Lifetime Savings Initiative

A vision for success and self sufficiency

PMI | Schroders

Contents

Introduction and context

People are struggling to meet their basic everyday financial needs. In the FCA's 2024 Financial Lives Survey, 28% of UK adults were not coping financially.[1] 53% of UK adults had either used their savings and investments to pay bills, stopped saving or saved less just to make ends meet.[2]

This can have a major impact on mental wellness. According to StepChange, a leading debt charity, 40% of their advice in 2022 revealed that the individual also had a mental health condition.[3] PwC's 2023 UK financial wellness survey found that financially stressed employees are nearly five times as likely to admit personal finance issues have been a distraction at work (44% vs. 9%).[4] This can have a damaging effect on people's health and happiness, but it also has consequences for our overall productivity as a nation.

Even for those who are coping better and are fortunate enough to be able to save, the fragmentation and complexity of accessing financial products, even the most basic products, means that in many cases it's just easier to leave money in a short-term savings account even if it doesn't pay any interest.

Home ownership has reduced significantly with house prices for first time buyers having increased by around 50% over the last 10 years alone.[5] The FCA 2024 Financial Lives Survey found that 50% of those renting were not coping financially, compared to 11% who owned their home.[6]

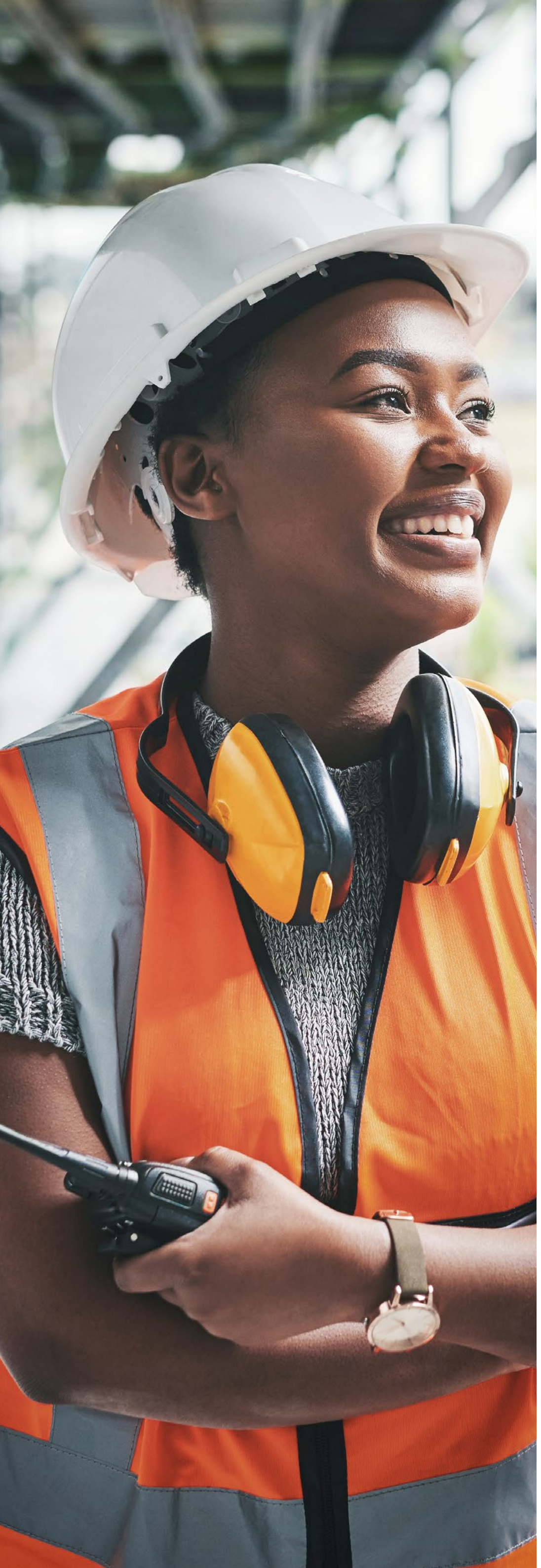
The number of people renting in retirement is expected to increase by 3 times over just the next 20 years.[7] It's estimated that covering the costs of renting in retirement alone is an astonishing 9% of someone's salary from the age of 22.[8] That's more than the current statutory minimum contribution under automatic enrolment (AE) on its own. Recent figures show that, by just 2035, renters in retirement will cost the Treasury £15.4bn due to the falling rate of home ownership and an ageing population.[9]

Whilst AE has been a huge success with 11 million more people saving for retirement[10], it is widely acknowledged that current levels of UK retirement savings are inadequate, and contributions need to rise.

Lifetime savings are now critical in helping people make ends meet in retirement – which needs to be formally recognised.

Data collected from Mercer's retirement planning proposition showed that, on average, 68% of the wealth people use in retirement comes from non-retirement income or savings.[11]

It is becoming clear that for many people looking after themselves and their loved ones through their working life, and into retirement, is about much more than pensions. People are using their "lifetime savings" – their pension, private savings, inheritance (for those who get it), the value in a home where people have managed to buy one, with many supplementing this through debt – to make ends meet. In a world of guaranteed "defined benefit" pensions this might have been a "nice to have". In the current world of defined contribution pensions the evidence suggests it is becoming a necessity. It is in this context that we warmly welcome the Government's wide-ranging pensions review. Our proposals align with the review and will help to accelerate the development of the automatic enrolment framework to create a sustainable national lifetime savings model.



