COURSE CORRECTION

HOW DIFFERENT GENERATIONS ARE ADAPTING TO A NEW FINANCIAL FUTURE

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FOREWORD

With this report we set out to compare different attitudes towards the finances of three generations in the UK, and how those attitudes impact work, relationships, spending, saving and investing. Research like this helps Columbia Threadneedle Investments understand how and why people approach money and financial planning the way they do. It enables us to better serve our customers throughout their working lives, into and through retirement.

Since undertaking our initial research, the global Covid-19 pandemic has dramatically altered the financial and emotional landscape for many people, at least in the near term. We conducted further research in May 2020 to understand the level of financial resilience in the face of a crisis such as this. Our findings demonstrate the impact of the immediate financial shock but also reveal some reasons to be optimistic for the future.

Each generation experiences a different economic and social environment. Over the last 30 years we have seen strong asset growth. In particular, the quantitative easing undertaken by central banks and governments following the global financial crisis of 2007/2008 has benefitted those who own assets, such as property, shares and pensions, typically the older generations. At the same time, those with cash savings have seen their wealth erode through a prolonged period of low interest rates. This has led to a growing wealth divide between generations.

We have also seen the pensions landscape change from the defined benefit system enjoyed by Baby-Boomers, where the liability for meeting pension payments lies with employers, to the defined contribution system, which puts more onus on individuals to plan and save for their retirement.

In response, each generation develops different values, expectations and priorities which determine the choices they make. As the research reflects, the experiences and financial outlook of one generation is often not the same as the next. While there is broad recognition across generations that Millennials face harsher financial conditions, there is also consensus among most of today's retirees that younger generations are too extravagant in their spending habits. Worryingly, more than a third of Millennials said that money worries have negatively impacted their mental health.

The report also reveals that the biggest influence on a person's finances is their family. This means people are basing their decisions on the advice of those with fundamentally different experiences. Further, only 7% of people are using professional help to plan their financial future. At the same time, better healthcare and improved focus on healthy living is leading to longer lives. It's therefore important for all generations, particularly the younger ones, to plan for longevity. And planning shouldn't just focus on day-to-day expenses - with longer lives people may need to pay for social care and related costs in old age.

Might Covid-19 act as a catalyst for course correction? This crisis has revealed a lack of financial resilience in UK households and we find many people regretting their past financial decision-making. The hope is that current events lead to a re-think when it comes to how we envisage and work towards the future, including greater emphasis on individual financial planning.

Ultimately, the report reveals that people of all generations are struggling to navigate a changing financial landscape. It also shows that the crucial role of investing to accumulate long-term wealth is not recognised. The power of investment can transform lives, with substantial potential upsides for those who engage early, plan for the long term and stay the course. Now more than ever, investing needs to move to the mainstream.

Nick Ring
CEO, EMEA
Columbia Threadneedle Investments

EXECUTIVE SUMMARY

A NEW GENERATION LEADING DIFFERENT LIVES

What we found	• People are taking a more flexible approach to work – and are willing to work later in life to compensate. As such, the "job for life" and idea of a "cliff-edge" retirement are on the decline • Young people are increasingly motivated by experiences and possessions • But they are also more ethically motivated in their decision making • Older generations, not sharing the same mindset, see younger generations as too extravagant and lacking the ability to save or budget. These differences are causing family tensions.

YOUNG PEOPLE ARE LOSING SLEEP OVER THEIR FINANCES

What we found	• Millennials are far more likely to be losing sleep over a wide range of short and long-term financial worries • This is having a direct impact on both the mental health and personal relationships of young people.

WE CONTINUE TO LOOK TO OUR PARENTS FOR FINANCIAL LESSONS

What we found	• Our parents are our single biggest influence on our financial decisions – across all generations • But we recognise that future generations will face significantly different circumstances – particularly in the decline of the state pension • Can following in the footsteps of today's retirees really give younger generations a financially secure future?

YOUNGER GENERATIONS ARE FINDING IT HARD TO GET ON THE INVESTMENT LADDER

What we found	• Two thirds of UK adults hold no investments at all • The perception of not having enough to invest is the single biggest barrier to investing • Being able to invest small amounts was the key driver for those that do hold investments • Small steps are crucial – those already holding investments are far more likely to invest some or all of any lump sum received as opposed to putting it in cash savings.

CASH CAUTION COMES AT A COST

What we found	• People are far more likely to see saving in cash (as opposed to investing) as the best way to meet even their long-term financial goals • Investment portfolios are significantly overweight in cash • People are around four times more likely to put most or all of an unexpected £10,000 windfall in cash savings than they are to put it into investments.

THE NATURE OF INHERITANCE IS CHANGING – IF WE GET ONE AT ALL

What we found	• Younger generations are increasingly looking to receive a financial inheritance taken as lump sum gifts before parents decease • Too many people are banking on an inheritance that might never arrive.

HEALTH TRUMPS WEALTH IN RETIREMENT

What we found	• People of all generations are more likely to prioritise their long-term health over their long-term wealth • But the UK is suffering a crisis of confidence in long-term health and social care affordability • This is grounded in the acceptance that future generations will have less generous state support.

WILL COVID-19 BE A CATALYST FOR COURSE CORRECTION?

What we found	• Half of UK adults regret financial decisions made before the pandemic, rising to almost three in four among 18-24yr olds • Main regrets people hold are not having a proper financial plan and being too short-term in their thinking • Over a third of investors put more value on professional advice after the pandemic.

In the UK, as in many developed countries around the world, those entering work today will face a very different experience to the generations before them. For men and women, both their working lives and the transition to retirement are likely to be longer and more varied than ever before. At the same time, responsibility for financial provision and management, including health and social care, is shifting from the state to employers and individuals. As this survey demonstrates, people of all generations are grappling to come to terms with the changing landscape, and will need to adjust both their thinking and their behaviours to some degree. Those who equip themselves with knowledge and engage early in managing their financial assets with an eye to the long term, will reap the rewards of financial security and peace of mind.

ABOUT THIS REPORT

This report is based on the results of a nationally representative survey of 2000 UK adults, conducted in September 2019. In analysing and presenting the results, we have grouped responses into three generational bands: Baby-Boomers include those born between 1947 and 1965; Generation X (Gen-X) are those born between 1966 and 1979; and Millennials are those born between 1980 and 2000.

The research was supplemented with an additional nationally representative survey of 800 UK adults in May 2020, to capture how attitudes and behaviours of individuals have been impacted by the outbreak of Covid-19.

We've used the following colour-coding when talking specifically about individual generations.

Key:

- Millennials
- Gen-X
- Baby-Boomers

Where referencing 'retirees', this refers to all those in full retirement or semi-retirement - regardless of age.

