May 2022 edition

LV= Wealth and Wellbeing Monitor

LV= surveyed 4,000 nationally representative UK adults (of which 500+ were mass affluent)

Research conducted via Opinium Research in March 2022

For UK financial adviser use only

Introduction

Welcome to the May 2022 edition of the LV= Wealth and Wellbeing Monitor

Every quarter we survey 4,000 nationally representative UK adults, tracking changes to their income and outgoings and exploring a variety of wealth and wellbeing subjects such as their plans for retirement and their mental health.

The results of the latest LV= Wealth and Wellbeing Monitor highlight how the finances of millions of people are feeling the squeeze of the cost of living crisis. Our indices on savings, financial outlook and outgoings are all now the worst we've seen since we started the Wealth and Wellbeing Monitor two years ago. Many consumers have seen sharp increases in their monthly living costs and are having to take measures such as cutting non-essential spending, dipping into savings, or taking on debt.

An increased cost of living is a particular problem for those drawing a pension income. They may have to withdraw more of their pension savings each year than originally planned, running the risk of exhausting their pension fund early. Consulting a financial adviser about their retirement plans is a good way for consumers to understand their retirement options, and how they might ensure their retirement income keeps pace with inflation.

Another effect of the current rise in inflation is the erosion of the purchasing power of cash savings. It can be sensible in times like these for consumers to consider moving some of their savings from cash to investments, in order to achieve more growth. However, our research shows that many savers are reluctant to do this, due to worries about investment volatility. As an industry, we need to ensure consumers have access to low risk products that give returns higher than cash savings, but also offer the peace of mind that many consumers need.

One positive note from this quarter's research is the finding that the last few years have made people more conscious of the things that are important to them in life. When asked how their focus has changed, many of our respondents told us that their health, family and work-life balance have become more of a focus. Some also reported having a better work-life balance now, compared to pre-pandemic.

With the Bank of England predicting a continuing rise in inflation this year, we'll see how consumer behaviour changes in next quarter's results.

**Clive Bolton, Managing Director,
LV= Protection, Savings and Retirement**

Contents

Wealth and Wellbeing Indices

LV= uses indices to track overall changes to spending, saving and finances. The indices are calculated by subtracting the % who stated a negative change over the past 3 months (e.g. decrease/worse) from the % who stated a positive change over the past 3 months (e.g. increase/better) to work out the overall impact. The data behind the indices can be found in the appendix.

Indices are now even worse than during the peak of the Covid crisis

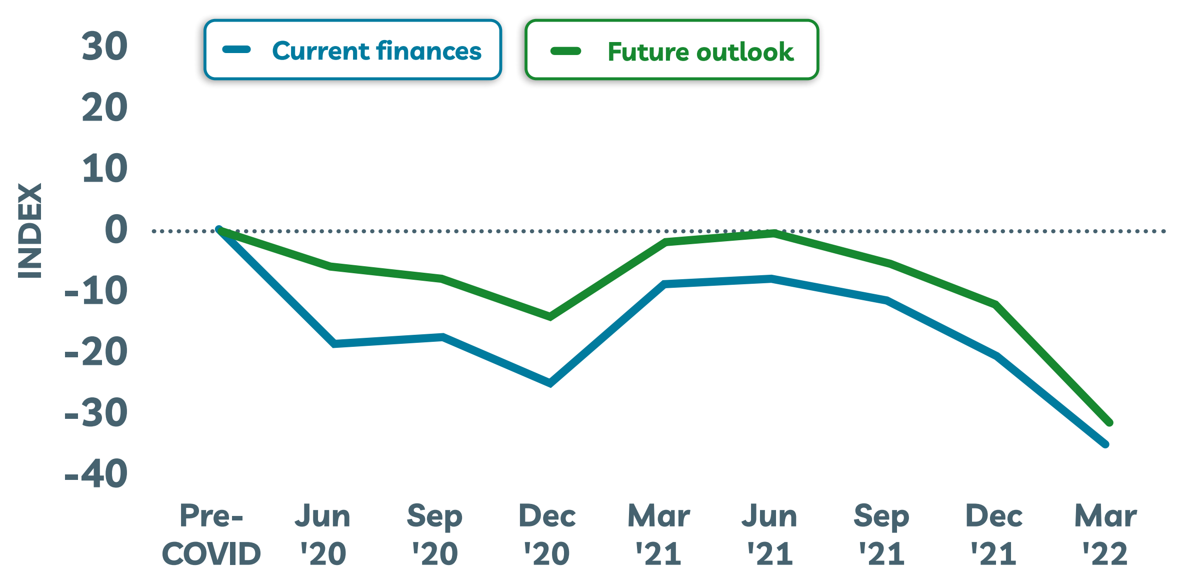
We see the current economic environment reflected strongly in our March 2022 Wealth and Wellbeing indices. The indices for current finances and future outlook are now worse than any period during the Covid-19 crisis.

The causes of these declining finances may include food price inflation, reflected in the rise in our supermarket spend index. This, plus increasing household bills, has meant that overall outgoings have seen a steep increase (shown in the large upsurge in our outgoings index).