Purpose of the Lifetime Savings Initiative

> To look across the entire UK savings system and identify actionable recommendations for industry and policy makers which solve key pinch points that prevent people from being able to secure their financial future – and by doing so, create a more sustainable national lifetime savings model.

The Lifetime Savings Initiative has brought together a diverse group of experts with a clear mission.

Based on extensive data about UK adults and the challenges they face, we have identified three key 'pinch points' preventing people from making the most of their finances:

1. **The lack of a short-term savings buffer for a 'rainy day'**
2. **The increasing challenge of owning a home**
3. **The growing lack of adequate savings for retirement**

These problems are intrinsically linked, and we have dug deeper to understand what's driving them and how they might be addressed. Our work has identified a complex and fragmented system, with wealth products difficult to access and savers faced with choices they find confusing and intimidating. The system is not helping people to help themselves and there is no clear place to get 'guidance' on Lifetime Savings.

We need a more integrated system to support the way people start, grow and use their wealth across their lifetime to look after themselves and their loved ones.

This report presents a clear vision for a better, more integrated system that includes the national adoption of workplace 'sidecar' style savings to build better short-term financial resilience, the introduction of controlled early access to retirement savings to support first-time buyers to get on the housing ladder and, in specific circumstances, to reduce problem debt.

Not only should the system change, but how we talk about it should as well. The jargon across financial services creates challenges for everyday people that act as a barrier to them making better decisions. Consistent, simpler language needs to be used if we're to promote better outcomes. This is in the context of 34% of UK adults having poor or low levels of numeracy[12] and 1 in 6 adults in England having the literacy of a 5- to 7-year-old.[13]

Why is this proposal so important?

If we can create a system that supports UK adults in building their Lifetime Savings, which are now so critical for retirement, we will improve the lives of millions of individuals, and through this increase the resilience, health and productivity of the UK as a whole.

We have the opportunity to create a simpler framework for saving that helps individuals get onto the housing ladder with the financial security that can bring. A simple integrated framework also provides opportunities, through technology, to deliver lifetime financial guidance to support people in thinking about their finances at key points in their lives.

This would be good for all of us and ultimately underpins and drives the growth and prosperity of the UK. We must not forget that this is the real aim.

Methodology adopted for the Initiative

There are three critical factors that have supported this Initiative:

1. **Experience:** drawn from a diverse, multi-sector panel of experts – bringing together the necessary breadth of experience from senior leaders across the full spectrum of lifetime saving.

   The views in this report do not necessarily represent the views of every panellist – but our work has benefited from their challenge, expertise and energy.

2. **Robust Research:** Our recommendations are built on the extensive use of existing UK research by leading entities – all challenged and tested by our panel.

3. **Global Insight:** We have also drawn on learnings from international retirement and lifetime savings models, allowing us to consider what has gone well and less well, in other comparable jurisdictions.

Our panel members

Expert and research input:

Examples of early pensions access for hardship and housing across the globe

Singapore '3 pot model'

44% of cumulative Central Provident Fund contributions are withdrawn for housing purposes

Mandatory 37% combined contribution rate

Employer + employee contributions into 3 pots in fixed proportions with guaranteed interest rates

→ Central Provident Fund, CPF

21% ordinary account	**Early access:** education, housing, family protection*
9% Medisave account	**Early access:** medical expenses
7% special account	Locked – transferred into retirement fund at 55

USA '401k plans'

40% of 401(k) members typically take out a pension loan at some point

Mandatory 10% employee contribution rate phased in from 2025; employer matching encouraged

Non-mandatory contributions until new regime from 2025

→ **401(k) plan**

- **Early access:** hardship, housing and pension loans
- **Pension loans:** up to 50% of vest account balance up to £50,000

Australia Superannuation Scheme (Super)

Pre-tax | Post-tax

30% boost to house deposit savings via the FHSS vs. a standard savings account, according to the government

Mandatory 11.5% employer contribution; employee contributions encouraged

Concessional (pre tax) and non-consessional (post tax) contribution options

→ **'Super'**

- **Early access:** hardship, housing (via the First Home Super Saver Scheme – FHSS)
- **FHSS:** Release $15,000 voluntary contributions from each financial year (lifetime limit $50,000)

Sources: Central Provident Fund Board[14], Pension Research Council[15], IRS[16], Senate[17], Forbes[18], Parliament of Australia[19], Australian Taxation Office[20], Australian Government[21], IRD[22], Te Ara Ahunga Ora[23], IRD[24], Allan Gray[25], FA News[26].
*Remaining funds transferred into Retirement account at 55.

