Your World First

# Our future financial lives

The intergenerational impact
of an ageing population

## Health and wealth

**82%**
of Current Retirees are confident they have enough savings for their retirement

but just **43%**
of Generation X+ feel the same

**37%**
of Current Retirees don't know how much they have saved and

**34%**
of Generation X+ don't know how much they should aim to save in retirement

**30**
of Generation X+ w
look to the NHS to f
long-term care an

**23%**
to their local authority

## Generational trickle-down

Where
**57%**
of Current Retirees expect to leave an inheritance, only

**38%**
of Geneneration X+ expect to be able to do so

**40%**
of Millennials/Gen Z who don't expect to receive an inheritance cite the reason as being because they want their parents to enjoy their money

**33**
of Millennials/Gen Z t
it likely that they wi
called upon to prov
some kind of financ
support to retired pa

## Financial caregiving

**62%**
of Current Retirees say they have no-one to turn to for advice and support with managing their finances

**33%**
Current Retirees feel very confident in relying on family to manage their finances

Only **18%**
of Generation X+ feel the same

The main reasons fo
lack of confidence an
Generation X+ are tha
family/friends know n
of their financial situa
and do not have th
experience to assis

## Financial institutions

Despite what we know about the ageing population, almost all financial institutions we surveyed expect their clients to have the same age and financial profile in 20 years as they do now

**75%**
of all consumers believe that the financial services industry has a broader role to play in society supporting people's ability to live well and maintain independence in later life

**45**
of businesses survey
long-term care produ
representing the gre
growth area, but just
Generation X+ who f
a need hold Long-T
Care Insurance

Nearly

# 30%

Generation X+ will rely on ISAs to fund Long-Term Care, but the median ISA holder currently has only circa

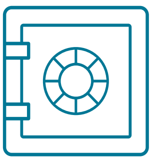
**£24k** saved

# 22%

of Millennials/Gen Z think providing elder family care will cause them personal financial hardship

# 70%

of Millennials/Gen Z already have some visibility of their parents' financial situation into retirement, and are much more expectant than Generation X+ of having to provide financial caregiving to their parents



All generations feel strongly that they would switch their banking provider if it wasn't meeting their or their family members' needs as they age, or wasn't providing the support needed to help them to care for older family members

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# Foreword

One of the great hopes in life is that we will grow older and see the next generation flourish. Longer lives mean we will all live our lives very differently; not just as we reach retirement but throughout our working life. Our growing ageing population will not just mean putting in place the right support mechanisms to help the older age group but also supporting the wellbeing of the younger generations to lessen the pressures that will result from this demographic shift. These changes will have significant implications for our future financial lives.

In the next 20 years, there will be more comparatively older people than ever before. By 2041, 16.8 million people in the UK will be aged 65 years or older, of which 3.2 million will be more than 85 years old. In another 30 years from then, the over 65 years age group will have reached over 20 million, of which 5.1 million people will be over the age of 85 years.

While increased longevity will afford much opportunity, we know many will also be poorly prepared for the true cost of retirement, with people underestimating the level of savings they will need and being unable to make provision for the possibility of poorer health in later years, and the resulting long-term care needs.

This timely report from CMS, prepared in conjunction with research agency Cicero, explores the hopes and perceptions of multiple generations – Current Retirees, Generation X+ and Millennials/Generation Z, revealing how each generation contemplates how their own needs, and the needs of their children and their parents, will change in light of our ageing population and the impact this will have on their financial wellbeing. The scale and importance of these issues are the subject of increasing debate, with the FCA opening in May 2019 its discussion on Intergenerational Differences[1] and the House of Lords Select Committee on Intergenerational Fairness and Provision reporting in April 2019.[2]

While some firms have made the ageing population a key focus, it seems that many financial institutions are struggling to get to grips with the reality. Our survey showed that almost none of them expects there to be a demographic shift within their client base over the next 20 years.

Our study found that, across the board, people had modest aspirations for their retirement, primarily focused on being able to manage their day-to-day living costs and remain in their own home. Over half of Current Retirees and Generation X+ said that they did not want to be a financial burden on their families but over a third said they were unsure how much they had saved, or would need to save, to live a comfortable retirement.

Meanwhile Millennials/Generation Z contemplated that they would need to provide support to their older family members in their retirement in a variety of forms but this would come at a cost. In helping to support their long-term care needs, 21% of Millennials/Generation Z believed that they may have to move from full-time work to part-time work, 22% believed it would create personal financial hardship for them and 18% believed they may have to take on debt to do so.

The prospect of the bank of son and daughter looks set to rise. 33% of Millennials/Generation Z said they believed they would need to provide financial support to their retired parents and, of this group, 38% said this would be because their parents would be unlikely to be able to afford their day-to-day expenses and 25% believed they would need to help support their long-term care needs. 75% of Millennials/Generation Z who expect to have to provide financial support to their parents expect that cost to exceed £5,000 per year but, given that 47% of Millennials/Generation Z said they had a current gross household annual income of £30,000 or less, such levels of support, if proved accurate, will clearly be unsustainable.

Amidst increased uncertainty around future long-term financial needs, inheritance levels look set to fall.

While 57% of Current Retirees expect to leave an inheritance, only 38% of Generation X+ expect to do the same. Around half of Generation X+ and Millennials/Generation Z said they did not expect to receive an inheritance. Showing no signs of intergenerational friction, our survey indicates that Millennials/ Generation Z want their parents to enjoy their money. Many also recognise that their parents may simply not have any savings to leave behind.

Many of our elderly population may at some point in their lives need a helping hand in 'financial caregiving', managing their day-to-day finances. Almost a third of Current Retirees say that they currently, or expect in the future to, rely on family and friends to assist. Our study showed that Millennials/Generation Z expect to be far more involved with providing financial caregiving in the future with more than double the number expecting to provide support compared to Generation X+.

Worryingly, almost two-thirds of Current Retirees say they have no one to turn to in helping manage their finances and less than two-thirds feel confident in relying on family members. Just under half of Generation X+ share the same lack of confidence. The chasm in financial caregiving is set to widen even further. Currently one million people in the UK over the age of 65 years are childless. By 2030, this figure is set to rise to two million meaning fewer family members to bridge the gap.

Those of us confronted by the reality of retirement, and the generations preparing for it on their own part or to support parents, need a financial services industry that offers products and services to help meet these challenges. An industry that recognises that an ageing population is an opportunity as well as a challenge. This report's findings echo those of the House of Lords Select Committee, *"Whilst the spirit of intergenerational support is willing, the ability to provide this help is weakening for many"*. Putting in place the right support framework to help future generations of retirees maintain their independence is vital, not only to their own health and financial wellbeing, but also those of their younger family members.

Our survey of consumers shows that over 75% believe financial institutions have a broader role to play in serving the needs of an ageing population adequately as well as the needs of those supporting the older generation. We know that many organisations already recognise this and are seeking ways to address the issue, but for a number of industry participants surveyed, serving the needs of older people is not yet a strategic focus.

This valuable report reveals and confronts many of the illusions we have on the costs of growing older and the inter-generational effect. There is huge opportunity for innovation in the industry to help us all respond to the challenges this demographic shift will bring, not only in terms of product development and financial advice but also in finding solutions to how the industry engages with and supports its customers throughout our financial lives. **This is not a challenge for the future but for all of us – now.**

**Alison McHaffie**
Partner
**T** +44 20 7367 2785
**E** alison.mchaffie@cms-cmno.com

**Elisabeth Bremner**
Partner
**T** +44 20 7367 3356
**E** elisabeth.bremner@cms-cmno.com

# The demographic shift towards an ageing population

Britain is growing older. People over 65 will be the fastest growing segment of the UK population with over 70% of population growth to 2039 set to be in this age group.

**The UK population is projected to reach almost 73 million by 2041. By 2041:**

- The Baby Boomer Generation will be in their 70s and 80s, and Generation X will also be at or nearing retirement;
- 6.8 million people in the UK will be aged 65 years or older[1], and
- the 85+ age group is set to double to 3.2 million.[2]

Within the next 50 years, more than a quarter of UK residents will be aged 65 years or older (circa 20.4 million people).[3] Of this population, 5.1 million people will be aged 85 years or more.[4]

This demographic shift will have a significant impact on old-age dependency ratios. In 2012, the ratio of people of working age (those aged 16-64 years old) to every person of state pension age was 3.21:1. Planned changes in the state pension age mean that the ratio will be 3.47:1 by 2020 but by 2041 this will have fallen back to 2.65:1.[5]

While life expectancy is increasing, longevity does not always come with good health. The proportion of life from age 65 spent in poor health is currently between 44-47%. At the age of 65, men in the UK can expect to live on average another 18.8 years and women another 21.1 years. Men can expect to live 8.2 of these years in poor health and women can expect to live 9.8 of these years in poor health.[6] By 2030, men aged 65 in the UK will expect to live another 23 years, to 88, and women another 26 years, to 91.[7]

For those with long-term health conditions, there comes an increased need for care. For many with long-term health conditions such as cancer and heart disease, medical treatment will be available on the NHS but they may need some form of live-in care or residential care in later life. And the availability of NHS funded care for someone with an illness such as dementia is much more limited as much of the type of care needed is classed as social care. It is estimated that the typical cost of care for someone with dementia is currently £100,000.[8] For anyone with social care needs, social care is means-tested meaning anyone with assets over £23,250 is self-funded. For many people this may mean spending their entire life savings on care or even selling their family home if they move into residential care.

We are currently witnessing the social care system being squeezed to its limits – both through a funding crisis and a lack of carers. Indeed, the think tank Global Future predicts that demand for social care will rise by £12 billion by 2030/31, growing at an average 3.7% a year. With expenditure growing at just 2.1% a year, the shortfall will be £1.5 billion in 2020/21 and £6 billion by 2030/31, at current costs. By 2026, around 420,000[9] more care workers will be needed to keep up with the needs of our ageing population. Without more direct intervention, it is likely the care sector will only get 10% of the growth it needs, leaving a shortfall of 380,000 care workers in England by 2026.[10]

As such, family support is likely to be needed to fill the gap – meaning both increasing demands on time to juggle care with work and/or the provision of financial support. There are currently 6.5 million unpaid carers in the UK. This figure is set to rise to nine million by 2037. More than three million people juggle work with care and one in five people give up work to care.[11] However we cannot assume that everyone will have family to help care. Currently one million people in the UK over the age of 65 years are childless. By 2030, this figure is expected to rise to two million.[12]

So, what does this mean for future generations of retirees and their children – Generation X+ (38+, Non-Retirees) and Millennials/Generation Z? Long-standing systems of informal care and support cascading down through families will continue to fall from parent to child, but increasingly monetary flows (in addition to physical care and other forms of support in a stressed social care system) will reverse as children help to fund their ageing parents' needs. These generations may also face higher taxes to plug gaps in social care funding or some form of national care insurance or auto-enrolment scheme to meet future care costs. This is likely to have a direct impact both on the aspirations and outlook of younger generations as well as on their working and wealth accumulation patterns. These factors sit alongside a host of other generational differences including slowing generational pay progression, reports of increased job insecurity, and continuing decline in home ownership.[13] Each new generation is being faced with a new reality, with a rapidly evolving set of needs and financial risks.

It is against this backdrop that this report explores how the ongoing challenges of supporting an ageing society are not only reshaping our world now, but how these challenges are likely to impact on the different generations looking ahead to 2040. We specifically examine:

- The changing nature of retirement aspirations and the factors impacting on people's outlook.
- Wealth accumulation behaviour and the extent to which this is sufficient (both for retirement generally and potential future care costs) as well as the extent to which individuals are protecting themselves from potential financial implications.
- Issues around legacy and inheritance – both from the perspective of those leaving and (potentially) receiving an inheritance – and the impact of care needs / caregiving.
- The impact of care (both financial and otherwise) on the carer.
- Financial caregiving for others (e.g. making or monitoring bank deposits / withdrawals, filing and tracking insurance and benefits claims, making savings and investment decisions, preparing tax documents, bill paying, etc.).
- The extent to which the general trend towards increasing use of digital platforms in the financial services industry's relationship with consumers will either support or hinder different generations as they age.

# **Part 2 |** Health and wealth in later life: hopes, fears and reality

When looking at people's aspirations for later life, there is a strong overlap between the aspirations of those already in retirement and the aspirations of those in the next generation of retirees (Generation X+).

Both for Current Retirees and Generation X+, aspirations focus on meeting basic needs and indicate the enduring importance of home and family: 75% of Current Retirees said that ensuring they can meet their day-to-day expenses was an aspiration, followed by 65% who cited the aspiration of remaining in their own home – suggesting that their predominant focus is a hope to remain self-sufficient. The next generation of retirees (Generation X+) cited the same goals, albeit less ardently, at 69% and 54% respectively.

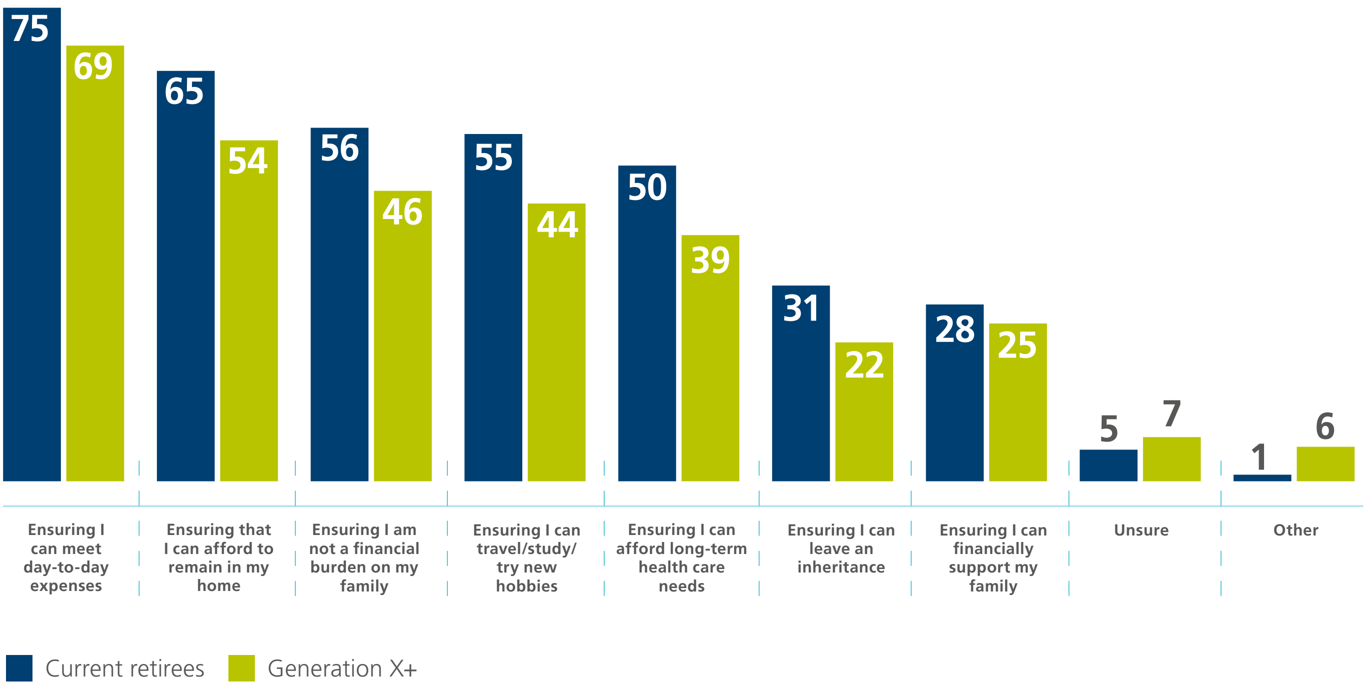
When it comes to identifying potential future challenges in retirement, Generation X+ showed increased concern for meeting their basic financial needs: 37% said that managing day-to-day finances would be a challenge in old age. This represents a big increase from 28% among Current Retirees. 30% of Generation X+ also showed slightly elevated levels of concern to Current Retirees in balancing current expenses with later life care needs: 30% up from 26% among Current Retirees.

