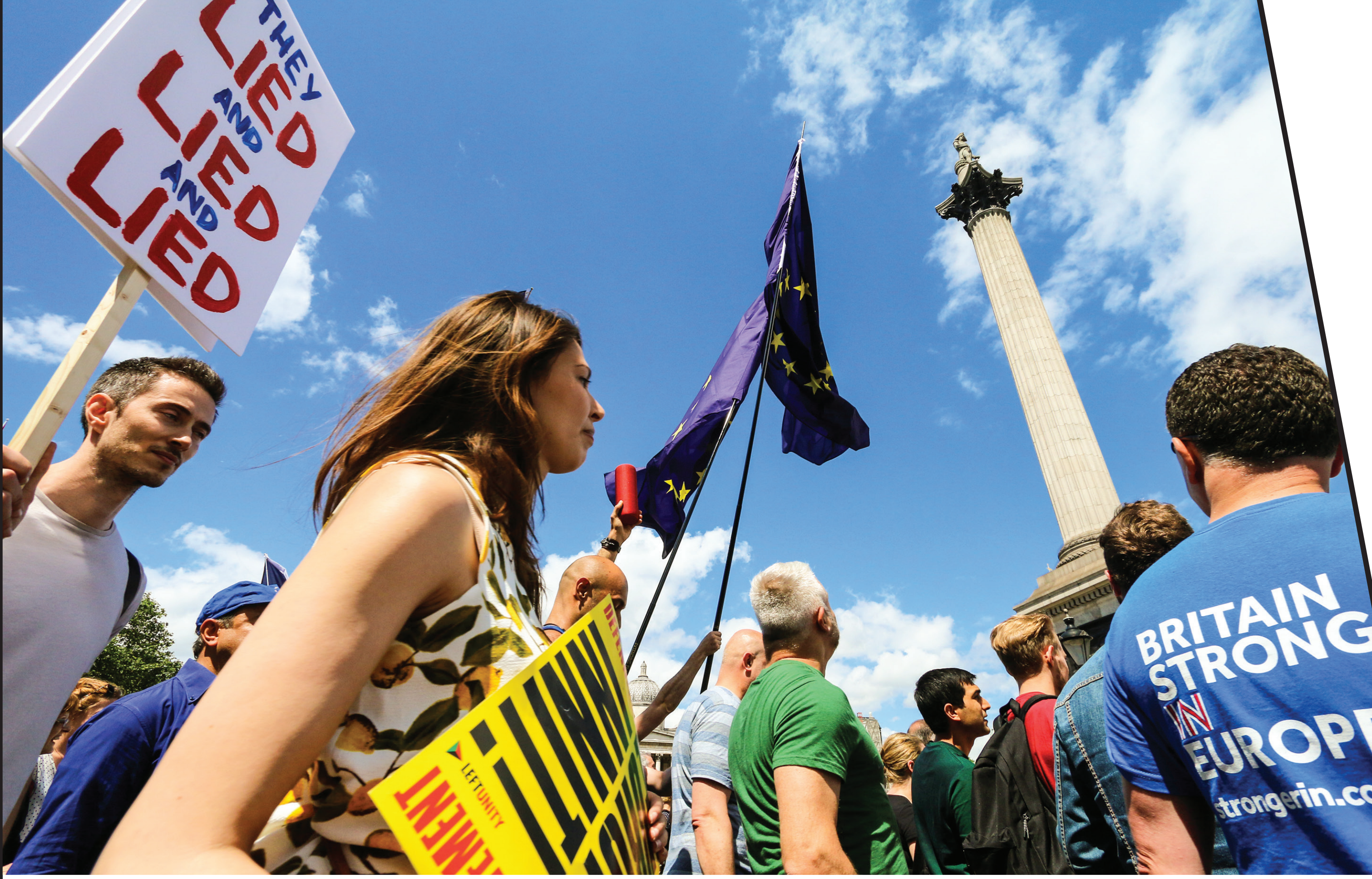
And what can young people do to help themselves achieve their financial goals? In 2015 Ikano Bank produced its 'Simpler Britain' study. The results were fascinating. Whilst 58% of over 65s found dealing with life's admin and their finances simple, only 16% of 18-24 year olds agreed. 46% of the UK population said their lives were too complicated and 34% claimed they were actually losing sleep over complicated life decisions.

Perhaps one of the most powerful things young people can do is to define success on their own terms. Our survey revealed that 'Fear of Missing Out' (FOMO) is one of the key drivers of complexity in the lives of young people, with 2/3rds of 18-24 year olds worrying that life is too complicated due to fear that they are missing out on better offers.

Those who found life least complicated were those who had learned to define success on their own terms, targeting more accurately the things that really satisfy and as a result, directing their personal and financial energy toward them.

We live in a time where it's possible to purchase almost anything or travel to anywhere. Whilst a pension, a mortgage and a home or even an emergency fund may seem unobtainable when considered alongside all of life's endless possibilities, the way to make sense of complexity is to focus on what is really important. Whether or not we really need that skinny cinnamon latte each morning or the latest smart phone is not really the point. It's about knowing which choices we make add complexity and which move us further away from our financial goals and the things that really matter."

