

Saltus Wealth Index

May 2022

...Saltus

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Foreword

Welcome to the second Saltus Wealth Index

Twice a year we track the views of an underreported constituency, Britain's high net worth individuals. This is the group of people whose enterprise the UK will need as the country addresses the challenges of Levelling Up and Climate Change, quite apart from paying down the country's debt and financing its deficit.

We survey one thousand people with assets of over £250,000 with our partners Censuswide and ask respondents a number of questions concerning their thoughts on the UK economy, their personal finances and what they like to do with their lives.

In this report we are delighted to have worked with Dr Mike Peacey, Senior Lecturer in Economics at Bristol University, to aggregate some of these questions into a single index. This is a barometer that will track over time how this critical group feels about their prospects and the prospects for the UK.

Currently the Saltus Wealth Index stands at 68 (out of 100), meaning that while there is still some confidence among our respondents, looming economic issues, predominantly inflation, are a cause of financial anxiety.

More specifically, we have learnt more about our respondents. Overwhelmingly, they have succeeded in life through their own efforts rather than through marriage or inheritance. 72% are self-made, rising to 77% amongst 45-54 year-olds.

They are also hard-working. Those who work full-time work on average 49 hours a week, with some reporting that they work over 80 hours. This dedication to work is impressive in itself but also necessary if the UK is to capitalise on the opportunities that will present themselves over the coming decades.

There is more fascinating detail in this report. I very much hope you enjoy it and find it useful.

Jon Macintosh
Managing Partner, Saltus

Commentary

Dr Mike Peacey

It has been a pleasure to put together the Saltus Wealth Index.

The Saltus Wealth Index was created to summarise some of the key information gathered from the Saltus questionnaire, and to provide a simple barometer of the subjective confidence and concerns that UK high-net-worth individuals (HNWI) have relating to the UK economy and their own finances. The index comprises nine measures that are all derived from the questionnaire. These measures have been scaled and then weighted to capture the relative importance of each matter on the index. The range of the index is between 0 and 100, with higher values describing higher confidence in, and fewer significant concerns with, the UK economy.

The index currently stands at 67.88 (68). This suggests that while respondents' outlooks are generally positive, with the majority finding that their finances can give them freedom, confidence is nowhere near as high as it could be. Over half of respondents stated that their money made them anxious, and over half were concerned with either the economy going down or the stock market going down. In addition, a sizeable proportion of respondents were also concerned about the risks associated with inflation and interest rates.

The unfortunate combination of recent events has caused challenges to the UK economy and placed extraordinary pressure on both public and private finances. This makes it a valuable time to track confidence. The Saltus Wealth Index provides the opportunity to do this for one specific but particularly important segment for the UK economy – those with high-net-worth. The index will be calculated twice a year, and this will enable us to see how the perceptions of this group are changing. In future this new data will allow us to look at how changes in the index are correlated with changes in investment choices and other behaviors, as well as to highlight how and when attitudes of HNWIs diverge from similar existing surveys which do not focus on this specific group.

There are many interesting findings from the wider results of this survey. For instance, we can observe differences between generations, which might provide clues on how money will be used and stored in the future. For example, one area where there were stark differences between those aged under 55 and those aged over 55, was responsible investing. The survey found that under five percent of the younger group believed that responsible investing has little or no impact, in contrast to over twenty-five percent of the older group. Another clear difference between the two age groups is how emerging asset classes (e.g. crypto, NFTs) are used for investment. The younger group were much more likely to hold such assets, and on average held portfolios which were over four times more heavily weighted towards this class than those in the older group.

In summary, this survey is already a valuable diagnostic tool in understanding attitudes and behaviours and allows us to get under the bonnet of part of the UK economy in a way that has not previously been possible. Over time its value should only increase.

Dr Michael Peacey
*Senior Lecturer, School of Economics,
University of Bristol*

Executive summary

High Net Worth Individuals' confidence in UK's economic prospects has dropped slightly but remain optimistic

High Net Worth Individuals (HNWIs) believe that the UK's economic prospects are still hopeful, however this confidence has dropped in recent months. This could have been precipitated by several factors including rising inflation and interest rates, surging oil prices or geopolitical tumult in Europe.

Expectations of retirement income are out of step with views on required pension pot

The Wealth Index report reveals a difference between expectation and reality. The estimation among HNWIs for what size pension pot is needed does not quite fit their expectations for required retirement income.

Majority of HNWIs (58%) say their money makes them anxious

Whilst they still have faith in the UK economy, money is still a source of anxiety for respondents. Many are concerned with inflation, cybercrime and recent geopolitical crises and view them as direct threats to their wealth.

Confidence in future financial prospects remains

Despite an uncertain background, HNWIs have retained confidence in their own financial prospects, bolstered by the majority's beliefs that London will remain Europe's financial capital for the next decade.