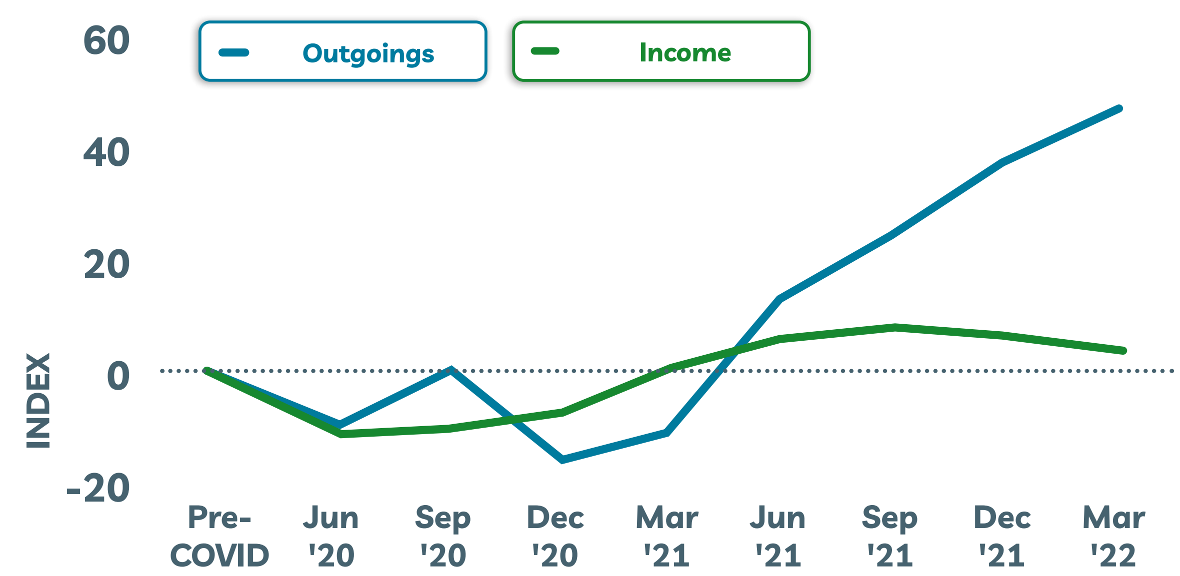
Our data shows that consumers across all demographics are feeling the pressure of increased outgoings. At the same time, incomes remain relatively flat, meaning there is little to offset consumers' increased living expenses.

This quarter the savings index has slightly declined, likely due to consumers having less spare cash, plus the current low interest rates.