SIMON RIPTON,
Head of D2C, Ikano Bank



INVESTING AND THE ECONOMY: A TURN-OFF FOR GENERATION A

When it comes to investing, Generation A faces a very different world to the one in which their parents grew up. In fact, the younger age group has known little other than extraordinary market conditions. Whether it was the financial crash of 2007, interest rates being kept artificially low – and propping up house prices into the bargain – or markets being sent into a spin by the vote for Brexit, investing is not for the faint hearted.

To find out more about Generation A's investing habits, we asked them what they thought would make them the most money over the long term.

Taking stock…and shares

Looking at what people thought over the long term, 22% thought investing in fixed income (an income which is set at a particular figure and does not rise and fall with inflation) would make them the most money. Those in Northern Ireland were particularly keen on this form of investing, with 37% favouring it. However, given the current low rates on savings accounts, those who choose to invest this way risk missing out on the more generous rates available elsewhere.

Just 8% of Generation A thought that stocks and shares

22%

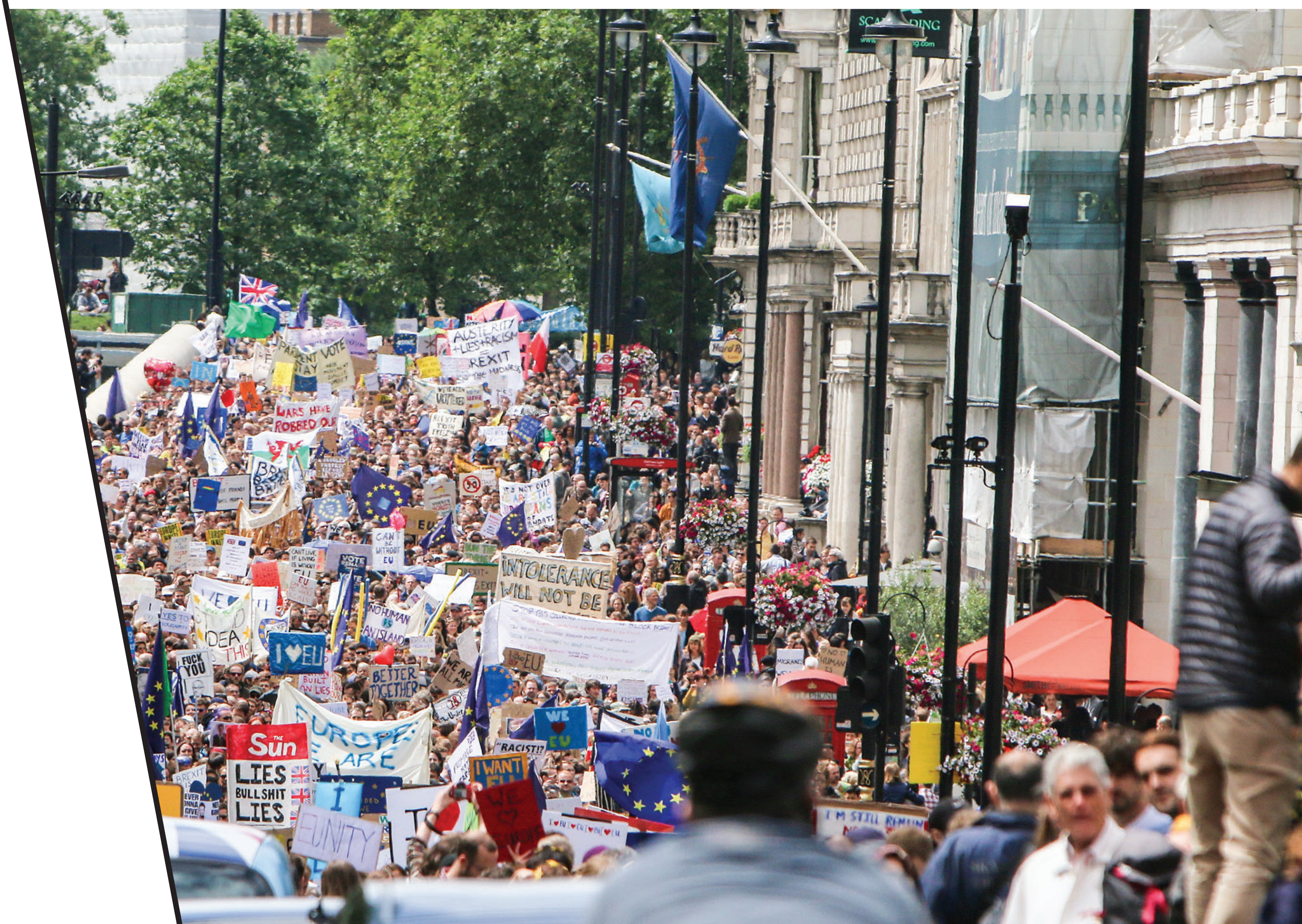
THOUGHT INVESTING IN FIXED INCOME WOULD MAKE THEM THE MOST MONEY OVER THE LONG TERM would offer the best returns over a similar period. There was a stark difference between men and women in this respect. Young men are over three times more likely to believe in the power of stocks and shares – with 13% thinking it would make them the most money over the long term, compared with just 4% of young women. Again, this suggests that young women could benefit from more sustained efforts to demystify investing and stocks and shares.

