

Saltus Wealth Index

October 2021

...Saltus

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Foreword

The UK is facing a combination of challenges unprecedented since the end of the Second World War. How do we adapt as COVID-19 becomes endemic? How do we address the regional and social inequalities which have accelerated over the last few decades? How do we take the country into a post-carbon future?

And while the issues are discussed at length by politicians, environmentalists and social reformists, surprisingly little has been done to solicit the views of the people who are likely to be funding these critical transitions, through the tax they pay, the wealth they can create, or both.

In response, Saltus has surveyed 1,000 High Net Worth Individuals, mostly self-made and all heavily invested in the success of the UK, with a median net worth of £1.5m. We asked them about their views concerning both the economic prospects of the UK as well as their own lives, financial and personal. Their responses have been fascinating.

They are confident in the future of the UK economy and London's place as Europe's financial capital, but are nervous about their own position, fuelled by the ongoing uncertainties surrounding COVID-19, rising inflation and the impact of Brexit. Climate change is also highlighted as a significant concern, and while most invest in ESG, they remain sceptical about whether green investments actually make any tangible difference to the environment or society as a whole. And while many have a good idea of the level of income they want in retirement, most are drastically underestimating how much they'll need to accumulate to make their hopes a reality.

While this report has identified some strong trends, it also reveals how, even within a group with much in common, factors such as age, life stage and location can have a notable impact on how wealthy individuals feel about both their own finances and the wider economy.

Our intention is to repeat this research twice a year for the foreseeable future, so subsequent generations will see how the perspective of this vital constituency evolves.

I hope you enjoy the report.

Jon Macintosh
Managing Partner, Saltus

Executive summary

Our respondents are confident about the economy but anxious about their own money

Our research found that despite the disruption and distress caused by the pandemic and continuing uncertainty surrounding Brexit, respondents are generally feeling positive about the future of the UK economy, with eight-in-ten (80%) saying they feel confident, 33% of whom are 'very confident'. In terms of prospects relating to their own wealth, nine-in-ten respondents say they feel either somewhat (52%) or 'very' (39%) confident in the short run. Despite this level of assurance, however, a majority (61%) still admit to feeling underlying anxiousness.

Expectation vs reality – most respondents underestimate the size of pension pot needed for the retirement they want

One of the most concerning findings is the gap between expectation and reality when it comes to the size of the pension pot needed for a comfortable retirement.

Almost two-thirds (64%) of respondents stated they would need more than £50,000 a year for a comfortable retirement, with one-in-seven (13%) saying they would need at least £80,000 a year. On average, respondents thought just over £53,000 a year would be enough to fund a comfortable retirement. However, to enjoy this level of income, experts believe a pension pot of around £1.325m is necessary. When asked how much would be needed in total to fund that level of income, the average view was that £730,000 would be sufficient – only just over half the level of savings actually required.

COVID-19 has made High Net Worth Individuals (HNWIs) reassess their spending priorities

The pandemic has not just had an impact on the economy and personal finances, it has also caused a shift in focus, with investing in experiences and 'giving back' becoming more important than the ownership of physical assets. When asked if the pandemic had caused them to make any significant lifestyle changes, one-in-four (26%) of respondents said they had become more philanthropic, while more than half (52%) now spend more time with their families, despite lockdowns having ended.

Responding to a question about what respondents would do following a lottery win, the most popular answer was 'travel more', with one-in-four (24%) saying this would be their top priority. When asked about their 'greatest splurge' more than half (53%) cited experiences, including holidays (26%), food and drink (18%) and the theatre (9%), compared to one-in-five (20%) who said ownership of property.

However, while valuing experiences over assets from a lifestyle perspective, respondents acknowledge that it is not the 'best use' of their funds from an investment perspective, just 3% valuing experiences compared to 81% ranking assets.

What this survey covers

The survey asked respondents a range of questions concerning their view of the economy, their personal finances and their lifestyle. The report covers respondents' detailed responses in those three areas.

The work was undertaken at the end of August, 2021, by Censuswide among over 1,000 respondents with investable assets of over £250,000. Details relating to methodology can be found on page 14.

While the survey reached people of all ages and from all parts of the country, a striking feature of the sample was the proportion of respondents (69%) who describe themselves as self-made. These are the wealth generators of the UK.

69% of respondents describe themselves as self-made.

Economy and economic environment

Overview

While confidence in the UK's economic prospects remains high, views differ across regions and by age

Our research found that while most (80%) of respondents are confident in the future of the UK economy, this decreases with age, with just 5% of over-65s saying they feel very confident.