PART 1: A NEW GENERATION LEADING DIFFERENT LIVES

The world around us is changing rapidly. Technology is driving much of this change as digital disruption impacts on the way that people in the UK live, work, spend and save. As a result, people are adopting more flexible working patterns, lifestyles and retirements. As we see in this report, this has major implications for our relationship with money, impacting the way Britons behave today and plan their long-term finances.

We all now accept that advances in living standards and medical science mean that we can expect to live for a decade or so more than our grandparents. According to official statistics, one in three people born today can expect to live to their 100th birthday[1]. Having so much extra time means that our priorities are changing, and people are making use of that time in different ways. Our findings show that:

The "job for life" is becoming a thing of the past

62%

of Millennials expect to work for their first employer for less than five years. This was only 40% among Gen-X and 27% among Baby-Boomers

40%

of Baby-Boomers worked for one single employer for 20 years or longer

The idea of a "cliff-edge" retirement is also on the decline

63%

of Millennials expect to transition into retirement rather than stop working immediately. This compares to 59% among Gen-X and 40% among Baby-Boomers

44%

of Baby-Boomers stopped or expect to stop working altogether when they enter retirement (24% of Gen-X and Millennials expect to do the same)

Across all generations, people expect flexible working to increase

68%

agree that flexible working will be commonplace by the year 2050

59%

agree that the rise of flexible working throughout our lives means that people will tend to push back the onset of retirement to compensate

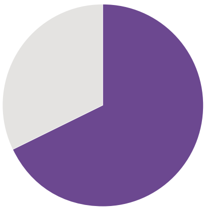
When considering the main motives for working into retirement, a positive picture emerges - 59% of Baby-Boomers, 57% of Gen-X and 51% of Millennials either have or want to continue some work into retirement to keep active and keep their brain alert.

1 Source: ONS, December 2017 - https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/pastandprojecteddatafromtheperiodandcohortlifetables/2016baseduk1981to2066

These generational shifts indicate that fundamental changes are already taking place. Today's workers do not expect to enjoy a steady income throughout their working lives, with earning potential becoming uneven or 'lumpy' as people take breaks from employment. This will also impact on people's savings behaviours. Today's workers will enjoy less regular access to workplace benefits like pensions, life insurance and health insurance. This means that the shape of retirement will also change. With this change, people will need to rethink their approach to saving, investing and long-term financial planning in order to reflect the lives they will increasingly come to lead.

As we would expect, today's generation of young people don't just behave differently, they think differently too. While the journeys that we take through our adult lives are changing, so too are our values. Millennials, in particular, are typically more focused on short-term financial goals, with a bias towards instant gratification, through possessions and experiences. They are also more likely to take ethical considerations into account when deciding what to do with their money.

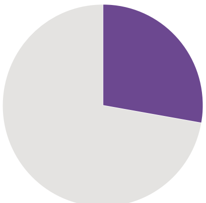
Living in the moment rather than planning for the future?



52%

of Millennials state that 'making the most of key life events' is a financial priority for them. This compares to 33% of Gen-X and 21% of Baby-Boomers

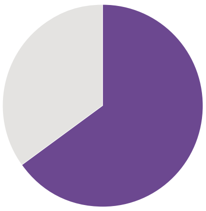
A bias towards tangible possessions more than 'intangible' financial wealth



28%

of Millennials state that possessions are a financial priority for them – compared to 17% of Gen-X and 8% of Baby-Boomers

Ethical considerations are growing in importance



65%

of Millennial investors state that ethical considerations are an important factor when deciding where to invest their money (60% among Gen-X and 37% among Baby-Boomers)

Clearly, people across different generations experience different journeys, with a different mindset and set of values driving their decision-making. Across the UK, younger generations face a new set of challenges in being able to plan and accumulate wealth for a financially secure future. As final salary pensions fade into the distance, social security entitlements are also set to become less generous than those enjoyed by previous generations. This also combines with a less affordable housing market in many regions. It should therefore come as no surprise that a substantial portion of both young and old believe that financial conditions are harsher today than in the past.

52%

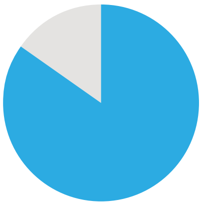
of retirees believe that younger generations face far harsher financial conditions than they faced when they were younger.

55%

of non-retirees agree that older generations faced easier financial conditions than younger generations currently face.

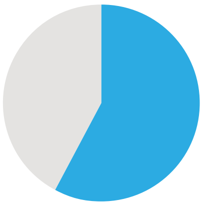
The shifting goalposts between generations can give rise to tensions. Today's retirees, who accumulated their wealth in very different circumstances than those now just starting out on their career journey, feel strongly that today's younger generations are too extravagant in their spending habits, lack the ability to save or budget and are too reliant on wealth being passed down by parents or grandparents.

Today's retirees question financial planning decisions of younger generations



73%

of retirees agree that younger generations are too extravagant in their spending habits.



58%

of retirees agree that younger generations lack the ability to save or budget.

49%

of retirees agree that younger generations are far too reliant on wealth being passed down by older generations.

This tension means that more than one-in-four (27%) of today's working population say they argue or disagree with older generations within their family about their financial decisions. That is over nine million people in the UK having had an argument with an older relative about their finances.

The messages that resonated with older generations will not necessarily resonate with those growing up in the era of Instagram.

There is a further important message to think about. It's easy to fall into the trap of thinking that, when it comes to finances and long-term aspirations, people generally want the same things. Clearly this is not the case. Understanding what is really important to individuals and what they want from their lives is the starting point to understanding what they want from their savings and investments. The trend towards a more flexible working life and transition into retirement comes with implications for how people plan their finances both in the accumulation and decumulation life stages.