18%

THOUGHT BUYING THEIR OWN HOUSE WOULD MAKE THEM THE MOST MONEY OVER THE LONG TERM

Bricks and mortar

As if any more proof were needed about Generation A's overall desire to own property, 18% thought buying their own house would make them the most money over the long term. Slightly more women than men were most keen to maximise investment returns through property ownership. Regionally, those in East Anglia thought this would be the best long term play. Conversely, those in the South East and the North West – areas which have seen house price growth outstrip wage growth – were least keen on this option with 13% and 10% respectively expecting to make the most money over the long term through property ownership.



VIEWS FROM THE EXPERTS:

"The report paints a pretty poor outlook for Generation A, but this is a reality for many people. Rising house prices and low salaries have made it harder for people to achieve their goals.

SHARES TEND TO SUIT MEN AS THEY ARE MORE WILLING TO TAKE A RISK, WHEREAS WOMEN TEND TO BE MORE CAUTIOUS.

It is a concern that the younger generation think fixed income is going to offer the best solution. With interest rates so low the income that is on offer has come down a long way and isn't going to offer a great return at present.

The view that property isn't going to provide the best long term investment is truly fascinating. It usually takes a big correction in the value of an asset before people become disillusioned by it. Part of this belief could be driven by concerns over property values caused by the Brexit vote. However, as the view is strongest in those regions where properties are most expensive, I believe it is a reflection of the fact this generation struggle with high property prices and do not see them as sustainable over the longer term.

I am disappointed that share popularity is so low; over the longer term shares have been the best performer. However, they have been volatile since the Brexit decision. The gap between men and women's view on shares is pretty typical. Shares tend to suit men as they are more willing to take a risk, whereas women tend to be more cautious. The irony is that this cautious approach can help women be better investors. The finance industry also has a long way to go to understand how to appeal to women.

When investing, you should consider having a mix of property, shares and bonds. A well-diversified portfolio means you don't have to guess at what might be the right investment over the next 30 or 50 years."

ADRIAN LOWCOCK,
Investment Director, Architas

“Even though nearly one in 10 young people are willing to invest in the stock market and realise that is a good way to make returns, how many have actually put much money into stocks and shares?

The problem is two-fold – it comes down to education and lack of funds to save for the future. The education problem starts as early as school. When I was younger, no one explained to me the importance of investing – not just putting money aside for retirement or putting money into a company pension, but actually making a specific effort to invest money. I only learnt about it when I became an investment journalist. Now I see peers struggling with the concept; many simply don’t know where to start. That’s a failing on the part of those that are meant to educate the nation financially, and more needs to be done to get young people up to speed with how to invest their money and where to go for information.

The other problem is that life for younger people is getting more and more expensive. Many earn barely enough to get by, especially in an expensive city like London, where rents and public transport can easily cost you more than half your monthly salary. Under these pressures, investing and saving for the future fade into the background. Throw in the lure of the capital’s multi-faceted entertainment scene, and many young people end up not only not saving, but in debt!

MANY EARN BARELY ENOUGH TO GET BY, ESPECIALLY IN AN EXPENSIVE CITY LIKE LONDON, WHERE RENTS AND PUBLIC TRANSPORT CAN EASILY COST YOU HALF YOUR MONTHLY SALARY.

The survey results highlight the difficult situation 18-25 year olds in Britain are in when it comes to their financial future. They need all the help they can get if they have any hope of retiring this side of 70.”

ANNA FEDOROVA,
News Editor, Investment Week

VIEWS FROM THE EXPERTS:

"The report highlights the realities of personal finance for young adults.

It chimes with RateSetter's own research this summer: a quarter of people aged 18-30 admitted that they are not putting away any money at all for the future and seven in 10 had not given any thought whatsoever to retirement planning.

YOUNG PEOPLE HAVE BECOME SO USED TO LOW INTEREST RATES THAT ALMOST HALF BELIEVE 0.3% IS A REASONABLE RATE OF RETURN FOR INSTANT ACCESS SAVINGS.

