Wealth and Wellbeing Research Programme

Edition 10

Contents

Introduction

Welcome to edition 10 of the LV= Wealth and Wellbeing Research Programme

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

Understanding how the market environment is impacting consumers and the choices they make has never been so important. We share our quarterly and longitudinal insights, helping build industry understanding of the issues consumers are facing, particularly in regard to their finances.

Our findings are based on a robust nationally representative sample of 4,000 UK adults allowing us to have confidence that these reflect the views of UK consumers. We have further tested the validity of our findings in relation to other UK economic metrics and have shared some of this insight in this edition.

We use our quarterly consumer survey to explore topics that help build this understanding. In edition 10 we have focused on consumers' understanding of pensions and attitudes towards investing, in particular their views on the climate impact of their investments.

Each quarter we report on our indices which track consumers' financial outlook and their changing spending and saving habits over time. We can clearly see how the finances of millions of people are being squeezed by the large rise in the cost of living. However, as you will see later in this report (page 6), not all demographic groups are being affected equally by this increase in living costs.

Many consumers believe that their finances are likely to continue to worsen next quarter. With the UK political and economic environment in such a state of flux, it will be interesting to see what our next quarter's Wealth and Wellbeing Research Programme data reveals.

Clive Bolton, Managing Director,

LV= Protection, Savings and Retirement

Wealth and Wellbeing indices

Since the LV= Wealth and Wellbeing Research Programme began in June 2020 we have asked a number of consumer finance questions to track changes in consumer spending, saving and the financial outlook. Our data is converted into indices by taking the percentage who stated a positive change over the past three months (e.g. increase/better) and subtracting the percentage who stated a negative change over the past three months (e.g. decrease/worse) to work out the overall impact. The data behind the indices can be found in the appendix.

We have recently completed statistical regression analysis on the indices and the increase/decrease data that forms them, comparing these to a range of external economic metrics. This analysis looked for correlations between the data sets to see how closely aligned the data trends are i.e. as one data set shows a decrease, the other also decreases.

We found that the Wealth and Wellbeing indices closely aligned to trends seen in a number of economic metrics, increasing our confidence that our data accurately reflects consumers' response to the current economic environment.

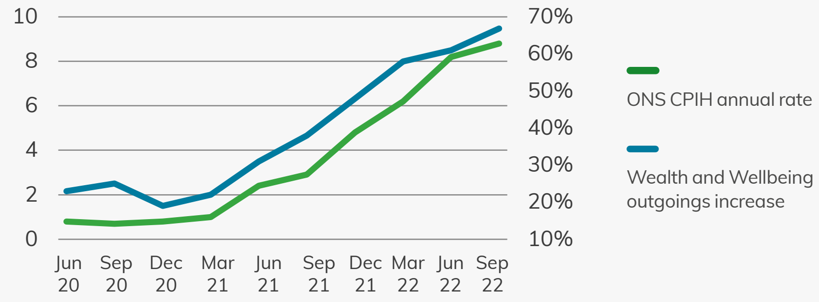
Inflation

Our analysis shows that the LV= outgoings index (which takes into account those seeing an increase and a decrease in their outgoings in the previous three months) closely follows the trend in the official Office for National Statistics (ONS) CPIH (Consumer Prices Index including owner occupiers' housing costs) data.

Both data sets see strong increases since June 2021.

There is an even stronger correlation when we view just those reporting an increase in their outgoings in the previous three months. This reflects the squeeze that the rising cost of food, utilities and mortgage payments are placing on the finances of many consumers.

Comparison of ONS CPIH annual rate with LV= increase in outgoings



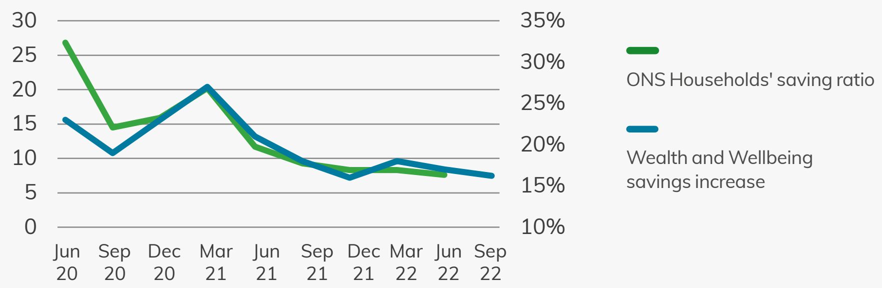
Savings

The Wealth and Wellbeing savings index has followed the movements seen in the ONS households' savings ratio. The percentage of people reporting in the Wealth and Wellbeing study that they have increased their saving in the past three months closely aligns with the savings ratio data.

