Savings and the over 50s

A REPORT FOR SAGA

DECEMBER 2015

Making Business Sense

Foreword

This report shows just how important the savings culture of the over 50s is to the UK economy. The number of over 50s is growing as is their share of household wealth. Decisions made by this demographic - how they save, invest and spend their money makes a huge difference not just for their own well-being but for the whole economy.

The prosperity of the over-50s is not a sleight of hand but rather by dint of their own effort. Many people have worked hard, saved diligently and built up savings, investments and pensions over many years of working. As they approach and then move into retirement their money needs to work hard for them if they are going to enjoy an active life in retirement and plan for quality care.

Investment earnings are an important source of income for households, yet despite a more diverse portfolio compared with the typical UK household, the over 50s managed an average return of just 2.4% in 2013, with low returns on income-yielding assets/products weighing down returns. The Bank of England's recent comments suggest that low interest rates may be around for some time to come. There are around 12.5 million over 50s who could benefit from a financial plan and some seven million over 50s who are in households with assets of between £30,000 and £300,000 that could benefit from better managing their money.

Whilst six out of ten people say that you need a financial plan to have a better retirement, just 30% have started a plan and only 3% say their plan is definitely on track. Part of the battle to help people to make the most of their money is combatting inertia. This has been brought about in part from a financial services sector that has too often let people down by offering complex products with opaque charging structures. If people were more comfortable planning and structuring their savings and investments more effectively then they and society would be better off. For example, a small nudge in investment returns of say 1% means that the average over 50s household would be £700 a year better off, this equates to a £8bn boost to the economy. A household with £300,000 could be £5,700 better off each year if they lifted their return from the average to 4.3% - the rate achieved by 10% of households.

The benefit of supporting the over 50s demographic to make more informed investment decisions is not limited to those households directly affected by any boost in returns. The wider impact of increased investment earnings is considerable, from increased household consumption through to higher government tax revenues and less reliance on state-funded care in later life. As such, it is in everyone's interest to encourage and support the nation to be better informed and more comfortable about managing their money.

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Saga Investment Services

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Executive Summary

- In the second quarter of 2015, the wealth of the over 50s stood at £6.2 trillion, 69.7% of all UK household wealth. The over 50s held:
    - Just under £800 billion (76.2%) of the UK's household financial wealth in Q2 2015
    - £2,528 billion (74.1%) of the UK's household pension wealth
    - £2,291 billion (69.3%) of the UK's household property wealth
    - £621 billion (52.3%) of the UK's household physical wealth
- Almost a third of over 50s households had between £30,000 and £300,000 of financial wealth to invest, which amounts to approximately 7 million people.
- In general, over 50s households hold a slightly more diversified portfolio compared with those aged 49 and under.
- The average household in the 16-49 age range held nearly 3 out of every 4 pounds of financial wealth in current and savings accounts. In contrast, the typical over 50s household held less than 60% of financial savings in these products.
- Other assets make up a higher share of the over 50s financial portfolio - the share of financial savings held in ISAs stands at just over 24% for over 50s households.
- Less than a third of people have a financial plan to support their retirement and only one in ten of those who have started a plan are sure it is on track.
- Despite limitations to individuals' understanding of financial products, only 12% of over 50s currently use a financial adviser to help them understand and manage their finances.
- 11% of the over 50s have a property other than their main residence, on average these properties are worth £258,000.
- Average investment income for the over 50s in 2013 stood at £1,761, a return of 2.4%.
- Increasing the average rate of return to 4.3% (a rate achieved by 10% of households), the household benefit increases to an extra £1,345. Across the over 50s this would equate to £15.2 billion of additional household income.

1. Wealth of the over 50s

The wealth of the over 50s continues to rise both in absolute terms[1] and as a share of the overall wealth across the UK's households. In the second quarter of 2015, the over 50s held 69.7% of all UK household wealth. This represents total holding of £6.2 trillion amongst the over 50s.

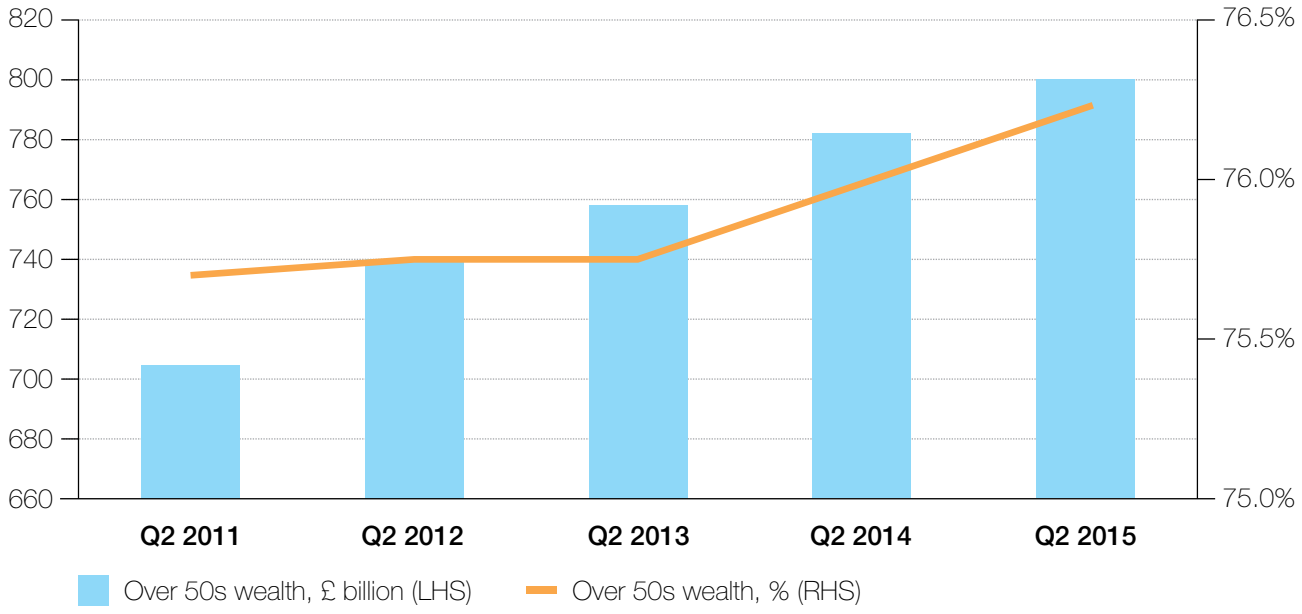
The value of over 50s wealth holdings has grown through the economic recovery, boosted by increases in the number of over 50s households, rising property values and the recovery in the value of shares, raising the value of pension and other financial assets.

As shown through this section, the over 50s age group controls more than half of all assets held by UK households in each of the four types of household wealth; financial, pension, physical and property. In Q2 2015, these households held 76.2% of all household financial wealth and 69.3% of all household property wealth. These both represent increases from the shares held in recent years.