For increasing numbers, the findings paint a picture that may involve less the living out of a retirement dream and more a retirement involving harder choices to find ways to make less stretch much further.

## Retirement aspirations are largely shaped by concerns about day-to-day living costs

**Q. What are your financial aspirations for retirement?**
(CURRENT RETIREES)

**Q. What are your financial aspirations for when you reach retirement?**
(GENERATION X+)




All numbers are percentages

Ensuring households are able to accumulate savings capable of generating sufficient levels of retirement income has been an essential part of the UK's social contract throughout the Post-War era. A complex web of social and private provision has evolved over the last 50 years, combining state pensions with workplace pensions. Following the introduction of personal pensions in 1988, this contract has increasingly relied on people making personal provision for their own retirement.

As a result of this state-led savings enablement, the UK's population seems to be better prepared for retirement than many countries. The Aegon Retirement Readiness research ranks the UK 4th out of 15 global countries in the study, reflecting the sizeable private pension assets which have been amassed (which now equals 100 percent of Britain's GDP) as well as the impact of automatic enrolment introduced in 2012.[14]

The automatic escalation in contribution rates, from the initial base of 2% of qualifying salary to 5% in April 2018 and 8% in April 2019, is likely to continue this positive trend, at least for those not in the Gig Economy. However, while the numbers saving for retirement in the UK may have increased, the amounts being saved continue to fall short of what is likely to be required given increased longevity and the possible need to meet later life care costs. The same Aegon study also reports that only 26% of people in the UK have factored healthcare costs into their retirement savings needs – the lowest proportion of the 15 countries surveyed.

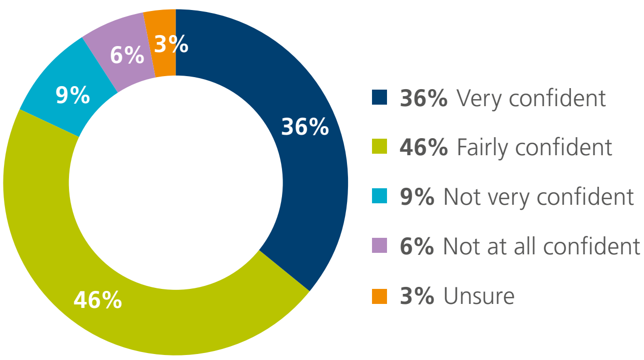
82% of Current Retirees are either 'very confident' or 'fairly confident' that they have the income they need to live out a comfortable retirement. **However, confidence among Generation X+ plummets, with only 43% being either 'very confident' or 'fairly confident' they will be able to reach a savings figure that will lead to a comfortable retirement,** although even these levels of confidence may be over-optimistic. The likely (and worrying) truth is that for many Generation X+, much of this remaining confidence will be misplaced, with many forecasters predicting Generation X+ has failed to make adequate provision for their retirement. This generation may need to work for longer or use other available forms of acquired wealth to meet their retirement needs.[15]

## Confidence in achieving an income leading to a comfortable retirement

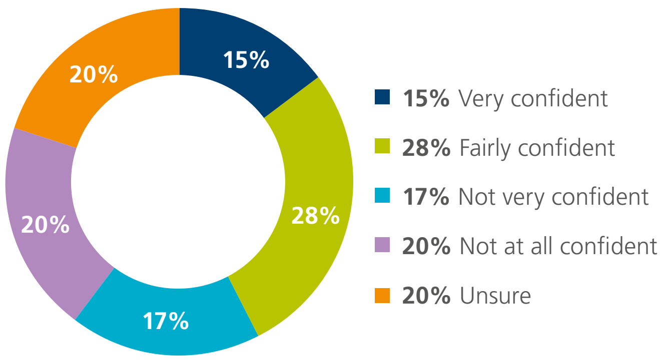
**Q. How confident are you that with this sum you will continue to be able to live your retirement in a lifestyle you consider comfortable?**

**Q. Overall, how comfortable are you that you will be able to reach a figure that will allow you to live your retirement in a lifestyle you consider comfortable?**

(CURRENT RETIREES)




(GENERATION X+)

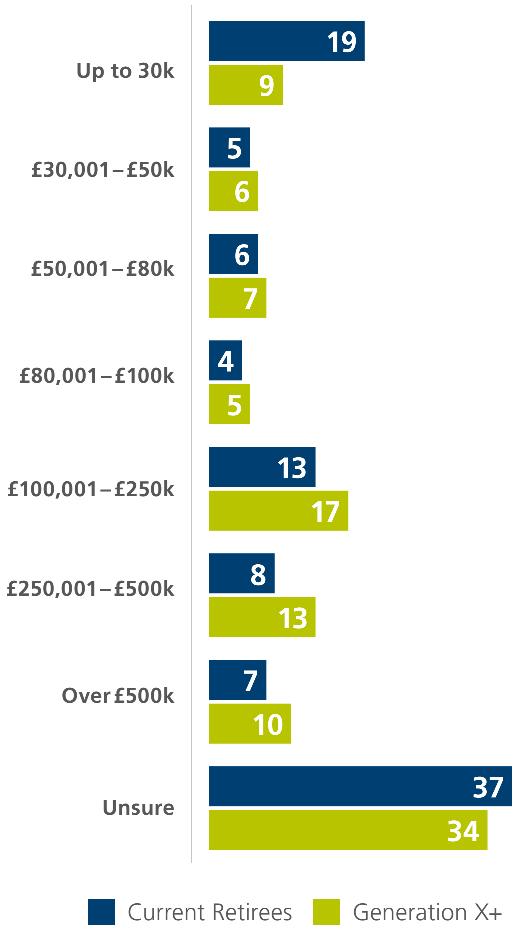


The chart below reveals that, of those set to hit state pension age before 2048 (Generation X+), only 40% believe that they should target a private pension in excess of £100,000. Given current annuity rates, a pot of £100,000 would buy an annual retirement income of only around £4,000 to £5,000. More worryingly, 34% of Generation X+ do not know how much they should aim to hold in retirement savings.

## British households are failing to amass sufficient retirement savings

**Q. How much did you and your spouse/partner save (in any form including pensions, ISAs, etc) for your retirement?** (CURRENT RETIREES)

**Q. How much do you think you will need to save in order for you to live a comfortable retirement, without additional financial support?** (GENERATION X+)




With Generation X+ not targeting adequate retirement savings, whether reflective of a lack of understanding of how much they will need, their wider capacity to save, or uncertainty with regards to what the future may hold for them personally and at a societal level with future policy-making, many are likely to be faced with a financial struggle. They may, of course, be able to take steps at retirement to avert financial hardship, such as by seeking work in paid employment. But although employment rates among older workers are on the increase, having doubled in the last 15 years, they still sit at around 10% of the retired population. Just over one million retirees in the UK are still working, although many older workers are faced with age discrimination or limited employment opportunities.

**The retirement resilience of British households is looking increasingly fragile. This is before we consider the growing long-term care needs that future retirees may face.**

# Assessing the long-term care needs of future retirees

Caring for the elderly is a complex task. With the onset of care, needs differ from individual to individual. Many people will make it through their retirement with no or very limited care needs, maintaining their physical and mental capacity throughout old age. Not all people who will need care will need the same level of care.

The number of people experiencing cognitive and physical decline is set to grow sharply and with it the demand for long-term care. Take, for example, the projected rise in people affected by dementia. One in 14 people over the age of 65 years and one in six people over the age of 80 years has dementia.

It is estimated that by 2025, the number of people living with dementia in the UK will have increased to 1 million and, by 2050, to 2 million. There is currently no cure and no treatment to slow the progression of the disease.[16]

Remaining in our own homes or 'retiring in place' is identified as a key retirement aspiration in our survey, and as such, developing models of long-term care which enable people to remain in place would match those aspirations. The NHS is leading the way in identifying ways to help older people age well. In January 2019, it published the NHS Long-Term Plan[17] and announced a significant change of emphasis aimed at developing primary and community services, driving changes focused on improving the care offer the NHS makes to older people in their homes and communities, helping them to stay well, better manage their own conditions, and live independently at home for longer.

Looking at long-term care needs (including but not limited to residential care), 15% of Current Retirees say that they do, or are likely to, require long-term care support and 20% say that their spouse or partner does, or is likely to, require similar care.

This indicates that there is a current care need somewhere between one-sixth and one-third of retirement age households although this may be an under-estimation as those with such needs may have been less well-placed to participate in the survey. Among the Generation X+ group, we can see similar expectations of long-term care needs in retirement to those of their parents' generation. While many put this expectation down to a general sense of increased frailty in later life, a significant number (43%) stated that they had already received some kind of diagnosis that could lead to increased care requirements. The reality facing them, however, may be more stark given that with increased longevity, comes an increasing number of people with high-care needs.

Local authority spending on social care for older people is falling in real terms and it is increasingly difficult for older people to obtain funding. Local authority funding is means-tested and is complex and poorly understood.

Those with assets below £14,250 are not required to use these assets to meet their care costs. Those with assets between £14,250 and £23,250 are required to make some contribution to costs and those with assets above £23,250 are not eligible for local authority funded care. Those who are not eligible will need to pay for care privately (with no current cap on total costs) or rely on family and friends for unpaid care. One in 10 who enter the care system end up paying over £100,000 in fees. Even where the local authority does provide funding, many care homes say that

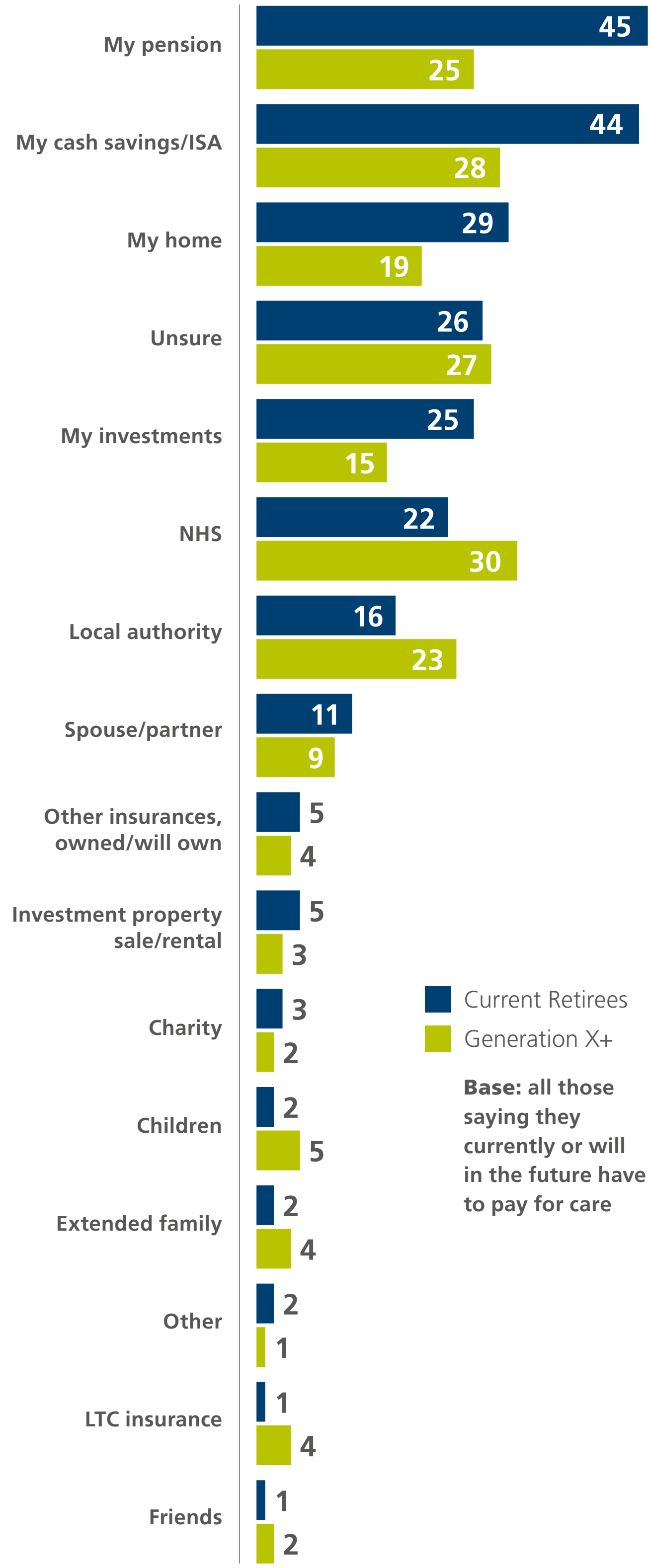
such funding does not cover their costs. Individuals can be required to contribute towards their care costs from their income, or family and friends may need to assist with top-up fees.

Among survey participants, ISAs constitute the most popular form of long-term savings but the typical amounts being saved would quickly become exhausted in the face of the likely costs associated with long-term care. 28% of Generation X+ say they will rely on ISAs to fund long-term care. The median ISA holder currently has £24,035 saved.[18] After the ISA, the pension is the next likely means of funding long-term care among future retirees. But as we explored previously, most people are likely to retire with a personal pension income of less than £4,000-5,000, an amount which would be dwarfed by care costs. Worryingly, nearly a third (30%) of Generation X+ are looking to the NHS to fund their long-term care costs in the future. While the NHS does provide care in some circumstances (NHS Continuing Healthcare is available for more complex healthcare needs and is not means-tested[19]) it is, in reality, difficult to secure – particularly for those with dementia,due to the qualifying criteria.[20,21]

It could be argued that there is little incentive to save towards long-term care, as any assets above the funding threshold would be swallowed up and just serve to delay the point at which the state steps in. In reality, however, with a maximum personal budget for individuals requiring care, without top-ups in funding from family or friends ("third party top-up fees") or other sources of income, choices in care options may be inhibited.

## Almost a third of Generation X+ who have or anticipate long-term care costs expect to rely on the NHS to fund care

**Q. Which of the following do/will you use to fund this care?**
(CURRENT RETIREES/GENERATION X+)



# Workers, the workplace, and the future of the frontline

**Mark Duke**
Managing Director,
Willis Towers Watson

**David Robbins**
Director,
Willis Towers Watson

Reliance on the state system for care is often considered the fall-back provision for many. However, as explained by David Robbins and Mark Duke of Willis Towers Watson, employers and workers alike need to be mindful in terms of imagining the future world they are planning for.

"It's incredibly sensitive to assumptions, but on the Office for Budgetary Responsibility's long-term fiscal forecasts based on current policy, debt as a share of GDP goes from about 80% of GDP to 280% over the next 50 years." Robbins poses. "It might not be a problem because assumptions might be wrong, and the current path might be much more manageable. If it's not, something will have to give. The State is not going to retreat from providing pensions and pensioner benefits or social care, but what you'll get and when you'll get it are not things that people can take for granted decades in advance."

Beyond state provision, changes in the generosity and structure of pension schemes have led to lower contributions, and to employees shouldering the risk.

"In our world as you look forward, levels of pension wealth are probably going to fall as the golden generation – that is, those that have a lot of quite high-quality Defined Benefit (DB) pension in the bank – wash through the system," Duke poses. "There's going to be more people coming through who are totally reliant on lower value schemes so that's going to be quite challenging for them."

Robbins adds: "They're going to have less money going in in the first place, and if we are in a low interest rate world, you've got less money working less hard. 'Pension freedom' has been piloted on a generation where Defined Contribution savings were often a top-up to DB and often to bigger State Pensions, so the stakes were lower if people got things wrong. That will be different in future."

For scheme providers, there are measures that can be built into plans to help workers prepare as well as possible for the future.