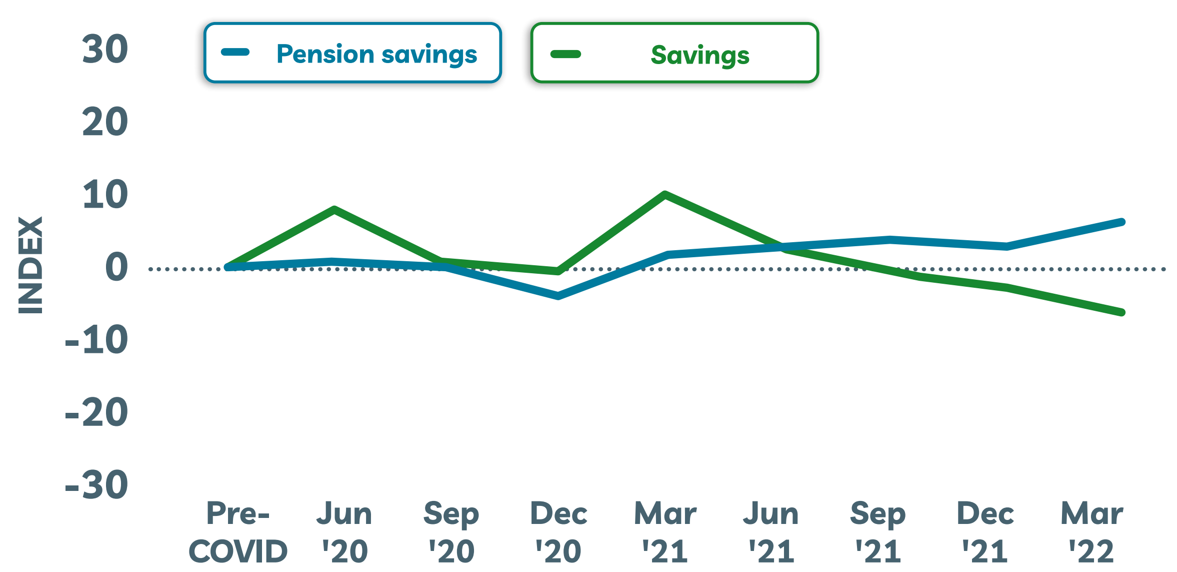
Current finances & outlook index



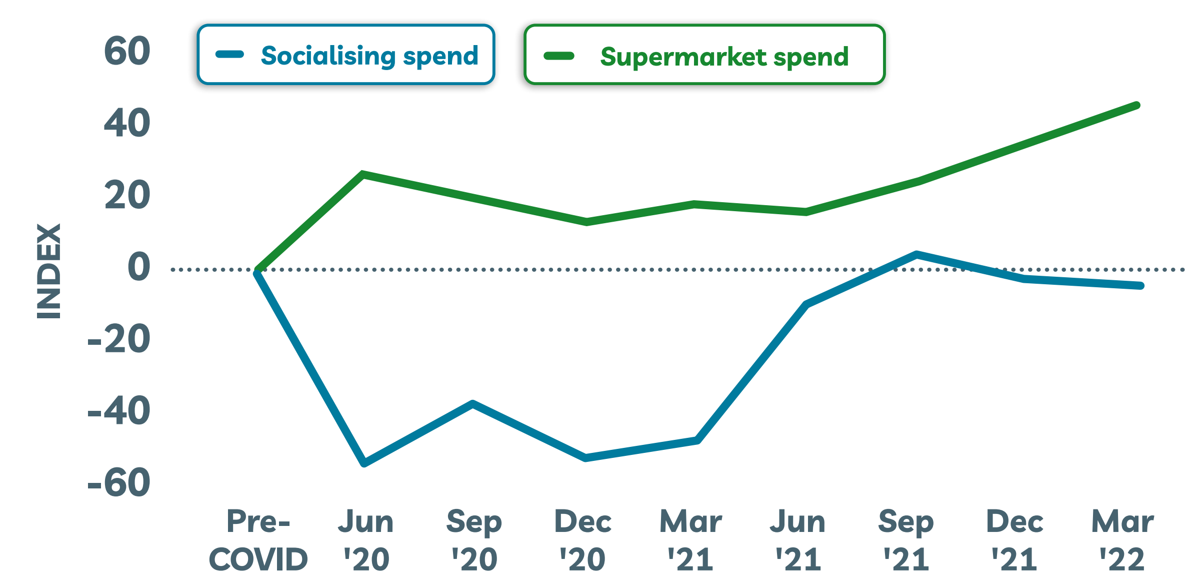
Income & outgoings index



Savings & pension savings index



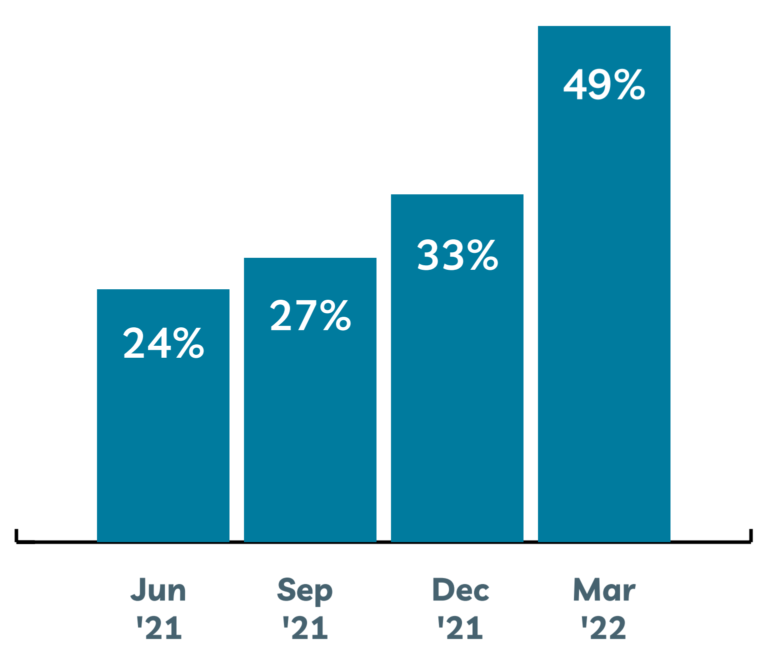
Supermarket spend & socialising index



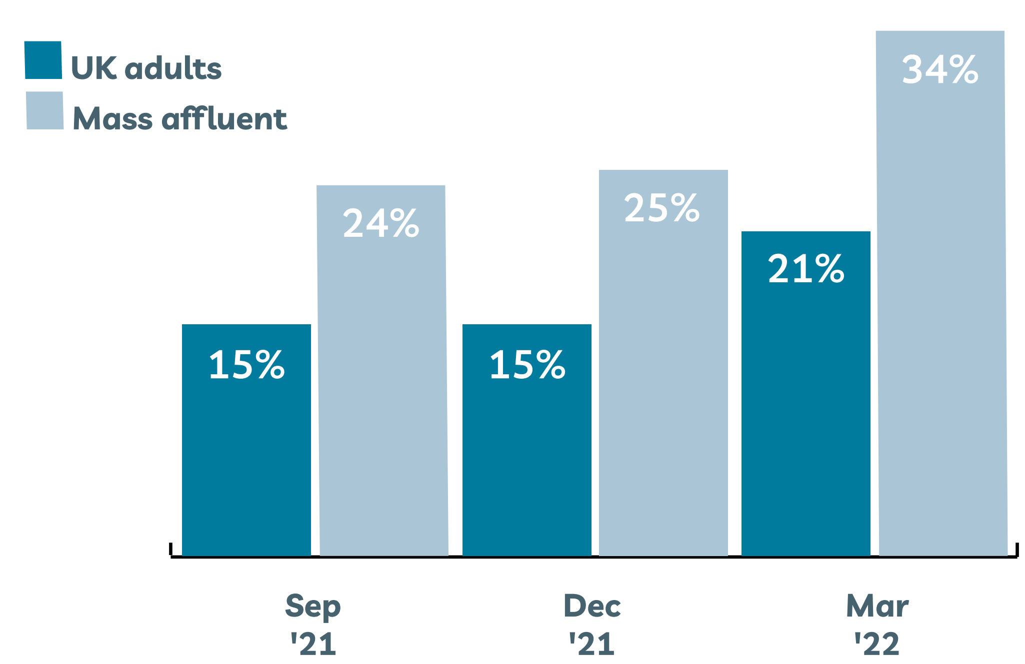
Inflation worries increase further

The proportion of UK adults worried about rising prices has increased once again. Now half (49%) of UK adults are worried about rising prices, up from 33% last quarter.

I'm worried about the rising prices of day-to-day items



I'm worried about my savings being devalued by low interest rates and increasing inflation



21% of UK adults are worried about their savings being devalued by low interest rates and increasing inflation. This is a particular concern to the mass affluent (going from 25% to 34% quarter on quarter). This is also a concern for 26% of retirees.

Increased living costs

Living costs have gone up by £2,628 per year

In this quarter's Wealth and Wellbeing research we asked our respondents how much their household living costs have increased by. We found that, on average, living costs for UK adults have gone up by £219 per month which would equate to £2,628 per year. Many people are already struggling to find ways to absorb these extra costs.

How much have the monthly living costs of your household increased compared to a year ago?

	UK adults	18-34	35-54	55-64	65+	Mass affluent*	Retired
Monthly cost increase (average)	£219	£270	£230	£187	£164	£204	£163
Annual cost increase**	£2,628	£3,240	£2,760	£2,244	£1,968	£2,448	£1,956

*Mass affluent = those with assets of between £100,000 and £500,000 excluding property

**monthly cost x 12

Increased living costs a significant risk to those in drawdown

One group who may find it hard to absorb these extra living costs is retirees. Retirees have seen their living costs increase by £163 per month which equates to nearly £2,000 a year. Those drawing an income from their pension fund may find they have to withdraw more money each year than they originally planned, increasing the risk of running out of money in retirement.