1 *Current prices*

1.1 Financial wealth

Figure 1: Financial wealth of the over 50s, £ billion and percentage of total UK financial wealth (2011-2015)



Source: ONS, Bank of England, Cebr analysis

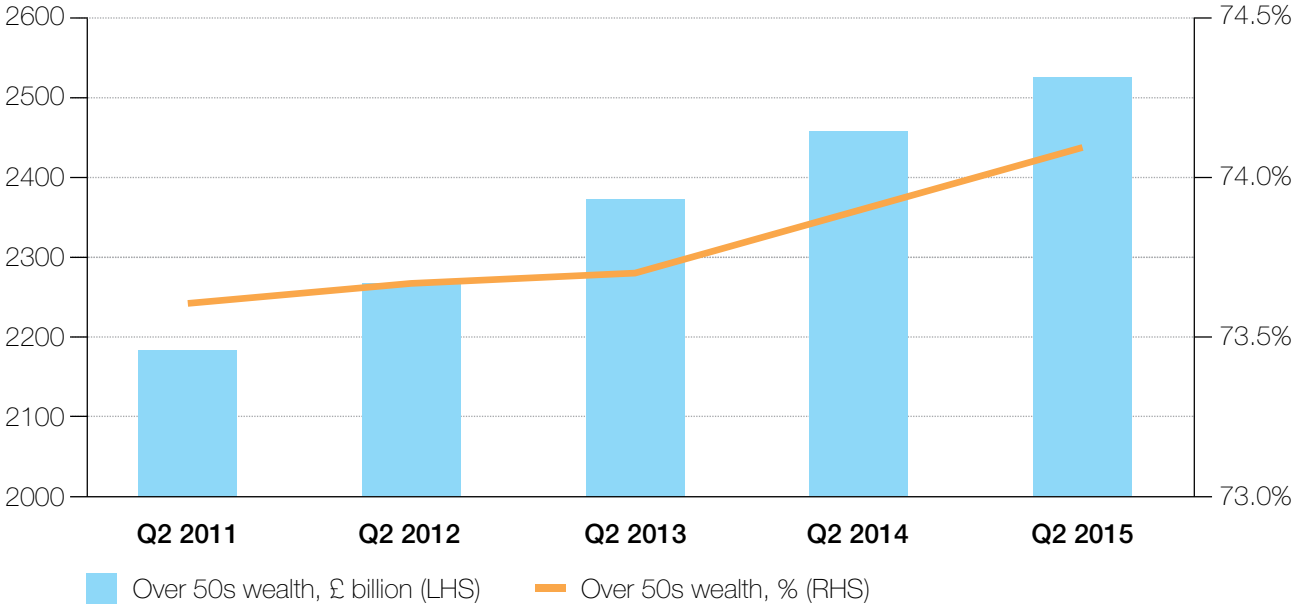
The over 50s held just under £800 billion of the UK's household financial wealth in Q2 2015, some 76.2% of all the financial wealth held by UK households. [2] Financial wealth held by the over 50s has increased modestly in recent years. However, the share held by the over 50s has continued to rise, up from 75.7% in Q2 2012 helped by the recovery in financial markets and the growing number of over 50s households.

While the rise in the size of the over 50s population has helped to drive increases in the levels of financial wealth held by the age group, recent increases in asset values have also supported the growth in financial wealth seen in recent years. Although under 50s have also benefited from rising asset prices, their initially lower proportion of financial wealth holdings (prior to the financial crisis in 2008) means the proportion of UK financial wealth which they hold has declined even as asset values have risen.

2 *Financial wealth consists of (i) stocks, (ii) bonds, (iii) retail bank vehicles and investment trusts and insurance assets. The mix of these three financial asset types held by the typical UK household is provided by Waves 1 - 3 of the ONS Wealth and Assets Survey. The measure of financial wealth discussed is net financial wealth (i.e. net of outstanding financial debts such as overdraft repayment obligations).*

1.2 Pension wealth

Figure 2: Pension wealth of the over 50s, £ billion and percentage of total UK pension wealth (2011-2015)



Source: ONS, Bank of England, Cebr analysis

The over 50s held £2,528 billion of the UK's household pension wealth in Q2 2015, some 74.1% of all the pension wealth held by UK households. [3] The share of pension wealth held by the over 50s households has continued to rise in recent years, up from 73.6% in Q2 2012.

The rise in total pension wealth across the over 50s population has been driven by the recovery in financial markets. According to the Towers Watson Global Pension Assets Study, some 44% of a typical UK pension portfolio was invested in shares in 2014. Loose monetary policy and rising business confidence have helped support a recovery in the financial markets from their lows in 2009. From its trough in Q1 2009, the FTSE 100 index had risen by 66.1% by Q2 2015. However, developments have not been universally positive, with low returns on cash and bonds - 40% of the value of the typical UK pension fund in 2014 - placing some pressure on pensions.

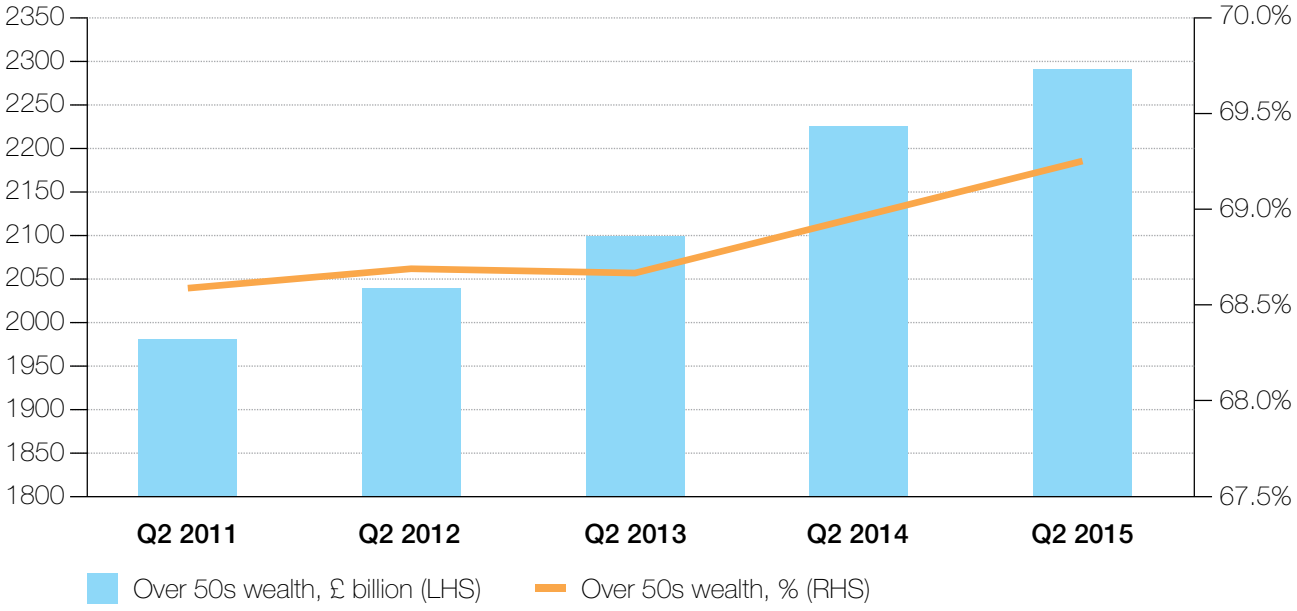
3 *Pension wealth is the net value of all pension assets. Towers Watson, 2013, Global Pension Assets Study, 2012 (pp. 31) notes that the typical UK pension portfolio in 2014 was: (i) 44% stock, (ii) 37% bonds, (iii) 3% cash and (iv) 15% other (including property and other alternatives).*

1.3 Property wealth

The over 50s held £2,291 billion of the UK's household property wealth in Q2 2015, some 69.3% of the UK's overall property wealth. [4] Property wealth held by the over 50s has increased modestly through the economic recovery from £1,979 billion, or 68.6% of UK household property wealth, in Q2 2011.