Our index derived by Dr Mike Peacey stands at 68, suggesting that our respondents generally have a positive outlook. This is driven principally by their attitude to their own finances but concerns are mounting around the broader economic challenges the country faces.

Economy and economic environment

Overview

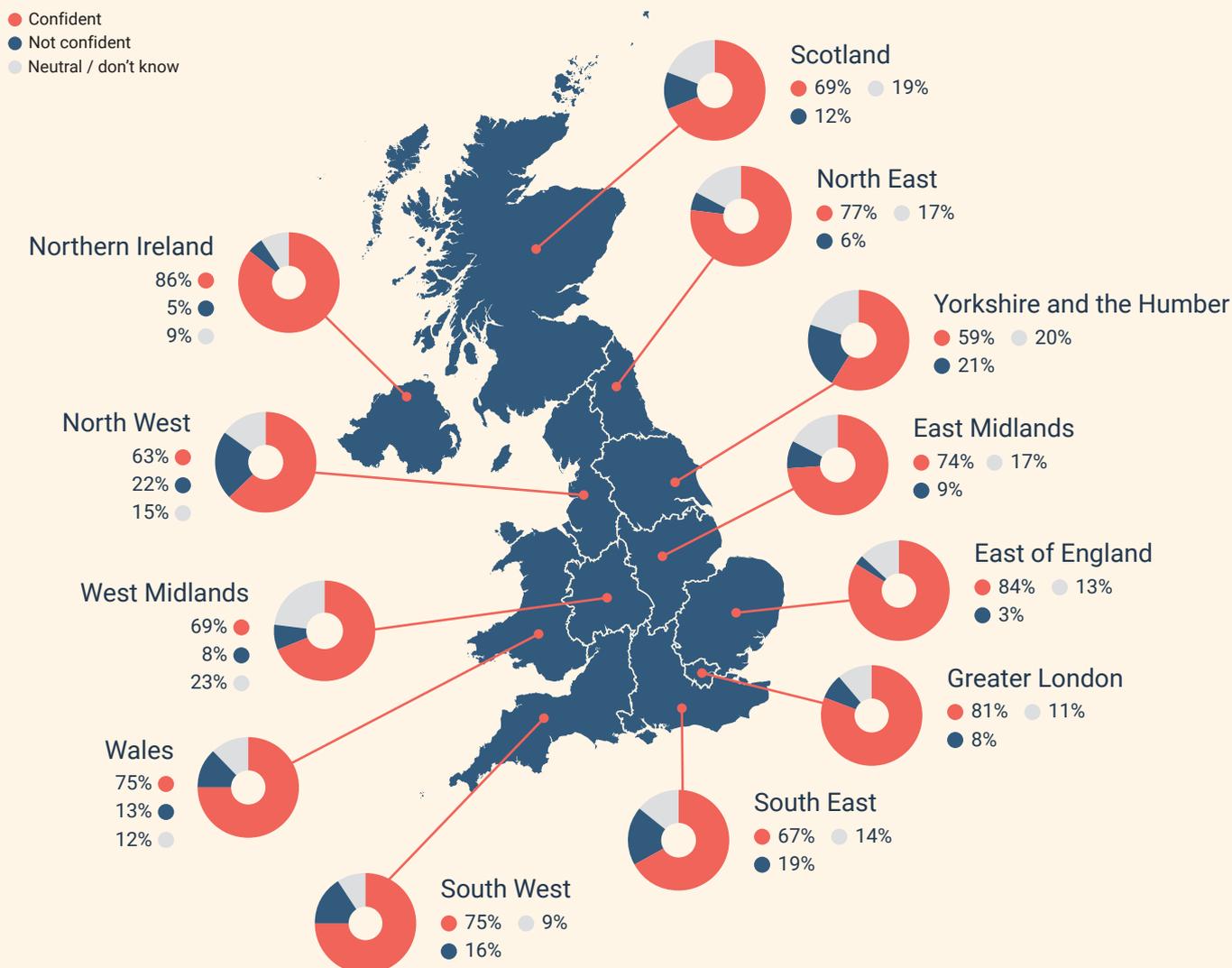
Confidence in the UK economy remains but falling

While HNWIs remain confident in the UK's economic future, confidence has fallen slightly over the last six-months. Inflation and interest rates are of particular concern for many as both have been rising steadily in recent months. The data suggest that older respondents are especially worried about inflation and interest rates; they may have savings in the form of cash which is particularly vulnerable to inflation and of course, having lived through the 70s, they have seen this show before!