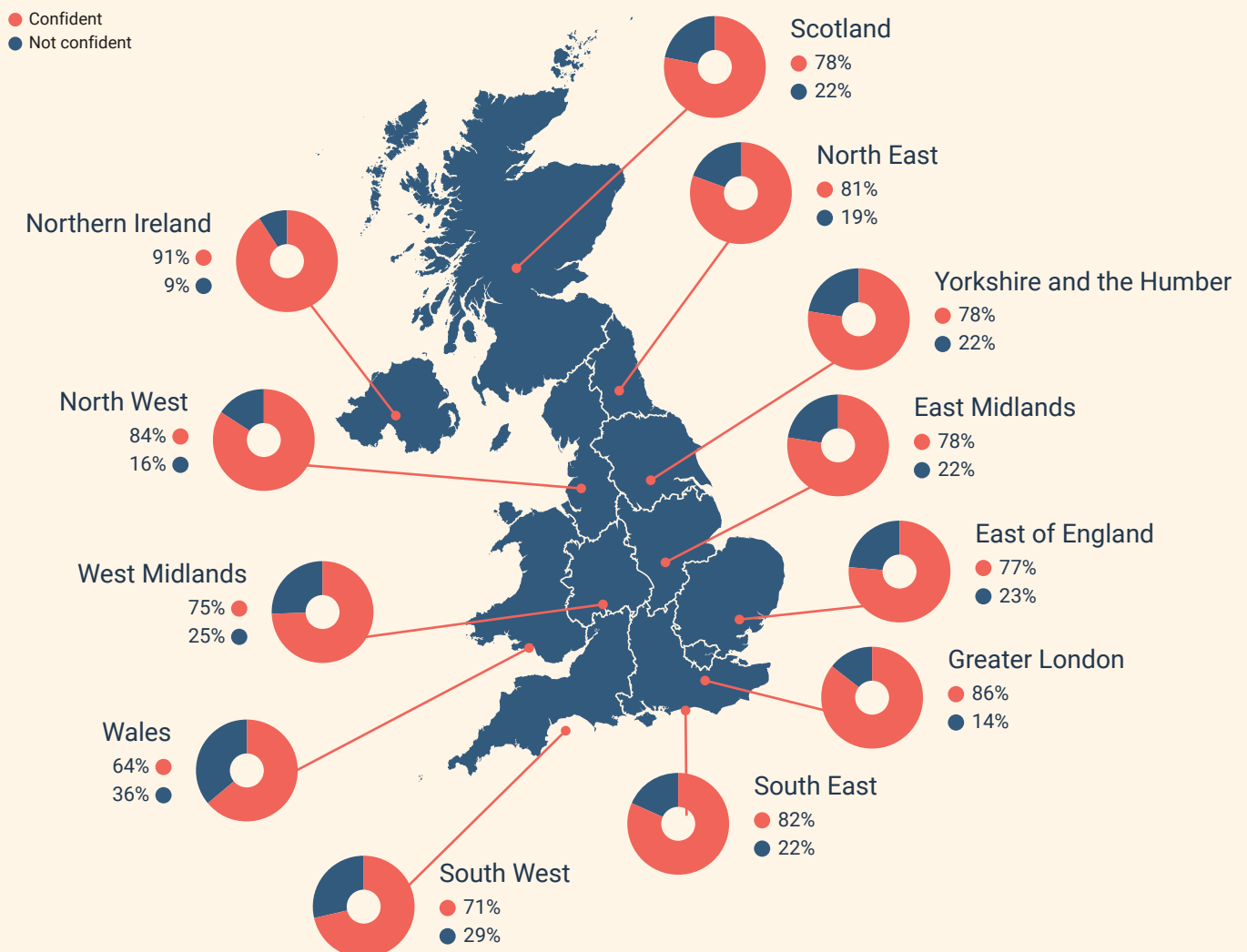
In terms of identifying the biggest financial risks, COVID-19 is the top concern, with almost a third (31%) citing the long-term impacts of the pandemic as the greatest threat to their wealth, closely followed by inflation (28%).

COVID-19 is the top financial concern, but inflation is a bigger worry among the older people

Other significant worries among our sample include low interest rates and financial returns (24%), Brexit (24%) and climate change (21%).

However, there are substantial differences between age groups, with just one-in-five (19%) of over-65s saying they are worried about COVID-19. The over-65s are, however, more than twice as likely to be concerned about inflation than younger generations, with 50% highlighting this as their biggest worry compared to just one-in-five of those aged under-35.

Thinking about the UK economy as a whole – not just your own financial position – how confident are you about the next six months?



Economy and economic environment

Strong confidence in UK economy

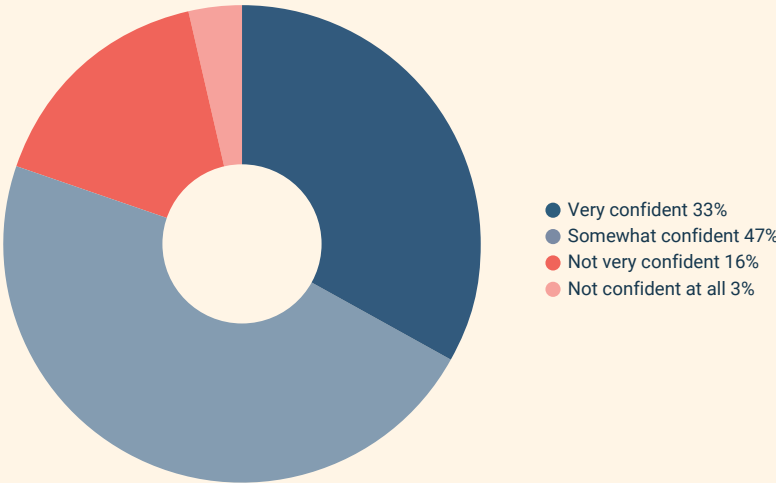
Views of UK economic prospects

While respondents are broadly confident about the future of the UK economy, optimism varies by age and region. Amongst those aged 18-54, 37% feel 'very confident' about the next six months, while for those aged 55 and over, this falls to just 14%, with just one-in-20 (5%) of over-65s saying they feel very confident about the UK economy.