While the rate of increase in house prices has slowed notably over the past year, annual growth across the UK remained above 5% in July 2015, reflecting continued restrictions to domestic supply growth. While not all regions have recovered to their pre-crisis peaks, average house prices in seven regions stood at record levels in July 2015.

Figure 3: Property wealth of the over 50s, £ billion and percentage of total UK property wealth (2011-2015)



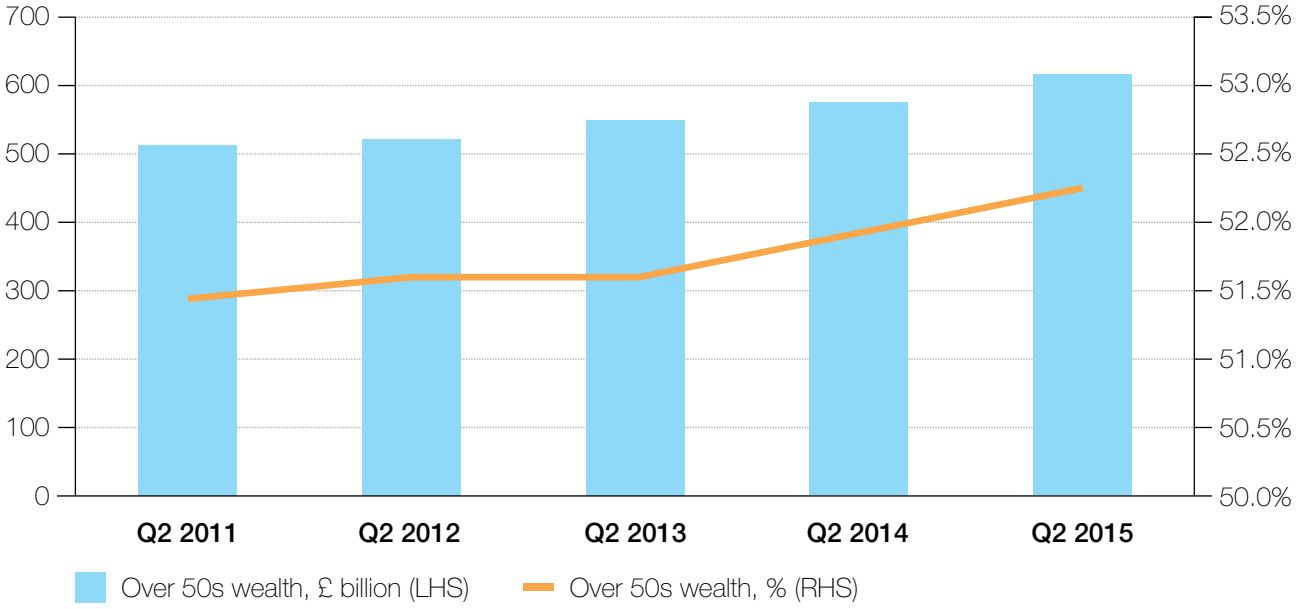
Source: ONS, Bank of England, Cebr analysis

4 *Property wealth consists of the value of all residential and non-residential property held by households, net of outstanding mortgage debt.*

1.4 Physical wealth

The over 50s held £621 billion of the UK's household physical wealth in Q2 2015, some 52.3% of all the physical wealth held by UK households.[5]

Figure 4: Physical wealth of the over 50s, £ billion and percentage of total UK physical wealth (2011-2015)



Source: ONS, Bank of England, Cebr analysis

Since 2012 overall consumer spending has noticeably accelerated. Year-on-year growth in domestic consumer spending averaged -1.1% in real terms between mid-2008 and the end of 2011 but stood at 2.8% in Q2 2015 - annual growth has not slipped below 2% since Q2 2013. Spending on items categorised as physical wealth such as vehicles and appliances has risen particularly sharply, rising by 8.2% year-on-year in Q2 2015. Evidence of this can be seen in the Society of Motor Manufacturers and Traders (SMMT) new car registration data, which show that 462,517 new cars were registered in September 2015 - a rise of 8.6% year-on-year and the highest September on record. With spending of the over 50s being an important driver of this growth, their holdings of this type of wealth have risen.

5 *Physical wealth consists of durable (or semi-durable) physical assets held in homes such as vehicles, art, furniture, televisions etc. The measure of physical wealth given here is gross - i.e. not net of the depreciation on households' physical assets.*

2. Managing financial wealth

With the over 50s controlling more than three quarters of the overall financial wealth of households across the UK, it is important to understand how this demographic goes about managing its savings and what investment decisions are made.

Currently, just over half of non-retired over 50s think they need a financial plan to ensure that they enjoy retirement. This is less than the 60% of non-retired 18-49 year-olds that feel they need a financial plan. Despite this, less than half of each demographic actually have a plan, with 61% of non-retired over 50s not currently having a financial plan in place. Almost a third of people - 29% - said that they did not feel ready to make a plan and 6% of the total found it too difficult to think about making a plan.