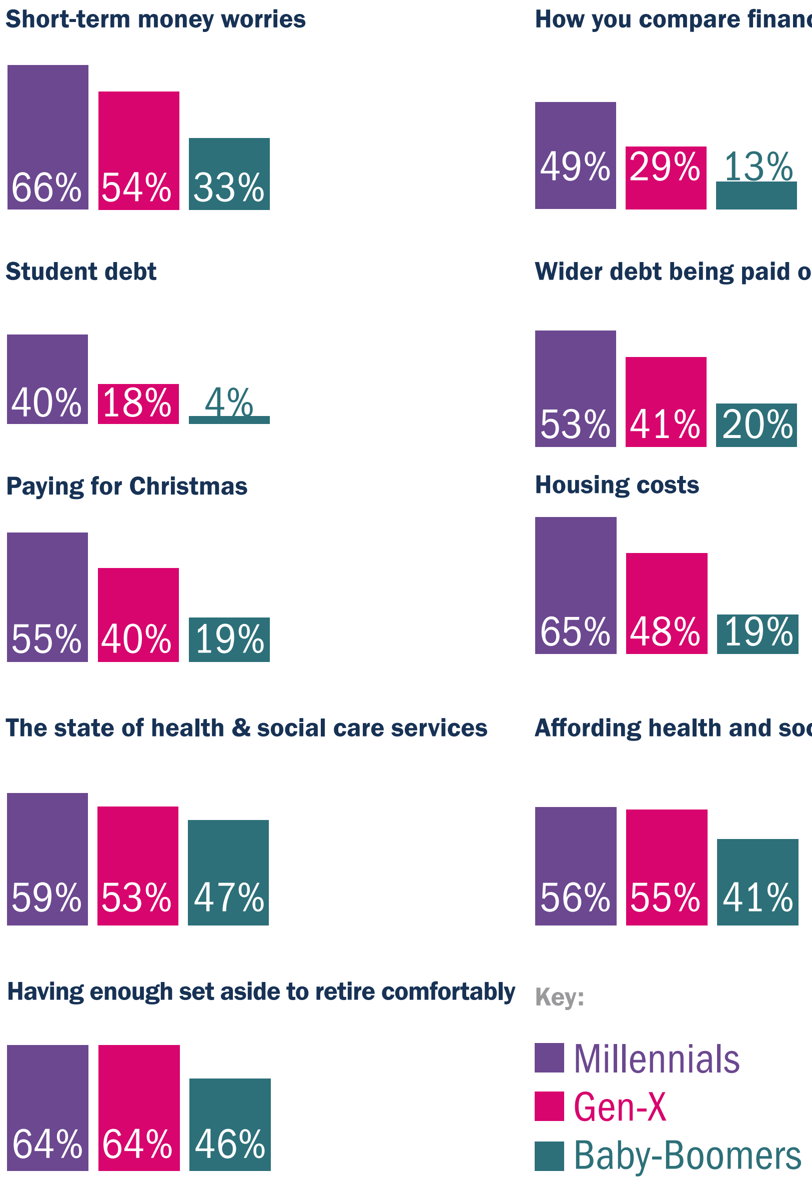
The messages that resonated with older generations will not necessarily resonate with those growing up in the era of Instagram. Understanding this will be key to bringing about changes in financial behaviour.

PART 2: SLEEPLESS NIGHTS

Physical health is one thing, but increasingly our focus is also turning to our mental well-being. Building wealth is a commonly held aspiration across Europe. Whether that takes the form of getting on the property ladder or buying a second home, building up savings, taking out a pension or starting a business, wealth comes in different shapes and sizes. Regardless of the form that it takes, having a safety net in the form of personal wealth, gives people a sense of security. When we lack this security there is an inevitable level of stress and worry.

The problem facing younger people today is that they are finding it harder to build wealth than their parents did. A 25-year-old today has amassed less in savings, investments and other financial assets compared to previous generations of the same age[2]. The difficulties faced in getting on the housing ladder in many parts of the UK have exacerbated this problem. Against this backdrop, the financial lives of young people are becoming more complex and more pressured. The worry that this brings with it is taking its toll. Our survey very clearly demonstrates that younger generations are far more likely to experience both short and long-term financial worries.

The financial concerns keeping people awake at night (% agreeing)



2. Source: Millennials, House of Commons Briefing Paper CBP7946, April 2017

More than one in three Millennials report that money worries have had a negative impact on their mental well-being.

The impact of these worries extends beyond the purely financial. More than one in three Millennials report that money worries have had a negative impact on their mental well-being. Furthermore, one in five report that such worries have resulted in relationship or marital problems.

Clearly, Millennials are feeling the pressure of short and long-term money worries and this is impacting their relationships and their mental health. With many entering work already saddled with student and other debts, short-term financial goals such as paying for Christmas are causing stress, compounded by the need to keep up appearances in their highly-networked, social media-heavy world. And, as we'll see in the next section, looking to their parents for direction is unlikely to provide the guidance they need.

36%

of Millennials state that money worries have impacted negatively on their mental health.

20%

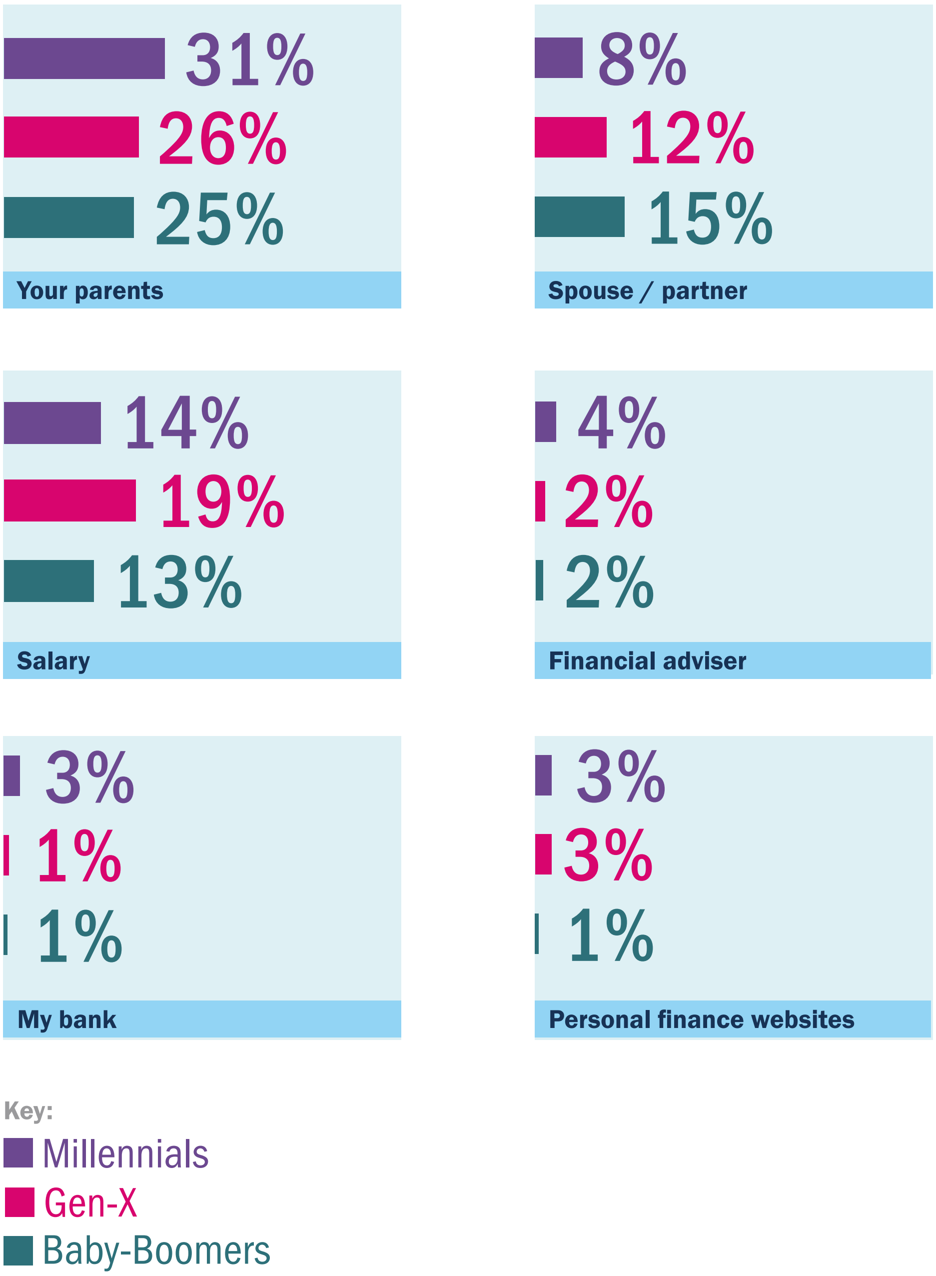
of Millennials state that money worries have resulted in relationship or marital problems.