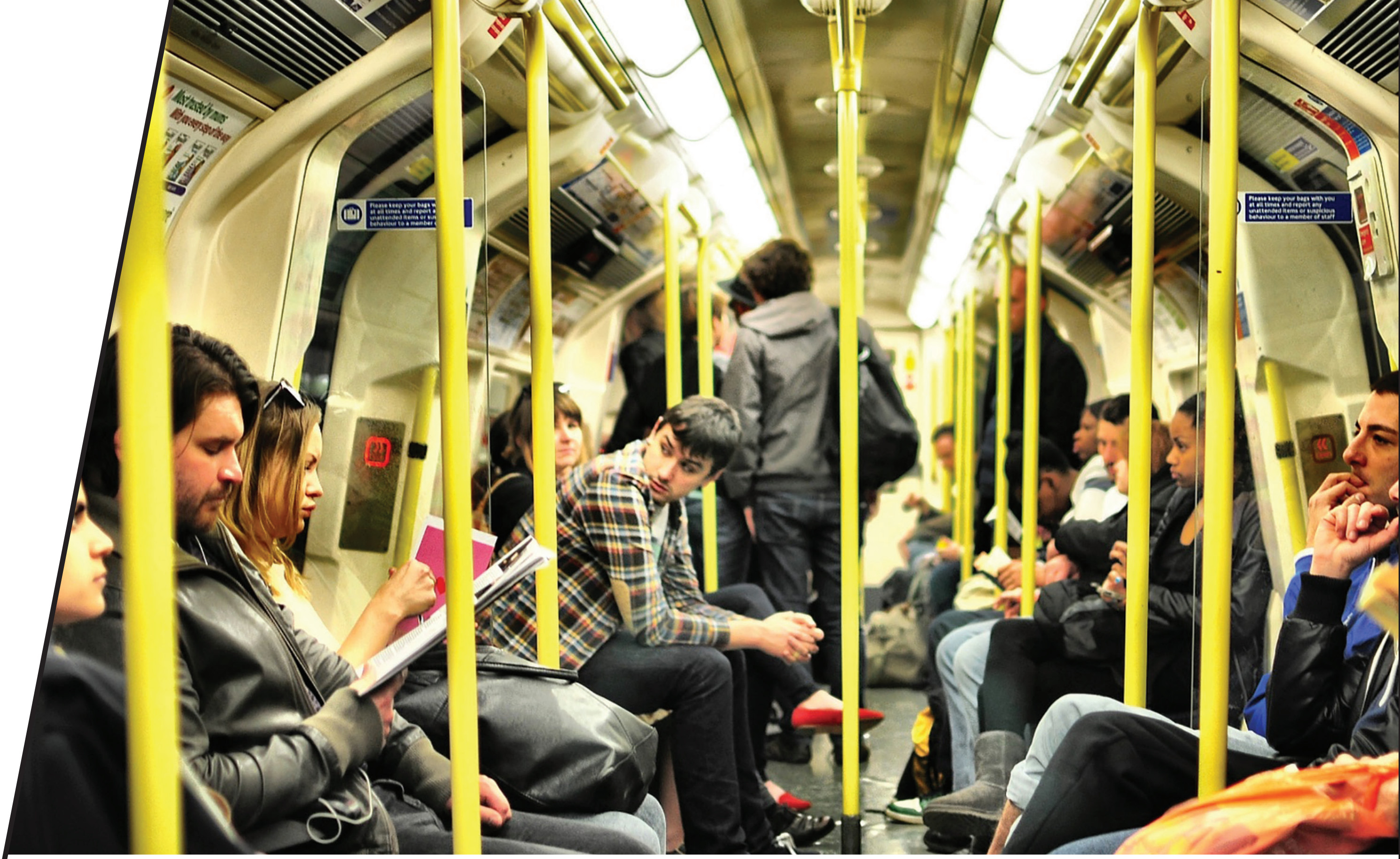
And it's no wonder that young people are put off – not only are their finances already stretched, but pensions are complicated and frankly unexciting, plus media coverage of pension issues tends to be heavily negative in tone. Interestingly, we also found that young people have become so used to low interest rates that almost half believe 0.3% is a reasonable rate of return for instant access savings. With returns like that, is it surprising that they've lost interest?

But this risks building up major problems for the future. The worst thing the finance industry can do is to put its head in the sand and meekly hope that somehow things will work out fine. However, innovation in finance may provide a glimmer of hope for the future.

Regulated peer-to-peer lending platforms such as RateSetter are making things more interesting by opening up direct access to the risk and return from loans - once the exclusive domain of institutions - to individual investors.

This is an investment rather than a savings product, as there is no guarantee of safety, but returns at RateSetter have averaged 4.7% over the six years since our launch, and these investments are relatively easy to understand and simple to manage. With peer-to-peer lending ISAs on the horizon too and self-invested personal pensions already available, this rapidly growing sector is poised to play a positive role in young people's finances in the future."

CERI WILLIAMS,
Head of Investor Operations, RateSetter



ADVICE AND ACCESS – A PRICED-OUT POPULATION

Great strides have been made in the financial advice industry since the implementation of the retail distribution review – rules introduced to create more fairness and transparency for consumers – in 2013. However, there is more the industry can do to make itself more relevant to Generation A. The average age of an adviser is currently 58,[7] and the rise of digital propositions, such as robo-advice, is putting pressure on the traditional financial advice model, particularly as young people collectively have been very receptive to online models.[8]

We quizzed young people on a number of factors, including how much they were willing to pay per hour for advice, when they were likely to consider using a financial adviser and what it was that would prompt them to choose one adviser over another. We also asked them what banks could do to help them manage their finances.

Cost is key

So how much was Generation A willing to pay? On average, they were prepared to pay just £28.50 per hour, considerably lower than the current average cost of financial advice, of £150 per hour[9]. Men were prepared to pay slightly more than women (£32 per hour compared with £25 per hour for women). Furthermore, only 15% of Generation A said they would pay an hourly rate of more than £30 for advice, with just 5% willing to pay more than £50.

Over half (51%) said they wouldn't pay for financial advice at all. This rose to 55% for females and dropped to 46% for men.