New Zealand 'Kiwi Saver'

10%
have utilised the First Home Withdrawal scheme to enter the housing market over the last 10 years

Employer (3% minimum) + employee (3% minimum) + government contributions (50% member contributions)

Government supported voluntary savings plan with 90% eligible population uptake; automatic enrolment for new employees

→ **'Kiwi Saver'**

Early access: hardship, housing (via the First Home Withdrawal Scheme)

Early access: hardship, housing (via the First Home Withdrawal Scheme

South Africa new '2 pot model'

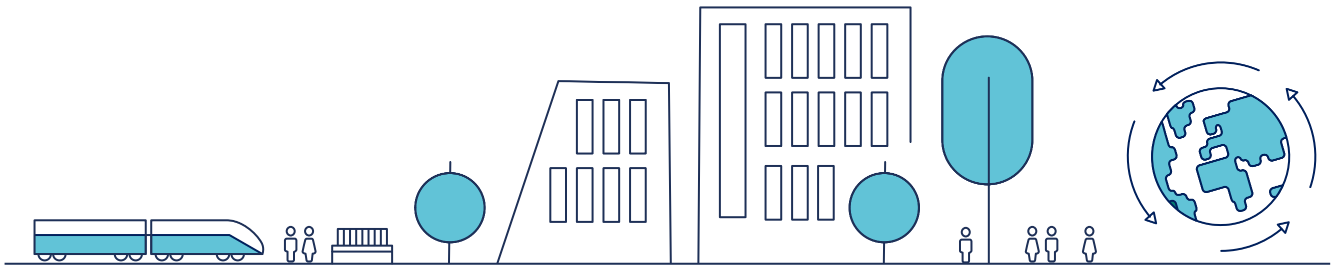
60%
Pension fund balance can be used as collateral for a home loan (for purchase or renovation)

Contributions channelled into two pots in fixed proportions from September 2024

Voluntary (except in a few private industries and the public sector)

2/3 contributions → **Retirement pot** — **Early access:** pensions backed home loans

1/3 contributions → **Savings pot** — **Early access:** full balance subject to frequency limits and minimum withdrawal amounts



More detail can be found here – but the key takeaway from our international research is that, even when you take pensions freedoms into account, the UK's long-term savings system is unusually inflexible.

We think this provides an excellent opportunity to develop a model that benefits from these learnings and catapults us to a framework that is right for the UK and leads the world as a model of 'best practice'.

We issued two publications of our research and held two in-person summits with our panel members to debate key challenges and questions, one in late 2023 and one in mid-2024.

Detailed reports on this work can be found here and a deep dive into the lessons we learned from research done at home and examples from abroad can be found here.

Who are we focusing on

The lifetime savings system should work for everyone. However, the reality is that sadly, many people in the UK find themselves in serious financial difficulty, are unable to save, and are simply trying to get by.

Our solution focuses on those with the ability to save at least something, covering approximately 80% of the UK working population:

> Typical UK citizens with the opportunity to save at least something. Aged 18, in employment, up until the point of 'retirement', but with consideration towards the self-employed and certain minority groups. We have focussed on those with up to around two times median salary (c.£60,000 p.a.) – representing 80% of the UK population. We have considered those in 'financial difficulty' and those with 'unmanageable' levels of debt but where they are able to save at least something to help build up financial resilience.

Those wealthier individuals, earning over £60,000 pa, have not been specifically considered but we would also expect them to benefit from the proposals.

More detail can be found in our first report: 'Mapping the key pinch points facing UK savers'.

The Lifetime Savings Model

The detailed reports that we have published bring to life the key "pinch points" affecting everyday people trying to make informed choices about their finances. The reports also clearly show:

- The lack of a short-term financial buffer
- The damage serious financial difficulties can do to people's finances
- The challenge of getting on the housing ladder and the implications this has at retirement, and finally
- The overall lack of adequate retirement savings for far too many people

The Lifetime Savings Model aims to address each of these in a simple and effective way, leaning into existing frameworks and infrastructure to enable simplicity and speed of execution – whilst, critically, minimising the cost of implementation.

The Lifetime Savings Model consists of two key policy proposals:

- **A National Short-Term Savings Plan (NSSP) – to facilitate simpler short-term saving throughout life to build a 'rainy day' fund, transforming the financial resilience of millions of savers**

- **A National Lifetime Savings Plan (NLSP) – extending the existing automatic enrolment framework to make it more flexible and relevant to savers, supporting their overall wealth and resilience throughout their lives – not just at retirement**

The two components of this initiative provide significant benefits for everyday savers, society and the UK economy more generally. As the NSSP and NLSP together provide opportunities to save for the short, medium and long term, they should encourage engagement as the system becomes more relevant to everyday people and their lives today, as well as tomorrow.

It works with the grain of the Government's missions and aims for reform of the UK pension system to:

- Drive economic growth across the UK
- Get the UK building and get people onto the housing ladder
- Consolidate the UK's pension market to drive greater returns for savers and greater investment in the UK

Reflecting the growing consensus between government, industry and consumer groups, we support statutory minimum contributions for AE increasing over time to a level that provides an adequate income in retirement – acknowledging the need to phase increases so they are aligned with affordability. This much-needed change would directly improve the adequacy of long-term savings and help to maximise the benefits of the Lifetime Savings Model.