PART 3: CAN WE FOLLOW OUR PARENTS' FINANCIAL FOOTSTEPS?

People looking to accumulate wealth today face a very different reality to that experienced by previous generations. The Baby-Boomers have been fortunate in many respects: their generation enjoyed widespread access to final salary pensions, a more generous and comprehensive system of social security, a more affordable housing market (when they were first time buyers in the 1960s, '70s and '80s) and investment markets driven by global asset price inflation, which saw decades of strong positive returns.

Not surprisingly, many of us look to our parents as role models for our own financial planning. In fact, parents are the single most important influence when making financial decisions. But given how much the world has changed, will this advice still be fit for purpose given the financial choices now facing young people?

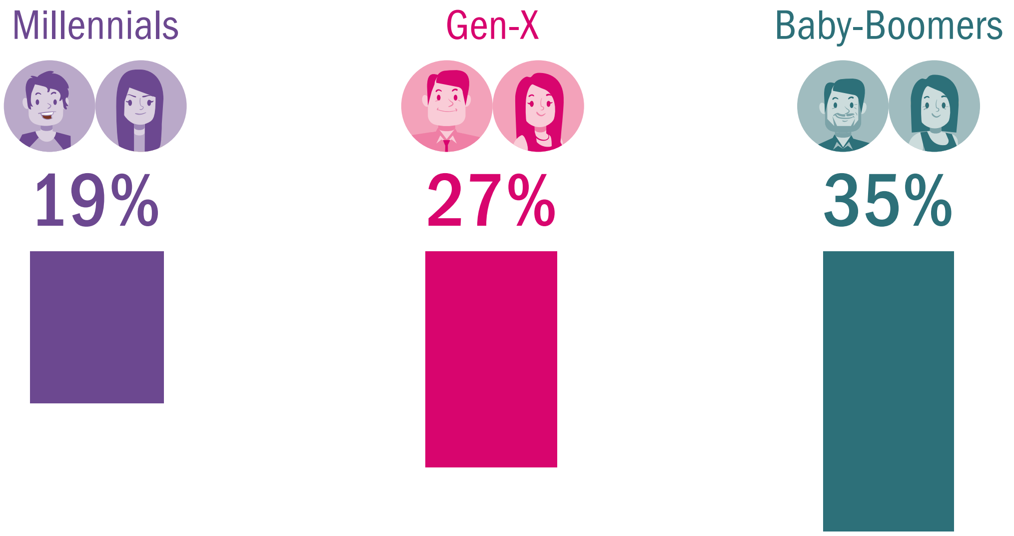
Stated biggest single influence on financial decisions by generation



Young people today trying to follow in the financial footsteps of their parents face an uphill challenge. Whereas Baby-Boomers expect 35% of their retirement income to come from the state pension, this figure falls notably among Gen-X (27%) and Millennials (19%). The financial experience of grandparents and parents is not expected to be shared by their Millennial children. In turn, it would be unrealistic to expect the next generation to behave in the same way their parents did, when the economic and financial realities surrounding them have fundamentally changed.

Rather than looking to their parents, Millennials should be looking elsewhere for advice and inspiration.

% of retirement income coming from / expected to come from the state pension

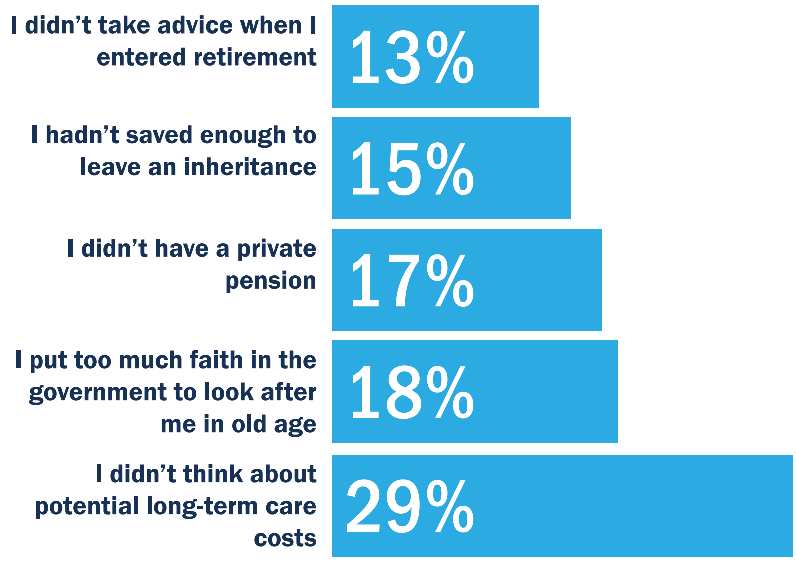


This brings us to the subject of professional financial advice. In an ideal scenario tailored financial advice would be available to everyone, not only when they are building up wealth during their working lives, but also when they are drawing down that accumulated wealth during breaks in work and into retirement. In the UK professional advice tends to be taken by a smaller number of wealthier individuals, leaving many in need of professional guidance without easy access. Our survey highlights that fewer than one-in-ten people across all generations access regular professional financial advice.

While people may not need professional help to make all of their financial decisions, the benefits of consulting a professional can play a key role in helping to set the direction of travel and ensuring that all essential bases are covered. Our survey suggests many fail to appreciate this – leading to regrets later in life that could have been avoided.