[7] http://www.ftadviser.com/2015/05/20/ifa-industry/your-business/almost-of-ifas-looking-to-sell-up-within-years-0WgJUcLjiqUudt2pS0vlmK/article.html
[8] https://www.leggmason.com/content/dam/legg-mason/documents/en/corporate-press-releases/market-perspective/2016/gis-uk-millennials-robo-advice.pdf
[9] https://www.unbiased.co.uk/ways-pay-ifa

When is the right time?

We were keen to find out what would prompt Generation A to use a financial adviser. Just under a quarter (23%) said they would consider using an adviser once they had enough assets to need help making the right financial decisions. Almost the same number (22%) said they would look into financial advice if they suddenly came into money (such as by winning the lottery or through an inheritance). Buying a property, which was high on the financial priority list for many, would also make 11% consider seeking professional advice.

A sizeable proportion of Generation As saw a need for advice simply to keep their finances on the right track: more than one in 10 (11%) said they would consider a financial adviser to help them plan ahead for a comfortable retirement.

However, 28% of Generation As said they would not consider using a financial adviser at all. This is in line with the wider population: a study by B&CE found the same figure (28%) of all adults had never used an adviser and had no plans to do so in the future.[10]

The future of advice: young at heart

But how does this fit with an industry where the average age of financial advisers is now 58? Generation A appreciates adviser firms which are geared towards young people. Nearly a quarter (22%) said they would be most likely to choose a financial adviser that offered a young people's discount. More than one in 10 (12%) said they would be swayed by advice firms that had people solely focused on giving advice and planning services to millennials or younger advisers in the firm.

As well as this, word of mouth was still an important consideration: 19% would be most likely to choose a financial adviser based on personal recommendations or if a friend or family used the firm.

Bank branches: not a thing of the past

With the increasing digitalisation of retail banks, we were also keen to find out what Generation A thought of banks and whether they felt they still had a place in modern society.

There was a strong desire among Generation A for increased opening hours and practical help in managing their finances. 23% thought that the most useful thing a bank could do to help them attain their financial goals would be to offer free workshops on managing money, with this figure rising to 26% for women (compared with 19% for men). A fifth (20%) said they would most like to see bank branches staying open longer into the evenings and at weekends. Despite this, banks are increasingly closing branches, with the 'big four' high street banks shutting 1,700 between them in the last five years, without replacing them.[11] The results suggest that the traditional banking model is still really important to this age group.

[10] http://bandce.co.uk/wp-content/uploads/2016/02/201602-Public-attitudes-to-advice.pdf
[11] https://www.theguardian.com/business/2016/aug/21/bank-branch-closures-trigger-high-street-alarm-bells

MOST YOUNG PEOPLE HAVE LITTLE IN THE FORM OF INVESTMENT OR PENSION CAPITAL BUT THEY DO HAVE HIGH HUMAN CAPITAL. FIRMS NEED TO HELP YOUNG PEOPLE TO INCREASE THEIR HUMAN CAPITAL

"Young people clearly need and want help with understanding the basics of personal finances so they feel more motivated, confident, and empowered. That means providing them with insights, rules of thumb, principles and frameworks on how to make good decisions and choices about their money.

Those financial services businesses which can provide this help, consistently, effectively and free of charge, will be uniquely positioned to earn the trust and future business of those expected to inherit over £1 trillion of wealth from their parents and grandparents over the next 20 years.

Firms need to devise more accessible and relevant financial planning led advice services based on a transparent, fair and affordable choice of monthly subscriptions, which reflect the value being delivered, not an outdated, conflicted and unsuitable fee based on an annual percentage of investment capital. Most young people have little in the form of investment or pension capital but they do have high human capital. Firms need to help young people to increase their human capital and devise a strategy for converting human capital into investment and pension capital, while also addressing shorter term needs and priorities.

Technology has a big part to play in firms creating, nurturing and maintaining a trust-based dialogue, connection and relationship with young people, but it also has to be combined with a sensible degree of human interaction. Web chat, telephone, web video meetings and face-to-face contact all have a part to play, as long as they are commensurate with need and being good value for money."

JASON BUTLER,
Adviser, AdviceFront

VIEWS FROM THE EXPERTS:

"The results provide further evidence of the increasing advice gap which, in the case of the younger generation, is a result of a savings gap.

It is unsurprising that over half of people aged 18-25 would not pay for advice, and even if they did, at an average of £28.50 per hour. Sadly as this is around a quarter of the average hourly cost of advice, it means that going to an adviser is currently an unrealistic option for many.

Historically, advisers have not targeted the younger generation which means Generation A probably do not understand the true value of quality financial planning even if they could afford it.

Although it is highly unlikely that Generation A have the assets or life events that truly require advice or make it economically sensible, the sector is at a make or break point; where the innovative advisers grab the opportunity for future success.

OVER HALF OF PEOPLE AGED 18-25 WOULD NOT PAY FOR ADVICE, AND EVEN IF THEY DID, AT AN AVERAGE OF £28.50 PER HOUR.

This is the perfect opportunity for advisers to engage with the younger generation to offer low-cost, light touch online services at a minimal time and financial cost to themselves that help young savers with their relatively simple financial needs. This helps form trusted relationships and will 'incubate' the young savers as clients until they hit the point where they have sufficient assets that need full financial advice; valuable for both client and adviser. Robo-advice can sit alongside full face-to-face financial advice if it is utilised by advisers to incubate those with limited funds today.