The recommendation from the Work and Pensions Committee, chaired by Sir Stephen Timms in 2022 was to work towards a minimum contribution rate of 12%.[28]

It is also important that the 2017 AE Review recommendations[29], that have received Royal Assent, are included:

- **Reduce the lower age limit for which automatic enrolment applies from 22 to 18 years**
- **Remove the Lower Earnings Limit for qualifying earnings – so the first pound counts**

These changes will help with the Pensions Gender Gap and move us towards providing a more adequate income in retirement.

Changes also need to be made to bring self-employed and gig economy workers into AE where this may not be the case. Since the late 1990s the proportion of those saving for a pension, by the self-employed, has declined from 48% to 16% according to the 2022 Work and Pensions Select Committee report.[28]

National Short-term Savings Plan

1. **Employer** sets the default contribution rate

Voluntary contributions

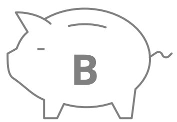
Opt-in initially

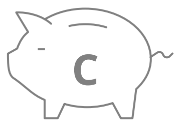
Opt-out encouraged once legislative changes enacted

2. **Pension Scheme Trustees or IGC** select a default provider

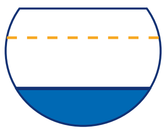
Default provider

Option to provide additional self-select options





3. **Employer** sets the recommended limit



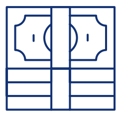
chance to nudge savers at £1000*

*£1,000 is referred to as a sensible target based on research by StepChange. This amount of liquid savings cuts the chances of going into problem debt by almost a half.

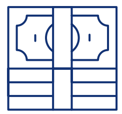
National Lifetime Savings Plan

Pension contributions

Current auto-enrolment minimums	Additional contributions

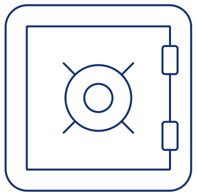


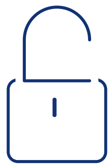
Ringfenced for retirement



Pension (pre-55)

Inaccessible	Accessible before age 55





First-time buyers

Qualifying debt repayment

The National Short-Term Savings Plan (NSSP)

The proposal

Our research clearly shows the benefit for society if more people had a "rainy day" savings pot.

We propose that, initially on a voluntary basis, that all employers should provide the facility for employees to contribute to a "rainy day" savings product, if the employee agrees.

This would likely be a simple cash savings product, but some employers (working with providers) may wish to offer a choice of products e.g. some in ISA or LISA wrappers and some not if they felt this was more appropriate for their workforces.

This improves short-term financial resilience directly, as well as helping people to save more and engage more generally with their financial health.

Principles of implementation

The ultimate aim would be for all governance bodies and pension providers overseeing and offering accumulation platforms for automatic enrolment to provide the NSSP.

This could be initially introduced on a voluntary basis but could evolve into a regulatory requirement for all DC Plans that are used for AE.

As an example, a phased approach could be:

- **Phase 1:** All trust and contract based pension providers to be encouraged to voluntarily offer a savings product for employers and employees to access. The Government to consider removing the barriers so that employers can adopt an 'opt-out' approach to the NSSP, should they wish
- **Phase 2:** In time, all providers of trust or contract based pensions to be required to provide at least one short term savings option

Extensive research from NEST has shown the benefits of enrolling workers automatically into an NSSP-like system, with the option for them to opt-out. This would be up to employers, who know their workforces best – but we understand there are currently barriers that make opt-out approaches more difficult (including, for example, questions around the balance of GDPR and Know Your Client compliance). We recommend that the Government consider these barriers and consult on ways to remove them that maintain the right protections but enable more employers to take an 'opt-out' approach to the NSSP, should they wish to.

Choice of savings products

We recommend that, as a key point of principle, we would expect one (i.e. like a default) or no more than a small range of product choices to be provided under the NSSP which should be clear and simple.

As for self-select funds, trustees will receive independent financial advice on the suitability of products, and this should equally apply to products for the NSSP – where the key principles are likely to be:

- Ability to have short-term access – as a 'rainy day' fund
- Interest-bearing
- Providing good 'value for members' (likely to mean low or no cost in practice)

Once people have built a reasonable 'rainy day' fund (for example, of £1000) this could provide a trigger for providers and/or employers to 'nudge' savers to consider whether they might want to keep up the savings habit, but use the money differently, such as making extra contributions to their pensions. This could drive further engagement in lifetime savings and help people to form good overall saving and investing habits.

Governance and reporting

As with self-select options, trustees would be responsible for the oversight of these savings products – and consideration would need to be given for any regulatory or compliance requirements.

The National Lifetime Savings Plan (NLSP)

Proposed Model

The NLSP would be an extension to the existing AE and Retirement Savings model so that the existing framework and processes, that have been so successful, could be used for an even greater purpose.

Qualification and eligibility

Anyone contributing through AE, or through a suitably approved retirement savings product, could participate in the flexibility of the NLSP.

Financial limits on withdrawals

Withdrawals, as early access, would only be allowed on the value of retirement savings from contributions in excess of the statutory minimum – currently 8% of qualifying earnings.

Withdrawals would not be allowed under any circumstance to dip below this minimum floor.

As we know that current levels of retirement savings are inadequate, this protects retirement savings up to the statutory minimum which would only be accessible from the 'Normal Minimum Pension Age' (NMPA) which is currently age 55.