A £200,000 pension fund could last 28 years if £12,000 a year is withdrawn (assuming a 4% growth rate), but will only last 19 years if £15,000 a year is withdrawn.

How long will a £200,000 pension fund last?

Annual income	£9,000	£12,000	£15,000	£18,000	£21,000
How long pension fund could last (based on an annual growth rate of 4%)	53 years	28 years	19 years	15 years	12 years

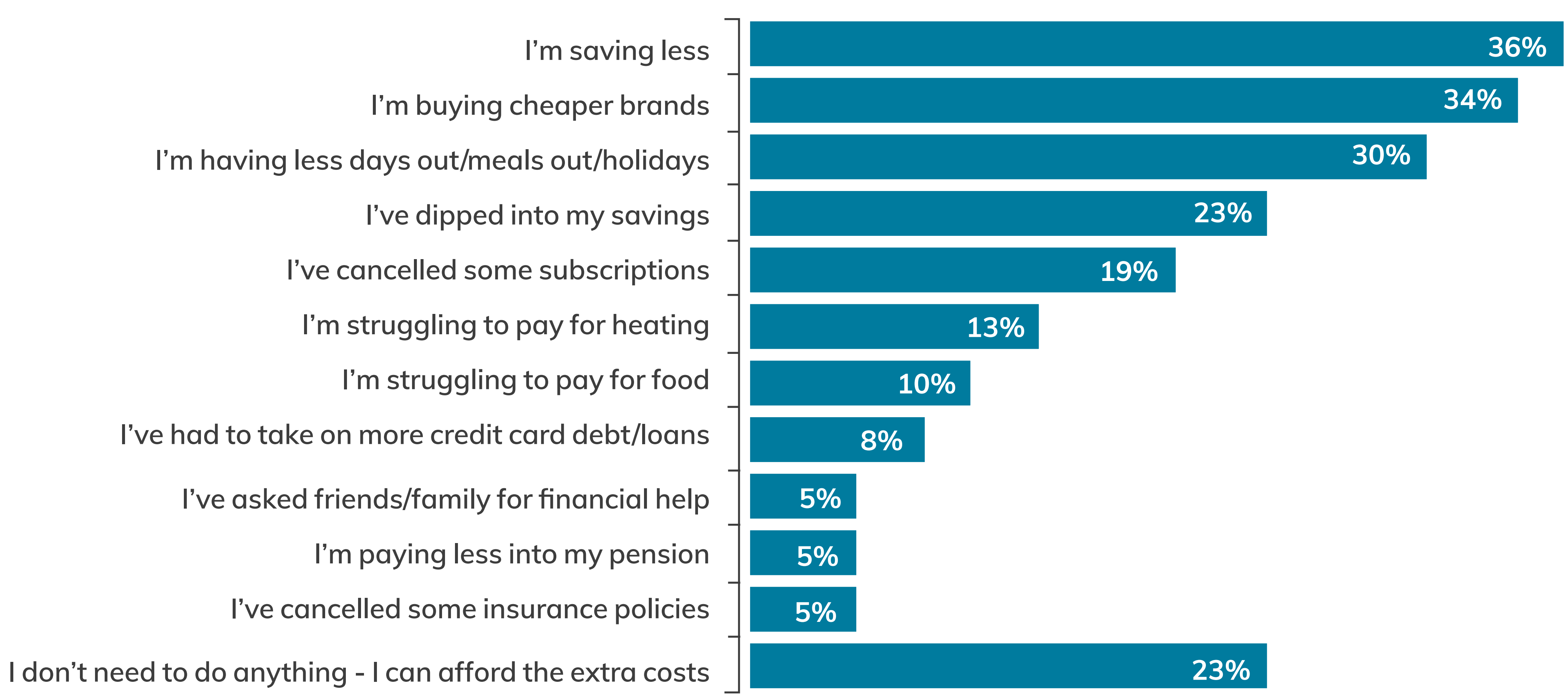
1 in 10 people experiencing higher living costs say they are struggling to pay for food

We asked those who are experiencing higher living costs how they were coping with meeting these extra demands on their finances. Some said they were saving less, buying cheaper brands, are having fewer days out, or have cancelled some subscriptions.

Nearly a quarter (23%) of those with extra living costs are dipping into their savings to pay for the increases they are experiencing. Some consumers have had to take on extra debt (8%) or are borrowing from friends or family to make ends meet (5%). 5% said they have cancelled some insurance policies.

But for some people, even these measures are not enough. 13% (which equates to 6 million UK adults) say they are struggling to pay for heating and 10% (4 million UK adults) are struggling to pay for food. A number of respondents commented that they have completely turned off their heating or are trying to use minimal electricity, gas, and hot water.

How are you coping with these extra living costs?