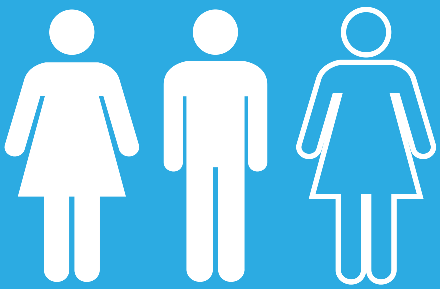
We asked the retirees in our survey to name their main regrets regarding how they prepared financially for their retirement. Only 13% of retirees stated that not taking advice when entering retirement was a regret. However, the fact that so many reached their retirement regretful that they hadn't factored in potential long-term care costs or hadn't saved enough privately suggests that many people still don't make the link with professional advice. Effective financial advice would have helped these individuals plan more successfully to avoid these pitfalls. The importance of providing access to advice for as many people as possible cannot be understated, particularly as our lives become more fluid and more complex.

Top 5 retiree regrets about how they prepared financially for retirement



PART 4: GETTING ON THE INVESTMENT LADDER

While there is an emphasis for people in the UK to get onto the property ladder, there is much less focus on building savings and investments. As a result, a significant majority of the population have not turned their attention to getting on the investment ladder. There now needs to be greater focus on encouraging younger people to invest for their long-term financial future.



Nearly two in three people surveyed stated that they did not hold any investments

Nearly two-in-three people surveyed stated that they did not hold any investments. Among this group, the single biggest reason by far was the perception that they did not have enough money to put aside for investment purposes. But how much money is enough when people are thinking about starting to invest?

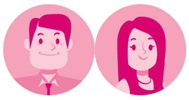
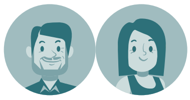
% of people without investments stating that not having enough money to get started was the main reason they haven't invested

One of the key factors putting people off investing is the out-dated assumption that investing is only worthwhile or possible if you have large amounts to invest. The message here, that needs to be more widely understood, is that the power of compound interest means that even small amounts invested early in life can significantly increase the value of pensions and investments later in life.

Furthermore, while the notion that investing is only possible if you have large amounts to invest may have been true 20 years ago, in today's retail investment market, technology has changed the landscape, making it easier to invest than ever before. Investment platforms provide web-enabled solutions, meaning people can download an app and start investing small amounts within minutes – providing the opportunity to dip a toe into investment waters in a way not previously possible.

None of this technology existed a generation ago. Our parents and grandparents weren't able to perform such tasks, so they are unlikely to pass this knowledge on to their children. Given that parents are the biggest single influence in shaping Millennials' financial plans (as we saw in part 3), many young people are potentially missing the investment boat. However, of those who have already started to make investments, being able to start with small amounts is the most cited factor driving that decision. This was the case across all generations. For Millennials, the fact that they could do everything themselves online / via an app was the next most important driver.

New technology is driving different behaviours among young investors...

Millennials	Gen-X	Baby-Boomers
		

% of people stating that being able to invest small amounts was a driver behind their initial decision to invest

Millennials	Gen-X	Baby-Boomers
28%	30%	35%

% of people stating that being able to to everything themselves online / via an app was a driver behind their initial decision to invest

Millennials	Gen-X	Baby-Boomers
26%	14%	10%

While DIY investment platforms aren't able to provide access to holistic financial advice, they can act as an incubator encouraging people to become early adopters of retail investing. As we'll see in part 5, people already holding investments of any sort are far more likely to want to invest a lump sum they receive in shares as opposed to holding it in cash. Gaining experience with smaller amounts can, and will, help people journey onto making larger investments that will have a more profound positive impact on their long-term financial security.

PART 5: IMPRUDENT PRUDENCE

How much is caution costing cash savers? To overcome the challenge of getting more people to start investing, we need to unlearn some of the lessons our parents have taught us. One of the key barriers to investing is the emotional attachment to cash, commonly held among parents and grandparents and seemingly passed on to their children.

For previous generations, when a much larger proportion of retirement income was expected to come from social security or employer pension plans, there was less onus on people to pursue investment growth. Many people held the mentality that governments and employers were already investing on their behalf, which meant that they could afford to play it safe and place their own wealth in cash savings.

Two things have changed which people need to consider.

Firstly, we can no longer rely on others. Neither the state nor employers will provide benefits to the same extent in future. Future generations will need to provide more for themselves which means investing more on their own behalf.

Secondly, the returns from cash savings have been slashed since the 1990s as we live through a prolonged period of low interest rates. The collapse in interest rates coinciding with the rise in inflation means that cash assets have been falling in real-term value, as bank cash account returns are based on the prevailing base interest rate. The long-term Bank of England base rate in the UK has been below one percent since the financial crash of 2008. In the 1980s and a large part of the 1990s interest rates in the UK were over 10 percent, building a nice nest egg for cash-centric parents and grandparents saving during that period. This contrasts sharply with the reality today. In the UK, base interest rates are 0.1 percent, with inflation at 0.8 percent. That means that a sizeable chunk of household wealth is shrinking in value and will provide a lower income in retirement when the time comes.[3,4]

Taken together, these two factors mean that people’s household savings need to work that much harder. Having money sitting in cash for 30 years won’t secure long-term financial goals. As this survey has shown, people of all ages are coming to realise that conditions are far less favourable for those accumulating wealth today, but do they also recognise how poorly their cash savings are performing for them?

- Around two-in-three people surveyed across all age groups stated that ‘saving’ is the best way to meet their long-term financial goals – compared to around one-in-four believing that ‘investing’ would be the best way;
- Of those holding investments, over a quarter of their portfolio is held in cash investments – with this true across all age groups.

Money sitting in cash for 30 years won’t secure long-term financial goals

3 Source: Bank of England, Official Bank Rate History Data, as of 21.05.2020 - https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate
4 Source: Trading Economics, as of 21.05.2020 - https://tradingeconomics.com/united-kingdom/inflation-cpi

Is saving or investing the best option to ensure you meet your long-term financial goals?