It is vital that advisers start looking at these offerings now, otherwise in this digitalised world, we may see Generation A go straight to direct robo-advisers and DIY websites and by the time they genuinely need advice may not understand the value, or like the cost of it, and end up making some bad decisions."

JUN MERRETT,
Content Editor, Nucleus

"On initial reading, the fact that over half the survey respondents say they wouldn't pay for financial advice might alarm those who work in financial services. But actually this is neither surprising nor concerning: up to the age of 25 a person's financial needs are rarely complex, and I imagine that most would find a typical high street current account, a savings account and credit card are more than adequate for their needs.

It is unlikely that at this stage a professional financial adviser would really offer them value for money.

However, life tends to get more complicated over time as people accrue such things as a mortgage, a pension and insurance. It is only when there is more at stake – and the risks of not taking advice could mean making some very costly mistakes – that people are liable to see the value of financial advice. The more complicated a person's financial life, the more likely they are to understand that advice should be tailored specifically to their own circumstances and objectives – the simpler robo option is probably not going to cut it anymore. And that is the point at which advisers need to demonstrate that their services represent good value for money.

So we shouldn't despair at the disinclination of young people to engage with financial advice. It is far better to encourage the savings habit in general, than overload young people with the plethora of financial choices they will have to make in future. This will increase the likelihood of having financial savvy adults in future who will understand the benefit of advice when it is appropriate for their circumstances."

IT IS FAR BETTER TO ENCOURAGE THE SAVINGS HABIT IN GENERAL, THAN OVERLOAD YOUNG PEOPLE WITH THE PLETHORA OF FINANCIAL CHOICES

LAWRENCE COOK,
Director of Marketing and Business Development,
Thesis Asset Management

VIEWS FROM THE EXPERTS:

"Millennials have a number of goals that they wish to achieve before the conversation of pensions and investments begins. These include paying off student debt and saving for a deposit to gain that all-important first step on the property ladder.

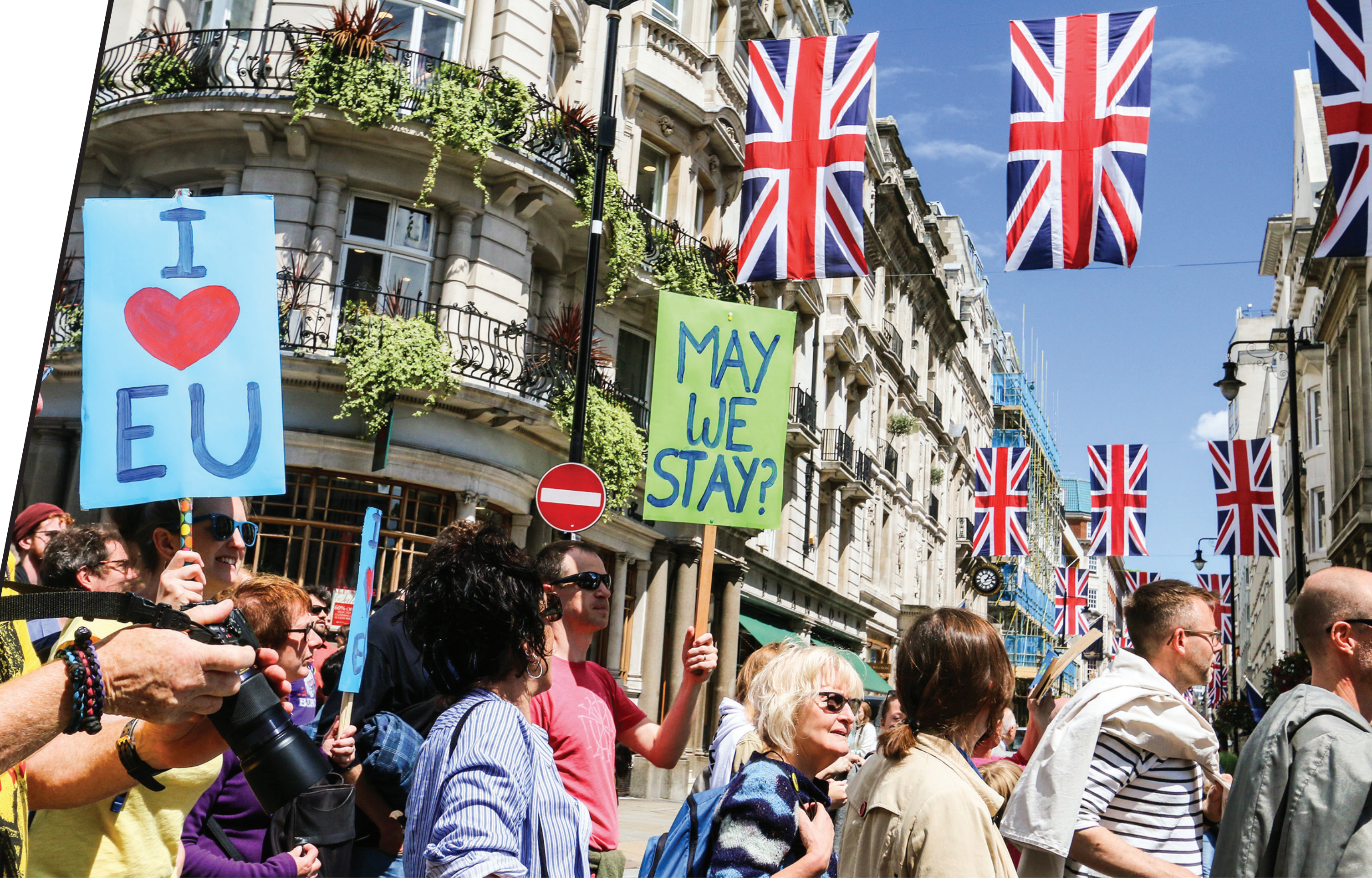
MILLENNIALS DO WANT TO ENGAGE WITH THE INDUSTRY, BUT THE FINANCIAL CRISIS AND SUBSEQUENT MARKET VOLATILITY HAVE FOSTERED DISTRUST.