The effect of inflation on savings and investments

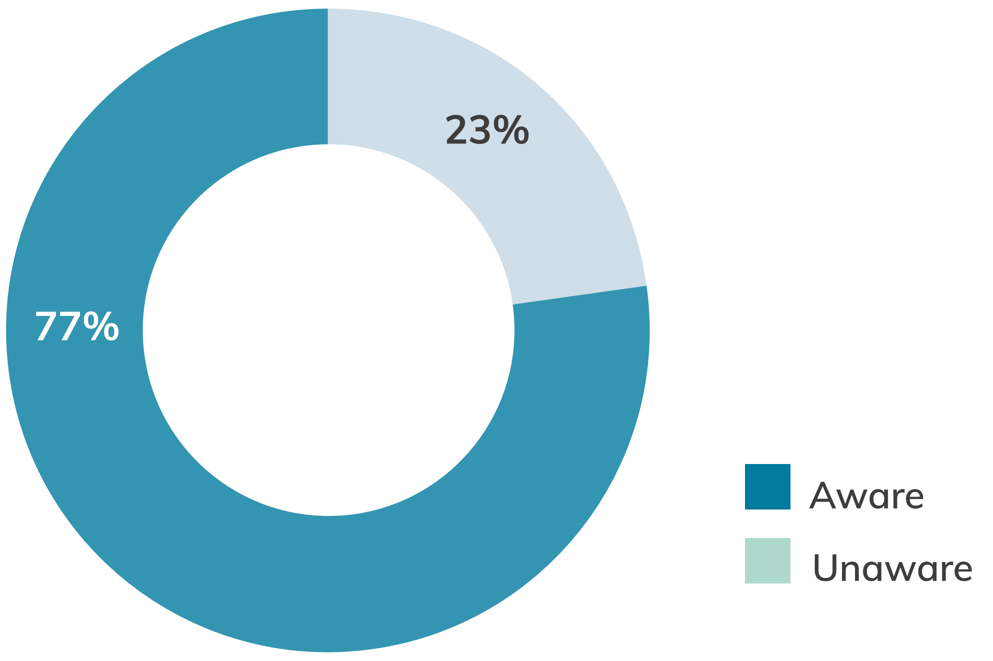
1 in 4 UK adults is unaware that inflation can reduce the value of their savings

The survey found that a significant minority of people are unaware of how inflation affects their finances. 23% of UK adults are unaware that over time, inflation reduces how much you can buy with the same amount of money.

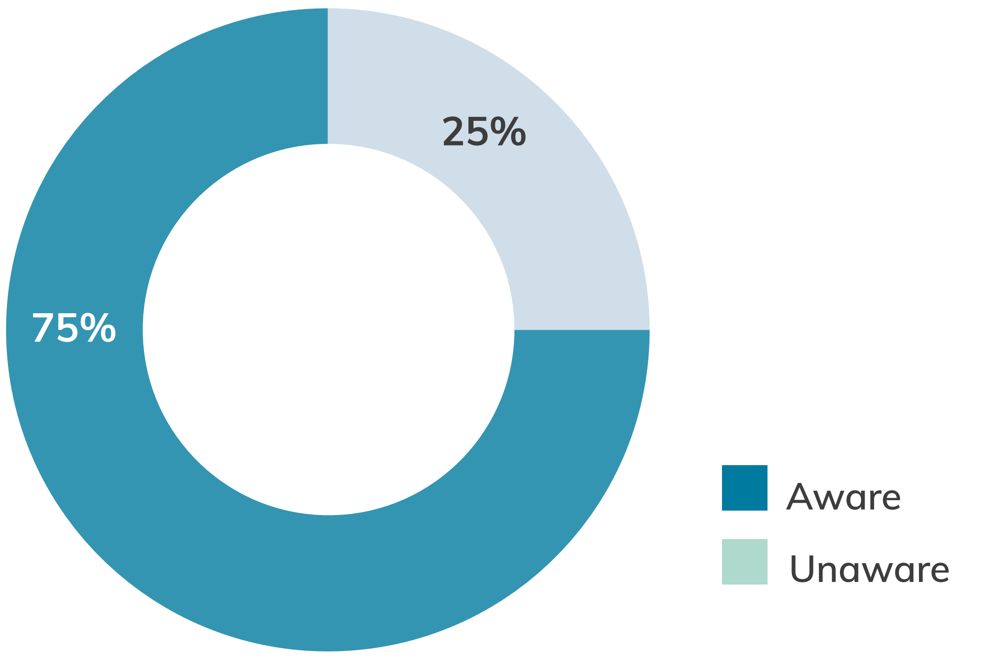
We also found that 1 in 4 is unaware that inflation could reduce the value of their savings (if inflation is greater than the interest rate on your savings). Younger people are less likely to understand the impact of inflation on savings. Some 34% of 18-34 year olds don't understand the impact of inflation on savings compared to 14% of over-65s.

Aware/unaware of the following...

Over time, inflation reduces how much you can buy with the same amount of money



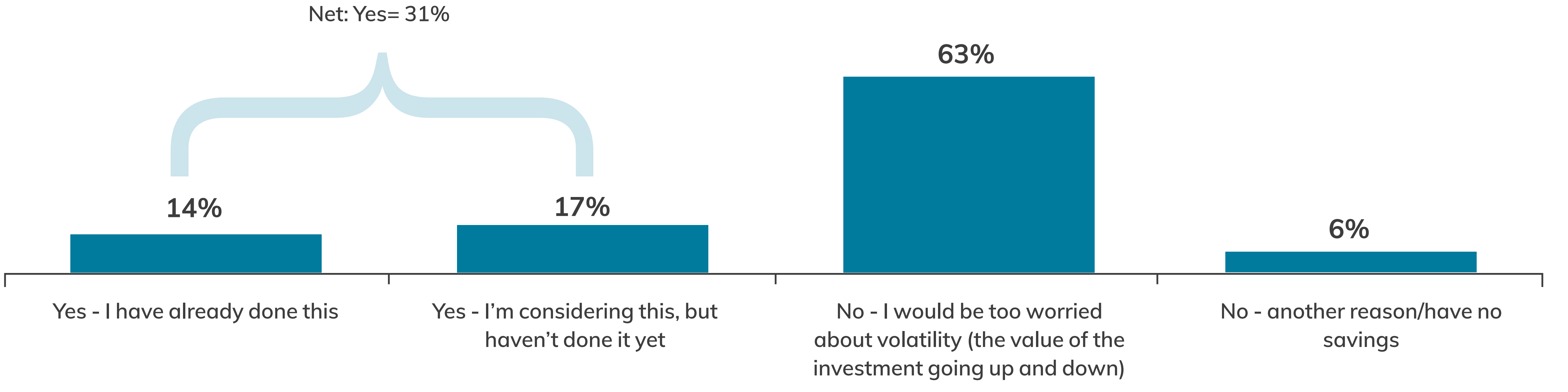
Inflation can reduce the value of your savings if inflation is greater than the interest rate on your savings



63% say they are too worried about volatility to consider moving their savings

Inflation is currently eroding the purchasing power of cash savings. However, we found that a significant proportion of consumers are reluctant to put their money into stock-market investments. Only 31% of UK adults have moved (or are currently considering moving) some of their savings to a higher risk investment in order to achieve more growth.