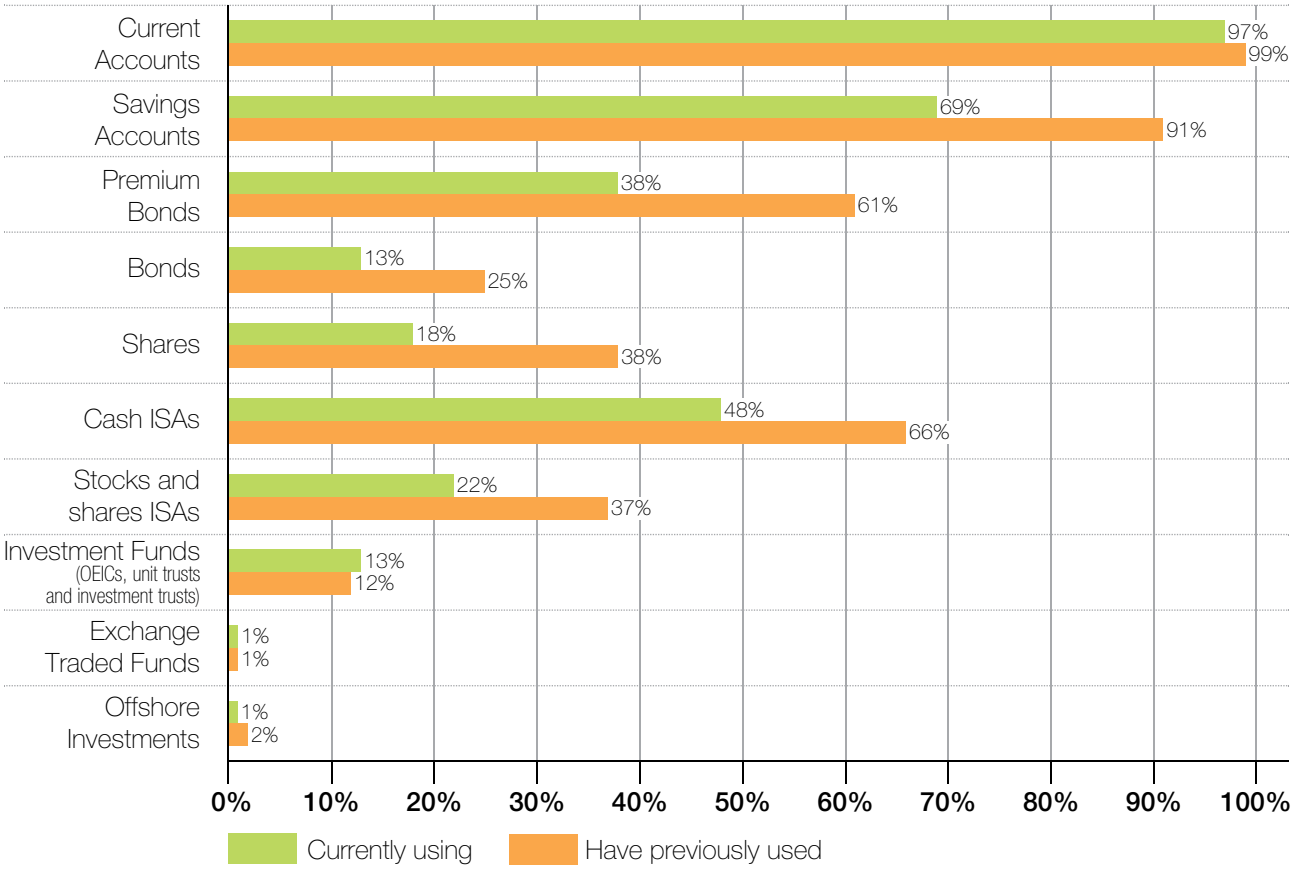
Given the magnitude of wealth held by the over 50s - almost a third of over 50s households have between £30,000 and £300,000 of financial wealth to invest - optimising returns for these households has the potential to have sizeable benefits not only in terms of retirement income but also across the wider-economy. However, it is clear that some assistance will be required to help some households utilise their savings and affectively plan for their retirement.

2.1 Understanding of financial products

Household financial wealth can take a multitude of different forms, from money sitting in a current account to assets such as shares and bonds. These financial products and assets vary in a number of different ways. While some may be relatively risk-free and provide almost instant access to cash, others offer potentially better rates of return but come with higher levels of risk and can be more difficult to convert into cash.

Table 1 shows the share of over 50s households that hold financial wealth in each of the different types of asset.

Table 1: Percentage of over 50s households in Great Britain with given assets



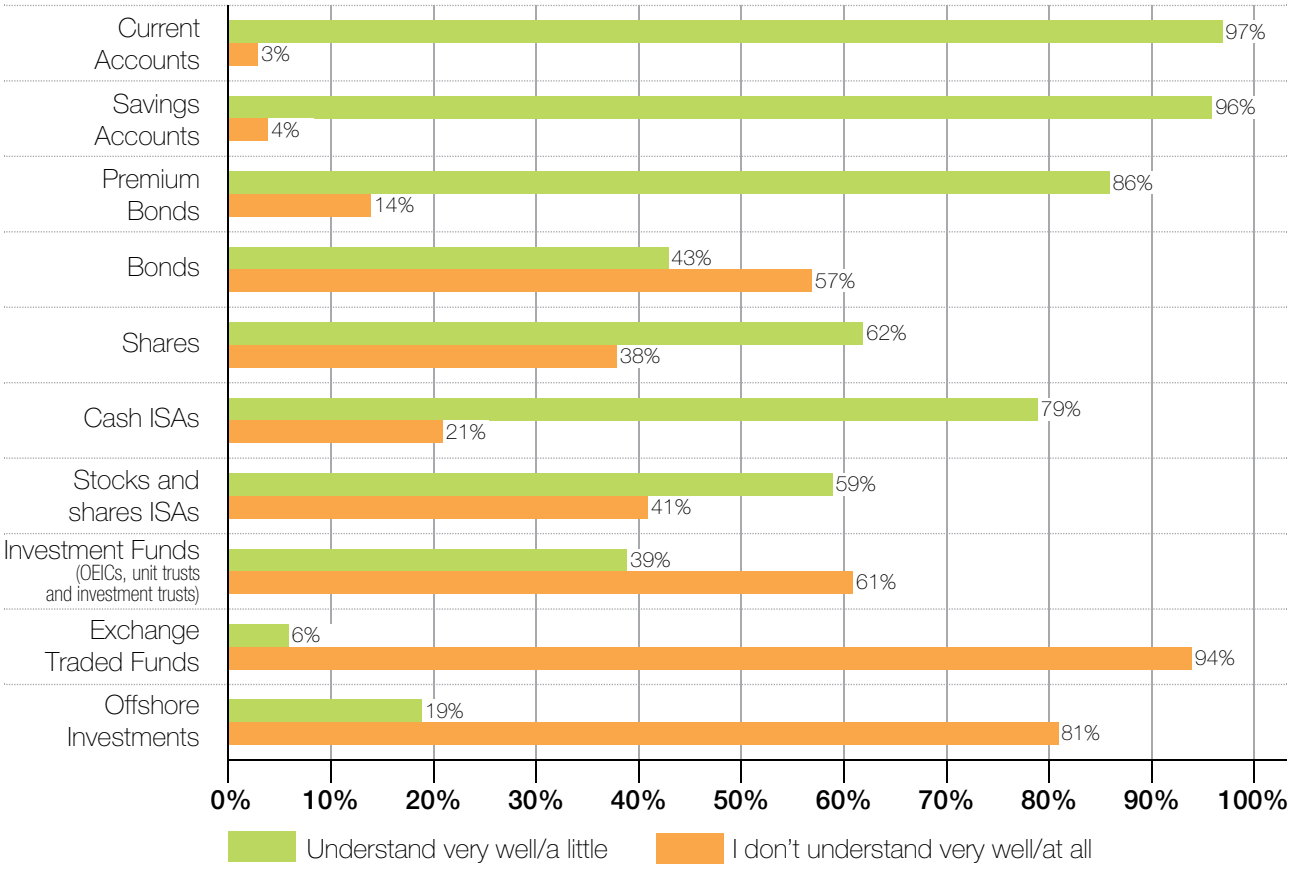
Source: Populus Survey (7-11th October 2015)

As would be expected, almost all households had current accounts. The next popular asset was traditional savings accounts, with 69% of households currently having savings in these products. Individual Savings Accounts (ISAs) were also a popular form of investment. These tax favourable accounts are available in a number of forms. Cash ISAs are similar to savings accounts; typically offered by banks and building societies, while stocks and shares ISAs allow money in the account to be invested in qualifying assets including cash, unit and investment trusts, listed shares and bonds.