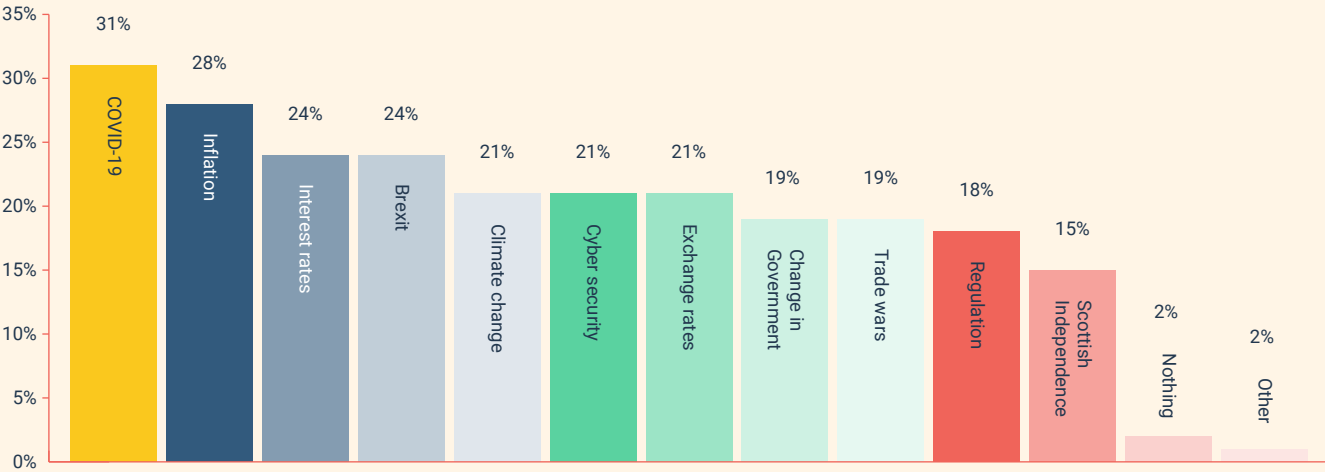
Londoners are the most confident about the UK economy over the next six months

There are some regional differences, however. Those living in Greater London are more than twice as likely to feel 'very confident' about the UK economy over the next six months than those living in the West Midlands (41% compared to 18%).

Thinking about the UK economy as a whole – not just your own financial position – how confident are you about the next six months?



What do you view as the biggest risk to your wealth right now?



Economy and economic environment

The wealthier you are, the more experience you have had of financial crime

Scams and cybercrime

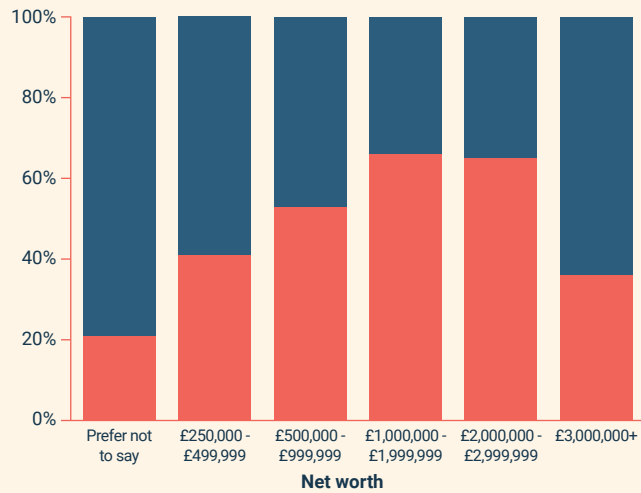
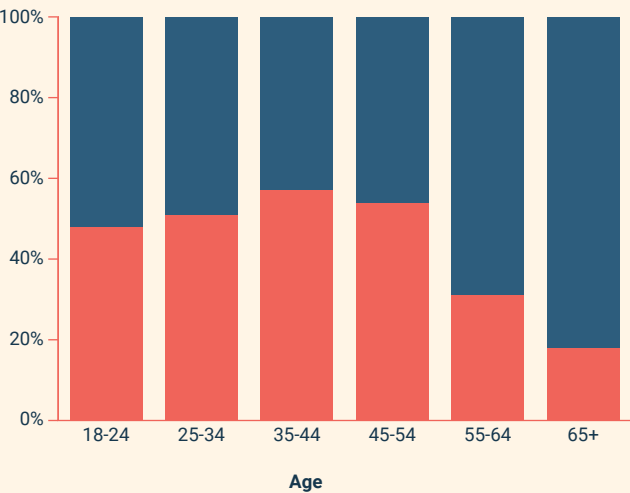
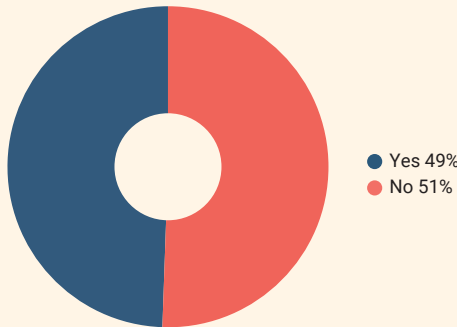
The adoption of technology has opened up a whole new set of opportunities for financial crime, and it seems the greater your net worth, the more likely you are to become a target. Our research found that half (49%) of all respondents have been a victim of a financial scam or cybercrime, with women (52%) slightly more likely to have experienced it than men (48%).