The use of Lifetime Savings Early Access

The use of early access, before a member's NMPA, should be allowed for only two purposes:

- To contribute to the deposit to buy their first home
- To help address 'serious financial problems'

Our decision to focus on these issues has been driven by our research. Where people are reducing their long-term savings, this needs to be justified. Our findings on the low levels of financial resilience in the UK, and the challenges of getting on the housing ladder and the consequences of the cost of renting through retirement, we think make a clear case for the above options to be introduced.

We define 'serious financial problems' as individuals who have received regulated debt advice or are on a statutory debt repayment plan (or other formal arrangement).

Addressing serious financial problems earlier, or the equity in a property, will both enhance an individual's Lifetime Savings, supporting them both now and at retirement.

Self-select

As some members will inevitably pay additional contributions specifically to help them buy their first home, pension providers and trustees may choose to have suitable self-select options that are aligned to buying an asset in the property market – providing the right level of liquidity so that proceeds can easily be accessed at the right time.

Governance and administration

Trustees and administrators are already accustomed to overseeing self-select options and recording 'withdrawals or debits' from pension accounts – for example by recording adjustments for savings values from pension sharing orders or transfers.

Taxation of early access withdrawals

HM Treasury will have their own views on the tax treatment of any early access withdrawals. However, to provide an incentive to save through the NLSP and to simplify the system, it is proposed that the first call on savings should be from 'tax free' cash entitlements – to avoid additional administration.

Systems already allow for the monitoring of lump sums and providers have processes to allow them to issue Lump Sum Allowance Certificates. This system could be built on to monitor tax-free entitlements under the NLSP.

Early access and repayments

We do not recommend the mandatory repayment of withdrawals because the limited options for the use of early access will contribute to people's Lifetime Savings at retirement either through the removal of a need to meet rental payments, the ability to access equity in their home or the lower level of debt servicing that would otherwise have been required.

The difference a Lifetime Savings Model can make

The potential impact of these proposals can clearly be seen when we model the outcomes for savers within our core target audience.

£1,000

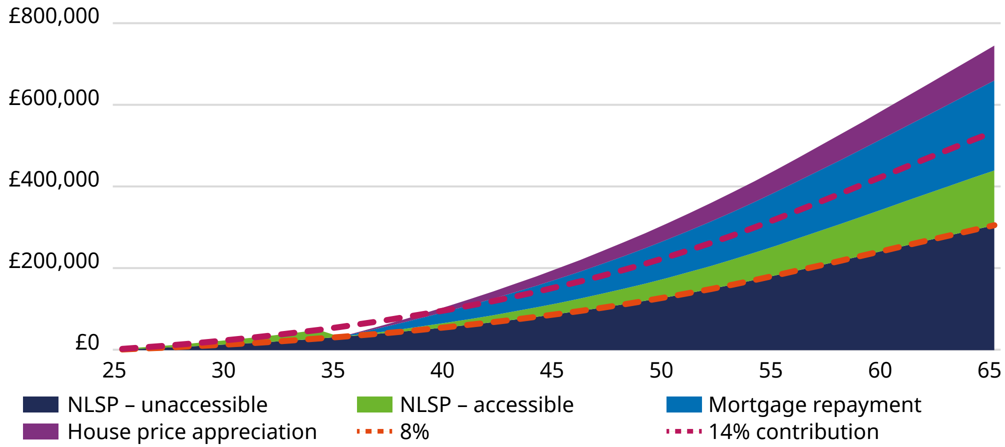
Time to reach £1,000
with a 2% contribution

£25,000
34 months

£40,000
21 months

Accessible funds after 10 years
with a 6% contribution

£25,000	£40,000
£24,458	**£39,133**



Starting with the NSSP, a 2% contribution on a salary of £25,000 is £30 per month of post-tax salary. This level of saving would lead to a buffer of £1,000 in less than three years. This suggests that even relatively lower earning workers could build a meaningful buffer through payroll saving. If we then assume that (a) a worker leaves this pot untouched, and (b) a nudge successfully encourages them to redivert their NSSP contributions to their NLSP, this could also help to build long-term savings substantially. Our modelling suggests that this could boost long-term savings by as much as £76,000 over the course of 40 years.

Turning to the NLSP, our modelling suggests that someone starting on £25,000 and contributing an additional 6% over the current 8% AE minimum could raise over £24,000 of accessible funds after 10 years. To put this into perspective, this would amount to approximately 8.7% of the median house price in the UK (£282,000).[30] This is also almost double the mean unsecured debt held by StepChange clients (£13,941 in 2022)[31].

However, given concerns around pension adequacy, would these additional funds not be better off if they stayed within the NLSP? Our modeling suggests this may not necessarily be the case if the funds are used to help savers to get onto the housing ladder.

The dotted lines depict total wealth accumulation over 40 years, assuming that the NLSP is untouched over the period, for contribution rates of 8% p.a. and 14% p.a. The shaded area reflects a scenario where a saver accesses their NLSP after 10 years to purchase a first home. Whilst this does lead to lower final funds within the NLSP (by £95,000), their total wealth including the housing asset is over 40% higher (£235,000).