2.1 Understanding financial products cont/

The balance between financial risk and reward, accessibility and tax incentives are not the only determinants of what investments households make. Knowledge and understanding of certain products are also key factors, with households often opting to stick to those assets that they feel they understand. As shown in **Table 2**, individuals in the over 50s age group are most comfortable with products such as current and savings accounts. Premium bonds and Cash ISAs are also understood by a relatively high share of the demographic, with 86% and 79% of respondents feeling they have at least a little understanding of these assets. In contrast, 94% of respondents felt they did not understand exchange traded funds very well. Similarly, only a relatively small share of the over 50s felt they understood overseas investments.

Table 2: The over 50s understanding of financial products



Source: Populus Survey (7-11th October 2015)

Despite limitations to individuals' understanding of financial products, only 12% of those over 50 currently use a financial adviser to help them understand and manage their finances. While a further 38% of people have previously sought advice from a financial adviser, it is apparent that people do not frequently choose to seek professional financial advice, with 71% of those that do opting only to seek advice on an ad-hoc basis.

The relatively low usage of financial advisers arises despite the fact that more than half of the respondents actively managed their finances at least once a month. Instead people appear to be more actively utilising resources offered to them by both the internet and their bank to help them understand and manage their finances. However, it is clear in **Table 2** that people still do not feel they have a good grasp of the different financial options available to them. While this could be the result of more difficult financial concepts involved with these products, it could also be due to a lack of effective signalling about alternative options available to savers/investors.

2.2 Composition of financial assets

While the share of households with savings in each of the asset classes gives us some idea about how a typical portfolio might look, we need to look in more detail at the amount held in each type of saving to fully assess what the financial portfolio of the average over 50s household looks like.

Table 3 shows the mean share of gross financial wealth (excluding both insurance products and liabilities such as overdrafts, credit card debt etc.) held in each type of financial asset.

Table 3: Composition of the average household's financial portfolio (2010-2012)

	50s	60s	70s	80+	Over 50s	16 - 49
Average Gross Financial Wealth [6]	**£60,378**	**£83,105**	**£71,089**	**£57,035**	**£69,148**	**£24,013**
Current Accounts	37.5%	30.1%	32.1%	35.1%	33.7%	47.3%
Savings Accounts	25.3%	24.1%	20.5%	25.8%	24.0%	25.1%
Cash ISAs	16.8%	20.2%	21.4%	18.5%	19.1%	14.0%
Stocks and shares ISAs	4.6%	6.1%	5.1%	3.0%	4.9%	2.7%
Other ISAs	0.3%	0.2%	0.5%	0.6%	0.4%	0.2%
National Savings certificates and bonds	3.3%	3.9%	4.4%	4.0%	3.9%	2.5%
UK shares	2.9%	2.8%	2.9%	3.0%	2.9%	1.9%
Fixed term bonds	3.9%	7.9%	8.4%	6.9%	6.5%	1.4%
Employee shares and share options	2.4%	0.7%	0.4%	0.1%	1.1%	3.3%
Unit/Investment trusts	1.8%	2.8%	2.8%	1.9%	2.4%	0.8%
Overseas shares	0.4%	0.3%	0.3%	0.2%	0.3%	0.3%
UK bonds/gilts	0.2%	0.3%	0.5%	0.4%	0.3%	0.1%
Overseas bonds/gilts	>0.0%	0.1%	0.1%	>0.0%	>0.0%	>0.0%
Other formal financial assets	0.4%	0.5%	0.6%	0.5%	0.5%	0.4%

Source: ONS - Wealth and Assets Survey, Cebr analysis

In general, over 50s households hold a slightly more diversified portfolio compared with those aged 49 and under. The average household in the 16-49 age range held nearly 3 out of every 4 pounds of financial wealth in current and savings accounts. In contrast, the typical over 50s household held less than 60% of financial savings in these products. This means that other assets make up a higher share of the over 50s financial portfolio. For example, the share of financial savings held in ISAs stands at just over 24% for over 50s households compared to a little under 17% for younger households.

It appears that the over 50s are more inclined to opt for interest based investments as opposed to relying on assets such as equities. In contrast to households in the 16-49 age range, over 50s households held more than twice as much money in fixed term bonds as they did in UK shares. While bonds, if held to maturity, offer a known return in the form of the interest paid on the asset, and value at which the bond will be redeemed, other assets may offer better returns, particularly in the current low-interest rate environment.

6 *Gross Financial Wealth excluding insurance products, Child Trust Funds and liabilities such as overdrafts and credit card debt.*

2.2 Composition of financial assets cont/

Table 4: Financial wealth of the over 50s by asset category (2010 - 2012)

	Over 50s	
	Household (Mean)	Total
Average Gross Financial Wealth [7]	**£69,148**	**£754,567m**
Current accounts (exc. Overdrafts)	£4,327	£47,215m
Savings accounts	£16,724	£182,494m
Cash ISAs	£9,199	£100,381m
Stocks and shares ISAs	£6,454	£70,423m
Other ISAs	£242	£2,639m
National Savings certificates and bonds	£3,327	£36,303m
UK shares	£7,951	£86,761m
Fixed term bonds	£9,866	£107,657m
Employee shares and share options	£1,747	£19,065m
Unit/Investment trusts	£5,236	£57,133m
Overseas shares	£1,177	£12,847m
UK bonds/gilts	£1,026	£11,192m
Overseas bonds/gilts	£164	£1,791m
Other formal financial assets	£1,710	£18,665m

Source: ONS - Wealth and Assets Survey, Cebr analysis

Gross financial wealth [7] across the over 50s age group totalled around £755 billion in the years 2010-2012. The largest share of this wealth is accounted for by savings accounts, followed by fixed-term bonds and cash ISAs. These three products account for more than half the total gross financial wealth excluding insurance products, child trust funds and financial liabilities.