The research also revealed that those aged between 35 and 44 were the most likely to have been scammed, with 57% saying they had been a

victim, while the over-65s were the least likely with fewer than one-in-five (18%) having been targeted.

The group most likely to have been a victim of a financial scam are those with assets of more than £2 million. Two-thirds of respondents in this group have been targeted compared to just over a third (35%) of those with assets of between £250,000 and £500,000. Of those with assets between half a million and £1 million, 41% have been victims, rising to just over half (53%) of those with wealth of between £1-2 million.

Have you ever been a victim of a financial scam and / or cybercrime?



Younger respondents and those with greater investable assets have more experience of cyber crime.

Personal finance

Overview

Worry about money is widespread – and many underestimate how much they need for a comfortable retirement

Despite confidence in the short-term prospects for their finances, nearly two-thirds (61%) of HNWIs feel underlying anxiousness about their money

There is a significant gap between the size of pension pot needed to fund a comfortable retirement and what respondents believe is necessary, even among the very wealthy

While the vast majority of respondents are confident about their finances in the near term, most also feel anxious about their money. There are also some fairly sizeable misunderstandings about how much money is needed for a comfortable retirement, with a huge gap between expectation and reality.

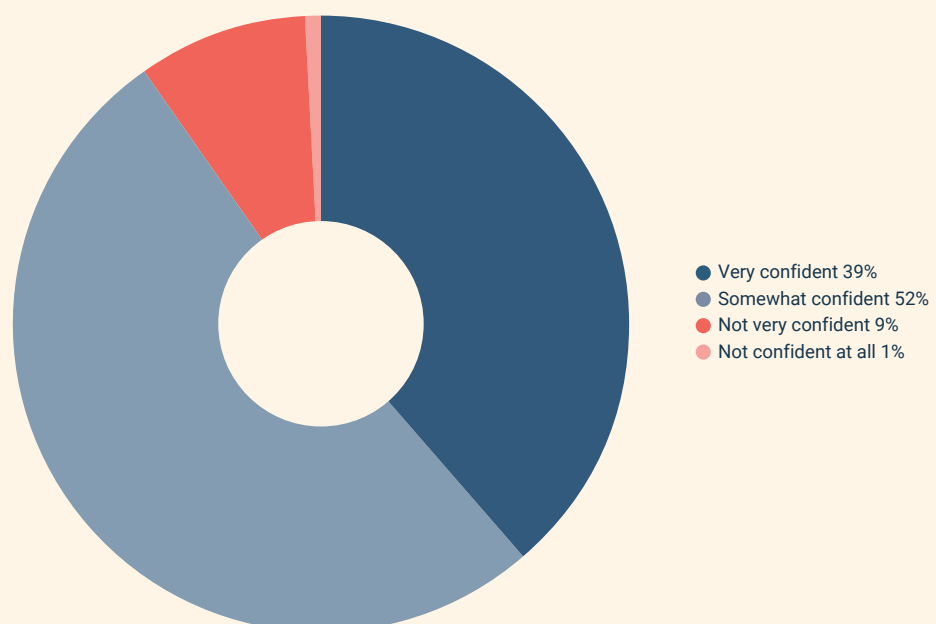
Nearly two thirds of HNWIs feel anxious about their money, with younger people much more likely to experience anxiety than older generations.

When asked if they agreed with the statement 'my money makes me feel anxious', more than one-in-four (28%) of respondents aged under 24 said they 'strongly agree' and 39% said they 'somewhat agree'. In comparison, just 8% of respondents over 65 said they 'somewhat agree', and none of them said they 'strongly agree' with the proposition.

The research also found that the greater your net worth, the more anxious you are about your money - 54% of those with assets of between £250,000 and £1 million feel anxious, compared to two-thirds of those with assets of over £1 million. Amongst those with assets of £3 million and above, over a third (35%) said they 'strongly agree' that their money makes them anxious.

However, despite feeling anxious, respondents also acknowledge that financial security brings considerable benefits and not just in terms of their standard of living. Over three quarters (76%) of those surveyed agreed with the statement that "my money is a source of freedom for me". This sentiment is more strongly held by men than women (78% versus 70%), with younger people more likely to disagree with the statement.

Thinking about your own finances, how confident are you about the next six months?