Most respondents remain confident in London's enduring place as Europe's financial capital

Three quarters of respondents (76.5%) remain confident in the UK's economy, though this has fallen slightly from the previous year's 80%. HNWIs still have confidence in London's financial pulling power with the majority (73%) of respondents thinking that London is still Europe's financial capital, despite Brexit uncertainty, compared to 68% last year.

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

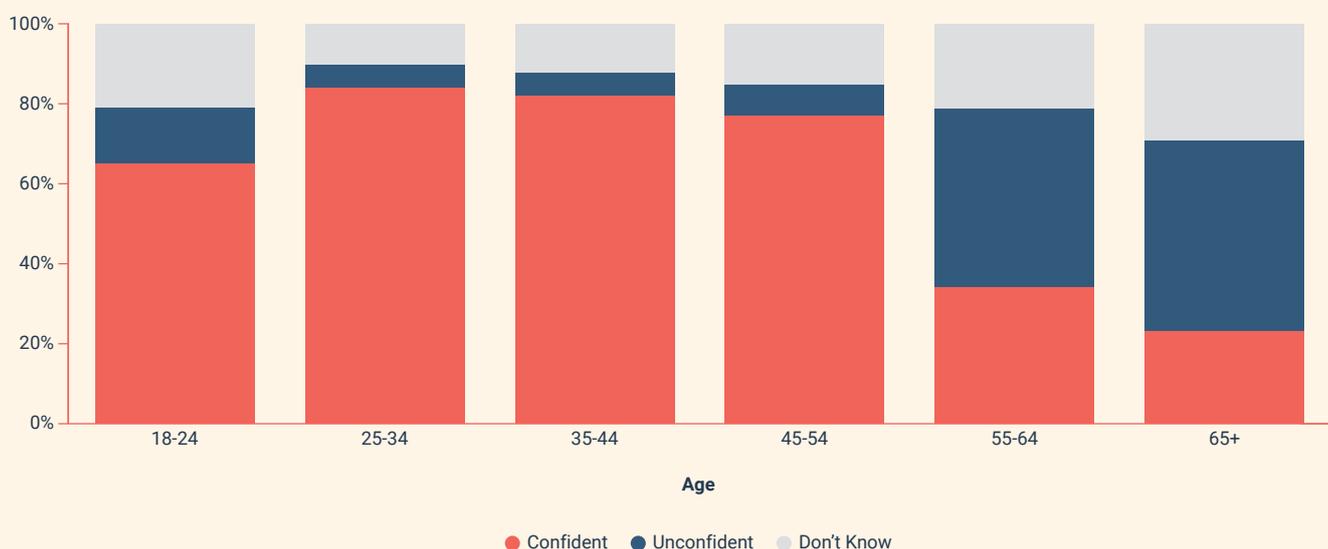
Views on UK economic prospects

Older respondents in the sample have less confidence in the UK economy

HNWIs might be positive about the prospects of the UK economy, but they are watching inflation and interest rates closely. UK inflation has been rising steadily and was standing at 6.2% in February when our respondents were surveyed (with rising petrol prices and household fuel costs seen as important factors) while the Bank of England raised interest rates from 0.50% to 0.75%.

As a result, one in five (22%) said they were concerned about rising inflation, one in six (17%) cited rising interest rates while almost one in four (24%) of respondents said they were equally concerned about both. Others did not feel that this was a significant problem with 16% of respondents saying they were not worried about either inflation or interest rates.

However, these concerns are felt differently when we look more closely across age, gender and employment status.



Older people are more worried about inflation

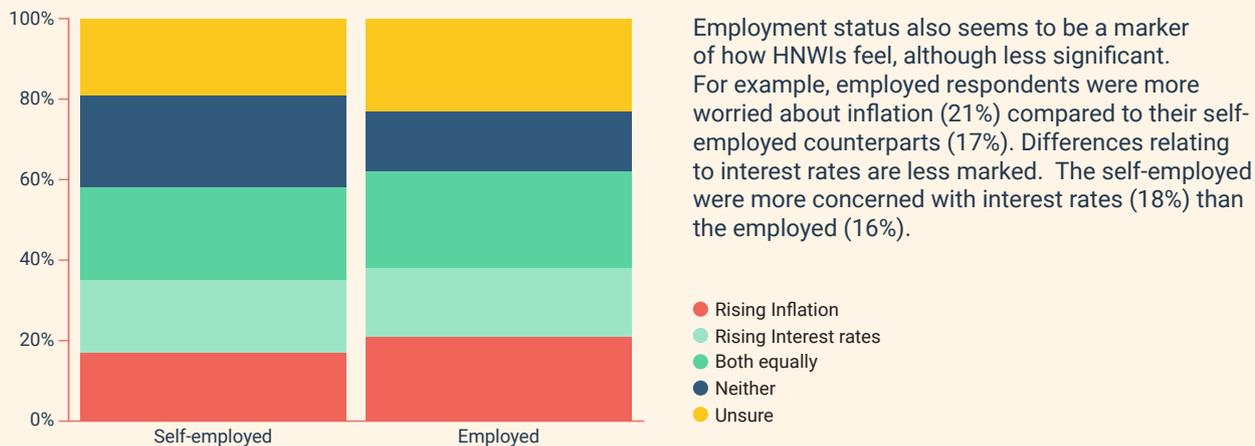
This is a particularly pressing issue for older generations – 60% of those aged 55-64 and 74% of those aged 65 and older cite this as a concern. In fact, older respondents appear to be less confident in both their own finances and the economy in general. The numbers of people aged between 55-64 who express confidence in the UK economy has been cut in half over the last six months; in October 2021, 68% of respondents in this age group said they felt confident in the UK economy – falling now to 34%.