Early in our Wealth and Wellbeing trend data, we saw COVID-19 restrictions result in more consumers saying they were increasing the amount they saved. The trend in those reporting an increase in savings has stayed relatively flat since September 2021 and this is also reflected in the households' savings ratio data.

We will continue to share interesting longitudinal trends we identify in our LV= Wealth and Wellbeing data in our regular quarterly reporting.

Comparison of ONS households' saving ratio with LV= increase in savings



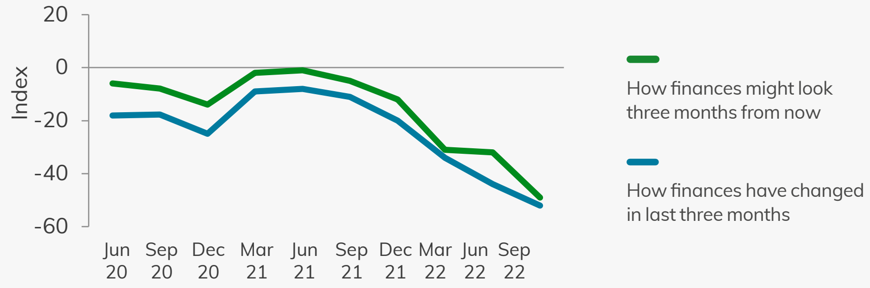
Indices reflect negative outlook

This quarter's Wealth and Wellbeing indices demonstrate the ongoing cost of living crisis. The current finances index has continued trending downwards, due to an increased amount of people reporting worsening finances. The future outlook index has also declined, with many expecting their finances to continue to worsen over the next three months.

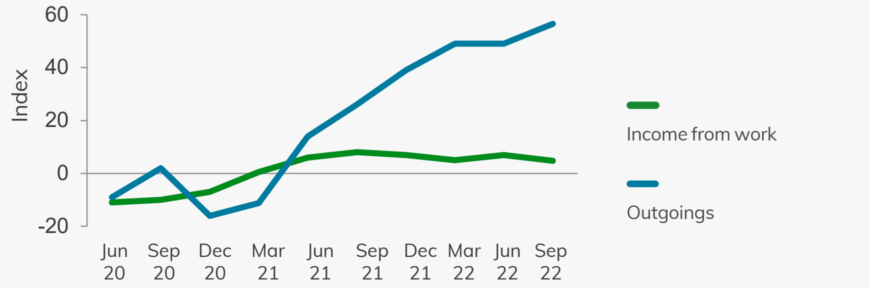
Many of the consumers we survey are reporting increased outgoings (illustrated in the continued rise of the outgoings index). Our research data shows many experiencing rising costs, including increased spend at the supermarket (shown in the increasing supermarket spend index), on energy bills and on vehicle fuel.

Stretched consumer finances, plus limited increases in wages (shown in the income index), have meant that many people have had to cut costs wherever they can. We've seen some consumers decreasing their socialising spend (shown in the declining socialising index). Other consumers have had to cut down the amount they are able to save each month (shown in the decreasing savings index).

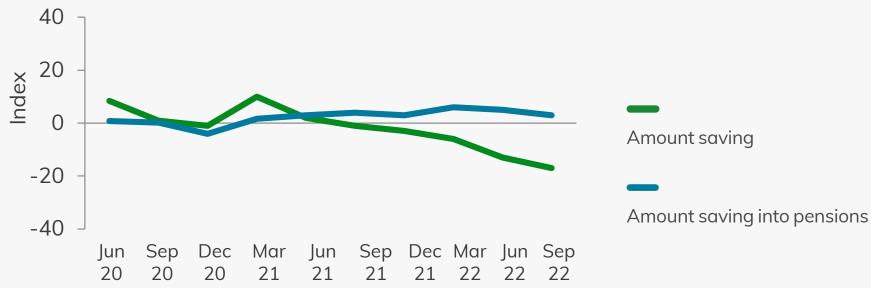
Current finances and future outlook index