In Willis Towers Watson's scheme, LifeSight, Duke notes: "You get a piece of guidance or advice at the time of retirement which would take you through the whole process of getting an annuity, not getting annuity, what other options are available, and the opportunity, if a member wants it, to transition from that advice solely about that pension to talking more broadly about their financial affairs."

Duke does highlight, however, that the changing nature of work means not all workplace pension schemes may feel it is their responsibility to provide such pastoral care. "You see employers, when they look at their own workforce planning, they're wondering what to do with a workforce that needs to stay in work for longer, and they need to accommodate a higher proportion of older people in the workforce."

"It's not a world where people would have been with the same employer for many years, they've had multiple careers, multiple job changes, they may have only recently come into the job they have at 65 or 66. It's not like the employer is trying to satisfy your needs cradle to grave." Robbins adds: "Unless you've got a long-term retained workforce, it's not a problem you can get rid of by offering better pensions if people aren't with you for a long time."

Automatic enrolment has done a lot of good to get workers on the ladder for saving, but it is not a silver bullet for later life security. "There is a fear that the minimum level (8% of earnings within a band, split between employer and employee) was less than policymakers thought was right for most people, but I'd be surprised if a meaningful proportion of people knew that." Robbins states. "There's probably a lot of people who think that this is the right proportion to save, otherwise why would it be the default?"

Indeed, employers may well be having to consider how their workforce of the future will look as workers try to top-up their pension pots. Duke says: "The most powerful lever people have at their disposal is probably not if they managed to put away another 1% of salary into their workplace pension. In the end it's going to be how long you work (if work's available to you). If you paid in 10% a year, which is quite a strong amount, it would crudely speaking take eight to 10 years to save a year's pension earnings. It's as much about work as it is savings, and how long they'll be able to work, as that's the thing they may be able to control."

**"You've got less money working less hard..."**

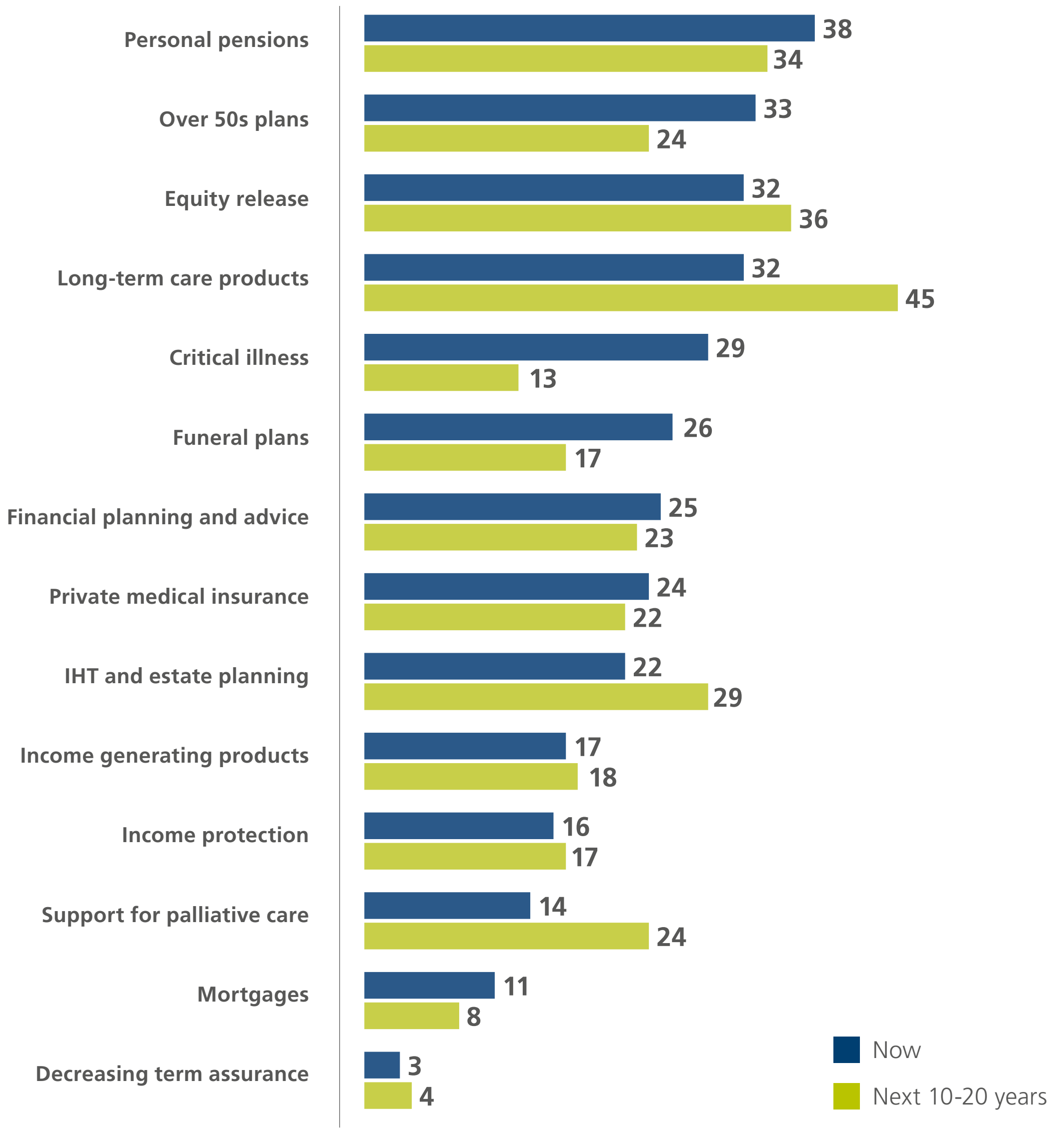
# Insurance-based market solutions to funding Long-Term Care Insurance (LTCI)

LTCI offers a potentially more sustainable route to funding long-term care, allowing people to maintain a wider range of care options and (in the absence of a cap on care costs) may enable those with more significant wealth levels to preserve such wealth to leave as an inheritance.

**Yet penetration remains scant, the proportion of Generation X+ covered is just 2% and only 4% anticipate holding in the future.**

The lack of a clear government policy on long-term care funding was identified by all our in-depth interviewees as one of the main reasons for low customer engagement. Nevertheless, our survey of the financial services sector reveals that LTCI and equity release products are perceived to be key areas of growth in the next 10-20 years in managing the financial impact of an ageing population.

**Q. Which do you see as being the MAIN products that consumers currently use to deal with longer-term financial risks in an ageing population, and which of these do you think you will see the biggest growth in sales over the next 10-20 years?**



The government has previously undertaken an independent commission, chaired by Andrew Dilnot, to explore options for funding long-term care. The Dilnot Commission recommended the introduction of a cap on social care fees, which would limit the household exposure to spiralling care costs. Despite plans to implement this in 2020 being written into law, the £72,500 cap was scrapped in December 2017.[22] A Green Paper on the future system of social care was simultaneously announced to be released in 2018 but has since been delayed. 18 months on and product providers, financial advisers and households are still waiting for a government policy to emerge.

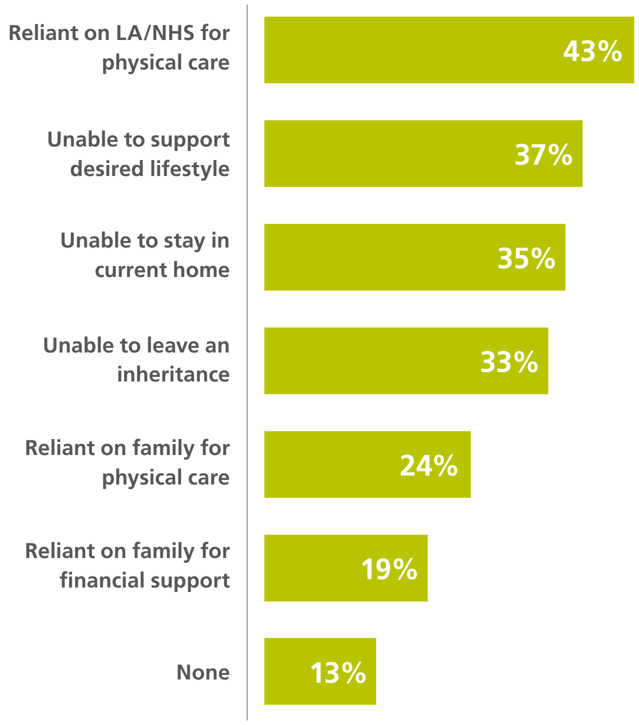
Generation X+ are becoming increasingly aware of the potential cost of funding long-term care, through both the experience of their parents' generation and their own potential care needs. 35% of those expecting to have to fund long-term care support thought that paying for such care would mean they would be unable to remain in their own home. In addition, 37% thought it would prevent them from supporting their desired lifestyle, and 33% believed it would stop them leaving an inheritance.

**Nearly one in four (24%) of Generation X+ that expect to need long-term care support state that they will be reliant on their family for physical care, while one in five (19%) state it will make them reliant on family for financial support.** This starkly demonstrates how the consequences of long-term care can trickle down through generations, giving rise to additional challenges for younger family members further down the line impacting their own financial wellbeing.

Nonetheless, until central government outlines a clear direction in policy and a longer term social care strategy, financial services providers are unable to create future-proofed products in this area and will struggle to gain customer engagement. Generation X+ seems unlikely to look to the insurance market for solutions for funding their future long-term care needs.

## Among Generation X+, reliance on the NHS is seen as the biggest consequence of meeting long-term care costs

**Q. Which do you think will occur as a consequence of future long-term care support?**
(GENERATION X+)




**Base:** all those saying they expect to have to meet long-term care costs

# **Part 3 |** The generational trickle-down effect

Receiving unpaid care from a family member can have a number of implications for the carer in terms of health and financial wellbeing. As to the latter, this can include disruption to working patterns and personal financial hardship. Within this section, we explore the experience of Generation X+ and Millennials/Generation Z on the potential impact of having to support the long-term care needs of parents or grandparents. We found these groups hold strikingly different perspectives.

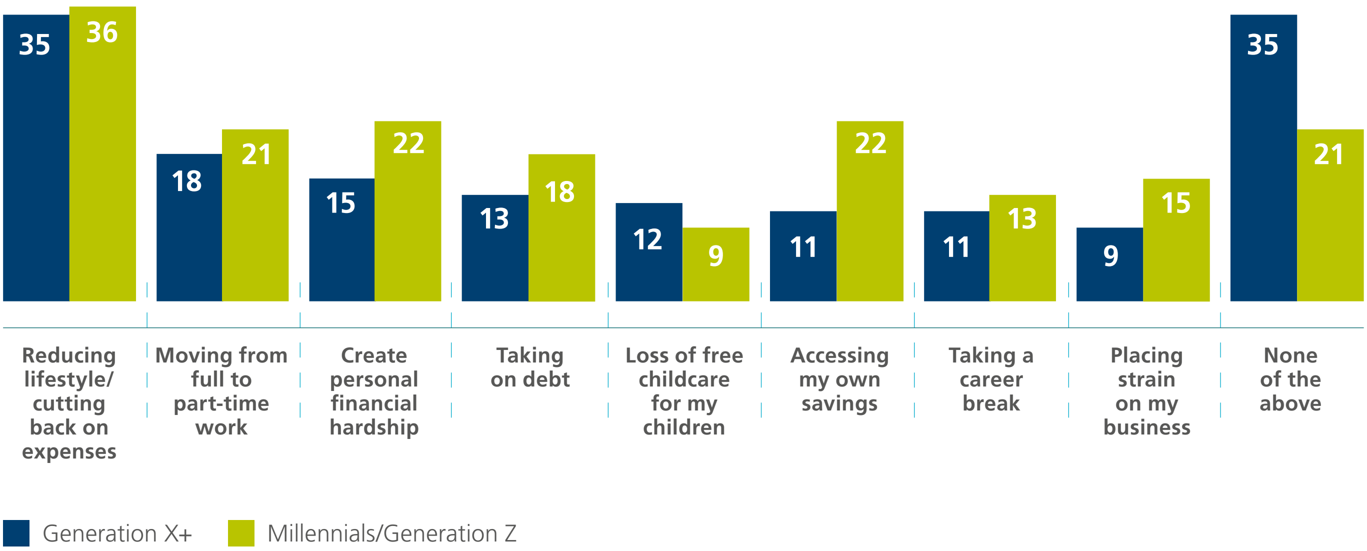
35% of Generation X+ feel that they could manage without a significant impact on their lifestyle or finances. Amongst Millennials/Generation Z, this figure falls to just 21%. They, in turn, are much more likely to identify adverse consequences which could impact their financial wellbeing, including: **having to draw on their own savings (22%), experiencing personal financial hardship (22%) and taking on debt (18%).**

All of these concerns would tend to suggest a lower degree of financial resilience among this age group.

The fact that **one in five of this group (21%) also highlight that providing care for elderly relatives would likely result in moving from full-time to part-time employment** would only exacerbate the issue – impacting further not only on their ability to accumulate wealth, but also, at a more basic level, in ensuring they can afford day-to-day living costs. Indeed this figure may be an underestimation. As noted earlier, the UK is facing a future carer crisis and family and friends are increasingly more likely to need to step into the breach. Today, more than 3 million people juggle work with care and one in five people give up work to care. The number of unpaid carers is set to rise from 6.5 million to 9 million by 2037.[23]

## Millennials/Generation Z are more likely to foresee direct consequences for their financial wellbeing as a result of parents' long-term care requirements, possibly reflecting their lower level of financial wealth and resilience

**Q. Would providing this care for parents/elderly family result in any of the following for you personally?**
(GENERATION X+/MILLENNIALS/GENERATION Z)




**Base:** All those providing or expecting to provide financial and physical care to their parents.

# The bank of son and daughter

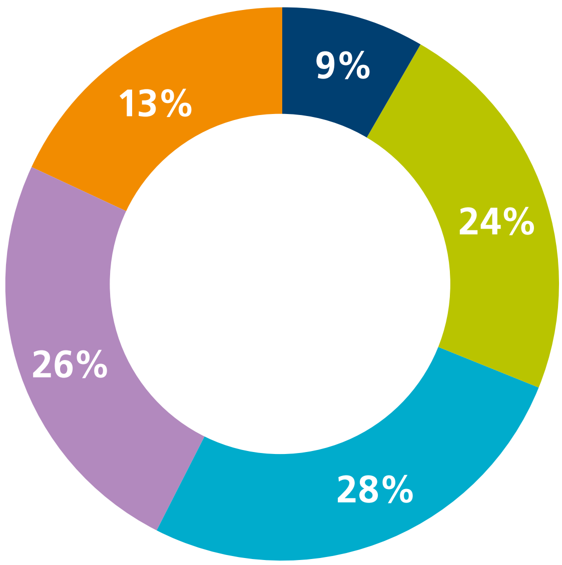
Much has been written about the "bank of mum and dad", in which parents free up their housing equity, savings and investments to help finance their children through university or onto the property ladder. However, one of the impacts of an ageing population is that wealth may begin to trickle up rather down through the generations from working children to their retired parents, and even grandparents – having a direct impact on the ability of Millennials/Generation Z (in particular) to accumulate wealth.

The spectre of this impending financial support provision means that Millennials/Generation Z are, at least, beginning to now have the difficult financial conversations with their parents, with 29% saying they have full awareness of their parents' financial situation and only 30% being completely unaware.

33% of Millennials/Generation Z think it likely that they will be called upon to provide some kind of financial support to elderly parents during the course of their retirement. This confirms the emergence of a new trend.