While this might delay investment and retirement savings, millennials are cognisant of the fact that they do need to save for retirement. However, they aren't so confident on where, when or how to start. This could be interpreted as apathy or a disconnect between spending habits and an understanding of future challenges. However, this is not really the case. Millennials do want to engage with the industry, but the financial crisis and subsequent market volatility have fostered a distrust. They also believe that there is a lack of understanding about the obstacles they face and their priorities.

To remedy this, millennials want the industry to engage with them through education, simplification of products, offerings and transparency. There is a willingness to access advice but it has to be in the right form and to the point.

The results from this survey tie in with research we have conducted ourselves, at our recently established Millennial Forum, whose aim is to actively bridge the gap between millennial clients and the industry. The forum seeks to understand the challenges facing millennials and is unique in that it consists of millennial employees from member firms – working in the industry – who have researched these issues and have a vested interest in the results."

NOELLE BUCKLEY,
Head of Research, The Wealth Management Association



RECOMMENDATIONS

Pensions and Benefits: The uncertain road to retirement

- The young adults of Generation A generally believe the state pension will be their main source of income in retirement – but aren't they deluding themselves? More needs to be done to inform them that the state pension is intended simply as a safety net to alleviate poverty; most will need to draw on a range of savings and investments to enjoy a comfortable retirement.

- Many in this age group appear unsure of how much they need to ensure a comfortable retirement. Based on our survey results, they will need to find the equivalent of another £3,490 per year on top of their original estimates. Information on the likely costs of retirement needs to be more accessible to enable Generation A to plan ahead thoroughly.

- While the responsibility for pension saving is steadily shifting towards individuals, there has not been a corresponding effort to educate Generation A, with 29% of those surveyed feeling they do not understand enough to invest. The industry needs to ensure that young people are equipped with the understanding and the knowledge that they need to make informed decisions.

- The lack of serious saving among Generation A illustrates the importance of auto-enrolment. There is a need for the government to continue increasing the rate of the minimum contributions within auto-enrolment.

Saving and Spending: Interest rates, wages, benefits and confidence grind lower

- While there is a strong appetite for saving among Generation A, constraints on their income mean they are not always able to put much aside. The industry needs to ensure there are enough suitable products and services available on the market, such as micro-investing solutions, so as not to exclude those without much disposable income from saving.

A TARGETED SIMPLE MONTHLY SAVINGS PRODUCT, SIMILAR TO PENSIONER BONDS, COULD REALLY HELP YOUNG ADULTS GET INTO THE HABIT OF PUTTING MONEY AWAY REGULARLY.

- While there is plenty the industry can do to engage with young people, attitudes among Generation A need to change. The notions of "personal responsibility" and "resilience", for example, need to be embedded as Generation A is increasingly expected to shoulder the burden of responsibility for their financial futures.

- A targeted simple monthly savings product, similar to Pensioner Bonds, could really help young adults get into the habit of putting money away regularly.

- To engage with Generation A, we need to find new ways of communicating the importance of getting to grips with saving and investing at a young age – and the freedom this can offer later on in life. We also need to consider the specific needs of young people and develop solutions that are engaging and relevant to them.

Investing and the Economy: A turn-off for Generation A

- Brexit has left many young adults uneasy about their financial futures, with nearly half of Generation As saying they expected to be worse off as a result. The industry needs to do more to encourage a long-term approach to investing, including advocating a well-diversified portfolio which reduces volatility over the investment time horizon.

- There were also concerns about the availability and user-friendliness of investment information and as a result, many Generation As are discouraged from taking the initial leap into investment. More needs to be done by the industry to get Generation A up to speed with how to invest their money and where to go for clear and relevant information.

- Innovation in finance could open up simple and stimulating ways for Generation A to engage with financial services. Generation A is a prime target, for instance, for regulated peer-to-peer lending platforms which enable direct access to the risk and return from loans to individual investors. In order to reach as many young adults as possible, it is important those working in the space have a deep understanding of young people's investment goals and aspirations, as well as how much they can realistically afford to invest.

- Generation A women are a quarter as likely than men in the same age group to invest in shares, a symptom perhaps of a more cautious outlook. As a result, they could be missing out on superior returns. The industry needs to find new ways to appeal to women.