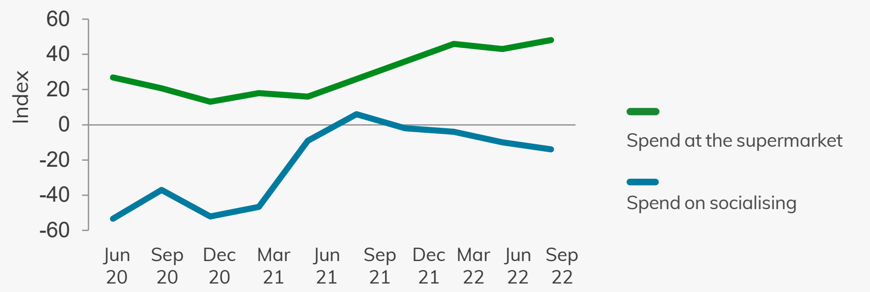
Income and outgoings index



Savings and pension savings index



Supermarket spend and socialising index



Coping with increasing bills

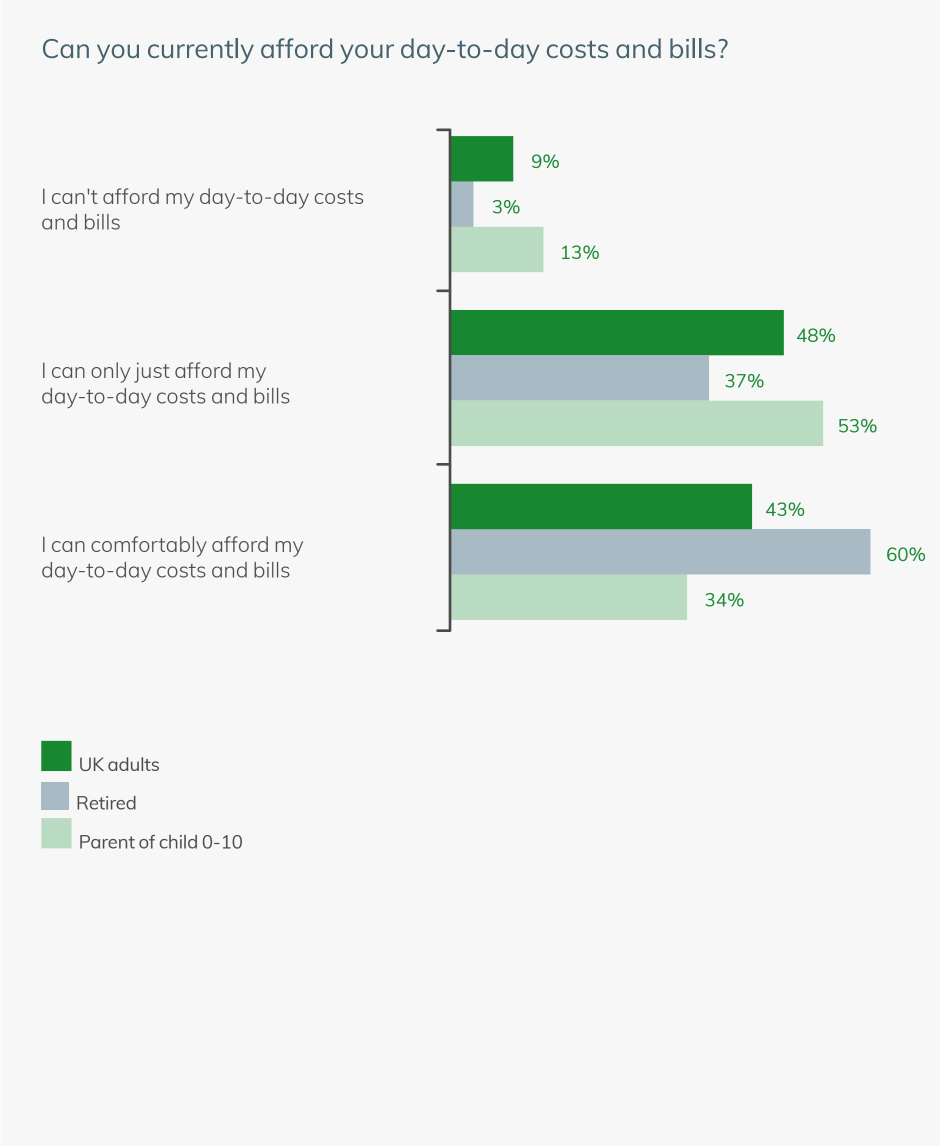
5m UK adults can't afford their day-to-day costs and bills