## One-third of Millennials/Generation Z (33%) expect to provide financial support to their parents in retirement

**Q. How likely is it you will need to provide financial support to your parents during their retirement?**
(MILLENNIALS/GENERATION Z)




- **9%** Very likely
- **24%** Likely
- **28%** Unlikely
- **26%** Very unlikely
- **13%** Unsure

**Our analysis suggests that the Millennials/Generation Z group have a high expectation that they will need to provide financial support to their retired parents.**

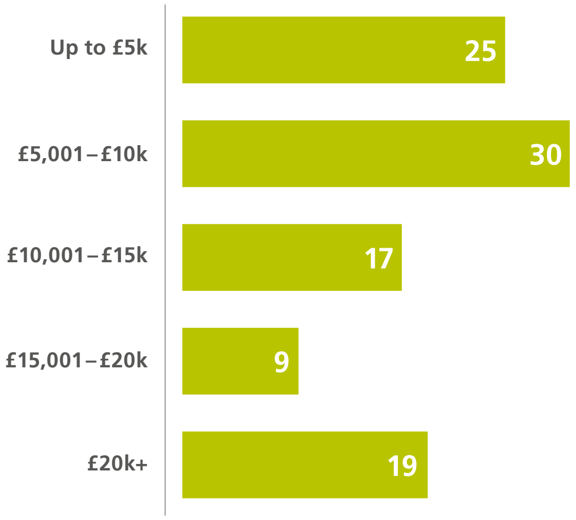
With a possible greater reliance on the bank of son and daughter on the horizon, the associated costs are significant: of those Millennials/Generation Z who believe they will have to provide financial support (of any kind) to their parents, 75% expect to have to provide more than £5,000 annually, with 19% of these anticipating to contribute in excess of £20,000.

This predicted figure is staggering. However, just as staggering is the finding that 38% of those Millennials/Generation Z who say they are expecting to face costs in supporting parents through retirement put this down to their parents being unlikely to be able to afford day-to-day expenses. 27% of this group say their parents do not have a private pension and 25% say they are likely to need to support parents with their long-term care costs. By contrast, only 9% of Generation X+ feel they would need to rely on family financial support in the future to meet their long-term care needs, perhaps underestimating the prospect of having such care needs or the cost of such care.

# The bank of son and daughter

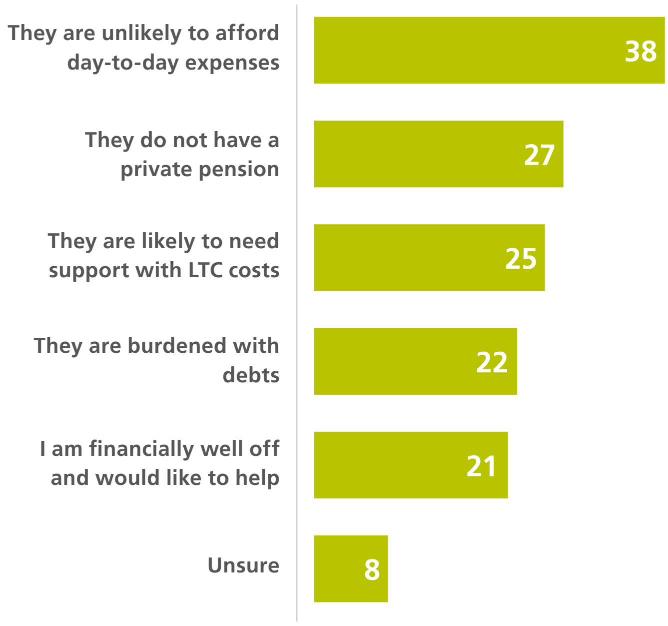
## Expected cost of parental support

**Q. What do you believe the average annual cost of this financial support will be?** (MILLENNIALS/GENERATION Z)




## Why will you provide parental support?

**Q. Why do you believe you will have to provide financial support to your parents?** (MILLENNIALS/GENERATION Z)

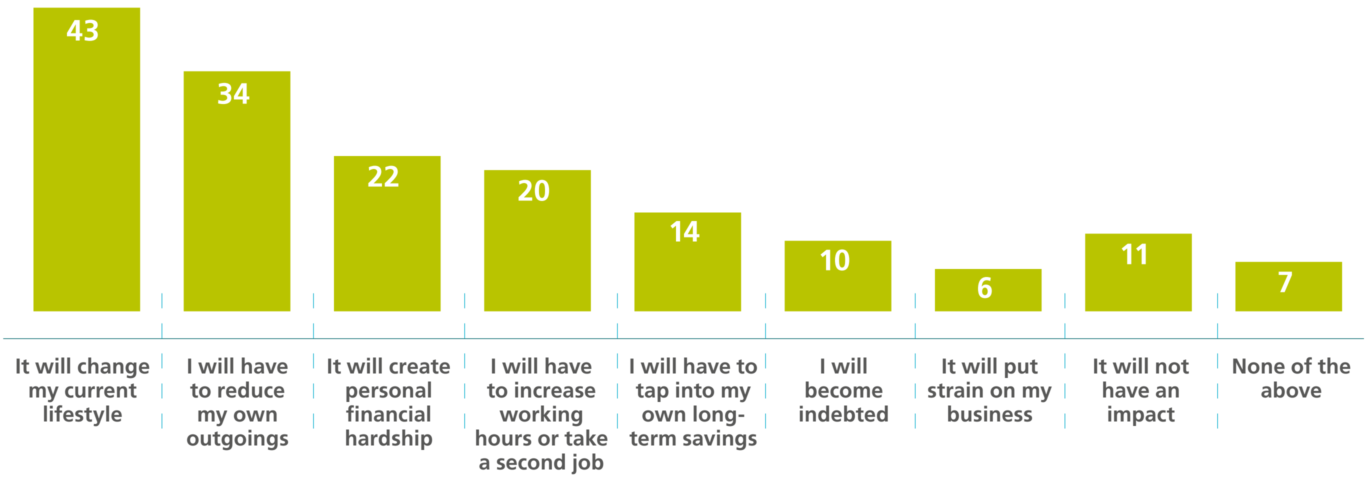



**Base:** All Millennials/Generation Z who believe they will have to provide financial support to parents.

If these figures prove to be accurate predictions, such levels of support appear unlikely to be sustainable. Nearly half of Millennials/Generation Z in our sample (47%) had a gross annual household income of £30,000 or less. This support will come at a heavy cost both directly and indirectly. 34% of those Millennials/Generation Z stating they will have to provide financial support to their parents expect to reduce their outgoings, while over one in five say it will result in financial hardship. A further 14% expect to have to dip into their own savings – potentially having significant ramifications on the long-term wealth accumulation needs and aspirations of this group. Balancing the needs of their immediate family (partner and children) with those of their parents was seen as the biggest challenge arising from having retired parents. One in five identified having sufficient time to provide physical care as being the biggest challenge (21%) and a similar number (20%) identified not being able to maintain full-time employment as a consequence – further impairing the ability of the Millennial/Generation Z group to accumulate wealth.

## Over two-fifths of those Millennials/Gen Z who believe they will have to provide financial support to parents expect to make cut backs in their own outgoings as a consequence. One in five will experience financial hardship.

**Q. As a result of providing financial support to your parents, do you envisage any of the following consequences?** (MILLENNIALS/GENERATION Z)




**Base:** All Millennials/Generation Z who believe they will have to provide financial support to parents.

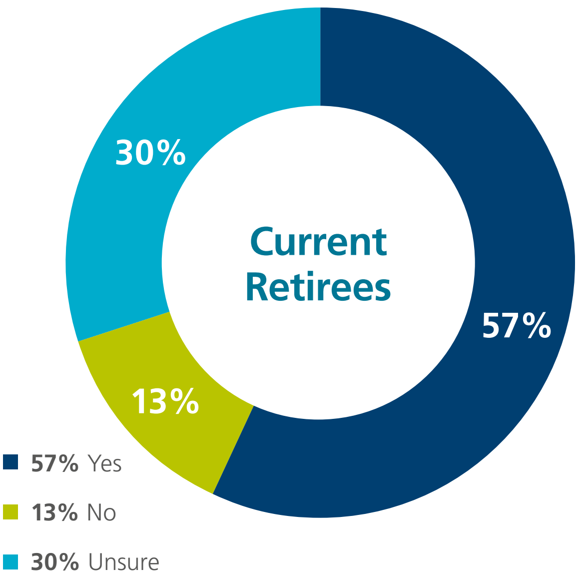
# The bequest motive: does the ageing population prevent us leaving a legacy?

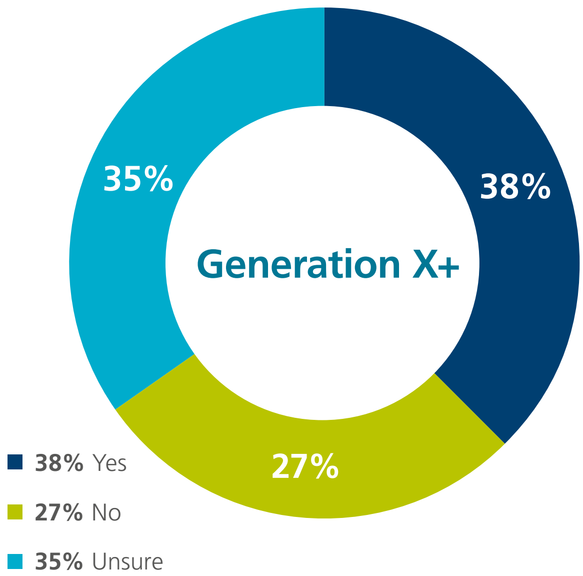
A further impact of increased longevity in the ageing population is likely to be felt in individuals' ability to leave financial assets to the next generation. The notion of leaving our children some kind of financial legacy is ingrained in human nature. However, realising this dream looks set to stall.

Whereas 57% of those already in retirement believe that they will leave their children an inheritance (which could in theory help to fill some gaps in the retirement plans of Generation X+) only 38% of those in Generation X+ feel the same way, meaning the likelihood of Millennials/Generation Z receiving an inheritance is decreasing.

## Far fewer people in Generation X+ expect to leave an inheritance compared to their parent's generation

**Q. Do you think you will be in a position to leave a financial inheritance to others?**
(CURRENT RETIREES/GENERATION X+)




When it comes to what would constitute an inheritance, both age groups have a similar vision of what this legacy should look like, wishing to leave their home and a cash lump sum. Should these numbers reflect the reality then the next generation in line, the Millennials/Generation Z, can expect to inherit wealth from their parents to a much lesser extent than the generation before them. Parental wealth will not fill the gaps in their financial plans to nearly the same extent as was certainly the case for Current Retirees.

Perhaps we are already starting to see this erosion of inter-generational wealth transfer. While a significant proportion of Current Retirees expect to leave an inheritance to their children, Generation X+ do not share the same degree of expectation.

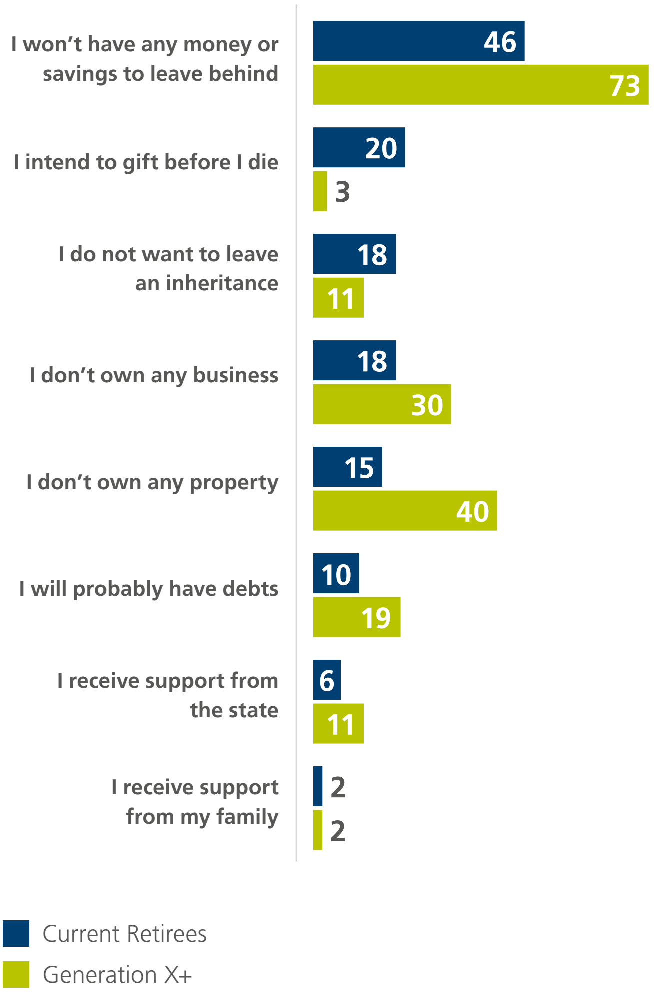
Around half of both Generation X+ and Millennials/ Generation Z do not expect to receive any inheritance.

Of our Generation X+ sample who do not expect to leave an inheritance, 73% said it was because they wouldn't have any money to leave behind and 40% said it was because they didn't own any property.

With wealth accumulation stalling across the working age population, the ability of generations to pass wealth down, or even now pass wealth up, looks set to break down. Given our current reliance on informal family support in the shape of both physical caregiving and direct financial support, this exposes the need to quickly develop a societal response to building a more comprehensive system of care for our ageing population. In the future, the system of family support will not be sustainable, at least without inflicting significant financial burdens and hardships on the working age population.

## Lack of savings or property may mean leaving an inheritance becomes a thing of the past

### Q. Why do you feel unable to leave an inheritance
(CURRENT RETIREES/GENERATION X+)




**Base:** Those who said they did not think that they would be in a position to leave a financial inheritance to others

While a significant proportion of Millennials/Generation Z are not expecting to receive an inheritance, this may, at least in part, be shaped by the changing wants and needs of this generation themselves. Well over a third of those Millennials/Generation Z who said that they did not expect an inheritance said that they would prefer their parents to enjoy their own money rather than passing it on (40%) – demonstrating a lack of generational friction around the issue of legacy. This was a more common response than the sense that their parents would not have any money to pass on (36%).

**"We need to challenge conventional thinking, the ageing population is not something that will happen in the future. It's happening here and now."**

Johnny Timpson
Head of Protection Insurance,
Scottish Widows

# Financial services may have been slow to react, but opportunity is ripe.

**John Godfrey**
Corporate Affairs Director,
Legal & General

The industry is all too aware of the growing numbers of older customers and how wealth ownership is changing – but how it adapts to the new client landscape is not so clear-cut, especially as the pause button on creating financial products for care funding is hit until government policy for long-term care is clarified.

But there is plenty of ground to be explored in the here-and-now, and opportunities for the financial services sector to respond to the demographic shift, Legal & General's John Godfrey argues. It will just take a rebalance of assumed priorities to get there.

"Historically, most businesses would target 75% of their marketing budget at Millennials as a more exciting prospect – but they don't have much money," Godfrey states, adding that consumer bases are often segmented into a dozen or so disparate groups, and often just one bucket designated for the over 60s. "The difference between someone who's 61 and 91 is pretty huge, so I think we're going to see a big growth in sophistication there."

The financial services industry is only just starting to look at how it can service the needs of an increasingly complex market as clients get older, with the rise of retail defined contribution pension products, the need to generate new income and assets and dealing with housing and long-term care. "We're very product-led as an industry, and what we haven't looked at yet is how the phenomenon of a linear life from 50-onwards is no more," Godfrey says.

"Families are more complicated, and no longer necessarily nuclear. Careers are very different – most people starting work now might expect to have a dozen different jobs, including perhaps some freelancing or self-employment. And people might assume that at some point they'll have to stop working and re-train. Because for people starting now with 40-50 years of work ahead of them, the workplace is going to be very different than it is today. They'll be doing jobs that haven't been thought of yet."

Indeed, this new normal may require individuals to deepen their financial management, and to get more advice. "Where do, and will, people get advice on things like shared ownership, complex multiple pensions, treating a house as just another asset or not owning property at all? At the moment, the aversion to regulatory risks means there isn't much affordable advice on the high street," Godfrey says. "It's a big gap, especially as lives become more complicated."