Inflation has meant that the cost of living is increasing faster than the interest rate on most people's savings. Are you considering moving some of your savings to a higher risk investment, in order to achieve more growth?



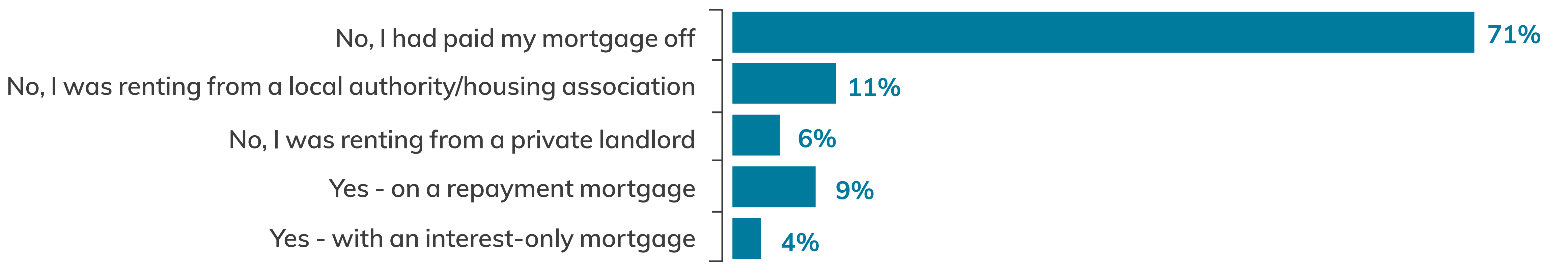
63% of consumers say they are too worried about volatility to consider moving their savings. Women (70%) and retirees (76%) were particularly concerned about volatility. This is congruent with last quarter's Wealth and Wellbeing report, in which we observed that women were more risk averse than men. For example, last quarter 57% of women said that when faced with a financial decision they were more concerned about the possible losses than the probable gains, compared to 48% of men.

Paying for mortgages in retirement

Over 1 in 10 retirees still had mortgage debt when they retired

In this quarter's survey we explored whether people are retiring without having fully paid off their mortgage. We found that over 1 in 10 retirees still had mortgage debt at the point they retired, of which 9% were on a repayment mortgage and 4% had an interest-only mortgage.

Did you have any mortgage debt outstanding when you retired?



Over half paid the mortgage debt with their pension/lump sum

In order to pay off their mortgage debt, over half (56%) said they paid the mortgage debt with their pension/lump sum. This can be a sensible action to take, but will have reduced their retirement income.

Other ways of paying off mortgage debt at retirement included:

5% downsized

6% continued doing some paid work

Only **5%** took out Equity Release

Only **4%** spoke to a financial adviser about how to clear mortgage debt at retirement

A third of current mortgage holders don't think they'll have their mortgage paid off by age 65

Due to property price inflation, mortgage terms today are much longer than they were historically, and therefore many people may find themselves at retirement age without having fully paid off their mortgage.

Consistent with this, we found that a third (33%) of current mortgage holders don't think they'll have their mortgage paid off by age 65.

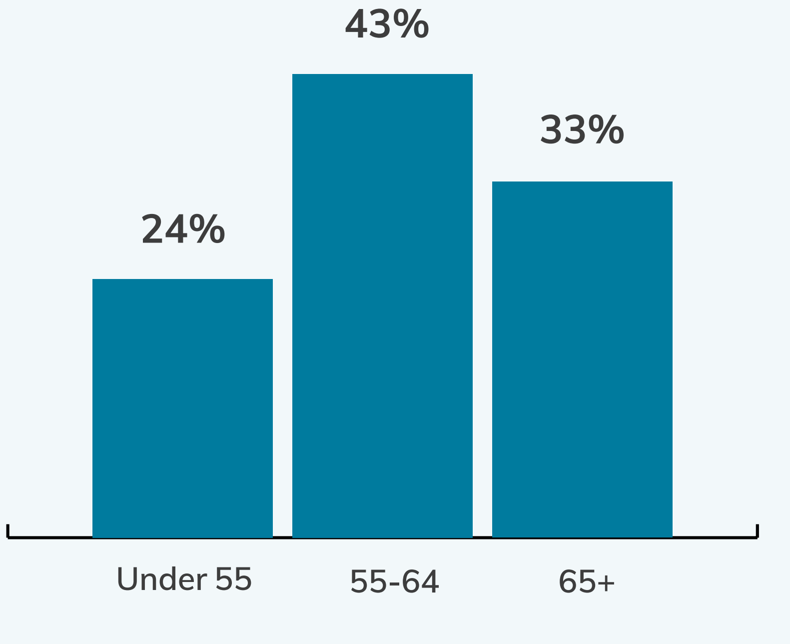
We asked non-retired mortgage holders about their main worries

40% are worried they won't be able to afford to retire when they want to

34% are worried they might run out of money later on in retirement

17% are worried about how they will pay their mortgage when they retire

What age do you think you'll be when you have paid off your mortgage?