7 *Gross Financial Wealth excluding insurance products, Child Trust Funds and liabilities such as overdrafts and credit card debt.*

Table 5: Average over 50s household financial portfolio by wealth quintile (2010-2012)

	Lowest 20%	2nd Quintile	3rd Quintile	4th Quintile	Top 20%
Average Financial Wealth [8]	**£492**	**£4,201**	**£15,287**	**£47,364**	**£278,454**
Current accounts	82.5%	50.0%	25.1%	12.2%	5.4%
Savings accounts	11.8%	27.0%	28.1%	25.7%	25.4%
Cash ISAs	2.4%	16.7%	29.5%	28.5%	16.2%
Stocks and shares ISAs	0.2%	1.1%	4.3%	7.8%	10.6%
Other ISAs	>0.0%	0.3%	0.7%	0.4%	0.4%
National Savings certificates and bonds	2.0%	2.0%	3.8%	5.5%	5.7%
UK shares	0.4%	1.2%	1.9%	3.3%	7.4%
Fixed term bonds	>0.0%	0.7%	4.3%	10.6%	16.3%
Employee shares and share options	0.4%	0.8%	1.0%	1.7%	1.7%
Unit/Investment trusts	0.1%	>0.0%	1.0%	3.2%	7.0%
Overseas shares	0.1%	0.1%	0.1%	0.3%	0.8%
UK bonds/gilts	0.0%	>0.0%	0.1%	0.4%	1.2%
Overseas bonds/gilts	0.0%	0.0%	0.0%	0.0%	0.2%
Other formal financial assets	0.1%	0.1%	0.1%	0.4%	1.7%

Source: ONS - Wealth and Assets Survey, Cebr analysis

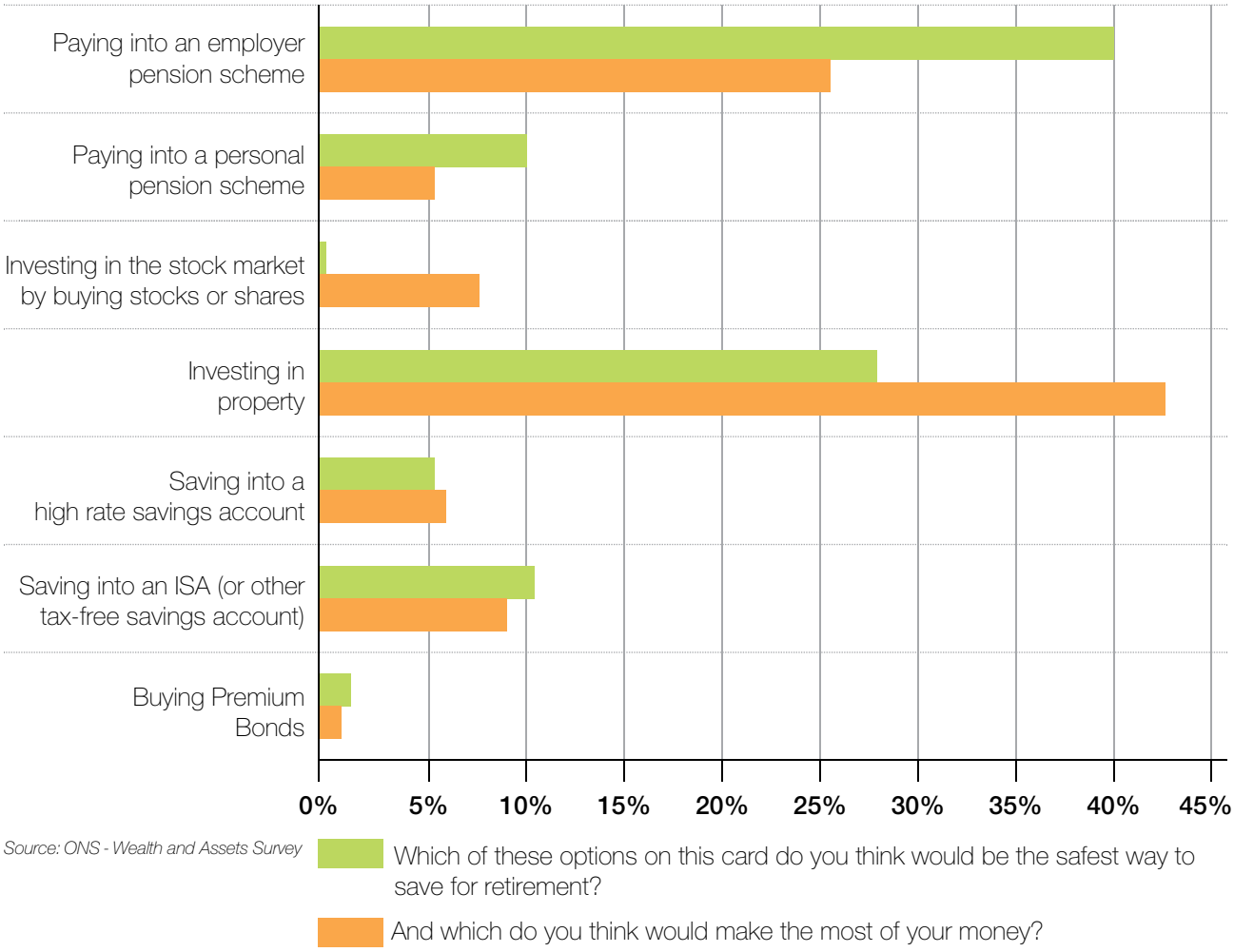
As shown in **Table 5**, the composition of the typical financial portfolio varies greatly by the level of wealth held. The top 20% of over 50s households by gross financial wealth held just 5.4% of their savings in a current account, less than a tenth of the share held by the bottom 20% of households. Instead, the top 20% hold the highest share of their financial wealth in assets such as shares, investment trusts and bonds. Across the wealth spectrum, it is evident that the average share of wealth held in current accounts falls. Initially, this drives increases in the share of savings held in products such as savings accounts and cash ISAs before more gradually feeding through into assets such as equities and bonds.

8 *Gross Financial Wealth excluding insurance products, Child Trust Funds and liabilities such as overdrafts and credit card debt.*

2.3 Pension and property wealth

While financial wealth represents some of the more flexible elements of overall household wealth, pensions and property form a significant share of household savings. This is probably linked to the fact that they are both viewed as two of the safest methods to save for retirement as well as being highlighted as the options which would make the most of individuals money, as shown in **Figure 5**.

Figure 5: Cumulative percentage of respondents selecting each option



Source: ONS - Wealth and Assets Survey

The average over 50s household had a pension pot of just under £210,000 in the period between 2010 and 2012. It appears that this wealth mostly relates to occupational pension schemes, with the average over 50s household having a third (33.5%) of their wealth stored or accumulating in occupational schemes compared with 5.5% in personal pensions. **Table 6** also highlights how pension wealth declines through retirement, with those aged 80 and above holding on average less than a quarter of the amount held by those in their 50s and 60s.

Table 6: Pension wealth of the over 50s (2010-2012)

	50s	60s	70s	80+	Over 50s
Average Pension Wealth	**£260,897**	**£278,949**	**£133,658**	**£62,031**	**£209,872**
Occupational Defined Benefit (inc. retained rights and AVCs)	52.7%	16.8%	3.3%	2.9%	24.6%
Occupational Defined Contribution (inc. retained rights)	17.2%	7.5%	2.0%	1.5%	8.9%
Personal Pension Scheme (inc. retained rights)	11.6%	4.2%	0.6%	0.5%	5.5%
Pension from Spouse/Partner	0.9%	1.0%	1.5%	2.9%	1.3%
Pensions in Payment	17.6%	70.5%	92.6%	92.2%	59.6%

Source: ONS - Wealth and Assets Survey, Cebr analysis

While the average pension wealth for over 50s households sits above £200,000, holdings vary across the demographic. As shown in **Table 7**, the top 20% of households by pension wealth have, on average, nearly £730,000 of pension savings. In contrast, many in the bottom 20% of over 50s households have no private pension wealth. As such, the average private pension savings stand at less than £10 for the bottom quintile. Amongst the wealthiest 20%, occupational defined benefit pension schemes appear to have been the most popular choice, while those lower down the wealth spectrum held higher shares of savings in personal and occupational defined contribution schemes.