While amongst those aged 65+, the proportion who remain confident has dropped from 53% to just 23%. Younger people are generally more confident in the UK economy than older age groups, but even here overall confidence has fallen; six months ago, 89% of 18s-24s were confident in the UK economy, dropping to 65%. However, their faith in their own finances remains strong – 92% of this demographic say they are confident about the next six months.

Economy and economic environment

Inflation, interest rates and geopolitics

Concern varies slightly between the employed and self-employed



Geopolitical change

While geopolitical concerns did not rank particularly highly among the concerns of HNWIs, respondents did note the potential for economic fallout from the conflict in Ukraine.

The survey first launched just before the invasion of Ukraine, but responses were gathered well into March. The last few weeks have impacted the economy, adding to rising global inflation and oil prices but are not yet being picked up by our respondents.

One respondent told us shortly after the Russian invasion:

“The war in Ukraine is adversely affecting both the UK and global economies. There has been a sharp surge in gas and oil prices which fuels inflation to a level not seen for several decades. This could well tip the UK into recession.”

Economy and economic environment

HNWIs are prime targets of cybercrime

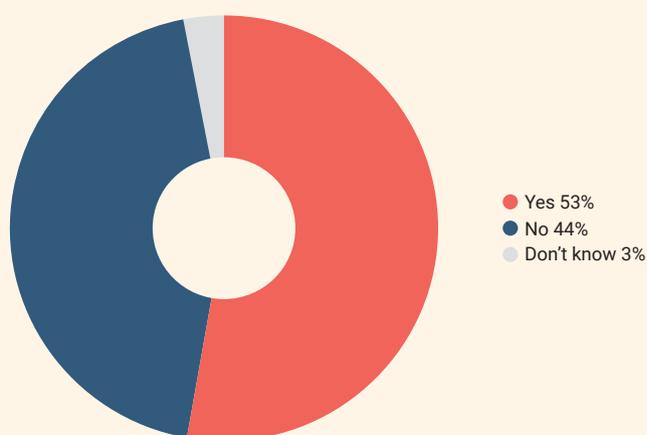
Scams and cybercrime

The Wealth Index report reveals that HNWIs say they are losing significant amounts of money to cybercriminal activity. In fact, 25% say that cybercrime is the biggest risk to their wealth and a fifth of our respondents claim to have lost money as

a result of a financial scam. Losses averaged £8,952 but 21% say they lost at least £10,000 and one tenth over £50,000.

Notably, 74% of our self-employed respondents said that they had been scammed compared to 47% of employed people.

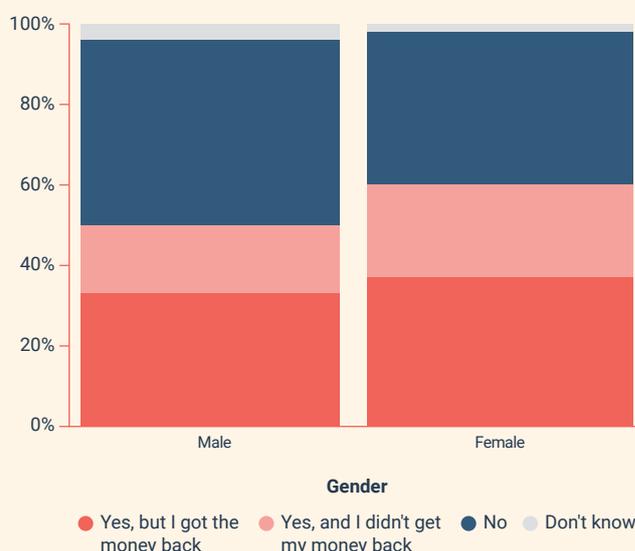
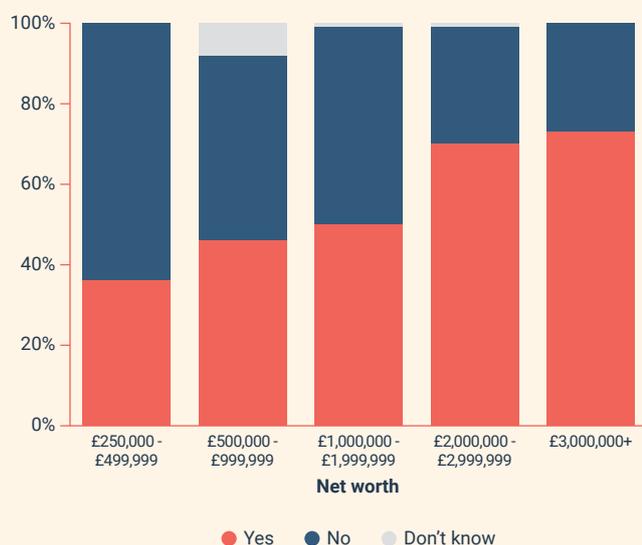
Have you ever been a victim of a financial scam and/or cybercrime?