Technology here may be a seminal tool. When it comes to customer guidance and advice, "digital interaction gets better and better, and people get better and better at doing it, and equally firms get better at providing it," Godfrey says, outlining a two-prong approach of how models might evolve with fintech.

"Firstly, the market solutions will come forward – whether that's entirely robo, or whether it's what they call 'cyborg advice' (i.e., a robo component with a human that can step in) he states.

"The other bit you probably need alongside that is a more systematic approach of engaging individuals. People don't like the language but it sums it up nicely, it's the Mid-Life M.O.T. This would be rather than waiting until the point where you need advice, there are certain way-points where you're not compelled but strongly nudged into having an assessment and getting advice. It's like public health screening – typically easier to address these things in a preventive way rather than waiting for a cure. It's something for society to do and there's a role for the industry in that process."

"For most people, a lot of this stuff is incomprehensible and potentially really boring. There's always something more entertaining or important to do on a Sunday. We have to make a better case for joining up what happens to your money when you put it into your savings and long-term investments. It doesn't just vanish into the City or Canary Wharf somewhere, so let's show how that money is being invested in local communities," Godfrey states.

"If I was a retired person sitting in Salford for example, I might find it interesting to know that a bit of the pension I'm expecting to receive at some point is meanwhile earning a reasonable rate of return by funding a piece of infrastructure which my children can go to work on, or investing in the company which employs them. It's connecting them to the real economy."

**"...the phenomenon of a linear life from 50-onwards is no more."**

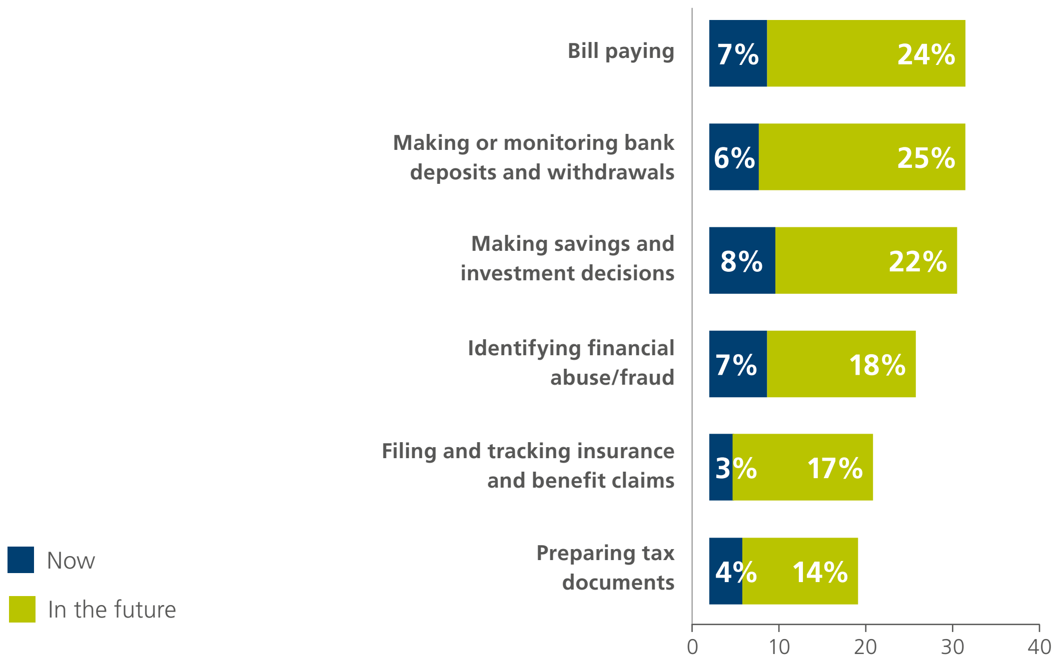
# **Part 4 |** Changing patterns of financial caregiving

With the numbers of over 65s set to increase rapidly by 2040, the need for future financial caregiving will also increase. By financial caregiving we mean assistance with managing everyday finances such as making deposits and withdrawals, monitoring transactions and paying bills as well as more complex matters such as investment decisions. The need for greater support will also be driven, to some degree, by the changing ways that financial services providers engage with end-consumers and the general move to a more automated and digitalised approach to both everyday banking and broader savings and investment activities.

Over 30% of Current Retirees rely upon family and friends, or expect to do so in the future, for assistance with basic financial needs such as bill paying, making or monitoring deposits and withdrawals and making saving and investment decisions. Areas where Current Retirees wish they had greater support are in making investment decisions (15%) and identifying financial abuse (13%). It is worth noting again, however, that by 2030 two million over 65s will be childless, creating a cohort who will not be able to rely on immediate family for their financial caregiving.[24]

## Financial caregiving will be shaped by basic banking needs such as paying bills and monitoring deposits and withdrawals

**Q. What forms of financial caregiving do you rely upon from your family or friends currently/which forms do you expect to rely upon friends and family for in the future?** (CURRENT RETIREES)



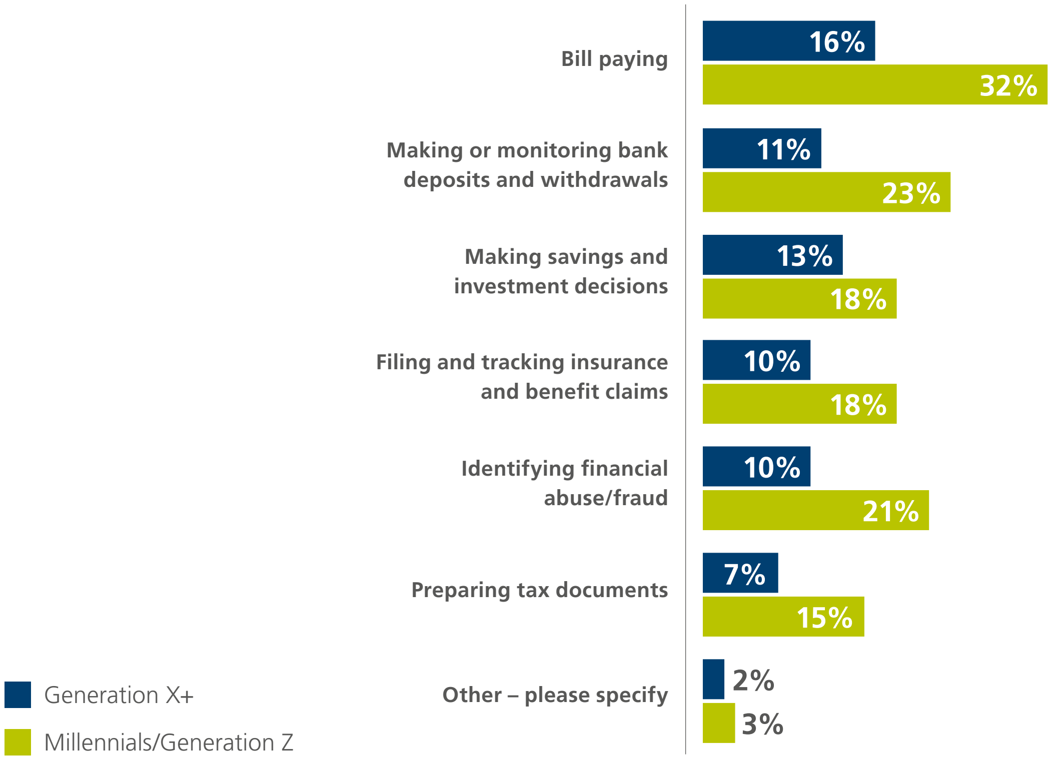

The findings reveal the extent to which Millennials/Gen Z expect to provide financial caregiving support in the future, with 32% believing they will need to engage in paying bills on their parents' behalf. Over one-in-five also think they will have to provide help in day-to-day banking (23%) and identifying financial abuse or fraud (21%).

The data suggests that this age group expects to be far more involved with providing financial caregiving in the future than the Generation X+ group tell us they are currently doing for their family although Generation X+ may have underestimated the extent to which they may be called upon to provide support in the future given expectations of Current Retirees'.

## Revealing the extent of financial caregiving Millennials/Generation Z expect to provide to their parents

**Q. What forms of financial caregiving do you currently provide to your parents?**
(GENERATION X+)

**Q. What forms of financial caregiving do you think you will provide to your parents?**
(MILLENNIALS/GENERATION Z)




**Worryingly, almost two thirds of Current Retirees do not turn to anyone for financial caregiving support.** Even though family is often the starting point when dealing with important life choices and events, only one in six people (17%) currently turn to family members for help with managing their finances. A far greater number (62%) do not turn to anyone. Indeed, only one in three Current Retirees are very confident that family members would be able to help them make the right decision- falling to 18% among the Generation X+ group. Critically, among the currently retired generation, as many as 29% said that they did not *want* a family member helping them with their finances.

The reasons for this include:

– Family members have insufficient knowledge about older family members' financial circumstances (84%),

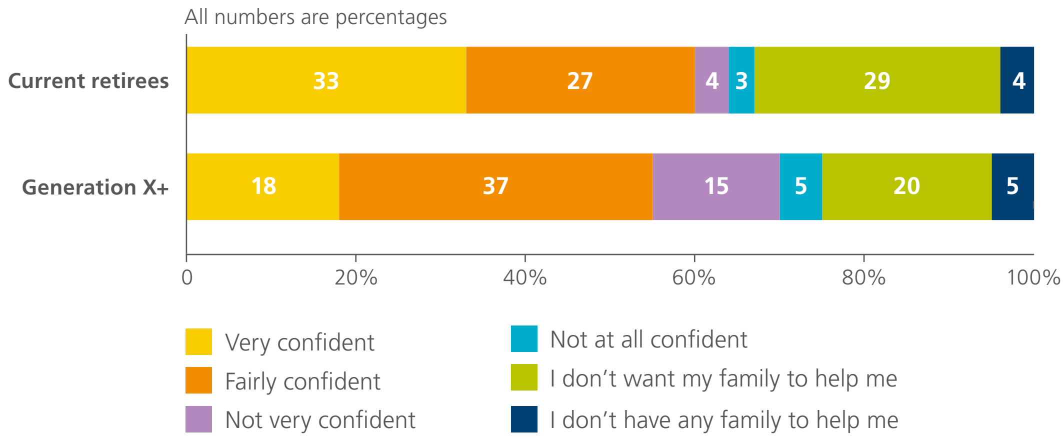
– Family members have insufficient expertise about financial matters (34%); and,

– Younger family members do not have the life experience necessary to assist them (22%).

Looking to the next generation of retirees, we also know that even fewer will have younger family members to support them.

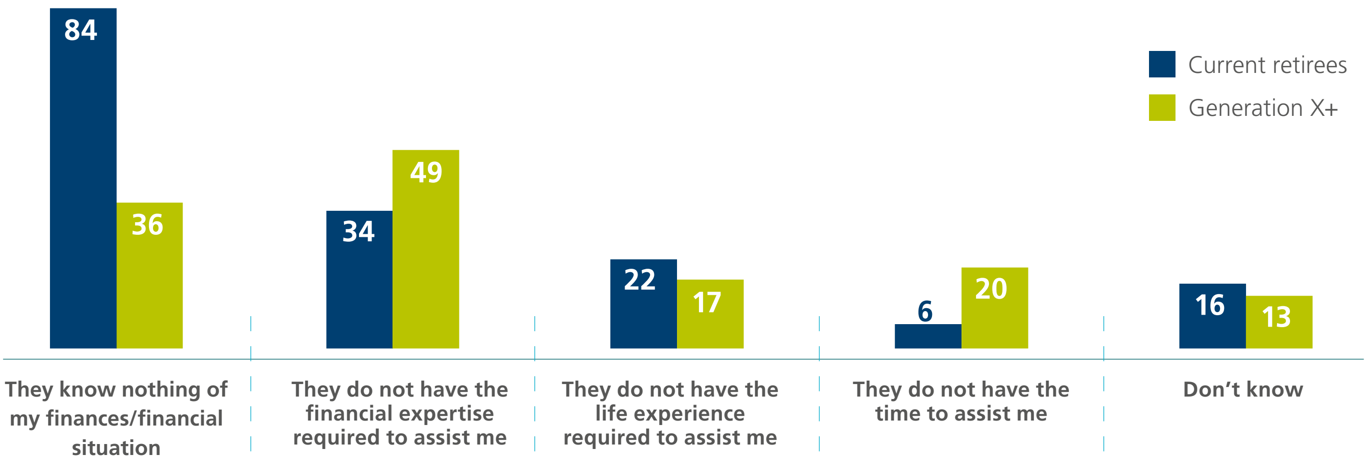
## Less than two-thirds of current retirees (60%) feel confident relying on family members when making financial plans

**Q. How confident are you that a family member or close friend could help you to manage your finances?**
(CURRENT RETIREES/GENERATION X+)




## 84% of current retirees not confident in family or friends being able to support in financial decisions feel they would have insufficient knowledge about their financial circumstances

**Q. Why are you not confident that a family member or close friend will be able to support you?**
(CURRENT RETIREES/GENERATION X+)




The lack of family or close friends to fall back on or a reluctance to do so leaves a major gap in people's day-to-day financial needs and long-term financial decision-making. However, filling this chasm goes far beyond simply providing more age-appropriate advice. It highlights the need to create a truly age-friendly financial services industry; one which re-purposes the whole range of products and services offered to enable the older generation to retain more independence and the younger generation to better support them.


"The advice gap continues to get worse," Brooks MacDonald's Adrian Keane-Munday outlines, highlighting both the regulatory and societal challenges at hand. "In terms of suitability, the FCA is looking at the post-Retail Distribution Review landscape, and did it deliver what it was supposed to", he says. "Increased costs have created less access to financial advice."

**Adrian Keane-Munday**
Marketing & Propositions Director,
Brooks MacDonald

# **Part 5 |** Technology, products and services

## Digital communications: one size doesn't fit all

The move to online banking and digital communications is well documented. Among Millennials/Generation Z, 60% communicate with their financial services provider online. This age group are 'digital natives', using apps (40%) and chatbots (13%). However, a significant percentage (45%) of this age group say they still do engage in face-to-face communications.

With projected increases in the number of older people affected by cognitive impairment, we cannot assume that the methods of communication commonly used during our working lives will be the most appropriate methods for maintaining communications in later life. Furthermore, with physical decline in older age, the ability to easily navigate a phone app or other electronic device may become more problematic. Perhaps more importantly, people's ability to keep pace with new technologies may decline post-retirement (particularly where they are no longer adapting to ever-changing technology in the workplace) and as seen earlier, fewer will have younger family members able to help support them in this.

Our findings reveal Current Retirees are most comfortable with face-to-face channels (72%), while for Generation X+, face-to-face is a preference (66%) followed not far behind by online channels (60%). Doubtless preferred modes of communication will be heavily influenced by the types of activity people wish to engage in. An age-friendly finance industry must ensure a continued mix of communications channels.

It is interesting that current levels of confidence in the ability to use digital platforms and wider financial technology at the present moment are effectively flat across the three generations we surveyed.