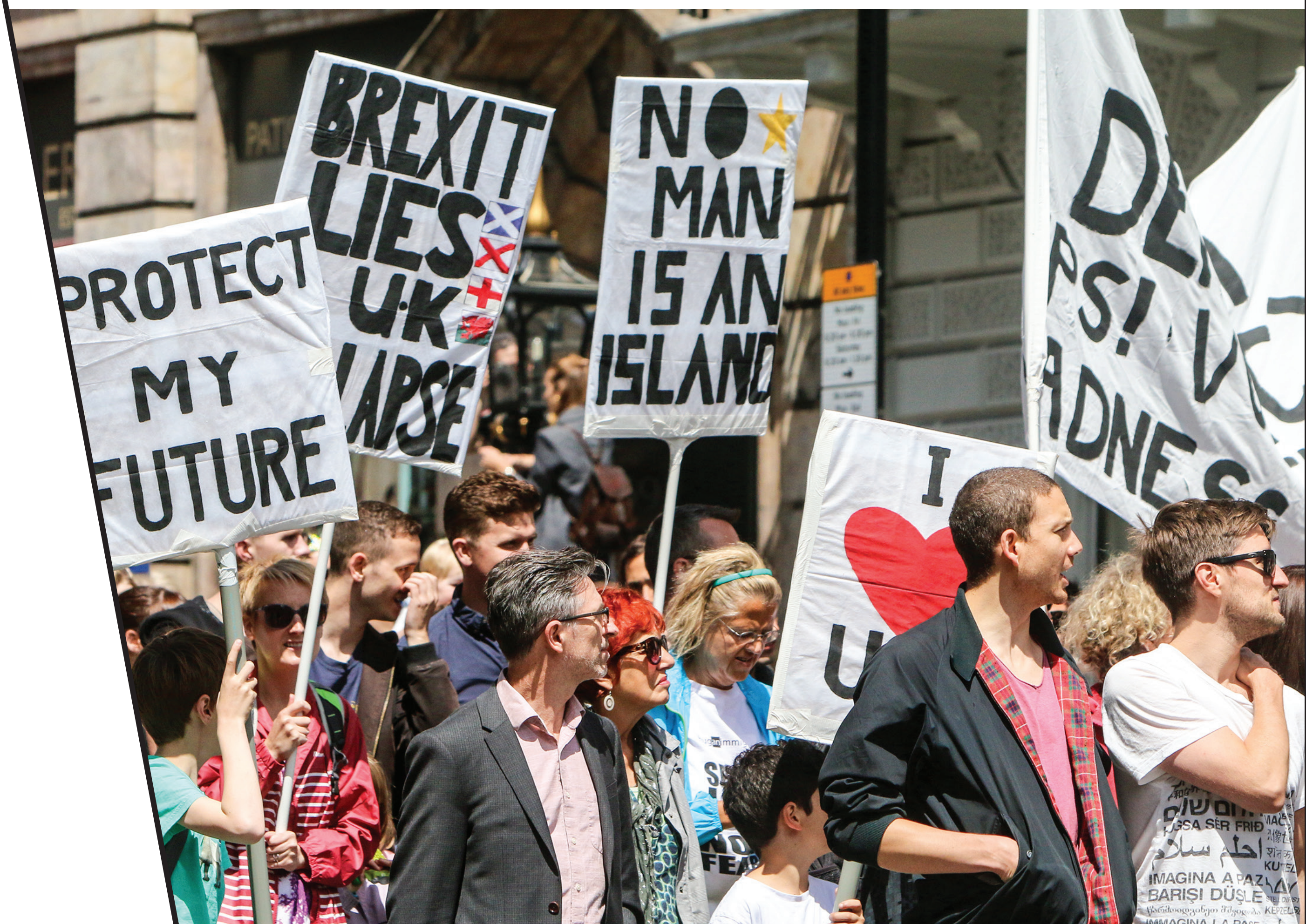
Advice and Access: A priced-out population

- There is an appetite among members of Generation A for advisers who are willing to cater specifically to their needs or offer a young person's discount. Therefore, there's an opportunity for advisers to harness this interest by developing a deep understanding of what it is Generation A wants from an adviser and tailoring their solution to align with their goals and aspirations.

- The pricing model for advisers doesn't work for Generation A, who are willing to pay just £28.50 - considerably less than the industry average of £150. The industry needs to examine what it is Generation A actually wants and needs from financial advice and adjust their prices according. It also needs to work harder to demonstrate how it can add value to a generation increasingly comfortable with digital, rather than face-to-face, interactions.

- Technology has a big part to play in adviser firms creating, nurturing and maintaining a trust-based dialogue, connection and relationship with young people, but it also has to be

> **THE PRICING MODEL FOR ADVISERS DOESN'T WORK FOR GENERATION A, WHO ARE WILLING TO PAY JUST £28.50 - CONSIDERABLY LESS THAN THE INDUSTRY AVERAGE OF £150.**



combined with a sensible degree of human interaction.

- Web chat, telephone, web video meetings and face-to-face contact all have a part to play in engaging Generation As with financial advice, as long as they are commensurate with need and offer good value for money.

Methodology

The Young Money report was produced by MRM. As part of this report, 1,000 18-25 year olds were surveyed by OnePoll between 29 June and 11 July 2016.