Divorce and pensions

Over half of divorcees didn't know they were entitled to part of their ex's pension

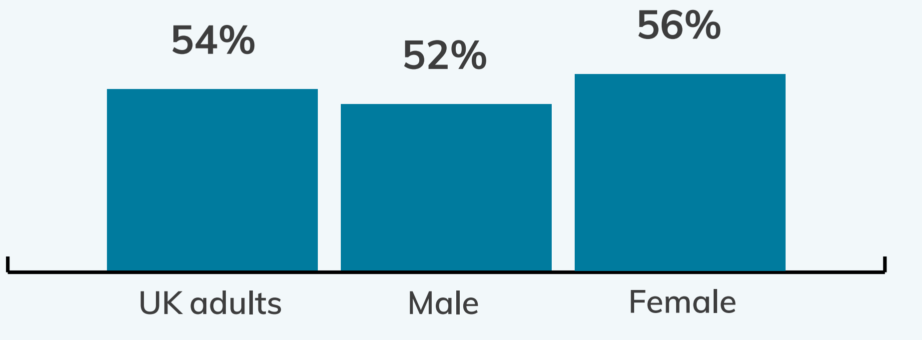
This quarter's survey explored divorce and pensions. We found that roughly half (49%) of divorcees said they didn't get any of their ex-spouse's pension in their divorce.

It appears that over half (54%) of divorcees were not aware that they were entitled to part of their ex-partner's pension when they divorced. Women in particular were not aware of this (56% of divorced women said this, compared to 52% of divorced men).

54%

of divorcees were not aware that they were entitled to part of their ex-partner's pension

I didn't know I was entitled to part of my partner's pension when we divorced



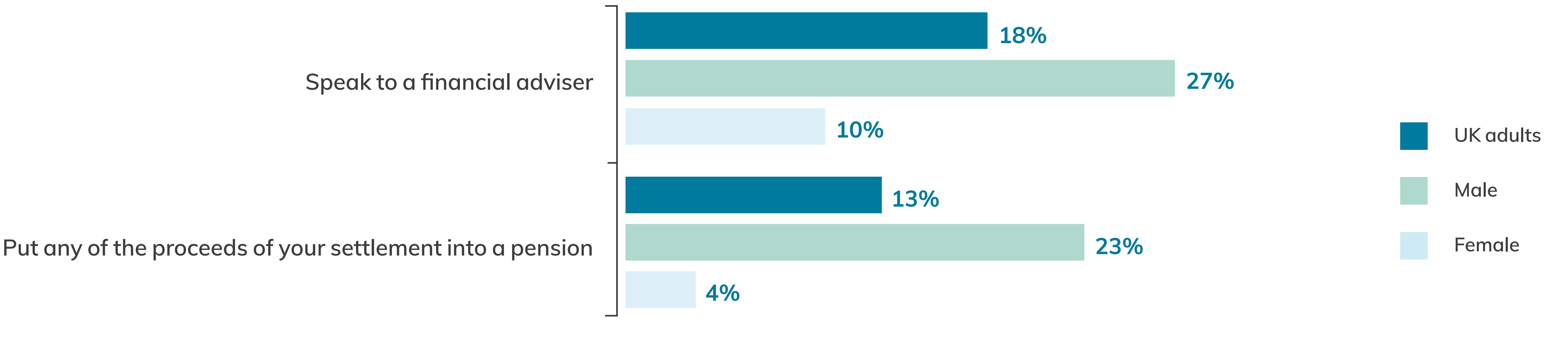
Women were less likely to have spoken to an adviser when they divorced

Only 18% of divorcees said they spoke to a financial adviser when they divorced. This lack of financial advice could be contributing to the lack of knowledge around what they were entitled to.

Only 35% of mass affluent consumers (those with assets of between £100,000 and £500,000 excluding property) spoke to an adviser. Advice could have made a big financial difference to this group when divorcing.

We also found that divorced women were less likely to be seeking financial advice when they divorced. Only 10% of divorced women spoke to an adviser around the time of their divorce, compared to 27% of men. Divorced women were also significantly less likely to put any of the proceeds of their settlement into a pension (4% vs. 23% of men).

Around the time that you divorced, did you do either of the below?



Covid keepers

79% of those that worked from home during the pandemic want to continue doing so

The pandemic forced many of us to do day-to-day activities differently. Things such as working from home, online shopping, remote doctors' appointments, all became much more commonplace than before Covid-19.

We asked our respondents which activities they would like to continue doing, and which they wanted to stop, as Covid restrictions are removed. We found that there are a number of behaviours that started during the pandemic that they want to continue. These include:

- Working from home (79% of those that worked from home during the pandemic want to continue this)
- Online grocery shopping (76% want to continue)
- Remote financial advice (65% want to continue)