Scams by net worth

The data show that the likelihood of being scammed rises with net worth. For example, 73% of those worth over £3m reported having been the victim of fraud, losing an average of £12,534, compared to 36% of those worth between £250-500k and 40% of those with less than £250k.

Women were also more likely to say they had been victims of fraud, with 60% reporting that they had been targeted by scammers against 51% of men. However, men generally lost more money (£10k) than women (£6k).



Personal finance

Overview

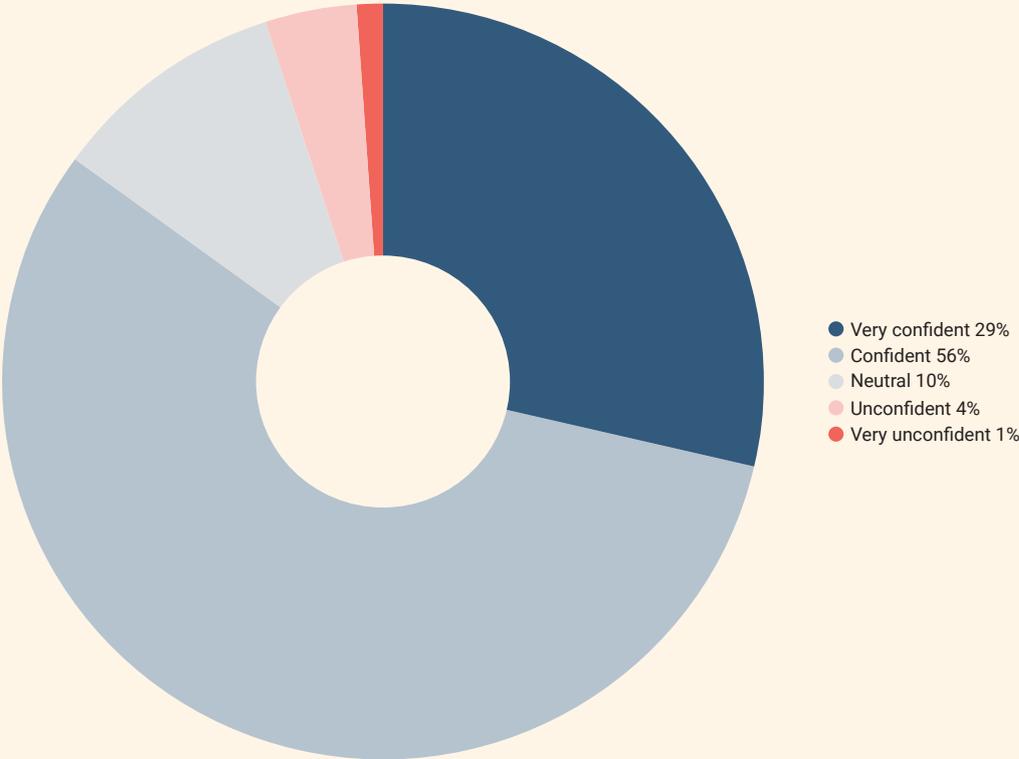
There is a significant pensions gap

HNWIs appear to be underestimating the size of the pension pot they'll need for a comfortable retirement by almost half. Their expectations can also be seen to be out of line with their expectations for the required retirement income.

HNWIs still have faith in their financial prospects

Despite a small decline since our last Wealth Index report, the vast majority of HNWIs remain positive about the security of their wealth over the next six months.

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



Personal finance

Huge pension expectation gap

Under-pensioned and underprepared

Pension pot expectations are out of line with aspirations for retirement income

While most people tend to have a good idea about the level of income they'd need for a comfortable retirement, most underestimate how big their pension savings need to be to achieve this.