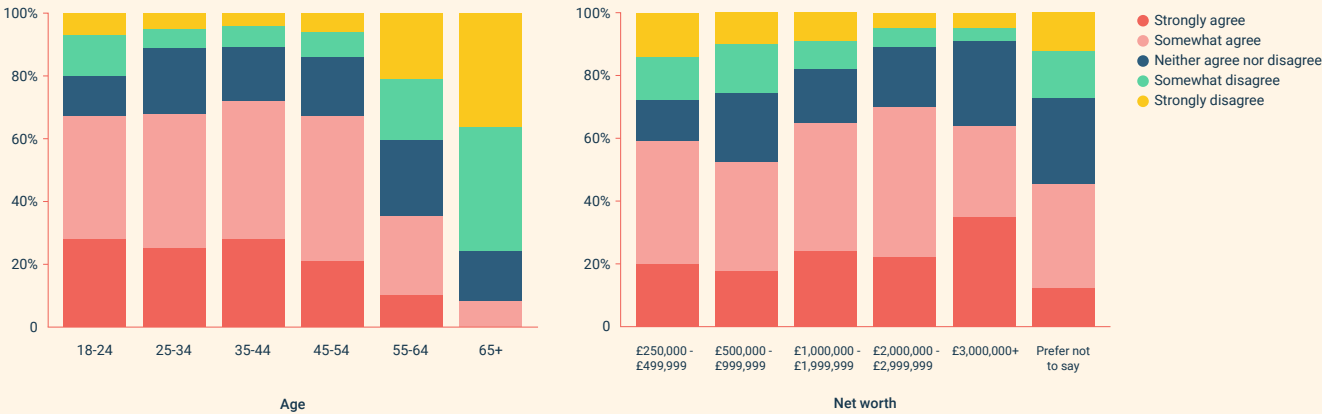


Over a short time horizon, 90% of HNWIs are confident about their finances.

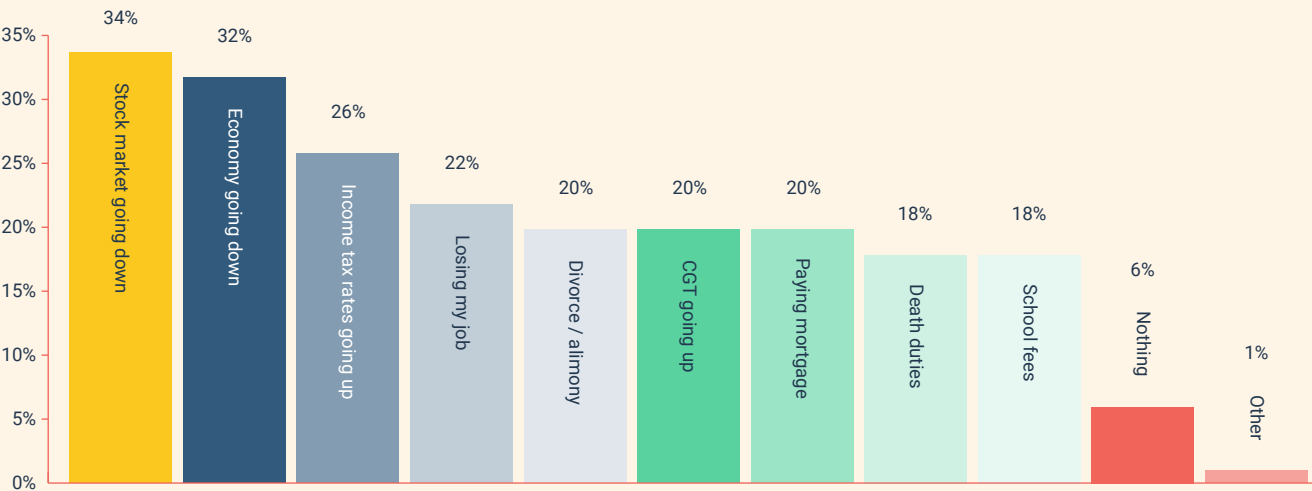
Personal finance

Most HNWIs experience financial anxiety

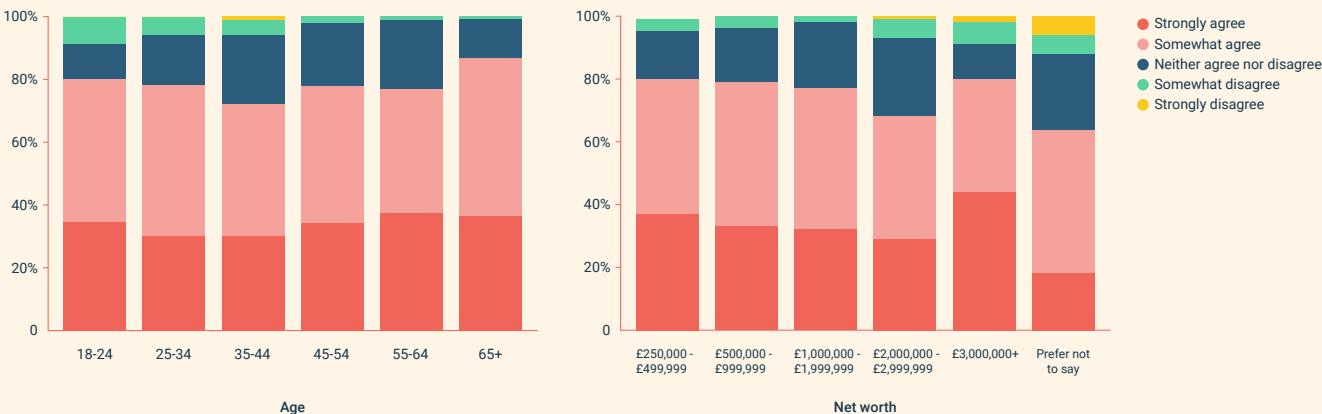
My money makes me anxious



My main financial worries are...