Every quarter of the Wealth and Wellbeing Research Programme, we ask a number of ad-hoc questions to examine a particular area of interest. Since the increased cost of living is top of mind for many at the moment, this quarter we chose to explore which demographic groups are currently being most affected by the cost of living and what they plan to do to address their increasing bills.

We asked our respondents whether they can currently afford their day-to-day costs and bills. We found that nearly 1 in 10 say they can't afford their everyday costs and bills, which equates to 5m UK adults. Another 48% (25m) say they can only just afford their day-to-day costs and bills. This makes a total of 57% of UK adults (30m) who are currently struggling.

As we've seen in previous quarters of the Wealth and Wellbeing Research Programme, parents with young children (aged 0-10) are particularly financially stretched, and they now seem to be more likely than other demographic groups to be struggling with costs and bills. We found that 13% of parents with young children say they can't afford their day-to-day costs and bills, plus another 53% say they can only just afford them.

In comparison, retirees were the group most likely to say they can currently comfortably afford day-to-day costs and bills (60% of retirees said this compared to 36% of 35-54 year olds). Many retirees are actually being protected from many of the worst effects of the economic crisis, due to having lower outgoings, a good amount of savings and having paid off their mortgages.



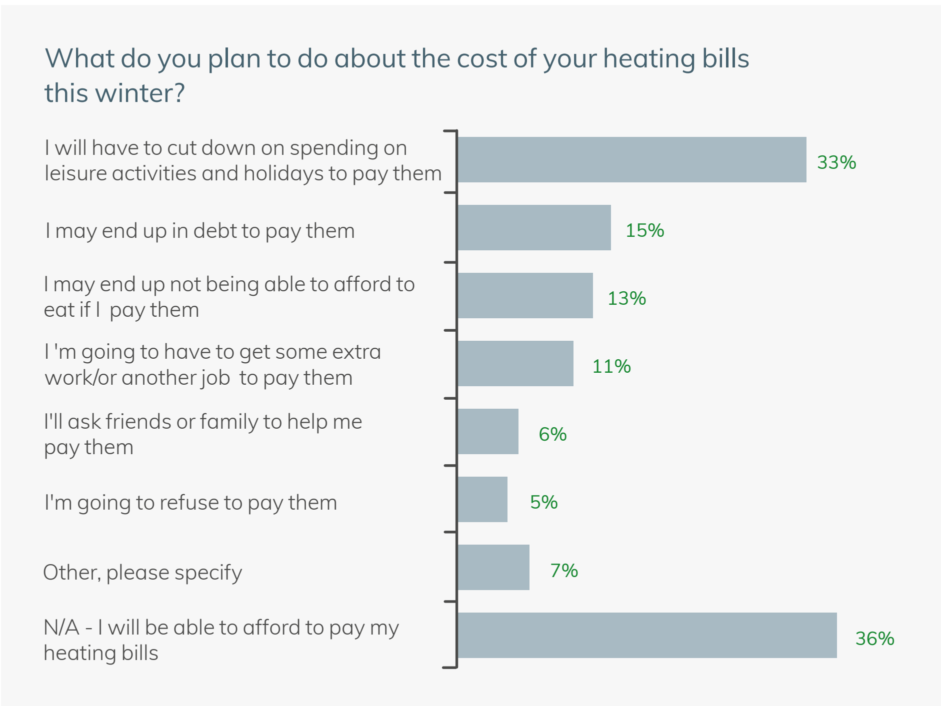
A quarter of parents with young children say they may end up in debt to pay their heating bills

With increasing heating bills, we asked our respondents what they plan to do about the cost of their heating bills this winter.

A third of UK adults say they will be cutting down on spending on leisure activities and holidays to pay their heating bills this winter. Even 29% of mass affluent (those with assets of between £100,000 and £500,000 excluding property) are saying that their heating bills will reduce their leisure and holiday spend.