Across the sample, a mean pot of just £538,794 is considered necessary by respondents to fund a 'comfortable retirement', but in reality if pensioners were to follow the 4% rule¹, a pot of this size would only provide an income of around £21,552 a year – not what most would describe as 'comfortable'.

To achieve a 'comfortable' retirement income of £33,000 – as calculated by PLSA and researchers at Loughborough University* – a pot of £825,000 is needed, one and a half times the size of the pot respondents think they'd need, while to achieve what our respondents believe would be a comfortable retirement income for a couple – £55,246 per year – a pot of £1.4m is needed, more than double the amount estimated by our sample.

Even when the state pension is taken into account, most respondents are still underestimating the level of savings they will need to achieve the retirement they desire. For a couple who are both receiving the full state pension – £19,256 a year – they'd need their own pension savings to provide an annual income of £35,990 in order to enjoy an overall annual retirement income of £55,246. This means they would need pension savings of £899,750 between them.

Taking the relevant shortfall and dividing this by 4%, we can provide a rough estimate of the pot required for retiring at state retirement age:

Couple Desired Income	State Pension	Shortfall	Pot Required
£47,000 (PSLA 'comfortable' retirement)	£19,256.00	£27,744.00	£693,600.00
£55,246 (Saltus WI 'comfortable' retirement)	£19,256.00	£35,990.00	£899,750.00
£60,000	£19,256.00	£40,744.00	£1,018,600.00
£80,000	£19,256.00	£60,744.00	£1,518,600.00
£100,000	£19,256.00	£80,744.00	£2,018,600.00

Individual Desired Income	State Pension	Shortfall	Pot Required
£33,000 (PSLA 'comfortable' retirement)	£9,628.00	£23,372.00	£584,300.00
£40,000.00	£9,628.00	£30,372.00	£759,300.00
£60,000.00	£9,628.00	£50,372.00	£1,259,300.00
£80,000.00	£9,628.00	£70,372.00	£1,759,300.00
£100,000.00	£9,628.00	£90,372.00	£2,259,300.00

* to achieve a lifestyle that allows you to be more spontaneous with your money. You could have a subscription to a streaming service, regular beauty treatments and two foreign holidays a year you'd need £33,000 a year source: <https://www.retirementlivingstandards.org.uk/>

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. To calculate the retirement savings needed (r) for the income desired (i), the calculation is $i / 4\% = r$

Personal finance

A mixed picture in ESG

Investment in impact increasing among HNWIs, but doubts still remain

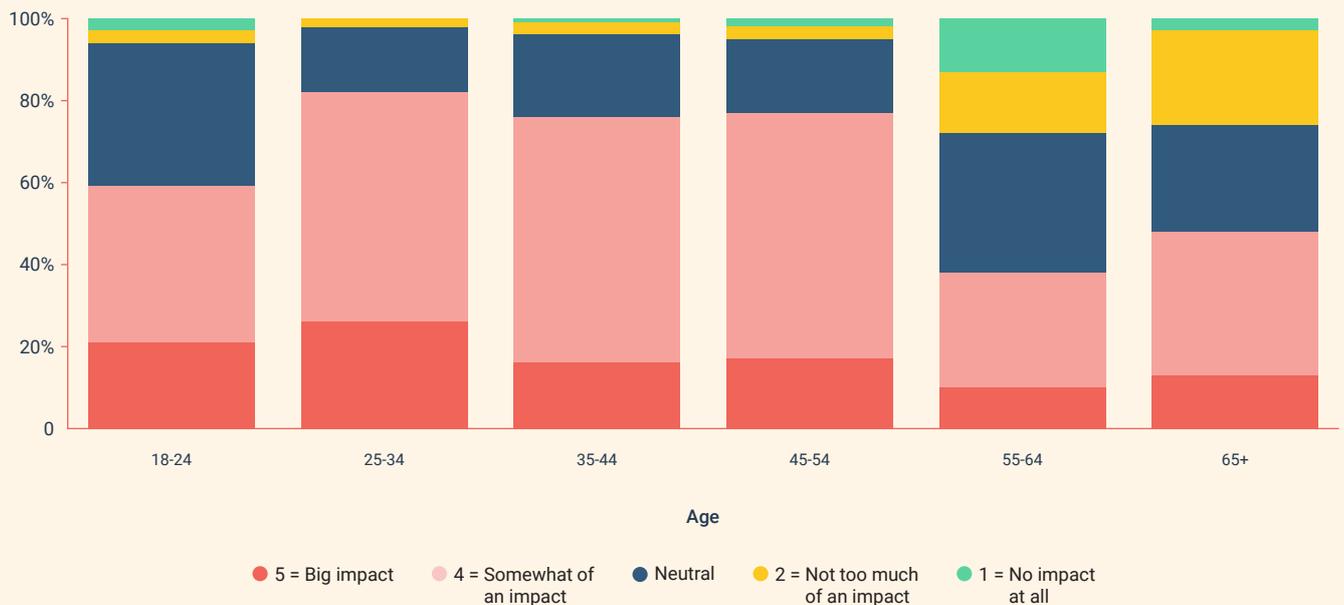
Sustainable investment is looking increasingly attractive to HNWIs. Nearly three quarters (73%) are investing in ESG stocks compared to 64% last time. This was particularly pronounced among 18-24-year-olds, of whom 80% said that they invested in ESG stocks.