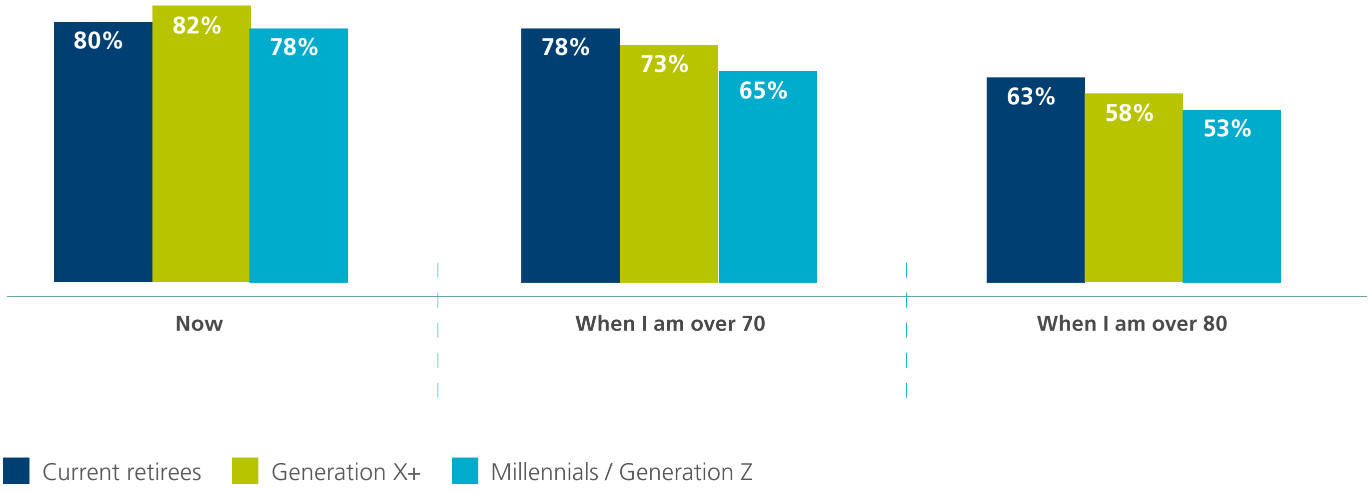
There is, however, a clear expectation across all generations that their ability to use digital technology will decline with age.

Confidence levels fall away sharply for both Generation X+ and Millennials/Generation Z when asked to say how confident they think they will be in using digital technology when they are over 80. This is surprising for the younger, digital native generations who you would anticipate would be more confident in how technology might support them in their later years. Their scepticism may, however, be borne out of a greater understanding of the advantages, but also the limits of technology, or simply because at such a distance they find it hard to put themselves in the shoes of an octogenarian.

Again, retaining multiple forms of communication channels will remain key to enabling the older generation to remain independent and help younger family members better support them.

### Confidence levels in ability to use financial services technology after turning 80 fall sharply across all generations

**Q. How confident are you in your ability to use digital financial services/financial technology (e.g. online banking, robo-advice, banking chatbots) now and in the future?**
(% very/fairly confident – ALL RESPONDENTS)



Despite the vital need to maintain access to financial services firms via a range of communication channels, most consumers do anticipate a further shift towards online channels in the coming decade. However, not all customers see this shift as being inevitable. Just over a third of Current Retirees and Generation X+ do not anticipate any changes in the way they communicate with their financial services provider.

Current Retirees especially are wedded to the status quo, with 52% preferring the nature of their methods of communication to remain unchanged over the coming decade. 46% of Generation X+ echo these sentiments.

As digital disruption continues to shake up financial services, it is important to make sure that customers' needs are at the heart of any changes.

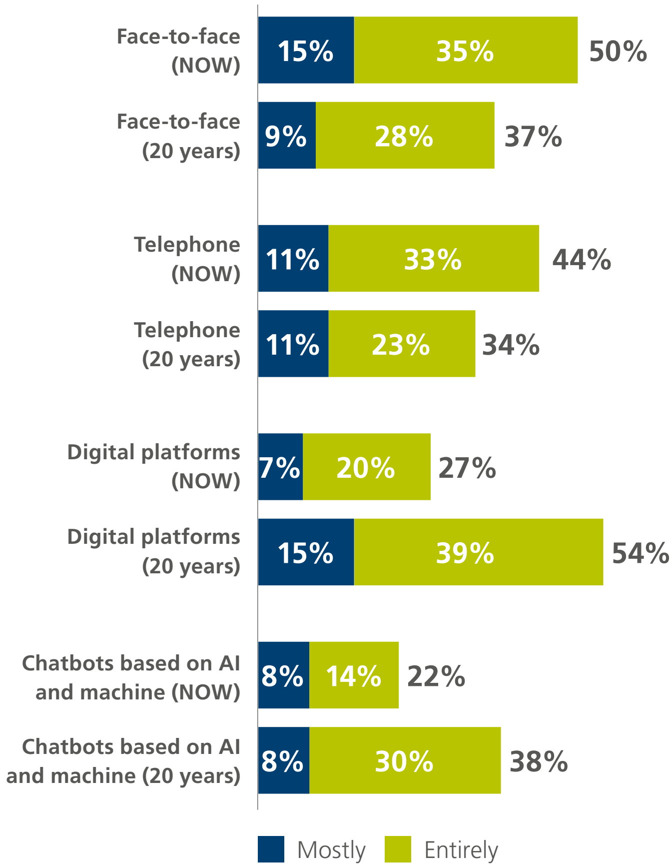
We asked 200 industry participants how they communicate with their customers aged over 75 years today and how they envisage they will communicate with them in 20 years' time. Those surveyed did foresee some drop off in face-to-face communications for this age group. 50% of industry participants say that they mainly currently interact with this age group face-to-face and 37% believe that they will engage with this age group in this way by 2040. Importantly, firms do still expect to retain a good level of face-to-face interaction.

27% of industry participants say their over 75 year old customers currently engage with them through digital platforms and 54% believe that they will engage with this age group in this way in 2040. They also foresee a significant upswing in engagement by this age group with chatbots in 20 years' time.

It is important to caveat that these findings are based on a sample of 200 financial services middle and senior managers and do not necessarily reflect either the industry as a whole or the strategies being put in place at a leadership level. What is recognised by industry participants is that communications will remain available through a range of channels.

## Industry participants expect a significant shift to digital platforms and chatbots in communications with older customers aged over 75 years

**Q. To what extent do you currently rely on face-to-face/telephone and electronic communications to engage with your older customers over the age of 75 and how do you think that will change in 20 years?**




"Whilst IFAs like Brooks MacDonald Financial Consulting provide strong support to our clients, the banks have got a big part to play. I think there are some significant challenges but Open Banking particularly is an opportunity to utilise gamification to educate the general public around financial needs and perhaps take action."

Adrian Keane-Munday
Marketing & Propositions Director,
Brooks MacDonald

# People still want to speak to a human

**John Porteous**
Group Head of Distribution,
Charles Stanley

John Porteous, Group Head of Distribution for the investment management company Charles Stanley, believes that the future of FinTech lies in how it can be successfully combined with human interaction.

In a market precarious to dips, all firms are open to the negative impacts of investment performance on the esteem customers hold a firm to, and accordingly, net promoter scores. Relationship management here is essential, to provide clear information, reassure and coach people to help them make the best long-term decisions. "Digital will help this process," Porteous says, "but it should be seen as additive to what we're already doing, not an attempt to replace existing customer engagement". He adds: "As part of this evolution we see an increasing use of technology enabling the use of video conferencing, chatbots, sending and receiving documents."

Even with the emergence of digital technology, Charles Stanley does not expect a wholesale shift in how clients want to interact, with many preferring a personal service with human interaction as part of a full-service, bespoke approach. Notably, Porteous points out, this remains equally true of Millennials as it does among older groups of customers. "The benefits of robo-advice have failed to materialise. Five years ago, everyone was talking about the disruptive potential of robo, but the reality is that people still want to speak to a human through call centres or face-to-face."

For Porteous, some in the industry have been guilty of putting too much trust in technology, and have overstated the ability to provide customers with access to a single, aggregated view of their finances via API technology. "The FCA has yet to create a vision for developing frictionless online processes for supporting investment decisions. The ongoing need to meet suitability requirements has led to a stodgy experience with too many 'kick-out' points. We do see an eventual step-change towards greater online advice but we're not there yet. This means firms will need a mixed approach to access consumers, which utilises digital and traditional methods."

## "The benefits of robo-advice have failed to materialise..."

# **Part 6 |** In focus – The impact on carers

As noted earlier in this report, as the pressure on social care services increases, the number of family carers is also set to rise. There are currently 6.5 million carers in the UK, and three in five people in the UK will be a carer at some point in their lives. By 2030, it is expected that the number of unpaid carers will increase to 9 million.

Providing care is well documented to have a significant effect on the wellbeing and lifestyle of the carer. According to Carers Trust,[25] carers face a wide-ranging set of challenges that all increase their risk of requiring care later in their own lives:

- **Balancing a full-time job with caregiving** – the employment rate for carers is at 67% and over half of those not working say they want to do so;
- **Controlling personal finances** – 53% have borrowed money as a result of their caring role and 60% have used all their savings to cover the costs of caring;
- **Maintaining good health** – carers providing high levels of care are associated with a 23% higher risk of stroke.

The current state of social care funding does little to suggest that this cycle will stop snowballing through future generations.

Over two-in-five of our sample (41%) are currently providing some form of caregiving to a family member or someone else they know. Of this group, 34% provide financial support and 32% provide some form of physical care. It is clear throughout the findings that being a carer adjusts

perspectives on retirement, long-term care needs, caregiving, and access to both financial products and institutions.

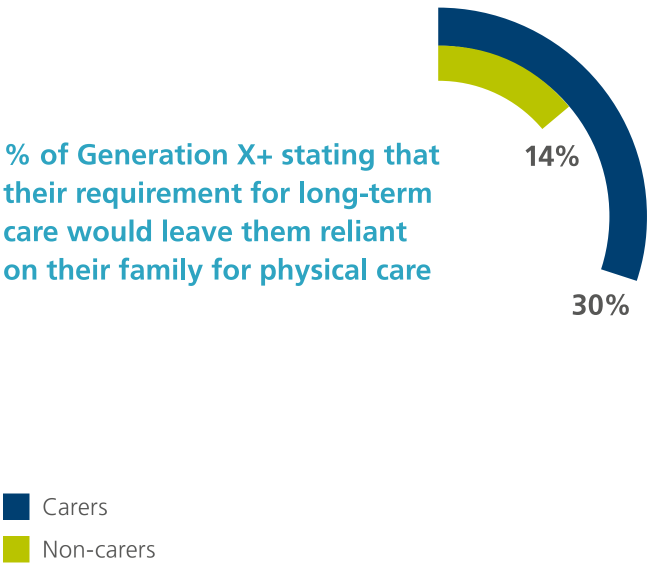
Carers have:

1. **A more widespread awareness of what later life might look like**

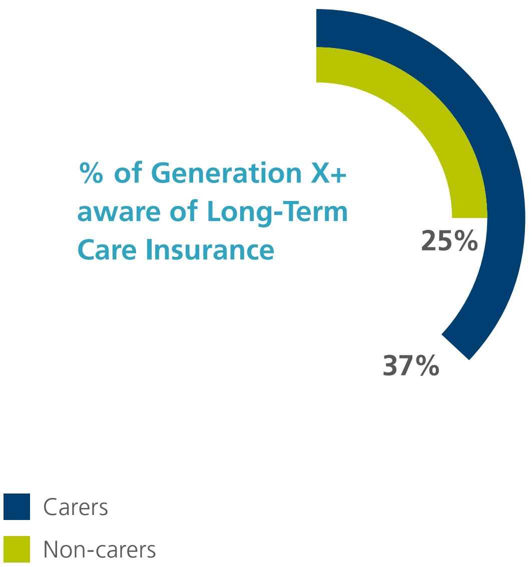
Direct experience is, as in many aspects of our lives, the most obvious way to ensure a better understanding and appreciation of the challenges arising from long-term care. The carers in our study showcase:

- A heightened awareness of their own potential long-term health needs in the future, and the challenges;
- They are more influenced by the experiences of older family member with regard to their own retirement aspirations;
- A desire for the next generation of their families to be less impacted financially by their own potential future long-term care needs;
- More awareness with regard to the forms of support they might be required to provide above and beyond direct financial support.

**Which of the following, if any, do you think will occur in the future as a consequence of receiving long-term care support?** (GENERATION X+)




**How aware are you of long-term care insurance products?** (GENERATION X+)



2. Greater engagement with their later life and that of their family

Our findings suggest that the increased awareness is, in turn, having an impact on the extent to which carers engage with and plan for long-term care and their own futures. They are:

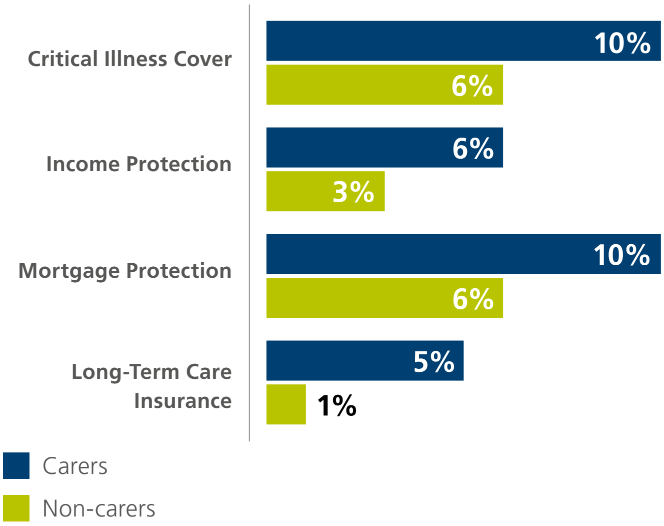
– More aware of their parents' financial situations – enabling them to more effectively support their parents and understand the likely personal implications;

– More likely to be having conversations with wider family with regard to the financial support they can provide;

– More accurately aware of how social care funding operates with this gap particularly pronounced between Millennial/ Generation Z carers and non-carers;

– More aware of financial solutions designed to assist with the potential costs of long-term care – however, uptake remains relatively low.

**Which, if any, of the following products do you currently hold?** (ALL RESPONDENTS)




Elisabeth Bremner,
Partner,
CMS

## "Firms need to view their services through the lens of a carer..."

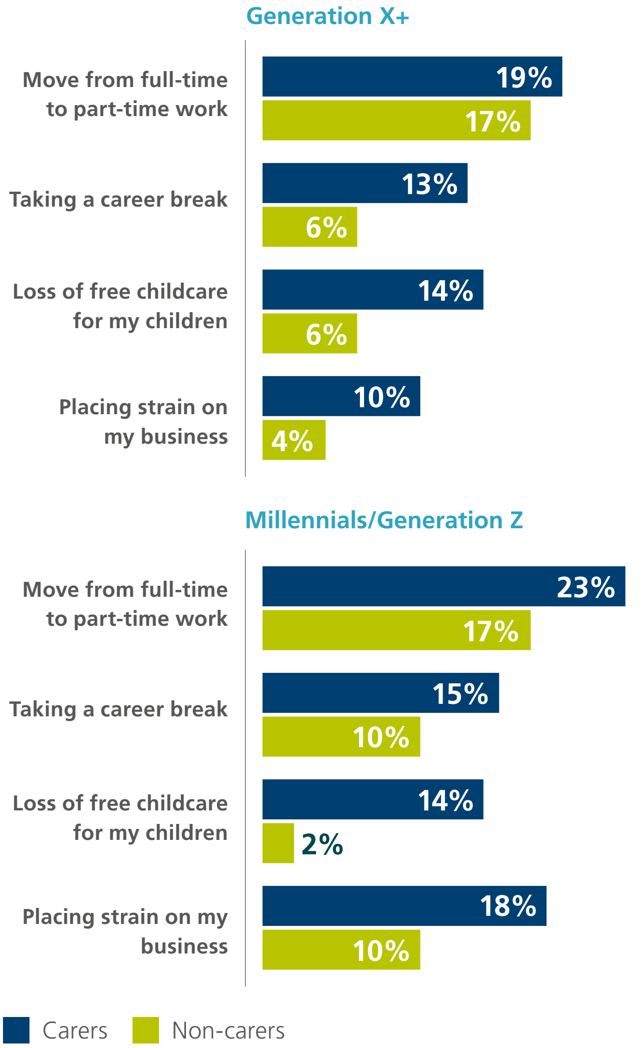
"As the collective voice of a future generation of carers, the views of carers surveyed were often more stark. Having battled through the challenges of caregiving, they are acutely aware of their own possible later life needs and the impact on their children. The industry has been much criticised for its slowness in addressing the needs of carers and its lack of innovation in providing better support mechanisms. Firms need to view their services through the lens of a carer and ask themselves what they could do better. It is critical we act now to get the right tools in place."