15% (which equates to 8m) of UK adults say they may end up in debt to pay their heating bills. Parents with young children (aged 0-10) were particularly likely to say their heating bills may land them in debt, with nearly a quarter (24%) saying this.

Many of the verbatim responses to this question were people saying that they are planning on having the heating off as much as possible, choosing instead to wear more clothes, get into bed or under blankets.



Keeping up with the cost of living

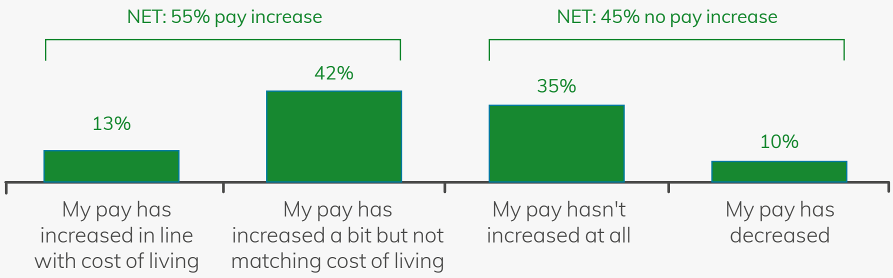
Only 13% of workers have seen a pay increase that is in line with the increased cost of living

Wages have risen for many people, however we questioned whether the increases are keeping up with the sharp rise in prices.

Our data found that 55% of working adults received a pay increase in the last year, but only 13% saw a pay increase that was in line with the increased cost of living.

Workers aged 55+ were least likely to have seen a pay increase. This may put their retirement plans in jeopardy, if they find that they are not able to save as much into their pension each month. We found that 14% of workers over 50 say they will have to continue to work for longer due to the cost of living.

Has your pay increased in the last year as much as the increased cost of living?



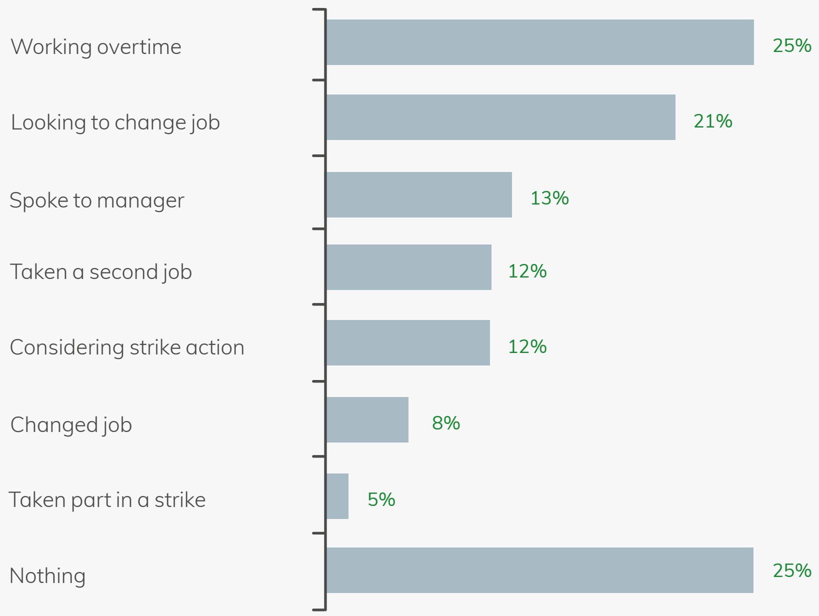
For those workers whose pay has not matched the cost of living, 1 in 4 is working overtime

For those workers whose pay has not matched the increased cost of living, 1 in 4 is working overtime to try and make up the difference. Over 1 in 10 workers have taken on a second job. This implies there could be a long term physical and mental impact on workers trying to keep up with the cost of living.

Lack of tangible pay increases is also driving movement in the job market. 1 in 5 workers are looking to change jobs to something better paid. 8% of workers have already changed jobs because their pay wasn't matching the cost of living.

As we've seen in the media, pay frustrations can result in strike action. 5% of workers we surveyed are already taking part in pay strikes. We went on to ask whether workers would be willing to strike if they felt they and their co-workers weren't being paid enough. Roughly half (49%) of workers say they would be willing to strike if they felt they and their co-workers weren't being paid enough. We found that workers aged 18-34 were most willing to strike, whereas those aged 55+ were more reluctant.