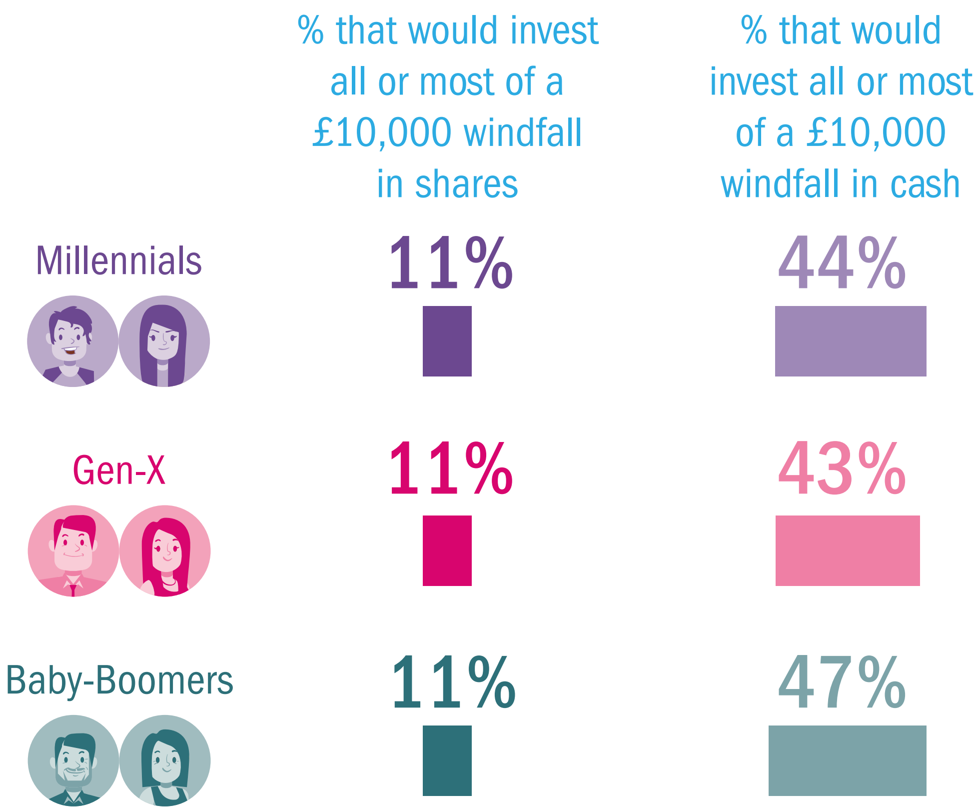
	% Saving	% Investing
Millennials	69%	26%
Gen-X	62%	30%
Baby-Boomers	64%	26%

Thinking about the total value of your household's investment products, approximately what % are currently held in...?

	% in Cash	% in Shares
Millennials	27%	19%
Gen-X	30%	23%
Baby-Boomers	31%	28%

Furthermore, we asked people what they would do if they received a £10,000 windfall - either save it in cash or invest it in shares. People were also given the option of spreading the money between the two. Underlining a default to cash mindset, people were around four times more likely to weight their decision towards cash than towards investments.

People remain heavily inclined towards cash even though it offers lower returns...



With the returns from cash likely to remain low for the foreseeable future, such actions have consequences. The next generation show signs of converting to investments, but this transition won't happen without concerted efforts to raise awareness, knowledge and understanding, along with the readily accessible gateways into investing that are being fuelled by new technology. This generation is being asked to make different choices to their parents and grandparents and therefore need to be prepared for this new reality.

PART 6: INHERITANCE? DON'T BANK ON IT

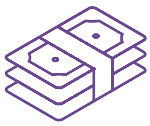
For many, the idea of a financial inheritance from parents is a get-out-of-jail-free card that will help plug gaps in their accumulated assets. The findings of our survey suggest that the way people inherit wealth or wish to inherit wealth is changing. The rise of the 'Bank of Mum and Dad' means that wealth is increasingly being transferred between generations as loans or gifts earlier in life – with funds often being used to help shorter-term goals, such as getting on the housing ladder. Inheritances are no longer necessarily being used for longer-term financial security.

This becomes clear when we ask people to define what the term 'legacy' means to them. With so many immediate money concerns playing on their minds, Millennials are more likely to define a parental legacy as providing financial support for children / family while still alive rather than a financial sum upon death of their parents. Young people feel they can no longer afford to wait for their parents to die before accessing the parental nest egg.

Bank of Mum and Dad pays out early...

35% 

of Millennials define parental legacy as financial support for children / family while still alive (compared to 24% of Baby-Boomers)

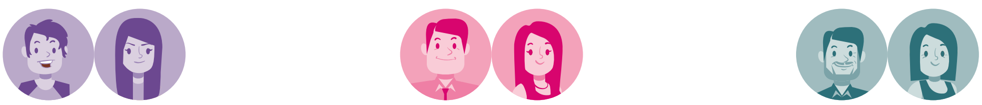
27% 

of Millennials define parental legacy as a financial sum upon death (compared to 54% of Baby-Boomers)

The more fundamental question is whether young people today can realistically rely on receiving a financial inheritance.

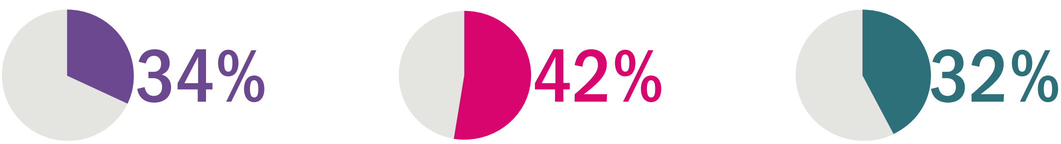
Our findings show that one in three Baby-Boomers surveyed believe they will not leave a financial inheritance to anyone besides a spouse/partner. This may have serious implications, with 49% of Millennials stating that they would be substantially affected should they not receive a financial inheritance. With an estimated 17 million Millennials in the UK, that could leave over 3 million younger people faced with holes in their financial plans.

Most people in the UK do not expect to leave any kind of inheritance to their children - which may substantially impact on the plans of a large minority

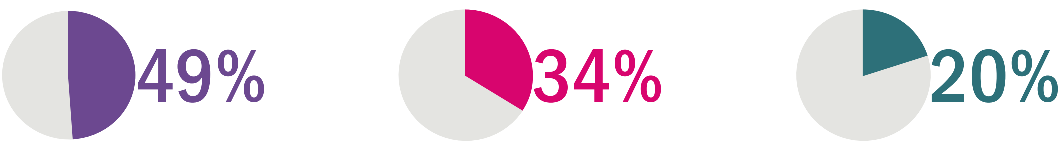


Millennials | Gen-X | Baby-Boomers

% not expecting to leave a financial inheritance to someone other than a spouse/partner



% stating they would be substantially affected should they not receive a financial inheritance



Rather than seeing wealth trickle down family generations, our survey respondents believe it will be increasingly common for that wealth to flow in the opposite direction. Of those surveyed, 43% agree that by 2050 it will be more common for retirees to move in with younger family members, while a further 40% agree that retirees will rely on their children or grandchildren to support them financially. We may start to see the 'Bank of Mum and Dad' become the 'Bank of Son and Daughter'.

The message for today's workers is that they should not rely on their parents or other older relatives - either for suitable advice or a financial helping hand. While over a third of Millennials think of a legacy as financial support during their parents lifetime, less than half of either Gen-X or Baby-Boomers expect to leave a financial inheritance to their children. Indeed, with life expectancies increasing, Millennials may find themselves called upon to support elderly parents in their final years.

Will the Bank of Mum and Dad become the Bank of Son and Daughter?