This boost to total wealth is driven by two effects:

- Increase in net household saving through mortgage repayment
- Higher average investment returns generated by house price appreciation due to the role of leverage (5.1% per annum vs. a 4.6% per annum average return from remaining invested in NLSP over 30 years).

*Modelling assumes a starting salary of £25,000, with real salary growth of 3% for the first 10 years, 1% from years 11 to 25, and 0% from then onwards; 6% additional contribution over AE minimum use of early access after 10 years to purchase a first home (with a 90% LTV); individual repays the mortgage over 30-years; employee continues to make the 6% additional contributions after purchasing the property; real investment returns from pension assets are phased: 5% for the first 30 years, then decreased linearly to 3% by year 40 (to account for de-risking); the house appreciates by a 1% p.a. in real terms.

The Lifetime Savings Model – supporting everyday people throughout their life

We described, earlier, how the Lifetime Savings Initiative influenced the design of the proposed Model.

The report on the UK evidence and the learnings from international savings systems from around the world which included South Africa, Australia and the US have provided the robust evidence on which to base the proposed Lifetime Savings Model.

Key regulatory changes that would be required to allow a NSSP and a NLSP which allows withdrawals for early access for specific reasons as shown on page 14, are expected to include:

- the introduction of a suitable legislative and regulatory framework covering which schemes and providers can offer a NSSP or NLSP, how savings are invested, value for money and when and how savings can be accessed
- minimum information and disclosure requirements, where a scheme or provider offers the NSSP or the NLSP
- changes to the pensions tax rules to allow early access to savings in the NLSP for certain purposes, set out tax treatment of early withdrawals and introduce suitable anti-avoidance rules

This model tackles the key pinch points of everyday people in the areas that matter most to them – and which have the greatest financial consequences to them.

Building short-term financial resilience through a simple, accessible and trusted rainy-day savings fund, with the ability to accelerate the buying of a first home, or getting your finances back on track, whilst also contributing to long-term savings for retirement is at the heart of this proposal.

Ahead of the summary, the following sections go into more detail about the key pinch points that our research identified – and the inspiration to find a way to make a positive difference.

Taking Lifetime Savings to the next level

The Lifetime Savings Model represents a huge step towards a better system for lifetime saving in the UK. By increasing long-term saving, helping people to build the financial resilience to ride out day-to-day shocks to their finances, and by making long-term saving more relevant to people's lives today, we hope to foster much greater engagement from savers in their financial future.

But even under the Lifetime Savings Model, the overall lifetime savings market will remain fragmented and complex.

We believe the second phase of the Government's pensions review provides a fantastic opportunity to embrace the broader spirit of lifetime savings. There are many threads of the debate on reform of the UK financials services system that are beyond the scope of this report but could contribute further to a truly "lifetime" saving system.

For example, there has been much debate about the benefits of simplifying the UK ISA landscape. ISAs have been a huge success in improving the number of people saving and investing. But over time the system has become complex and there are opportunities for its simplification.

This is simply one example, and we are confident that if the Government adopts a mindset of lifetime saving their pensions review could be even more transformative for the financial health of the UK.

The research, the findings, the evidence

The three key pinch points

Through extensive research we have identified three of the most pressing "pinch points" affecting the finances of everyday people:

- The lack of a short-term savings buffer for a 'rainy day'
- The increasing challenge of owning a home
- The growing lack of adequate savings for retirement

As demonstrated opposite, these problems are inextricably linked. Without a buffer to absorb things as common as unexpected bills or changes in working patterns, short-term "shocks" can cause serious and lasting damage to people's finances. This in turn can seriously dent their ability to save for retirement.

And while home ownership is far from the only model for people to live secure and happy lives, our analysis demonstrates that the prospect of paying rent through retirement has major consequences for the amount someone has to save to cover these costs and maintain their living standards in retirement.

Housing
Financial resilience

The affordability and security of housing costs can have a big impact on financial resilience; data suggests that many more private renters are more likely to be in 'financial difficulty' than homeowners.