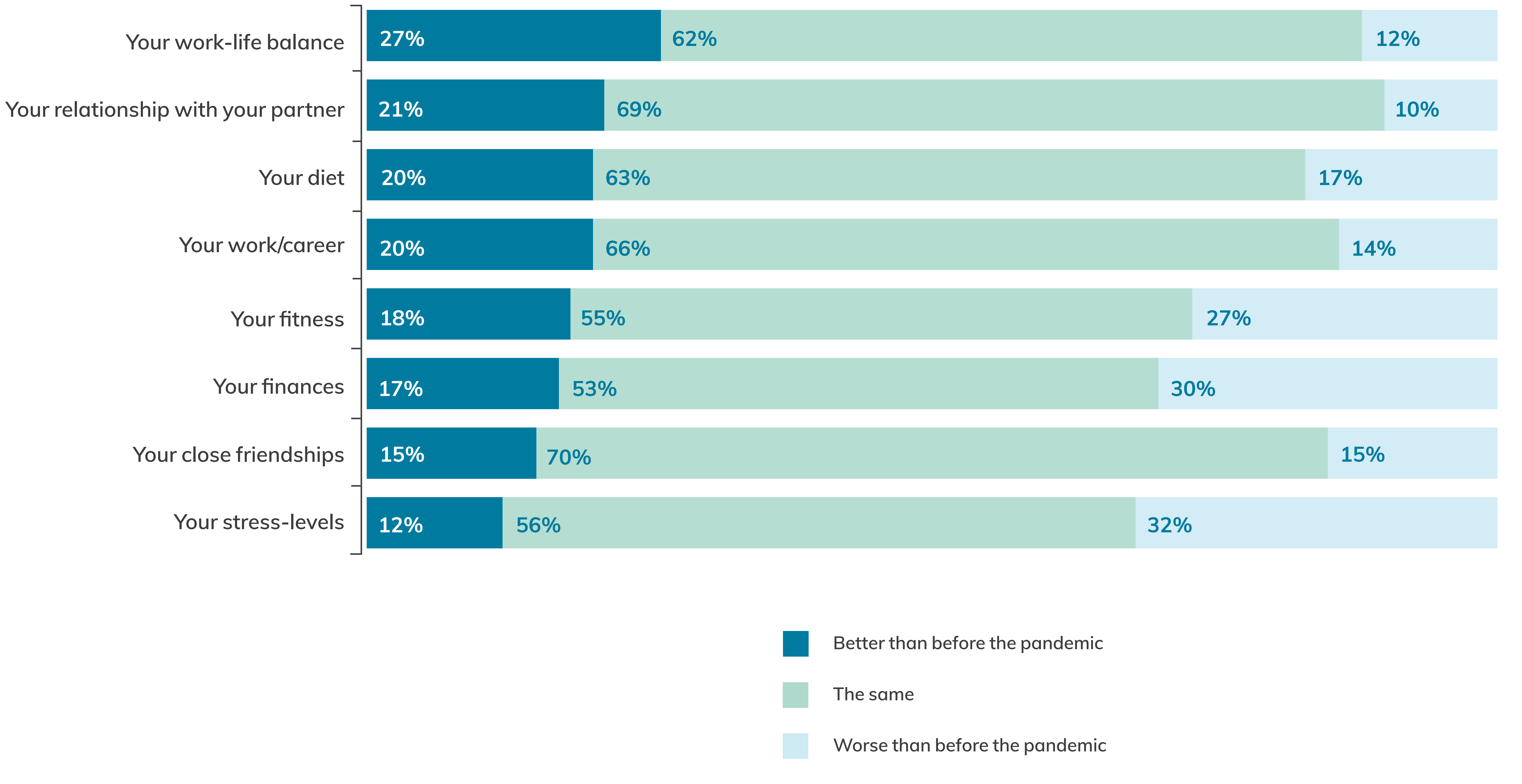
However, there are also a few things that people said would like to see the back of, including:

- Remote doctors' appointments. 56% of those who did this during the pandemic want to stop. Those aged 55+ were most keen to stop, whereas those aged 18-34 are the only age group that would prefer to continue them.
- Not hugging/kissing family members. 62% of people were keen to be able to hug and kiss family again.

30% of UK adults say their finances are worse than before the pandemic

We asked our respondents which elements of their life have improved or worsened compared to before the pandemic. Our respondents said their finances, fitness and stress levels have worsened rather than improved. However, many report having a better work-life balance, compared to pre-pandemic.

Would you say the below are better/worse than before the pandemic?



Covid-19 has made everyone more conscious of all the things that are important to them in life. When asked how their focus has changed, compared to before the pandemic, many of our respondents stated that their health, family and work-life balance have become more of a focus.

Appendix
Wealth & Wellbeing Indices data

How finances might look 3 months from now

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Improve	17 %	14 %	12 %	18 %	17 %	15 %	14 %	10 %
Worsen	23 %	22 %	26 %	20 %	18 %	20 %	25%	42%
Index*	**-6**	**-8**	**-14**	**-2**	**-1**	**-5**	**-12**	**-31**

How finances have changed in last 3 months

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Better	17 %	14 %	11 %	18 %	16 %	15 %	13 %	10 %
Worse	35 %	32 %	36 %	27 %	25 %	26 %	33 %	44%
Index*	**-18**	**-18**	**-25**	**-9**	**-8**	**-11**	**-20**	**-34**

Income from work

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

Total monthly outgoings

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Increase	23 %	25 %	19 %	22 %	31 %	38 %	48 %	58 %
Decrease	32 %	23 %	35 %	33 %	18 %	12 %	9 %	9%
Index*	**-9**	**2**	**-16**	**-11**	**14**	**26**	**39**	**49**

Amount saving

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Increase	23 %	19 %	23 %	27 %	21 %	18 %	16 %	18 %
Decrease	14 %	18 %	24 %	17 %	19 %	19 %	20 %	23 %
Index*	**8**	**1**	**-1**	**10**	**2**	**-1**	**-3**	**-6**

Amount saving into pensions

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Increase	8 %	8 %	9 %	10 %	10 %	10 %	11 %	13 %
Decrease	7 %	8 %	13 %	8 %	7 %	6 %	7 %	6 %
Index*	**1**	**0**	**-4**	**2**	**3**	**4**	**3**	**6**

Spend at the supermarket

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Increase	42 %	35 %	30 %	33 %	29 %	36 %	46 %	56 %
Decrease	15 %	14 %	18 %	15 %	13 %	10 %	10 %	10 %
Index*	**27**	**21**	**13**	**18**	**16**	**26**	**36**	**46**

Spend on socialising

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Increase	7%	11 %	8 %	7 %	22 %	28 %	21 %	20 %
Decrease	60%	48%	61%	54 %	31 %	22 %	23 %	24 %
Index*	**-53**	**-37**	**-52**	**-47**	**-9**	**6**	**-2**	**-4**

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 March 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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