43%

of all respondents agree that by 2050 retirees will increasingly move in with younger family members

40%

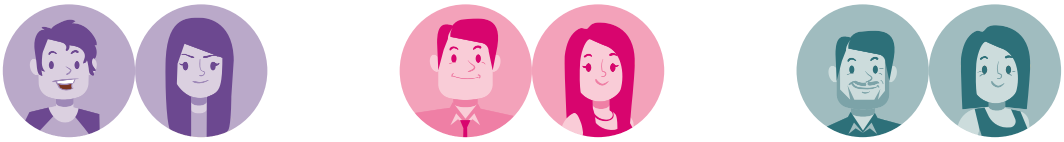
of all respondents agree that by 2050 retirees will rely on their children and grandchildren to support them financially

PART 7: HEALTH TRUMPS WEALTH IN RETIREMENT

When thinking about making plans for the future, people are as concerned about their health as they are about their wealth. Long-term planning is often presented as a set of financial decisions: how much do you need to save for later life? How much income might you require when you enter retirement? However, workers are likely to be more concerned about their long-term health prospects as they are about their long-term wealth. In truth, the two are very closely linked.

Looking at people's aspirations for their retirement is a useful way to gauge the importance of health and wealth. At the most basic level people simply want to ensure that they are (and can stay) physically and mentally fit and healthy in later life. This is not just true of older generations, who generally face more immediate health considerations, but also of Millennials.

Top 5 retirement aspirations by generation...



	Millennials	Gen-X	Baby-Boomers
Making sure I am fit and healthy	96%	95%	94%
Being able to stay in and maintain my own home	94%	94%	87%
Spending more time with family and friends	94%	90%	85%
Pursuing hobbies / new hobbies	90%	85%	82%
Ensuring I have enough for social care expenses	89%	86%	81%

With the UK having more than tripled its consumer spend on health and fitness club membership since 2013[3], it is clear that there is a growing focus on health and well-being. Taking care of our health has become a national preoccupation for some segments of the UK population.

With people anticipating that they will live and work for longer, there comes the realisation that not all of these years will be lived in good health. This presents a very direct financial planning imperative, to ensure sufficient provision for long-term care costs and medical expenses. Health and wealth should not be treated as two stand-alone factors. Our long-term well-being and ability to remain in our own homes may depend on our wealth as much as on our health.

4 Source: The Gym Group, 2018 - https://www.tggplc.com/media/92426/The-Gym-Group-Annual-Report-and-Accounts-2018.pdf

The vast majority of people across all age groups expect future generations to receive less state pension, health and care support.

According to the survey, people have low levels of confidence regarding the affordability of future medical and healthcare or social care expenses. This is an issue affecting people in the UK more acutely than we see across Europe.

Millennials are adjusting their expectations regarding state provision

	Millennials	Gen-X	Baby-Boomers
% agreeing that future generations will have less generous state pensions	72%	80%	81%
% agreeing that future generations will have less publicly funded healthcare	68%	75%	74%
% agreeing that future generations will have to pay all of their own long-term social care costs	68%	75%	72%

We need to be saving and investing more in our early years, if we are going to provide for these additional financial outlays in our later years.

While this is a major topic for policy-makers to consider, whatever direction is taken, the growing cost of care in old age is likely to mean greater financial responsibility for individuals. This means that individuals need to factor social and health care provision into their long-term savings and investments plans. In other words, we need to be saving and investing more in our early years, if we are going to provide for these additional financial outlays in our later years.

This lack of confidence will also, in part, reflect concerns around the sustainability of our social care systems – including state pensions, the healthcare system and long-term care support. According to the survey, public confidence in these longstanding support structures is low. The vast majority of people across all age groups feel that future generations will be less well provided for.

People in the UK have less confidence in their ability to meet the cost of healthcare in later life

	UK	Germany	Italy
% stating that they will definitely have enough money for healthcare when in retirement	21%	41%	42%
% stating they will definitely have enough money for social care expenses in retirement	18%	39%	35%

PART 8: WILL COVID-19 BE A CATALYST FOR COURSE CORRECTION?

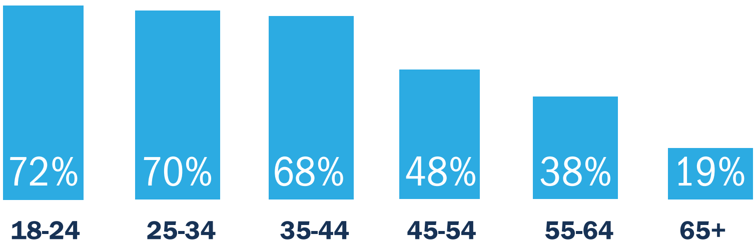
When it comes to planning short-term finances, the economic and financial context has changed greatly since the start of 2020. We are currently facing a new, uncertain and unfamiliar landscape. However, many of the fundamental issues covered in this report continue to apply when thinking about long-term financial planning.

As the report shows, many people in the UK entered this crisis with their finances in a vulnerable state. Only a minority of people (around one-quarter) have any long-term investments. Household savings ratios (the amount of household income put aside in savings and investments) have fallen to historically low levels in recent years, although automatically enrolled pensions have helped to reverse this trend for some.

Our post Covid-19 findings show that half of UK adults hold regrets about the way they had organised their finances before the crisis.

Sometimes it takes a sudden shock to change things. An unforeseen event can force us to reassess our current attitudes and approach. Our post Covid-19 findings show that half of UK adults hold regrets about the way they had organised their finances before the crisis. Younger people are more likely to regret their previous arrangements – 72% of 18-24yr-olds hold regrets, 70% of 25-34yr-olds and 68% of 35-44yr-olds, falling to 19% among the 65+ group. Fortunately, for younger people this wake-up call has come early enough to change course and adopt new behaviours to ensure a more secure onward path.

% of UK adults by age with regrets about the way they had organised their finances pre-Covid-19