What are you doing/ have you done about your pay not matching cost of living?



Lack of pension knowledge

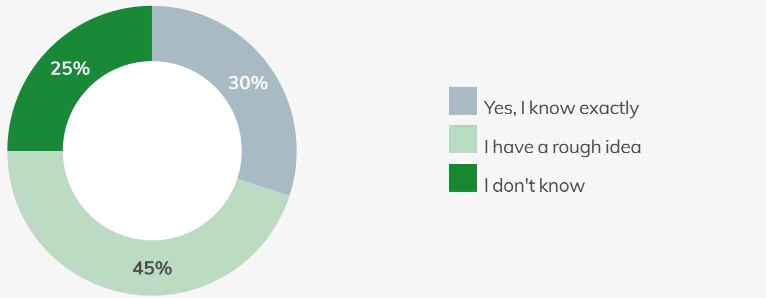
1 in 4 working adults has no idea what age they will start receiving their state pension

Moving away from the cost of living crisis, another area we explored this quarter is whether workers know enough about retirement to prepare for it.

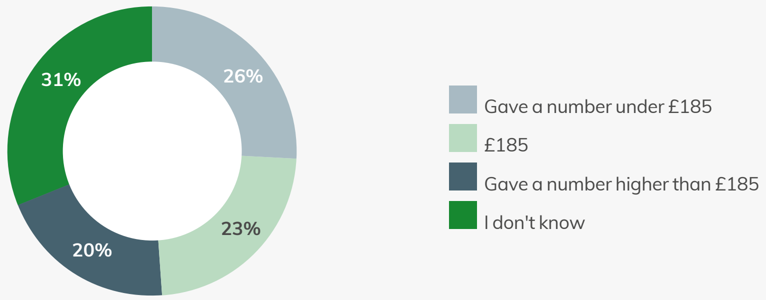
One key element of most people's retirement income is their state pension, so we first looked at what workers know about what state pension they will get. We found that 1 in 4 working adults has no idea what age they will start receiving their state pension. Only 30% claimed to know exactly what age they will start receiving their state pension. It appears that many people don't look into this until they are close to retirement, as a third of adults aged 18-54 don't know what age they will start receiving their state pension.

We also found that the majority of workers do not know how much the state pension pays per week. Only 23% correctly told us how much the current state pension is. This is concerning, as it would be difficult to plan for retirement without knowing how much you are likely to receive from your state pension and from what age.

Do you know at what age you will start receiving your state pension?



To the nearest pound, how much is the state pension currently, per week

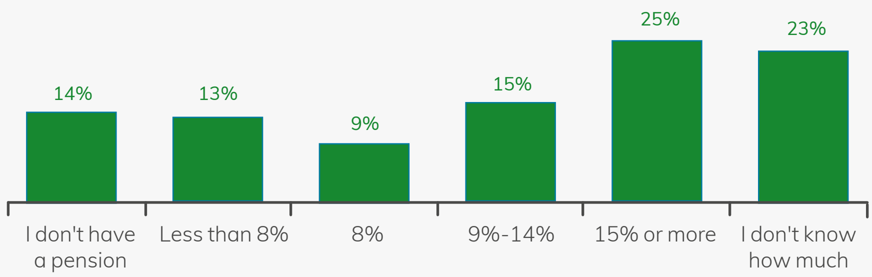


Nearly a quarter of working adults do not know how much they are paying into their pension

Another crucial part of preparing for retirement is saving into a personal pension. We found that 14% of working adults are not paying into a pension. We also found that nearly a quarter (23%) of working adults do not know how much they are paying into their pension. Once again this lack of knowledge makes planning for retirement more difficult.

One positive statistic is that a quarter of working adults are paying 15% or more of their wage into a pension, which is a good step towards achieving a comfortable retirement.

What percent of your income (including employer contributions) is paid into your pension each month?