Table 7: Pension wealth of the over 50s by quintile (2010-2012)

	Lowest 20%	2nd Quintile	3rd Quintile	4th Quintile	Top 20%
Average Pension Wealth	**< £10**	**£19,044**	**£83,894**	**£216,619**	**£729,931**
Occupational Defined Benefit (inc. retained rights and AVCs)	18.6%	14.7%	21.0%	28.6%	34.4%
Occupational Defined Contribution (inc. retained rights)	20.3%	16.1%	9.7%	6.5%	3.4%
Personal Pension Scheme (inc. retained rights)	11.7%	8.1%	6.4%	4.7%	2.9%
Pension from Spouse/Partner	2.1%	1.7%	1.6%	1.3%	0.6%
Pensions in Payment	47.3%	59.4%	61.3%	58.9%	58.7%

Source: ONS - Wealth and Assets Survey, Cebr analysis

2.3 Pension and property wealth cont/

While most households' property wealth is composed of their main residence, more than 10% of households currently own additional property. These include second homes (at home and abroad), buy-to-let properties, land and other buildings.

Table 8: Property wealth excluding main residence (2010-2012)

	50s	60s	70s	80+	Over 50s	16 - 49
Share with property outside of their main residence	14.3%	13.4%	6.7%	3.7%	10.8%	11.0%
Average value of other property (those with other property)	£265,006	£259,441	£267,733	£164,511	£258,233	£221,810
Average equity in other property (those with other property)	£202,567	£232,486	£253,482	£162,310	£218,503	£140,922

Source: ONS - Wealth and Assets Survey, Cebr analysis

As shown in **Table 8**, a higher share of households in their 50s hold secondary properties than those aged 60 and above, with the share noticeably falling as people move into their 70s. However, while the share of households appears to decline with age, it is clear that the average equity share of this property rises.

Table 9: Property wealth of the over 50s (exc. main residence) by equity quintile [9] 2010-2012)

	Lowest 20%	2nd Quintile	3rd Quintile	4th Quintile	Top 20%
Average value of other property (those with other property)	£48,038	£93,452	£143,154	£231,394	£782,988
Average equity in other property (those with other property)	£11,107	£61,518	£122,743	£211,129	£694,361

Source: ONS - Wealth and Assets Survey, Cebr analysis

As with pension wealth, equity levels in additional properties vary considerably, with the top 20% of over 50s households by equity wealth holding just under £700,000 in property outside of their main residence compared with just £11,107 for the bottom 20%.

9 *Excludes those with no property wealth outside of their main place of residence.*

Table 10: Combined wealth by age group (2010-2012)

	50s	60s	70s	80+	Over 50s	16 - 49
Average Financial Wealth [10]	£60,378	£83,105	£71,089	£57,035	£69,148	£24,013
Average Pension Wealth	£260,897	£278,949	£133,658	£62,031	£209,872	£73,402
Average equity in property (exc. main residence)	£29,006	£31,056	£17,092	£6,075	£23,707	£15,443
TOTAL	**£350,281**	**£393,110**	**£221,839**	**£125,141**	**£302,727**	**£112,858**

Source: ONS - Wealth and Assets Survey, Cebr analysis

Table 10 above suggests that the combination of these types of wealth, on average, peaks while people are in their 60s. For each age group, pension savings make up the largest share of this wealth, which, along with other savings, declines as it is utilised to support households through retirement. However, it is worth noting that the decline in the average level of financial wealth is less severe than it is for pensions and additional property investments.

As shown in **Table 11**, outside of the bottom 20%, pensions remain the largest share of wealth. Even in the top 20% - where the average combined financial and pension wealth and additional property equity adds up to over £1 million – pensions make up nearly 70% of their portfolio. Behind pensions, financial wealth is the most prevalent, with only 10.8% of over 50s households owning property outside of their main residence.

Table 11: Over 50s combined wealth by quintile (2010-2012)

	Lowest 20%	2nd Quintile	3rd Quintile	4th Quintile	Top 20%
Average Financial Wealth [11]	£1,970	£12,693	£30,990	£61,831	£224,992
Average Pension Wealth	£987	£26,991	£96,113	£229,806	£695,546
Average equity in property (exc. main residence)	£0	£585	£4,404	£17,920	£95,638
TOTAL	**£2,957**	**£40,269**	**£131,507**	**£309,557**	**£1,016,176**

Source: ONS - Wealth and Assets Survey, Cebr analysis

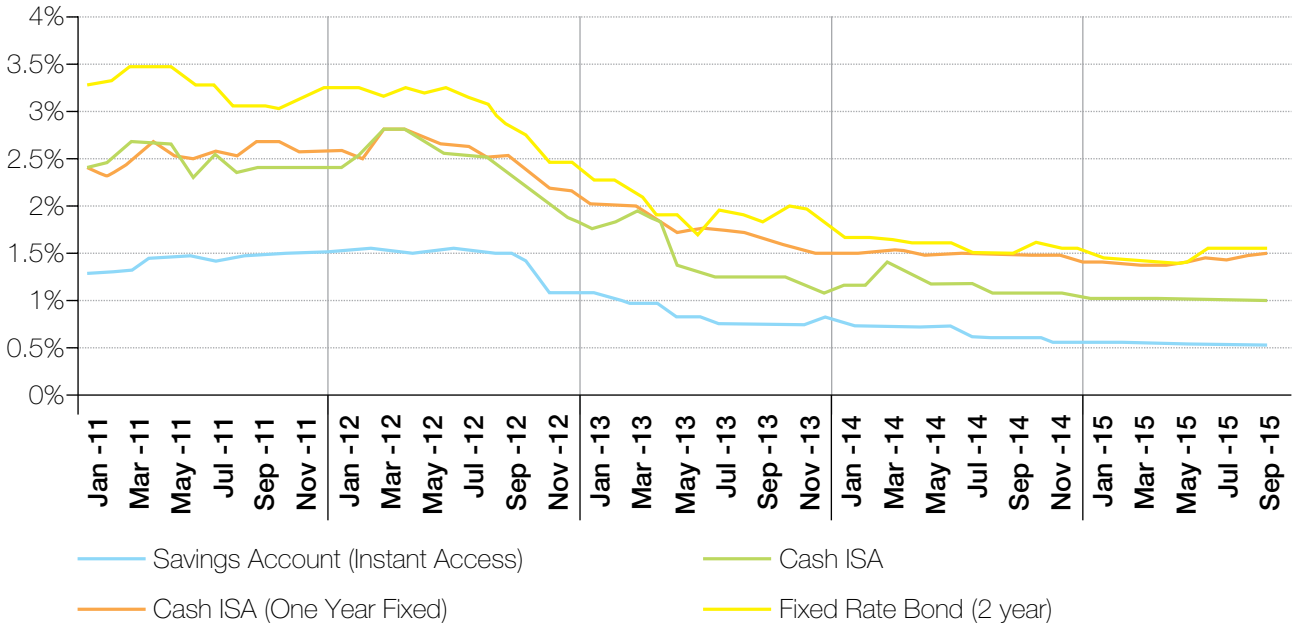
10 & 11 *Gross Financial Wealth excluding insurance products, Child Trust Funds and liabilities such as overdrafts and credit card debt.*

2.4 Return on investments

The Bank of England collects data on the average interest rates paid by banks and building societies on a range of financial products on a monthly basis. While it has ceased to calculate the average rate on current accounts, the data gives us an idea of the average return being achieved on products such as savings accounts, Cash ISAs and fixed rate bonds.