My money is a source of freedom for me



Personal finance

Huge pension expectation gap

Under pensioned and underprepared

While respondents know what level of income they'd need for a comfortable retirement – £53,000 a year on average – they underestimate how big their pension savings need to be to achieve this. Across the sample a mean pot of only £730,000 is considered necessary to fund the comfortable retirement they aspire to, but in reality nearly double that would be necessary¹.

Expectations of pension pot required for comfortable retirement significantly out among HNWIs

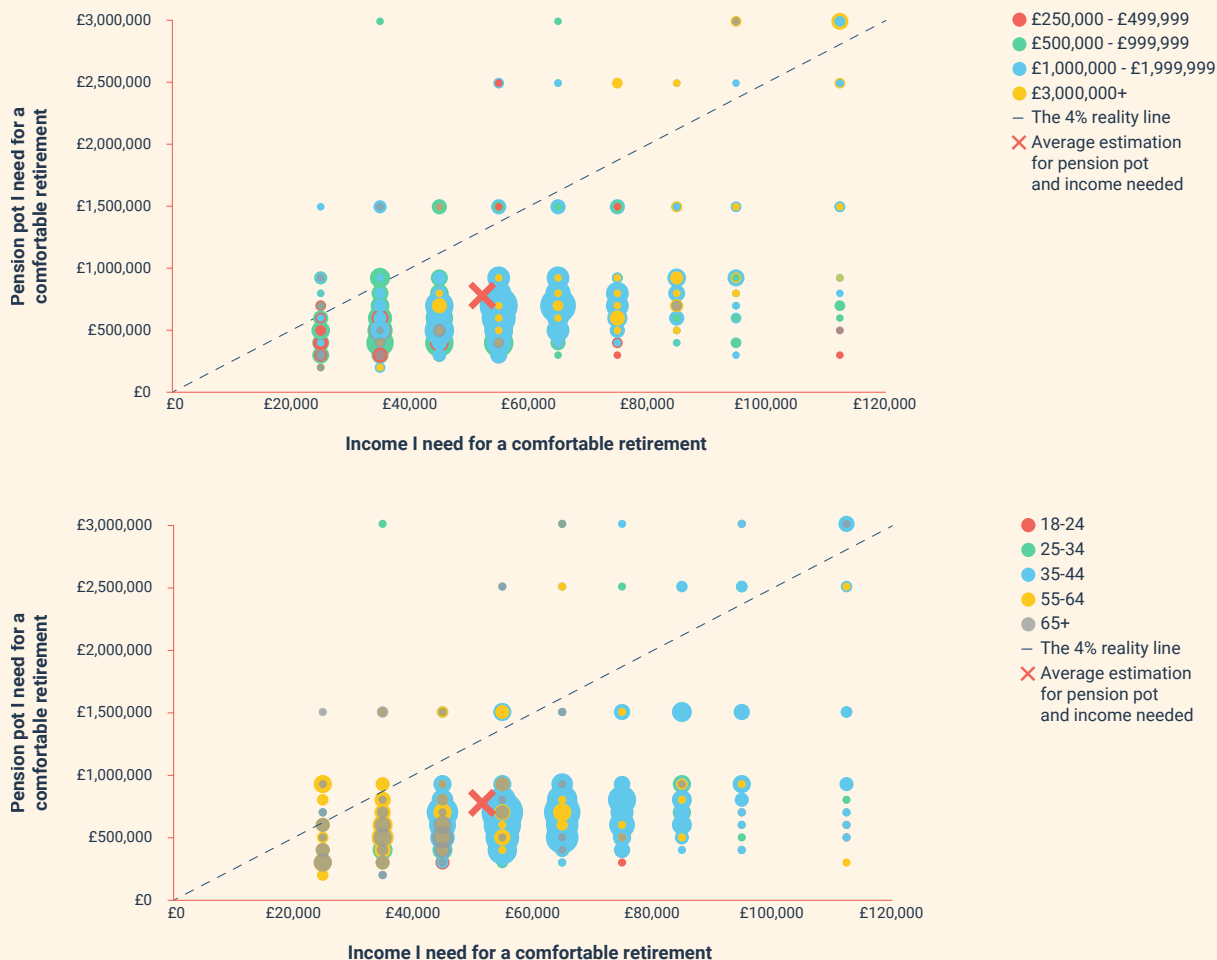
£729,000

The pension pot HNWIs think they need for a comfortable retirement.

£53,000

The income per year HNWIs think they need for a comfortable retirement.

What size pension pot and annual income do you think you will need for a 'comfortable retirement'?



Over 92% of HNWIs underestimate the size of pension pot they will need for a comfortable retirement, with the average respondent misjudging by almost half, suggesting a very optimistic yield of 7.3% after inflation might be achievable. Younger respondents and those with less net worth have the most unrealistic expectations.

¹The 4% rule was developed by financial planner William Bengen in 1994. Through his research, Bengen found that people could withdraw 4% of their investments in the first year of retirement and then withdraw the same amount, adjusted for inflation, for at least 30 years without exhausting their portfolio.

Personal finance

A mixed picture in ESG

Are HNWIs becoming greener? Two thirds invest in ESG but many are still sceptical

Our research discovered that two-thirds (64%) of people with assets of £250,000 and above are now actively investing in ESG, and that this desire to make 'greener' investment choices is stronger amongst younger generations. Eight-in-ten (80%) of respondents aged 18-24 invest in green stocks, but this number falls with age, down to just 24% of those aged over 65.