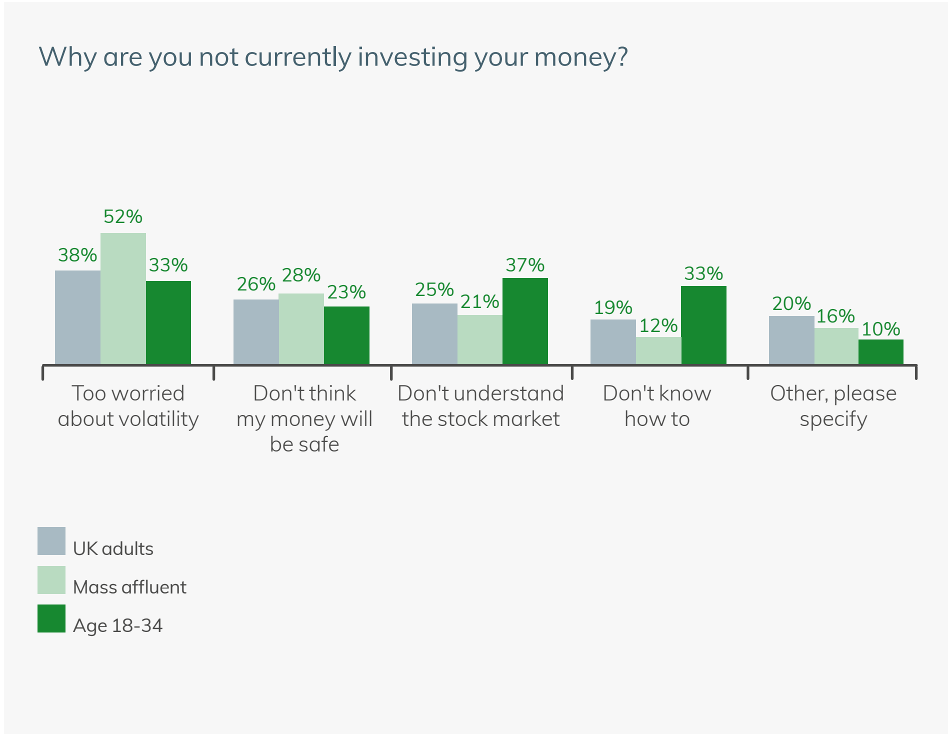
Attitudes towards investing and ethical investments

The top reason for not investing was being too worried about volatility

Despite current financial pressures, there are still many consumers with money to save and invest. With interest rates on savings still relatively low, we explored what was preventing savers from investing their money to potentially achieve higher returns.

We asked those who have savings but not investments why they are not currently investing their money. The top reason given was being too worried about volatility. Having a good amount of assets did not always dampen volatility concerns, as we found that over half (52%) of the mass affluent who weren't investing said they were too worried about volatility.

Volatility was also a concern for those aged 18-34 (a third of whom were worried about this). However, lack of knowledge was their top reason for not investing, with 37% stating that they aren't investing as they don't understand the stock market. A third of them (33%) also stated that they don't know how to invest.



28% of investors would prefer to invest in ESG funds, even if the returns aren't quite as good

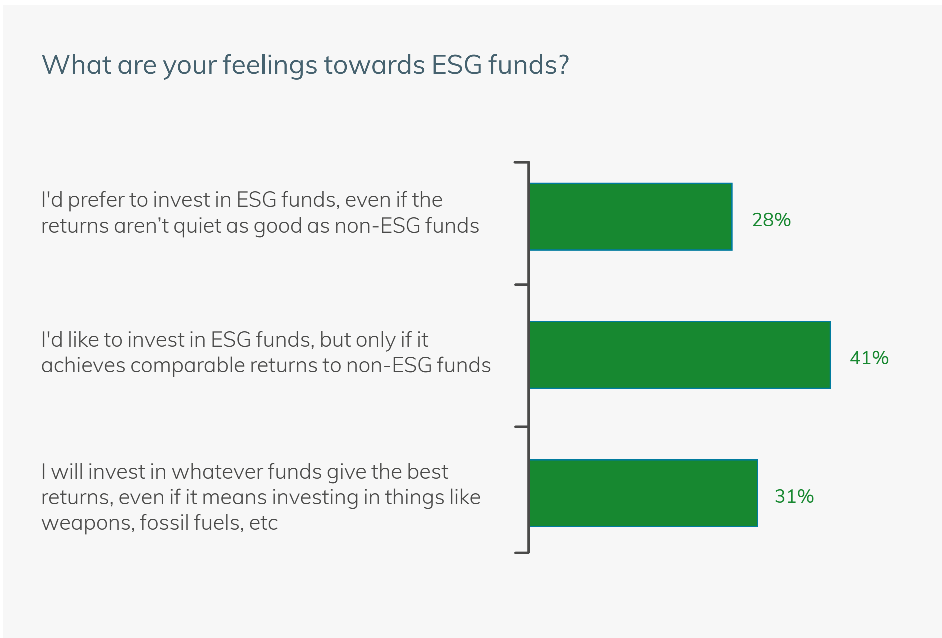
For those that are investing their money, choosing where to invest can be more than just balancing risk appetite against potential returns. Some investors are taking an active interest in the types of industries their money is being invested in, to ensure it matches their personal ethics.