3. Greater appreciation of how their own needs may impact on the subsequent generation(s)

Having experienced being a carer – and the impact it has on both the individual receiving care and on themselves and their wider family – carers show a far greater awareness of how poor health in later life can result in challenges for the wider family both in the shorter and longer term. Carers are more likely to:

– Recognise that requiring long-term care in the future would make them more reliant on family for physical care;
– Recognise that requiring long-term care in the future would directly reduce the likelihood of being able to leave behind an inheritance;
– Recognise that needing to provide caregiving support to elderly family would impact on their working patterns.

**Does providing this care (or would providing this care in future) result in any of the following for you personally?**
(GENERATION X+/MILLENNIALS/GENERATION Z)

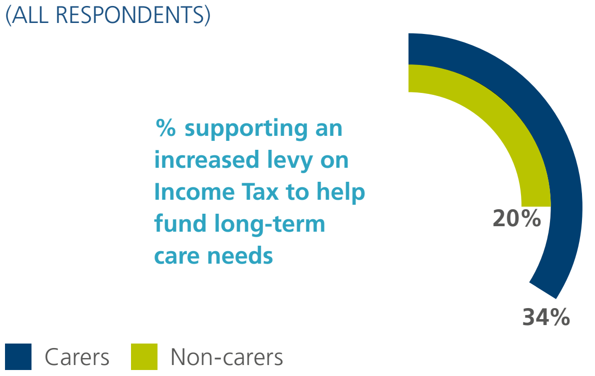



### 4. Stronger expectations with regard to the role the state and industry has in positively changing outcomes for individuals

Perhaps unsurprisingly, given a) the emotive nature of the subject matter and b) more direct experience of the current state of play in terms of government and industry support around the issue of ageing well, carers are far more demanding of both the state and industry in supporting individuals to both age well and access long-term care should it be required. Carers are:

- More inclined to support an automatic-enrolment type solution to help fund potential long-term care needs;
- More inclined to support an increased levy on Income Tax to help fund long-term care needs;
- More likely to feel it is important for their bank to both be empathetic to the needs of older customers as well as flexible in terms of the nature of the relationship with customers as they age;
- More like to be negatively influenced to remain a customer should a firm demonstrate poor levels of support for older family members;
- Likely to have higher expectations with regard to financial institutions supporting them in providing financial caregiving to their families;
- More likely to agree that financial services organisations have a broader role to play in society supporting people's ability to live well and maintain their independence in later life.

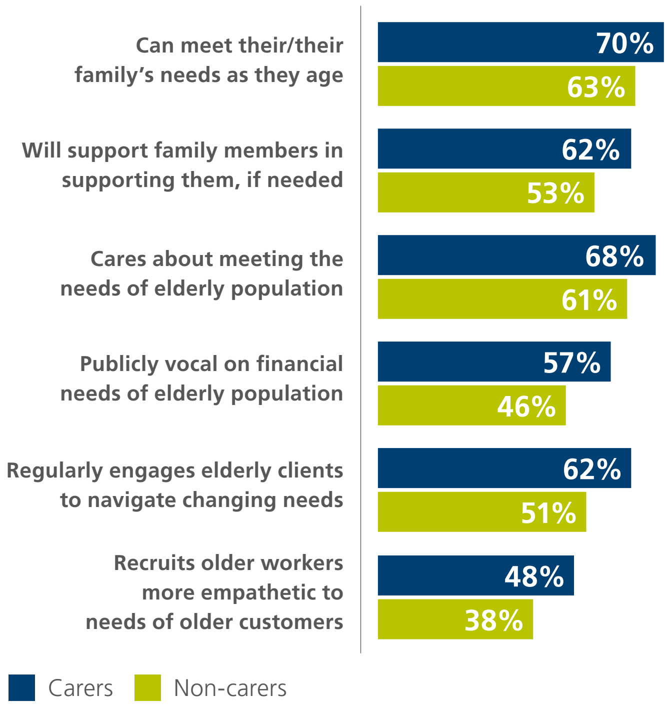
**Would you consider / have considered it more desirable to incur an increase in income tax, that the government uses to facilitate increase long-term care funding?**
(ALL RESPONDENTS)




The findings show that there is a both an awareness and perception gap between carers and non-carers. With the pressure on carers growing (and the shortage of carers across the UK likewise), we might expect greater awareness of the consequences of caregiving in the future and more engagement in how better provision for later life care can be made now and how carers can be better supported by the industry moving forwards.

**How likely are you to switch banking provider if…**


**How important is it to you personally, that your bank...?**
(ALL RESPONDENTS)



# Scottish Widows – Ensuring financial security for future generations

**Johnny Timpson**
Head of Protection Insurance,
Scottish Widows

Johnny Timpson has been leading Scottish Widows' work in promoting a simpler, more flexible and inclusive approach to financial protection insurance that better meets consumer needs by offering a range of valuable support services, in addition to monetary claim benefits. He was recently appointed as the Government's disability champion to promote access to insurance products. "We need to challenge conventional thinking," Timpson says. "The ageing population is not something that will happen in the future. It's happening here and now."

The growth in the 'unretired' (that is, people of retirement age who are yet to stop working or who retired and have returned to the workplace) has shifted consumer behaviours and risks, Timpson argues. "More than circa half of mortgages sold by mortgage intermediaries today have terms that will see people borrow not just beyond state retirement age, but beyond age 70. Protection policies will stop paying out at age 65, 70 or 75, but the policyholder might still have outstanding debts." Long-term care is a growing need, yet two-thirds of people are currently self-funding care with the help of family members.

There is, for Timpson, in addition to our social care crisis, also a palliative care crisis. "People think hospices are part of the NHS. But they are funded voluntarily and there isn't enough provision. We need an approach to funding long-term care which works across the generations. The cap proposals contained in the Dilnott report don't work for most people. We need a compulsory funded care solution, especially for younger cohorts of consumers who, unlike the generations that went before them, lack housing wealth and defined benefit pension benefits."

This is the low ebb of what is set to be a rising number of older borrowers, with consequences stretching beyond the mortgage market. "Younger people are getting married, starting a family or getting on the property ladder later. As these are the trigger points for taking out insurance, people are buying protection insurance later. 10-20 years ago, people would take out a policy aged 26-27; today the average age is 34. The age of claimants is also creeping up and we're seeing a large growth in partial payments which are largely health related." Enabling people to "remain in place", it seems, is not simply a challenge for the elderly. With Britain spending £25 billion a year on Housing Benefit, it is clear that lots of young people are struggling to keep a roof over their heads.

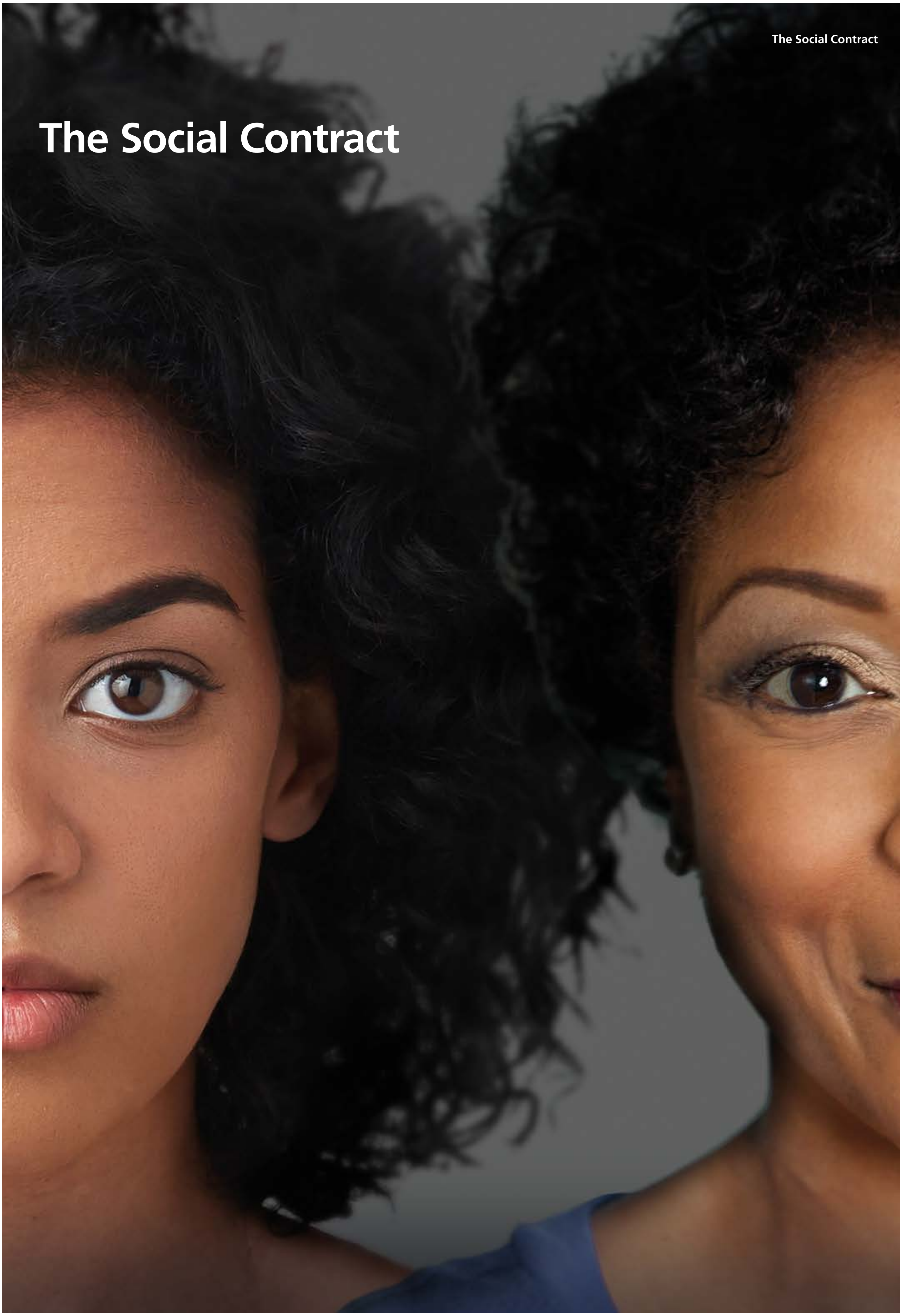
"Product development needs radical reform. The growing gig workforce needs a new financial safety net. We need a John Holloway for the 21st century. A product which allows people to pool money to meet all their protection and care needs. Something which people can drawdown and which enables top-ups. We need to stop referring to a pension, and start calling it a 'lifetime income fund', where people would be encouraged to set a target value. I'm reluctant to use the phrase, but maybe we do need a bit of nanny state, a more centralised approach. Automatic enrolment creates a standardised product framework, a kind of 'financial' NHS."

The UK's automatic enrolment model could be broadened out to include protection, especially income protection, and care needs. This applies developments already operationalised across the globe. In Singapore, the country's Central Provident Fund covers a range of benefits throughout life including retirement income, housing and health benefits; the Australian Superannuation Fund combines retirement and term life benefits.

"If we imagine the current 8% contribution level and add a further 0.5% to cover life insurance benefits and another 2% to cover income protection and care benefits, then we could envisage a model in which most people's needs are addressed through a deduction of 10-12% of salary at-source. In the long run, there might not be an alternative way of making sure that Millennials are more resilient to income shocks and prepared to meet the financial challenges of today and tomorrow."

**"We need to challenge conventional thinking..."**

# The Social Contract



# **Part 7 |** The Social Contract

The introduction to this report outlined the myriad of challenges facing the UK as we look towards 2040. The ageing population and the fact that, according to Public Health England, we can expect to live over a fifth of our lives in poor health,[26] is putting severe strain on the social care system.

Within this context, our findings reveal a number of worrying trends. The long-term care situation is already having (and will continue to have) a significant impact on generations of retirees to come, and their families.

Looking specifically at the next generation of retirees (Generation X+), our research points to a sharp decline in confidence in being able to save sufficient amounts for retirement. However, of greater concern should be that many are sleepwalking (or have no alternative path to follow) into the same problems starting to affect Current Retirees – through:

- Failing to give due consideration to future long-term health costs;
- Underestimating the required level of savings needed to live comfortably in retirement;
- A lack of understanding as to how long-term care is funded;
- The assumption that the NHS or social system will come to their aid.

This has serious implications, not only for the future retirement of Generation X+ in the UK, but on subsequent generations. Not only will Generation X+ be less prepared financially for retirement and potential long-term care needs (increasing the likelihood of requiring financial or physical support from family), but they will also be less able to leave a financial legacy.

Amongst Millennials/Generation Z the impact could run even deeper. Despite the introduction of automatic enrolment, working-age people are already not saving sufficient amounts for retirement and they are finding it increasingly difficult to get on the property ladder. This will be exacerbated still further by the trickle down effect of long-term care for older generations on their families. Money will increasingly be required to move up the generations to support older family members, while many will face a disruption to working patterns through the need to provide physical care.

The Millennials/Generation Z in our study already recognise the increasing unlikelihood of them inheriting a financial sum, and the prospect of supporting their family through care is expected to create further financial hardship.

The social contract between state, employer and households, created as the nation rebuilt itself after World War Two, no longer meets the needs of our ageing society. We now must re-establish responsibilities. The fact that many, across generations, will lack the financial wherewithal or capacity to cope with the pressures of preparing for their own long-term future, puts the onus strongly on policy makers *and* industry to create levers that relieve some of this pressure and empower individuals to better prepare for and safeguard their own futures.

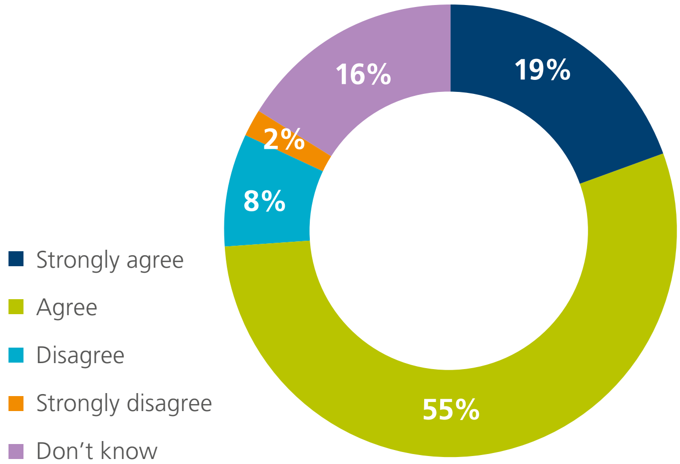
Will tomorrow's ageing population be adequately supported to remain healthy, independent and able to contribute fully to society? Answering this challenge cannot be government's job alone. Employers will need to adapt to an ageing workforce. Families and communities have a role to play in supporting their loved ones to age well. Individuals can and must be supported to, make choices which will better prepare them for a happy, productive and fulfilling later life enabling them to remain independent for as long as possible.

And our respondents, too, are already placing new demands on the providers of financial services as part of this movement. The need to create a more age-friendly industry, capable of providing new products and services which meet the needs of ageing customers, is a major consideration for customers of all age groups. The figures opposite point towards this changing relationship between the financial services industry and its customers, with around three-quarters supporting the statement "Financial services organisations have a broader role to play in society supporting people's ability to live well and maintain their independence in later life."