Men are more likely to invest in impact or green stocks (66%) than women (59%), while investors living in London are more likely than any others to prioritise ESG. Three quarters of HNWIs living in the capital invest in green stocks, compared to just half (50%) in Scotland, and less than half in the Midlands, South West and Wales.

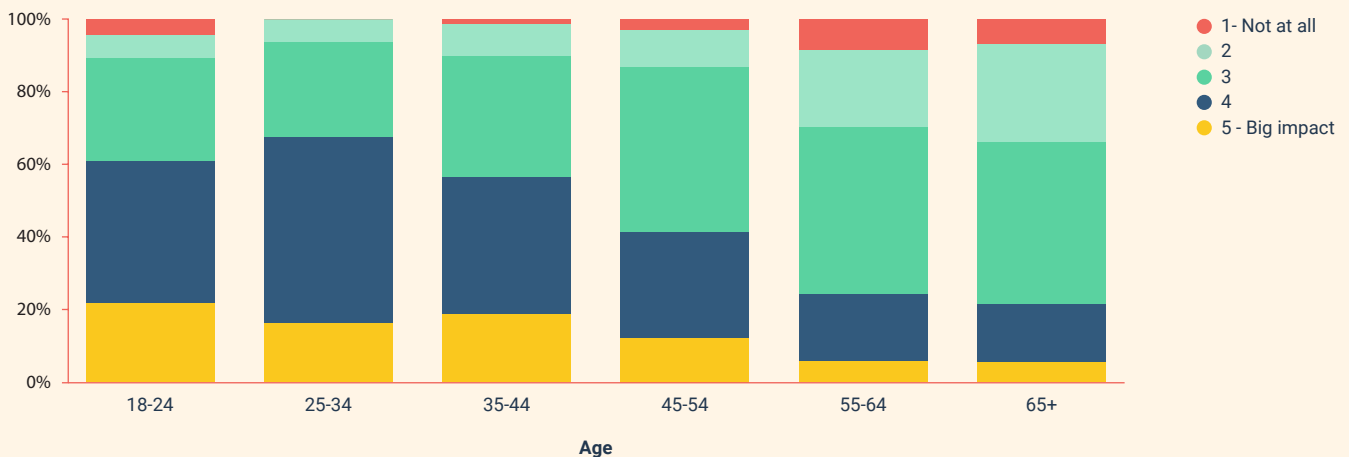
When asked if they care more about ESG than people in their parents' generation did, 40% said yes. However, 38% said they think their children care even more.

Of those that don't yet invest in impact or green stocks, the main reason given was that they don't generate sufficient returns (31%). Scepticism about the category is strong with many respondents believing that they 'don't make a difference' (27%) and sustainable investing is 'just hype' (26%).

Mistrust in ESG is also on view elsewhere, with one-in-four (24%) saying they don't believe reporting and analysis of ethical investments is robust and one-in-five (22%) stating they do not think green funds are truly environmentally friendly.

On average, do you think responsible investments make a tangible difference to the environment or society in general?

Under-45s think investing in ESG is impactful, over-45s don't.



Saltus Wealth Index respondent:

“There aren't enough funds – and right now the funds there are, are over-bought.”

Lifestyle Overview

Experiences vs assets – which is more ‘worthy’?

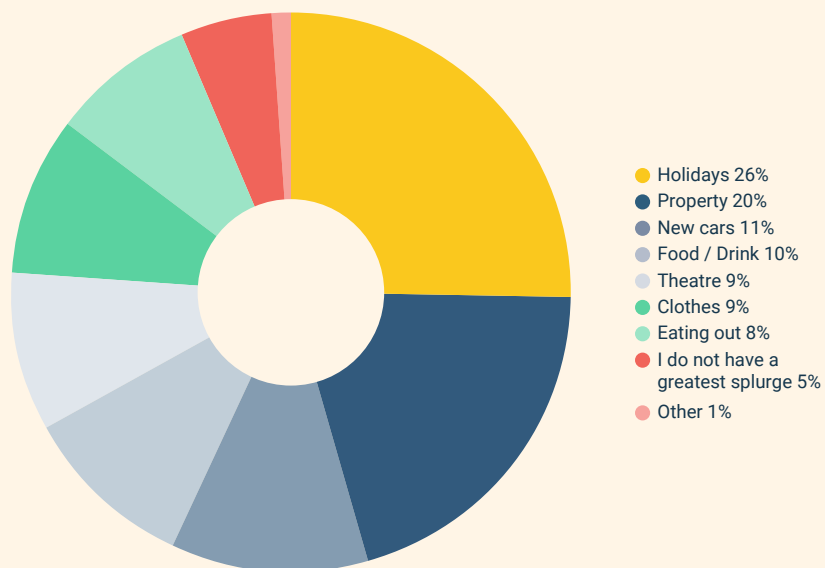
HNWIs spend more on holidays than property as experiences dominate spending priorities – but are they seen as a good use of funds?

In a post-pandemic world, our respondents are more inclined to spend their money on experiences over material goods. However, respondents believe that physical assets represent a better use of their money from an investment perspective. When asked what they see as a more ‘worthy investment’, assets or experiences, just 3% cited experiences compared to 81% who said assets.