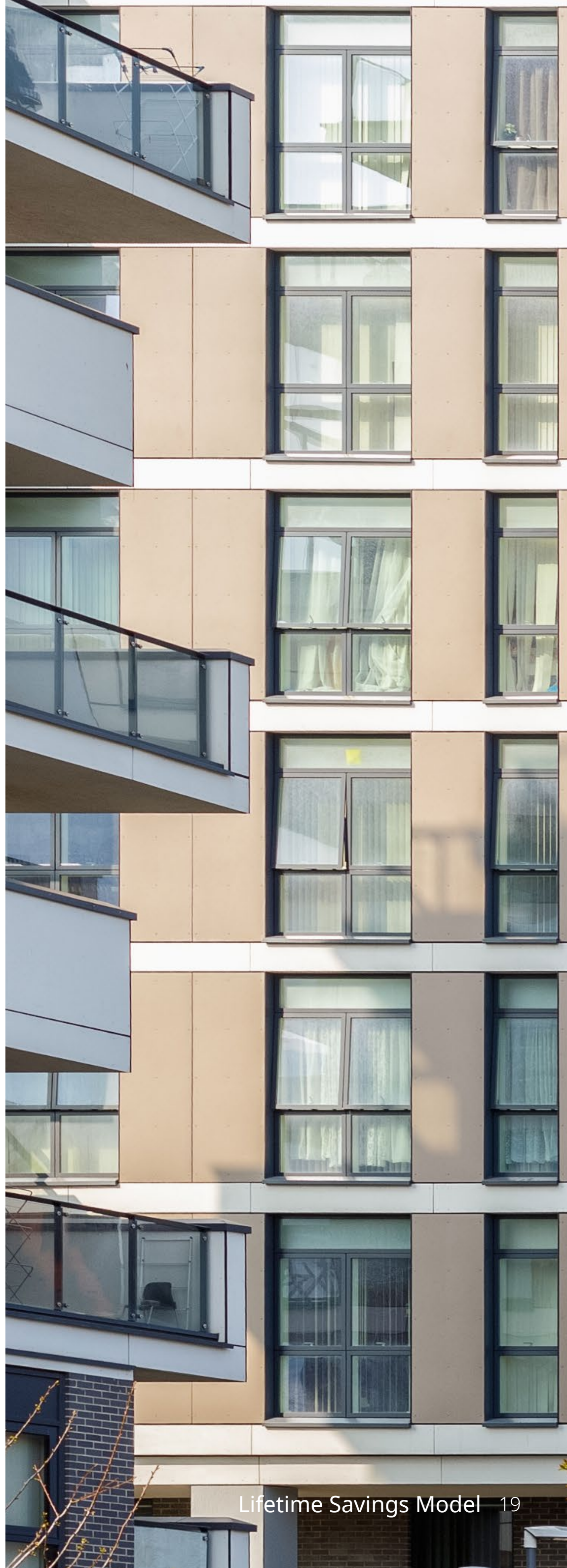
Housing
Long-term savings

Renting in retirement requires a far greater DC pot in retirement compared to a homeowner. Housing is also an effective long-term savings solution – particularly the role of the mortgage in creating a credible long-term savings plan.

Long-term Savings
Financial resilience

Building a strong financial foundation allows focus to shift towards longer-term lifetime savings. Equally, maintaining high pension contributions whilst lacking financial resilience may not be the best decision for an individual.

These are not the only problems facing UK savers. But we believe they are most important problems getting in the way of people managing their financial wellbeing effectively.



Pinch Point 1:
Low financial resilience and a lack of 'rainy day' savings

A lack of short-term financial resilience is arguably the most pressing issue facing many savers. In 2022, 24% of UK adults had less than £1,000 in savings.[32] Building up a sufficient saving buffer is crucial to building financial resilience – the likelihood of falling into problem debt is 44% lower if a family has £1,000 saved[33] – and creates a foundation that allows people to start looking towards the future.

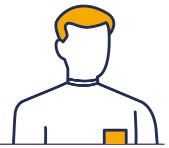
In 2022, 580,000 people contacted StepChange seeking debt advice or guidance with their problem debt.[34]

The introduction of the NSSP and the ability under the NLSP to access a portion of retirement savings early to address serious financial problems can address this problem head on.

Together they could bring about a revolution in the financial resilience of millions of UK savers.

Low savings buffer

Occupation: General manager
Age: 38
Tenure: Owned with a mortgage
Financial capability: Low



Reggie's story

Reggie works as a general manager at a leisure club. He lives with his partner and together they have a two-year-old daughter.

He pays into his workplace pension as he thinks it is important to save for the future, and as it comes out of his pay packet he doesn't really notice it.

He feels that they are just about managing 'month to month', occasionally having enough to 'save little bits here and there'. He has been in this situation for a while, and he is worried that they do not have enough of a buffer set aside to cover large or unexpected items, such as a new boiler or car repairs.

He does not want to get into debt as he is worried this will affect his credit rating and his mortgage is up for renewal soon.

He is currently looking for a better paid job.

"We go month to month, just about managing. I have about £300 in a little savings account, sometimes less."

Pinch Point 2:
Buying a house is becoming unaffordable

Over the last 20 years, home ownership has declined from 71%[35] to 64%.[36]

Over the same period, the average house price for first time buyers, even after adjusting for inflation, has increased by over 29%.[37]

It is therefore no surprise that in 2022 only households in the top 10% income bracket could afford an average price home with fewer than five years of income.[38] And for those lucky enough to do so, people are increasingly relying on financial help from parents to get on the housing ladder. As a result, children of wealthy parents are 3 times more likely to own a home by age 35.[39]

The NLSP addresses this directly, helping more people get on to the housing ladder, avoiding the costs of renting through retirement, and without risking the adequacy of their retirement savings.

With the Government committed to addressing the supply of housing, these measures could work to enable more people to get onto the housing ladder sooner, to engage in their long-term savings more, and ultimately to save more over their lifetime – without adversely affecting the pricing of housing.

Inability to get on the housing ladder

Occupation: University lecturer
Age: 45
Tenure: Private renter
Financial capability: High

Tamara's story

Tamara is in her mid forties, married, with four young children. She works full-time as a university lecturer. Currently renting, she had hoped to buy a home in the near future.