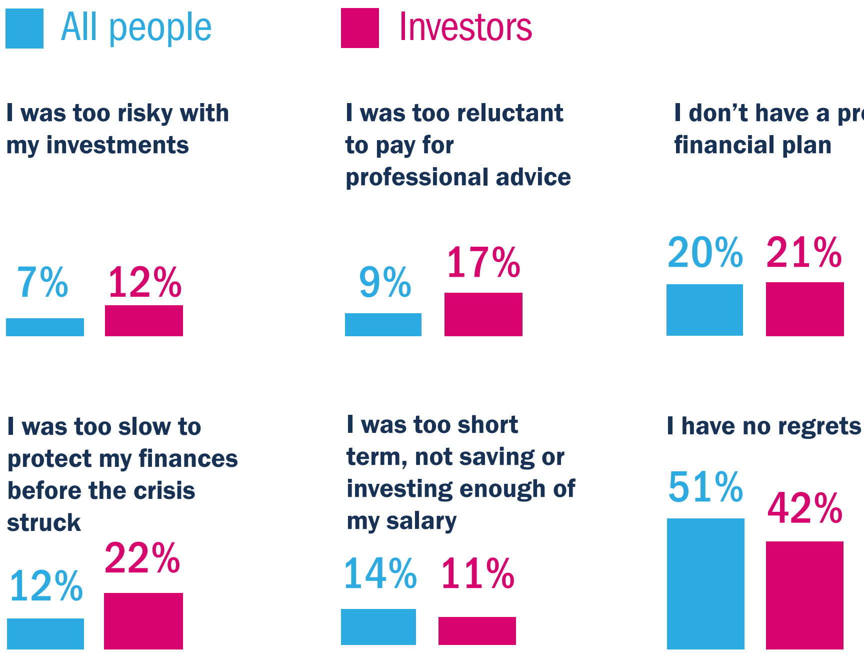


The most commonly held regrets among UK adults include not having a proper financial plan (20%) and being too short-term in their financial thinking (14%) – both of which are fundamental issues that can begin to be addressed from an early age.

What about regrets among those people holding investments? Over a fifth of investors (22%) regret being too slow to protect their finances (eg de-risking or diversifying their portfolio) before the crisis, while 17% regret being too reluctant to pay for professional advice and 12% regret being too risky with their investments.

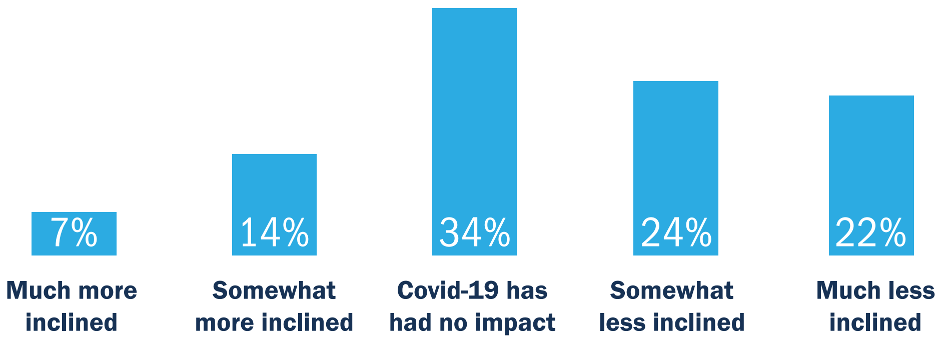
One in five investors regret not having a proper financial plan

UK population vs investors - % of UK adults with regrets about the way they had organised their finances pre-Covid-19



However, investors recognise that the current period is unlikely to be an optimum time to sell investments. Only a minority of investors are inclined to sell right now, with the majority holding on to their investments.

How inclined are investors to sell their investments due to Covid-19 volatility?

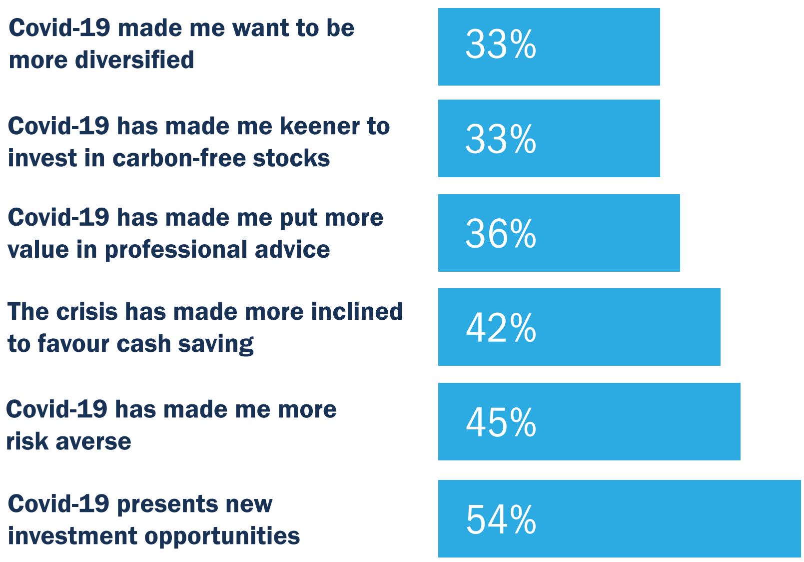


The crucial point is that people take the opportunity of hindsight to identify past mistakes, learn the lessons and modify their approach. As we see below, a sizeable minority of investors are actively seeking out new opportunities, with diversification and sustainability becoming more important drivers of behaviour.

The findings reveal that, for a third of investors, the financial impact of Covid-19 has made them want to further diversify their investments; over a third (36%) place greater value in professional advice. These two changes could have a transformative effect on people's long-term prosperity.

36% of investors place greater value in professional advice

% of UK investors agreeing that...



While Covid-19 has been a wake-up call for many, engrained beliefs and behaviours can be hard to shift. When life returns to a more normal pattern, it's tempting to slip back into previous comfort zones. Those who grasp the opportunity to better engage with their finances and actively plan for their financial future have the most to gain.

CONCLUSION

The world around us is changing dramatically, driven by the technology revolution, the impacts of an ageing population and changing work and social dynamics in terms of equality, opportunity and flexibility. With all of these advances shaping our lives, it should be a time of great excitement and opportunity.

But before people can move forward with confidence, there needs to be greater understanding of the likely course ahead and a focus on building the financial knowledge and skills required to navigate the right path. This survey clearly shows that we're not yet at that stage. It's therefore incumbent on all of us - government, employers and the investment industry, to support individuals by encouraging a change in outlook, understanding and behaviour when it comes to thinking about money. The power of investment can transform lives, with substantial potential upside for those who engage early, plan for the long-term and stay the course.

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To all our clients, we have one message: your success is our priority.

ABOUT THE REPORT

Methodology: This report is based on the results of a nationally representative survey of 2000 UK adults, conducted in September 2019 by Cicero/AMO. In analysing and presenting the results, we have grouped responses into three generational bands: Baby-boomers include those born between 1947 and 1965; Generation X are those born between 1966 and 1979; and Millennials are those born between 1980 and 2000. The research was supplemented with an additional nationally representative survey of 800 UK adults in May 2020, to capture how attitudes and behaviours of individuals have been impacted by the outbreak of Covid-19.

About Cicero/AMO: Cicero/AMO is part of the Havas Group, the global communications network. The AMO network is the world's leading specialist financial communications agency with 37 offices in over 20 key financial markets worldwide. Cicero/AMO design and deliver award-winning corporate, brand, political and regulatory campaigns across all major business sectors from offices in London, Brussels and Dublin.

5. Columbia Threadneedle Investments, data as at 30 March 2020. AUM includes the combined assets under management of the Columbia and Threadneedle group of companies.

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