Given that the Bank of England's base rate has remained at the historic lows of 0.5% since early 2009, returns on interest-yielding assets such as savings accounts, cash ISAs and bonds have been relatively subdued in recent years. As shown in **Figure 6**, the average interest rates on each of these products have declined since the beginning of 2011. For example, the annual return on instant access household savings accounts has fallen from just over 1.5% in September 2012 to around 0.5% in September 2015. Similarly, the annual interest rate on a two year fixed rate bond has more than halved from around 3.5% in 2011 to just over 1.5% in September 2015.

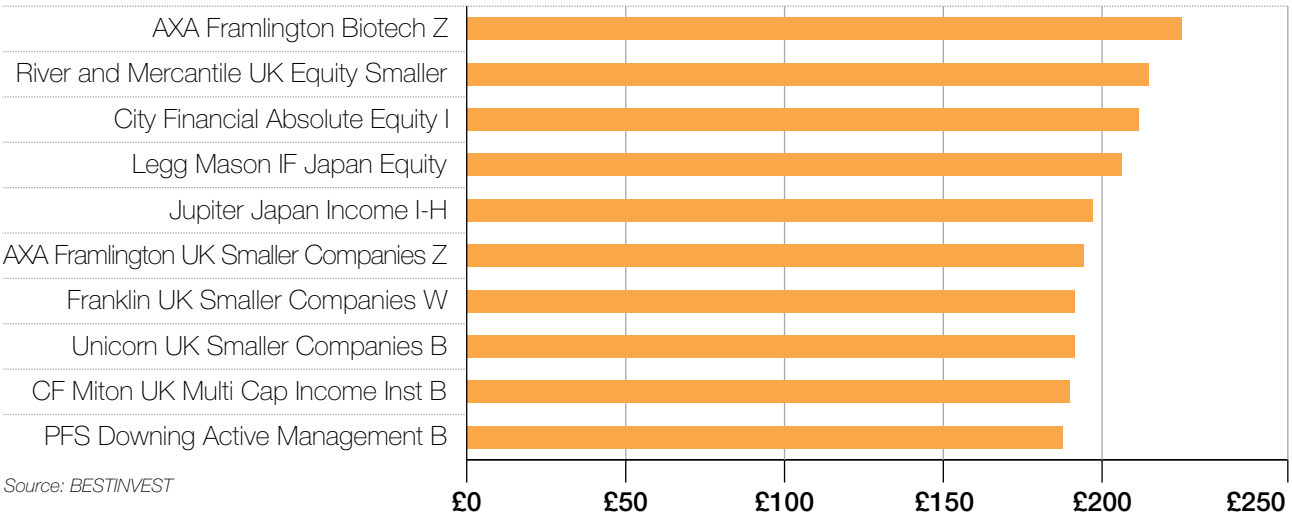
Figure 6: Quoted household interest rates



Source: Bank of England

While returns on traditional interest-yielding products have declined in recent years, the recovery in financial markets has offered the potential for substantial returns in other asset groups. As shown in **Figure 7**, the best returning funds over the past three years have more than doubled the value of investors' initial holdings. Obviously opting for investment funds and equities comes with additional risks as investors can lose money when the value of these assets falls. However, utilising the advice of experts, portfolios can be constructed to suit the risk preference of the given individual and help to supplement the returns on the more traditional savings products shown in **Figure 6**.

Figure 7: Top performing funds, 3-year return on £100 invested [12] (30th September 2015)



Source: BESTINVEST

Analysis of household income statistics shows that average investment income for the over 50s in 2013 stood at £1,761 [13]. CEBR modelling suggests that the average over 50s net financial portfolio was £71,910 in 2013, this represents a return of 2.4%. For comparison, the FTSE 100 share index rose by 14.4% between the beginning and end of the 2013 calendar year. **Table 12** shows the investment income that a continuation of the 2.4% average return would generate and contrasts this with the income that would be generated if households managed to achieve a higher rate of return.

Table 12: Potential Investment Income on the over 50s financial wealth in Q2 2015

Rate of Return	Difference - £30k	Difference - Q2 2015 Average (£72,671*)	Difference - £100k	Difference - £300k	Difference (All Households, £ mil)
Avg: 2.4%	£735	£1,780	£2,449	£7,347	-
2.9%	£135	£328	£451	£1,353	£3,998
4.3%	£555	£1,345	£1,851	£5,553	£15,192

*Source: ONS – Wealth and Assets Survey, *Cebr modelling*

12 *Bid to Bid data, Income Reinvested.*
13 *Office for National Statistics Family Expenditure Survey (2013).*

2.4 Return on investments cont/

Given the average level of financial wealth held by the typical over 50s household, achieving a higher rate of return across the portfolio can have a significant impact on the investment income generated over the course of a year. Even increasing the average rate of return to 2.9%, something that 15% of households achieved or beat between 2010-2012, would generate more income than the £300 a year based on the average financial portfolio. Raising the rate of return to the lowest rate achieved by the top 10% of households between 2010-2012, 4.3%, would generate an additional £1,381 on average and as much as £5,700 for households with £300,000 to invest. However, average returns are skewed up by those achieving considerable returns on their investments, at rates above 10%, the potential returns for many households could be even greater than those shown in **Table 12**.

As shown in **Table 12**, raising returns to the levels shown could generate considerably more income compared with those achieved on popular financial products such as savings accounts, Cash ISAs and fixed-term bonds. It is possible that the financial benefits of seeking professional advice are not fully understood by the general population, particularly when one considers that the returns could be significantly boosted by improving the management of pension assets alongside optimising the returns on financial wealth.

Table 13:
Potential returns for the average over 50s household compared with returns on popular savings products

Rate of Return	Difference vs Savings Account (0.5%)	Difference vs Cash ISA (1.0%)	Difference vs Savings Account (1.5%)
2.4%	+£1,381	+£1,017	+£654
2.9%	+£1,744	+£1,381	+£1,017
4.3%	+£2,761	+£2,398	+£2,035

Source: Bank of England, ONS – Wealth and Assets Survey, Cebr analysis

The benefits of boosting returns on investments is not just limited to each individual household. As shown in **Table 12**, increasing the average rate of return across the age group could provide a significant boost to the household income of the over 50s as a whole. The extra income is likely to be split between additional consumption, providing an additional boost to the economy as a whole, and that left invested in financial assets, potentially helping to boost the value of future returns.

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