An "ESG" fund, which stands for environmental, social and governance, is a form of investment that gives financial returns whilst also avoiding funds with a negative effect on the environment or society (such as weapons, tobacco or fossil fuels). We asked investors what their feelings were towards ESG funds, to understand the balance between investors' environmental conscience vs. financial gains.

We found that opinions were split. 28% of investors prioritised their ethics ahead of returns - stating they would prefer to invest in ESG funds, even if the returns aren't quite as good as non-ESG funds. Roughly a third of women (32%) say they'd prefer to invest in ESG funds, even if the returns aren't quite as good as non-ESG funds. This is compared to a quarter of men (24%).

A balanced approach was preferred by 41% of investors who said they would like to invest in ESG funds, but only if it achieves comparable returns to a non-ESG fund.

31% prioritised returns, saying they would invest in whatever funds give the best returns, even if it means investing in things like weapons, fossil fuels, etc.



With environmental issues such as fossil fuels being so frequently mentioned in the news, it will be interesting to observe whether this leads to an increase in consumers evaluating their investments with an ethical lens.

Appendix

Wealth and Wellbeing indices data

How finances might look three months from now

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Improve	14%	12%	18%	17%	15%	14%	10%	11%	**8%**
Worsen	22%	26%	20%	18%	20%	25%	42%	43%	**57%**
Index*	-8	-14	-2	-1	-5	-12	-31	-32	-49

Amount saving

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	19%	23%	27%	21%	18%	16%	18%	17%	**16%**
Decrease	18%	24%	17%	19%	19%	20%	23%	30%	**33%**
Index*	1	-1	10	2	-1	-3	-6	-13	-17

How finances have changed in last three months

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Better	14%	11%	18%	16%	15%	13%	10%	9%	**7%**
Worse	32%	36%	27%	25%	26%	33%	44%	53%	**59%**
Index*	-18	-25	-9	-8	-11	-20	-34	-44	-52

Amount saving into pensions

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	8%	9%	10%	10%	10%	11%	13%	14%	**13%**
Decrease	8%	13%	8%	7%	6%	7%	6%	8%	**10%**
Index*	0	-4	2	3	4	3	6	5	3

Income from work

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	10%	13%	16%	18%	17%	17%	16%	17%	**17%**
Decrease	20%	20%	15%	12%	9%	10%	11%	10%	**12%**
Index*	-10	-7	1	6	8	7	5	7	5

Spend at the supermarket

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	35%	30%	33%	29%	36%	46%	56%	58%	**63%**
Decrease	14%	18%	15%	13%	10%	10%	10%	15%	**14%**
Index*	21	13	18	16	26	36	46	43	48

Total monthly outgoings

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	25%	19%	22%	31%	38%	48%	58%	61%	**67%**
Decrease	23%	35%	33%	18%	12%	9%	9%	12%	**10%**
Index*	2	-16	-11	14	26	39	49	49	57

Spend on socialising

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Increase	11%	8%	7%	22%	28%	21%	20%	21%	**19%**
Decrease	48%	61%	54%	31%	22%	23%	24%	31%	**33%**
Index*	-37	-52	-47	-9	6	-2	-4	-10	-14

About this report

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

All figures quoted are for September 2022 unless otherwise stated. Population estimates based on UK adult population of 52.9m.

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

About LV=

LV= is a leading financial services provider. When we started in 1843 our goal was to give financial security to more than just a privileged few and for many decades we were most commonly associated with providing a method of saving to people of modest means.

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

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

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