## Three-quarters see a role for financial services in maintaining independence in later life

**Q. How much do you agree or disagree with the following statement?**
**"Financial services organisations have a broader role to play in society supporting people's ability to live well and maintain their independence in later life?"** (ALL RESPONDENTS)

As we can see, the desire for a new kind of relationship is not limited to those already in later life. While 68% of those in retirement said it was important to them personally that their "bank cares about meeting the needs of our elderly population", well over half of Millennials/Generation Z (59%) shared this viewpoint. Two-thirds of all age groups want a bank which is able to meet their family's needs as they age. For two-fifths of people, this means recruiting more older workers with the ability to be more empathetic to the needs of older customers. Around half of all people would consider switching their bank if it failed to address these needs. Support for switching is actually highest among Millennials/Gen Z. 56% of this group would change their bank if it failed to provide the support they needed to care for their older family members.




Mike Mansfield
ACLR Programme Director,
Aegon

**"...we find ourselves faced with a crumbling social contract. Workplace and government retirement systems are coming under increasing financial strain..."**

Mike Mansfield has been responsible for developing Aegon's response the challenges of an ageing population. Mike explains "The idea of a 'social contract' has been central to retirement planning in countries around the world. The traditional social contract is an arrangement involving three pillars: government, employers and individuals – each with specific set of expectations and responsibilities. Today, we find ourselves faced with a crumbling social contract. Workplace and government retirement systems are coming under increase financial strain and as a result, responsibility for funding retirement is shifting to the individual.

"Aegon's strongly held conviction has been that no one social partner can address this challenge on their own. Existing social partners need to work together and we need to include new social partners to empower individuals not only to save for their retirement but also to adopt a healthy lifestyle and keep their skills up to date so that they can retire at a time that is right for them. We need to reimagine what we mean by retirement and rebuild our communities in a more inclusive manner. We need to build age-friendly communities."

"In 2018, Aegon created nine essential features of a new social contract. Sustainable social security benefits still form the basis but supported by universal private savings and automatic savings schemes which embed behavioural economics. This incorporates a new guaranteed lifetime income solution with greater access to annuity options. Education, lifelong learning and access to healthcare are all essential parts of this new contract as is the need to celebrate ageing and enabling people to 'age in place' and make a full contribution to their community."

# A bank's mission to serve customers in vulnerable circumstances

**Mike Finnegan**
Head of Customer Experience,
Retail Banking & Wealth Management,
HSBC UK

As the UK populace continues to age, HSBC UK is making sure it adapts in line with the needs of its customers.

"We need to ensure that we remain relevant and proactive in bringing tailored customer support and ongoing product design to the forefront of our thinking," Mike Finnegan of HSBC UK says. "Today there are over three million people in the UK aged over 80, moving to around five million by 2030. As a result, we're making sure that we're offering flexible support to all our customers, in the most inclusive way possible."

HSBC UK's approach to protecting customers in vulnerable circumstances is based around two central tenets. Firstly, that anybody at any time could become considered vulnerable. Secondly, ensuring that all customers have multiple channels of choice available to them, including its branch network, UK contact centre and digital platforms.

"It's not one size fits all," Finnegan explains. "It's having the ease, speed and certainty of a digital proposition, but also having this teamed with the empathy of human intervention, interface and support – across all customer journeys.

HSBC UK ensures its employees are up-skilled around vulnerability awareness and are given the tools to have quality conversations with customers who could be considered vulnerable through any number of reasons, such as ill health, certain life events and limited financial capability.

HSBC UK has launched a number of initiatives to promote an age-friendly environment. "We launched a voice ID service and we've now found that customers living with dementia in particular find that facility very supportive," Finnegan outlines. "For visually impaired customers we have a range of accessible aids including talking ATMs, large print communications and audio facilities. The Chip and Signature card is great for customers that may have difficulty when remembering their PIN number.

**"It's a matter of putting yourself in the shoes of each and every customer."**

In 2016, the bank partnered with Alzheimer's Society and Alzheimer Scotland, to create a "dementia-friendly business". The charity worked with the bank to provide insight, which helped create a new service to support customers living with dementia. This service allows customers living with dementia to maintain their independence by having access to a debit card to use in places such as shops and restaurants, as well as being able to use it to withdraw cash at ATMs. But with the peace of mind that a legal third party will retain control of their financial arrangements. The charity also provided insight on premises design. The black welcome mat on HSBC UK branch floors can sometimes be perceived as a large gap, for example. "They've made us better bankers, and made us better people as well" Finnegan says.

HSBC UK is also working to help families and individuals providing financial care, through third-party access on their bank account. "The person acting as a carer can have a separate debit card with a separate PIN, and be able to help manage the finances of the individual within their care." Finnegan outlines.

Vulnerability is not a term attributed to just those with health conditions or old age at HSBC UK. In particular, the bank is supporting customers who have lower levels of financial capability. "When we provide nudges and prompts to our customers, be it digital or face-to-face, it must be both suitable for the customer and adding value at all times. For example, helping customers to budget and to plan; to express expenditure and income and to have different saving and spending pots for different life stages. It's also important for us to continue to educate our customers on services available to them such as a rounding-up facility available through our mobile app", says Finnegan.

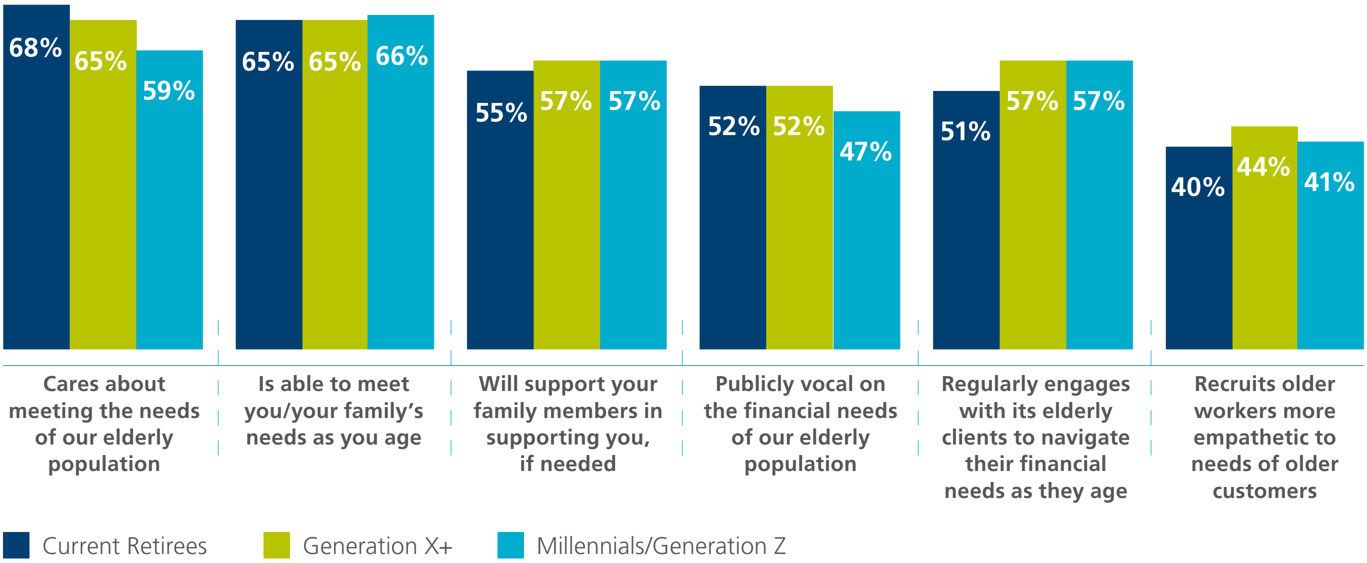
HSBC does not have a standardised approach for all customers here: "It's a matter of putting yourself in the shoes of each and every customer", Finnegan says.

To summarise, HSBC UK is on a journey to ensure that all products and services are accessible, regardless of people's individual circumstances. Finnegan concludes: "It's only by listening to our customers that we are able to improve the services that we provide."

# The Social Contract

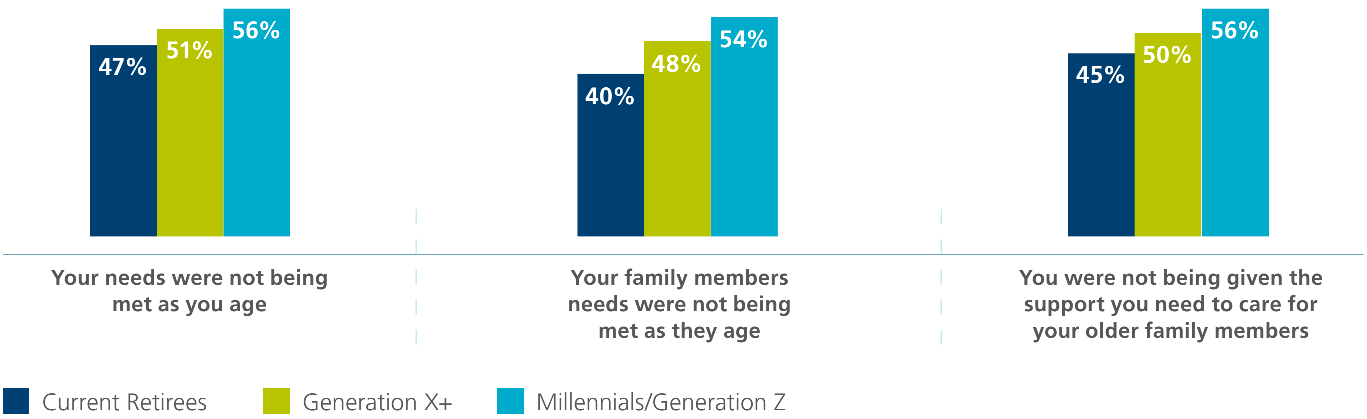
## A bank's ability to meet the needs of an ageing population is important to all age groups

**Q. How important is it to you personally, that your bank…**
% saying vital/important – (ALL RESPONDENTS)




## A bank's ability to meet the needs of an ageing population is a key driver in customer switching decisions

**Q. How likely are you to switch banking provider if:**
% very/fairly likely – (ALL RESPONDENTS)




The message, then, is clear. Consumers expect our financial services industry both to cater to the needs of our elderly citizens today while also ensuring they are flexible enough to mirror the needs of each of us individually as we age.

The industry itself should view this as an opportunity to re-establish a better bond of trust between firms and consumers – something that, given the findings within this report, has arguably never been more important.

“If we imagine the current 8% contribution level and add a further 0.5% to cover life insurance benefits and another 2% to cover income protection and care benefits, then we could envisage a model in which most people’s needs are addressed through a deduction of 10-12% of salary at source. In the long-run, there might not be an alternative way of making sure that Millennials are more resilient to income shocks and prepared to meet the financial challenges of today and tomorrow.”

**Johnny Timpson**
Head of Protection Insurance,
Scottish Widows

# A new model of consumer engagement – A US perspective

**Surya Kolluri**
Managing Director,
Bank of America

The demographic make-up of the United States has seismically shifted over the past century. In the 1940s, a person could expect to live until 65-67. By today's standards, life expectancy for someone aged 65 is approaching 85-87 – an extra two decades accrued in a relatively short amount of time. Surya Kolluri, Head of Thought Leadership at Bank of America's Retirement and Personal Wealth Solutions business, notes how society thinks of this as a 'longevity bonus', but that bonus is not necessarily coming post-retirement. "What we are witnessing is that people are changing their working patterns. They're taking that longevity bonus throughout their working lives through sabbaticals, career breaks and job changes. The baby-boomer generation is redefining retirement as a life stage of renewal. They are exploring new opportunities and thinking about retirement in an entirely new manner. 80% of baby boomers reaching retirement age have expressed an interest in continuing to work."

Accordingly, Bank of America has identified three pillars to help frame the context of an ageing society, and how society can adapt to this new face of older living. The first of these pillars is built on the concept of Longevity Economics, which attempts to understand the positive economic contribution of the ageing population. In the US, 10,000 people turn 65 every day. "This age group possess enormous assets – around $7tn in the US or $15tn globally. It is this consumer power which is underpinning the growth of the Silver Economy, with companies investing in longevity."

Bank of America's second pillar is about helping families to manage the financial puzzle pieces. "This means ensuring that the life span matches the health span which matches the wealth span. This encapsulates remaining active and maintaining positive nutrition and sleep patterns, as well as taking care of wealth goals, such as budgeting and planning for long-term care." The bank has created several tools to help people make sense of these puzzle pieces, including a series of studies on Life Stages including a longevity checklist to discuss with advisers at each life stage, and a family financial album which enables people to keep all of the key financial documents – savings, pensions, insurance policies and wills – in one place.

It is this holistic offering that will prove vitally important, Kolluri argues. "We need better money habits across all generations. Rates of financial literacy are quite low. We need a new model of consumer engagement spanning advice, information and education. I believe that new technology will play a vital role in creating that. But we can't create the step-change in behaviour with education alone. We need to explore behavioural economics: getting behaviour change involves more than going to a class. If people can visualise their futures it improves their propensity to save."

The third pillar focuses attention on how the bank can help prevent elder financial abuse and manage cognitive decline – the former of which has been strongly under the lens of both financial regulators in the US, as well as Congress.

According to FINRA in the US, an estimated $50 billion is lost to financial fraud every year, and that number doesn't even account for potentially significant indirect costs, including legal fees, late fees, bounced checks and lost wages. The cost of fraud across all age groups is high," Kolluri explains. "The elderly are particularly vulnerable. In addition, 70% need long-term care but only 20% purchase it. $7,000 is spent by children helping their parents."

This upward flow of inter-generational wealth transfers currently underpin the ageing population, Kolluri states, but is all too aware of how unsustainable this approach may prove. "The Center for Disease Control has likened the growing impact of Alzheimer's to that of a tsunami. We are facing a future in which two in three people will be giving or receiving care.

**"If people can visualise their futures it improves their propensity to save."**

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# Methodology

The findings contained in this report are based on research conducted during May and June 2019. The research comprised:

A nationally representative online survey of 2,000 UK adults.. The survey focused on three distinct demographic groups with questions on both their current life stage and their perceptions and hopes for the life they would be leading by 2030-2040.

These groups were:

**Current Retirees** – exploring the realities of retirement from the viewpoint of their aspirations and the life they are leading, financial legacies, caregiving and current/potential future care needs, and their relationships with the financial services industry.

**Generation X+ (those aged 38+ and not currently retired), and Millennials/Generation Z (those aged 18 – 37)** - exploring current and expected future circumstances, including: their own aspirations, the extent to which they may themselves require support or need to support older generations (financially and otherwise) through their retirement, financial caregiving specifically, inheritance expectations and the impact these factors may have on their own financial wellbeing both now and in the future.

An online survey of 200 industry participants (senior and middle managers working within the UK financial services industry).

- The survey explored current customer demographics and the extent to which these are expected to change over the coming twenty years, as well as respondents' views and perceptions of how businesses (and the industry overall) are preparing for a potentially different future.
- A series of in-depth interviews with a range of financial services senior leaders.

In total we conducted more than a dozen in-depth interviews with a range of financial services senior executives and thought leaders, focusing on the implications of an ageing population. All the interviews took place between 9 May and 17 June 2019.

A number of these interviews have been used in case study form throughout the report.

# Thanks

We would like to thank everyone who has taken part in interviews and played a part in producing this report.

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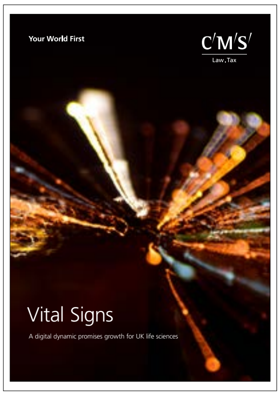
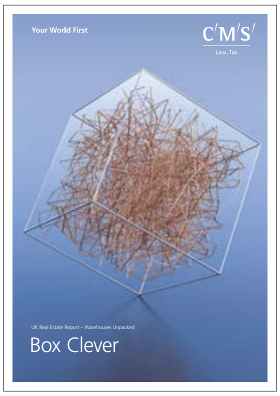
### Future facing insight









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CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF

T +44 (0)20 7367 3000
F +44 (0)20 7367 2000