Moreover, faith is growing in sustainable investment. In our last report, only 48% of respondents thought that ESG made an impact. This year, 74% believe it does.

However, there is still an abiding view that an ESG strategy is insufficiently financially viable. A third (32%) believe that they don't generate sufficient returns and 20% of respondents said that it was just hype.

That may be a misapprehension. According to MSCI World Indices, equities that are aligned with the Paris Climate Accords have outperformed global equities over the last 8.5 years (to 31st March 2022).

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



Lifestyle Overview

HNWIs believe working hard increases chances of overall success

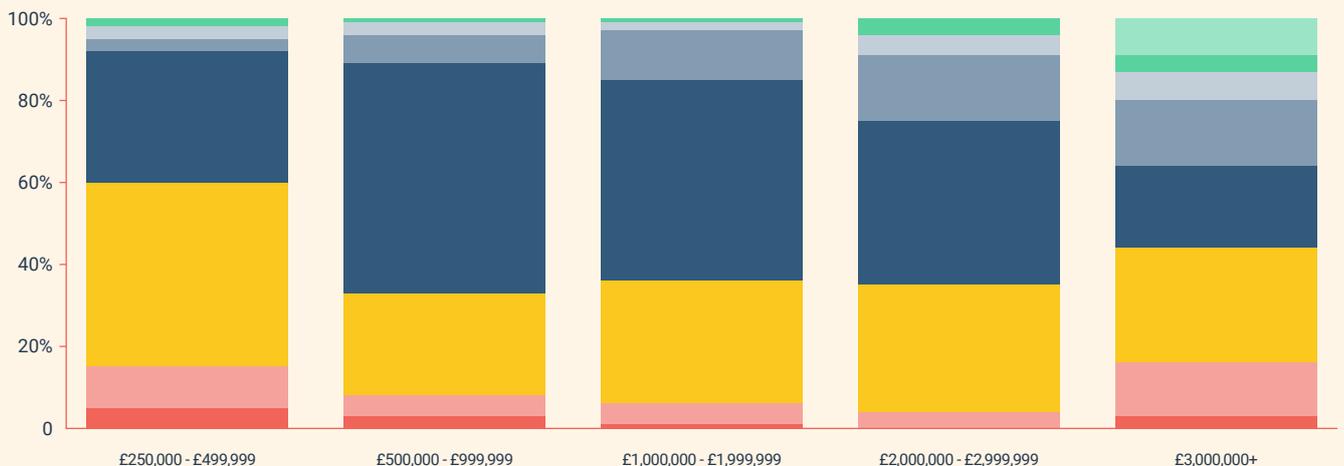
Most (71%) respondents describe themselves as self-made and believe that hard work is a significant factor in success. Overall, respondents say you need to work an average of 45 hours a week to feel successful, but this rises to 53 hours among the wealthiest respondents.

Our respondents believe that they've worked hard for their wealth and that they continue to do so. Those in full time employment work on average 49 hours a week. The mean for the total sample is 42 hours of work a week (including retired and part-time workers), but 25% work over 51 hours a week and 5% work over 60 hours.