Tamara is not coping financially. Her bills have gone up a lot recently, including her rent, and they are struggling. She has looked carefully at her finances and tried to reduce her spending as much as possible. She feels there is not much more she can cut back on. She is reluctant to take on debt as she wants to keep a good credit record for when the time comes to buy a house.

She has money saved from working abroad which she was going to use as a deposit on a house. Now she is having to dip into these savings to meet her day-to-day living costs. She is thankful that she has this nest egg to fall back on but is unhappy that her plans to buy have been put on hold. She is worried that rising prices and dipping into her deposit will mean that she is priced out of her home ownership dream for the foreseeable future.

"I was planning to buy a house, but I was forced to keep on renting. The cost is the major issue. Mortgages are now something like 6%... It might be more than five years before I can buy... It'll be a long time."

Pinch Point 3:
People are not saving enough for even a moderate retirement

Pensions are the bedrock of retirement income, with state and private pensions accounting for over 70% of household income for people past retirement age.[40] However, there are growing concerns that people are not saving enough. According to The People's Pension, only 3% of median income, millennial households are predicted to reach the Pensions & Lifetime Savings Association definition of "moderate" retirement living standards.[41]

Mercer's observation from the data collected from their retirement planning proposition showed that 68% of income and savings needed in retirement actually come from Lifetime Savings, not retirement income and savings.[42]

This is why the proposals for the Lifetime Savings Model, building on a proposed increase in the minimum contributions, are critical in supporting people to prepare for and manage their income and savings in retirement.

Underpinning all of this is the critical need to introduce Lifetime Savings education and guidance, from school age, to provide everyday people with a trusted place to help them and support them.

Minimum AE Saver

Occupation: Shop assistant
Age: 24
Tenure: Private renter
Financial capability: Low

Maisie's story

Maisie started a new retail job at 22 and joined a pension for the first time. She had heard from her parents that it was important to save for retirement, so she was glad that her employer had sorted it all out for her. She didn't know very much about pensions and didn't pay it much attention.

In a research interview, she was shown the PLSA's Retirement Living Standard and was surprised to see the amount of money needed for a comfortable retirement. She did not know if she was on track for this, but when shown the rates she knew that she was paying the minimum, and so was her employer.

She was very disappointed to find out that this probably was not enough, and wondered why this was not being more widely advertised so people could do something about it.

"I had always thought that by making the minimum contribution to my pension I would be able to retire comfortably and it seems that this is actually not the case. So, I think the Government need to tell people this."

Summary and conclusion

The research completed over the last 18 months has identified the key challenges that everyday savers face.

We have considered the best UK research and international models of voluntary and mandatory saving to influence our Lifetime Savings Model which consists of two key proposals:

- The National Short-Term Savings Plan
- The National Lifetime Savings Plan

The model provides the basis for the natural evolvement of AE and recognises the fundamental changes we have seen in the provision of retirement income and savings, with the accelerated maturity of Defined Benefit Pension Schemes, the pace of growth of Defined Contribution and the natural dependency on wider Lifetime Savings in retirement.

The voluntary nature of both the NSSP and particularly the NLSP provides a natural incentive for people to save more for specific aims, with visible and easier access to relevant products and the ability to develop a more holistic and rational financial life plan.

In turn, we would expect this new model, to encourage higher voluntary contributions that will improve overall retirement outcomes for those where affordability isn't a barrier.

Critically, it will also mitigate against the increasing risk of a much greater proportion of retirees falling into pensions poverty because of the worrying trend of the increasing numbers 'renting in retirement' where the cost is significant – and not yet recognised as part of the PLSA's Retirement Living Standards.

It's important that the UK has a clear, compelling, relevant and achievable vision for the future of the UK savings market that genuinely addresses the changing environment facing everyday people. The Lifetime Savings Model provides both a vision and a solution for a more practical, cohesive and future proofed approach for long-term saving in the UK.

We look forward to working with Government departments, regulators and the industry in moving this forward, to put the plan in place, to make a real difference to everyday people, society and the UK economy, to create a sustainable National Lifetime Savings Model.

Appendix 1

Further notes on the modelling in Section 3

The main assumptions underpinning the modelling presented in section 3 were:

a. Starting salary of £25,000*
b. 6% additional contribution over AE minimum, 3% from the employee and 3% from the employer
c. Use of early access after 10 years to purchase a first home (with a 90% LTV)
d. Individual repays the mortgage over 30-years
e. Employee continues to make the 3% additional matched contributions to their pension after purchase
f. Real investment returns from pension assets are phased: 5% for the first 30 years, then decreased linearly to 3% by year 40 (to account for de-risking).
g. House prices continue to rise by a modest 1% p.a. in real terms

	NLSP	NLSP – Accessible	House Price	Mortgage	Equity	Total Wealth
After 10 years						
8%	£78,265					£78,265
14%	£136,964					£136,964
Scenario	£136,964	£58,699	£586,990	£528,291	£58,699	£195,663
After 40 years						
8%	£732,849					£732,849
14%	£1,282,486					£1,282,486
Scenario	£1,054,186		£791,174	-£0	£791,174	£1,845,360

*With real salary growth of 3% for the first 10 years, 1% from years 11 to 25, and 0% from then onwards.

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