57% ... own more than one home.

56% ... of HNWIs send their children to private school.

What is your greatest splurge?



Experiences dominate spending but are not seen as a good use of funds

The top ‘splurge’ across the board is holidays (26%), almost one-in-ten spend on quality food and drink and 56% of respondents with children either already send them to private school or intend to. Although there is a shift away from material goods from a spending perspective, when considering investments, HNWIs still think physical assets are the best use of their funds; only one-in-thirty believe intangibles are the worthiest investment.

Post-pandemic, these respondents are spending more on experiences and less on physical assets

When it comes to the types of ‘physical’ assets HNWIs spend their money on, older respondents prioritise expenditure on property, while younger generations spend more on clothes than anything else.

Considering their greatest splurge, 28% of 18-24 year-olds said ‘clothes’ compared to just 20% who said property. In contrast, fewer than one-in-ten 35-44 year-olds cited clothes, but 24% said property.

Lifestyle

HNWIs more philanthropic post-COVID

While the pandemic has had a significant financial impact, both on the UK economy as a whole and on personal circumstances, it seems it has also been a real catalyst for change for HNWIs and their lifestyle choices. One-in-four respondents said they have become more philanthropic as a result of the pandemic, rising to almost one-in-three (32%) of those aged 35-44, while 30% have learned a new skill.

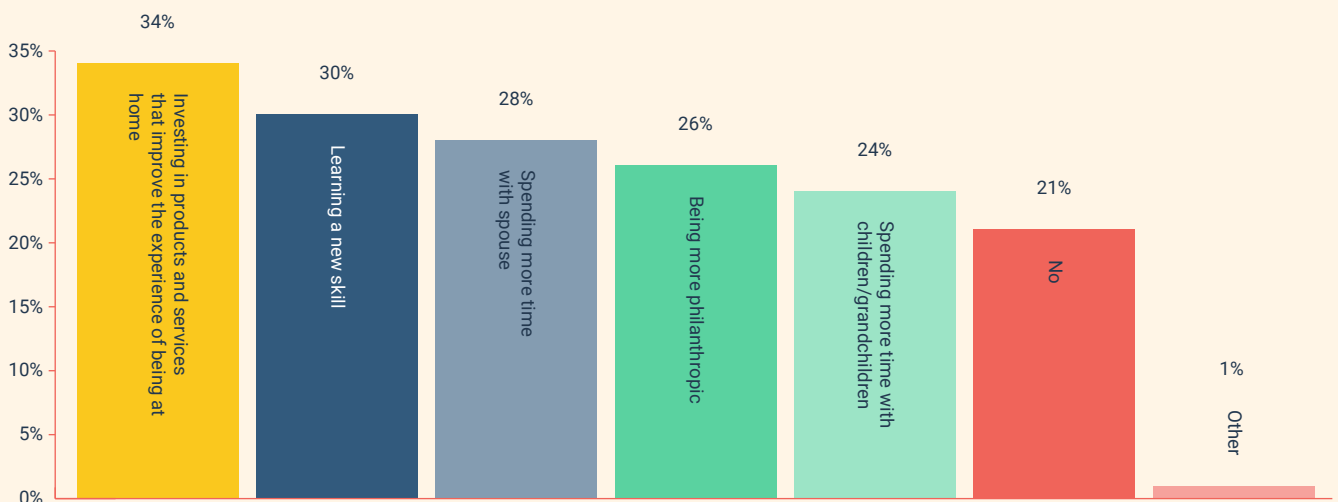
Respondents appear to value close relationships with loved ones more than before the crisis; although the lockdowns are over, 24% said they now spend more time with their children and grandchildren, while 28% spend more time with their spouse.

COVID-19 has also made HNWIs reassess what is worth spending money on, with more than a third (34%) saying they have spent on products and services that improve the experience of being at home as a direct response to the pandemic.

However, the impact of the pandemic on lifestyle choices does alter significantly with age; 62% of people aged over 65 say they have not made any changes at all, while amongst those aged 35-54, just one-in-nine (11%) believe they have not made lasting changes because of the pandemic.

25% have become more philanthropic

Post-COVID have you made any lasting changes to your lifestyle?
If yes, what are they?



Saltus Wealth Index respondent:

“Post-COVID I now save more and spend on those things that matter and are of a true benefit to me.”

Methodology

Between 19th August 2021 – 26th August 2021, Saltus working with market research firm, Censuswide, surveyed 1,002 UK respondents who have £250k+ investable assets about how they felt about the UK economy, their own wealth and what matters most to them personally. The mean age was 44, the male / female split was 66:34. 57% live outside Greater London and the South East, and median net worth stood at £1.5m.

About Saltus

How we can help

Saltus is a wealth management company that combines empathy and intellect in equal measure. We help our clients achieve their goals in life through expert financial planning as well as providing sharp focused investment management.

We started life as an investment management firm in 2004, yet over the years we saw that providing high-quality investment management is just one of the ways we can help people achieve their aspirations. Saltus Financial Planning was launched in 2015, with the aim of being an industry leader in providing financial advice.

The Saltus Group now employs over 100 people and we have the privilege of looking after over £2bn for our clients.

Find out more at www.saltus.co.uk.

Find out more

Get in touch to find out how we can help you.



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