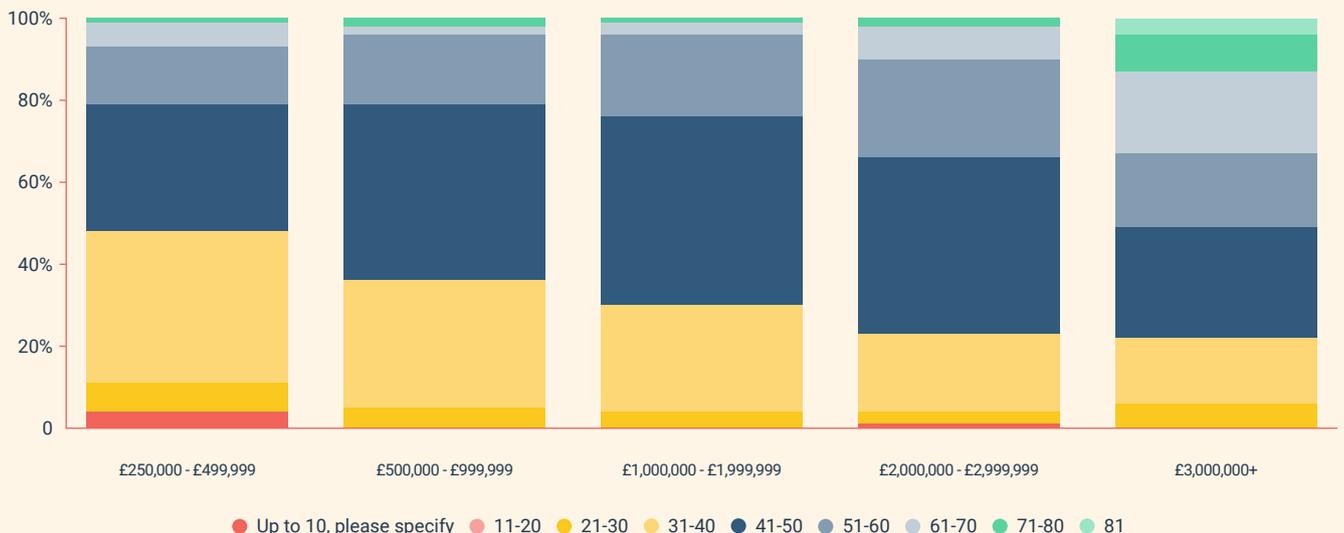
Anxiety about wealth remains high among HNWIs

However, they also retain a significant amount of anxiety about their wealth. The things that prompt that anxiety include inflation (38%), economic downturn (33%), income tax rises (28%) and the prospect of a Labour government (19%).

1) On average, how many hours do you work in a week?



2) How many hours a week do you think you need to work to become successful/wealthy?



● Up to 10, please specify ● 11-20 ● 21-30 ● 31-40 ● 41-50 ● 51-60 ● 61-70 ● 71-80 ● 81

Lifestyle

Anxiety about money

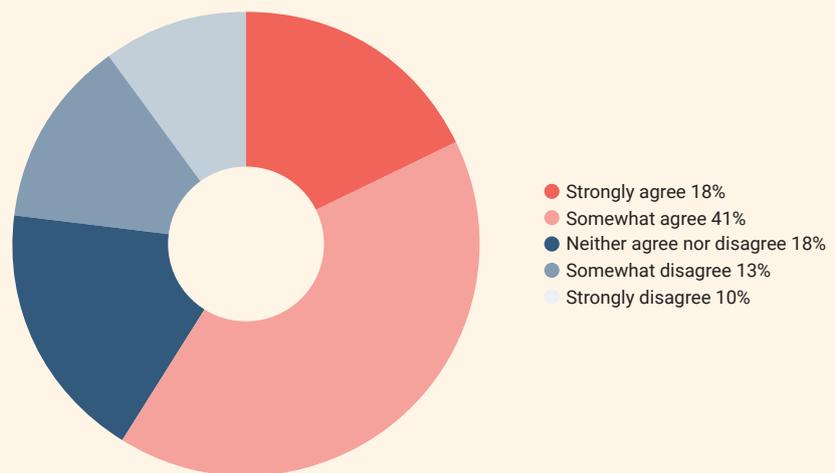
Majority of HNWIs admit their money makes them anxious

Most HNWIs also experience some anxiety around their finances, with 58% of respondents reporting that they worry about their money. Specifically, 38% worry about inflation, 33% worry about a general economic downturn, 29% are fearful of the stock market going down, 19% worry about losing their jobs and 14% say that divorce is an anxiety when it comes to their wealth.

Political change is also a potential source of anxiety. A third (28%) worry about rising rates of income tax, 17% are anxious about increases in capital gains and 19% are wary of a Labour government coming to power. While it was not a widely held anxiety, one respondent noted "I am worried about World War 3", reflecting rising geopolitical tensions between the West and contender states like China and Russia.

Despite HNWIs' anxiety around their wealth, 86% also view their money as a source of freedom.

My money makes me anxious



My main financial worries are



Methodology

- 1,000 UK 18+ respondents who have £250k+ investable assets
- UK-based
- Censuswide
- Carried out online 28 February - 15 March 2022

The formula which drives the Index is as follows:

$$SWI = \sum_{i=1}^9 w_i M_i$$

This is the sum of the nine measures outlined below, M_i multiplied by their corresponding weights, w_i .

- Confidence in respondent's own finances
- Confidence in UK economy
- Proportion of respondents who are not concerned by either inflation or interest rate rises
- Confidence in London remaining as a financial centre
- Anxiety about money
- Belief in the freedom that money can give
- Lack of confidence in ESG investments
- Belief that taxation is too heavy or too light
- Concerns about UK political or geopolitical events

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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