



 HODGE

Cost of living  
Whitepaper

March 2024



# We're proud to say we're a bank **that cares**

**This is our third wave of research finding out how people are dealing with the crisis and their behaviours, attitudes toward savings and mortgages.**

This information will be used to find out how we can help educate and inform our customers and consumers on the best ways to navigate the cost of living crisis.

**Why we did the research:** We constantly seek to better understand the financial challenges that people are facing, especially through the cost of living crisis so that we can create products that help them shape a future built around financial security.

We recently interviewed more than 2,000 consumers about their savings and the rising cost of living, and what it means for their decision making when it comes to mortgages. The respondents were a range of people aged 21-55 and 55+ across incomes spanning £15k to £100k+. Our findings show that, regardless of their financial situation, the majority of people are concerned about the cost of living and in some way has been impacted. Whilst the research shows that confidence levels are improving and the situation is easing, it's certainly not over yet.

Many respondents will still be using any savings they do have to help them navigate into the third year of this difficult economic environment, and many will not be able to save as much as they used to in some cases at all. For those who are still able to save, the likes of saving for renovations, holidays and treats are a thing of the past as we see more save for emergencies and day to day living.



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1.

A word from Hodge CEO

Dave Landen



**Hodge CEO,** Dave Landen



Our Cost of Living survey is a vital part of the research landscape at Hodge. Whilst we have seen an easing of inflation over the last 12 months this just means prices are rising at a slower rate than they were, the extremely high inflation we saw in 2021, 2022 and early 2023 still means our day to day expenses are significantly higher than they were.

In the past five years we've faced a pandemic, witnessed the fallout from the war in Ukraine and seen the Bank of England base rate increase at its fastest rate in 30 years. We know salaries have not kept pace with inflation and grocery shopping seems more expensive each week.

As a bank we need to know how people are feeling and the impact this is having on them and we want to do all we can to support our customers in the moments that matter. It's easy to get lost in the numbers, but luckily for me and our customers, the Hodge team is made up of people with a pretty diverse range of skillsets.

Whether it's our customer service advisers who speak directly to the customers each day, our business development managers interacting with brokers and advisers, our product teams looking at ways our offerings can evolve to support customer needs or our Research and Proposition team who work so hard to not only carry out surveys like this one, but also analyse it in depth. Each member of the Hodge team brings a unique perspective and one which helps to ensure we are always here to help customers when they need it.

I look forward to learning more about how our customers are feeling so **we can continue to evolve to meet their evolving needs.**



2.

## Consumer confidence

As we came to the end of 2023, consumer concerns over the cost of living crisis showed a steady decline and confidence in personal finances also improved.

However, over **72%** of consumers say they still have concerns on navigating the crisis going into 2024.

# What do consumers think about the rising cost of living?



In our previous cost of living study, homeowners told us they were reconsidering how best to use one of their greatest assets to help ride the financial storm.

A year on, those plans and sentiments appear to have risen. Increasing energy prices and everyday costs are affecting people of all ages and income brackets, and more homeowners are considering re-mortgaging to consolidate their debts, whilst savers dig into their savings for emergencies and day to day living expenses.

## Hodge research shows:



**75%**  
of consumers are concerned about the cost of living crisis going into 2024



**51%**  
of consumers are having to access savings to live day to day through the cost of living crisis



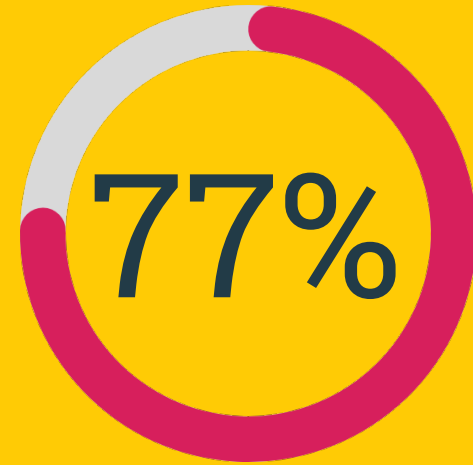
**15%**  
of people are considering accessing equity from their property to help during the cost of living crisis



At the end of 2023,  
we saw consumer  
confidence in  
managing finances  
*growing*



and the  
cost-of-living  
concern levels  
*dropping*



**But 77% of consumers are still  
concerned with the cost of energy**

Hodge research showed that while confidence levels in managing finances are improving, consumers are still concerned about the cost of living crisis. The biggest area of concern is energy costs, which at 77% is only marginally lower than previous studies.





# Findings from research company, GfK, supports Hodge's research

The GfK Consumer Confidence indicator in the United Kingdom rose to **-22** in December 2023 from **-24** in November as Britons became less pessimistic about their future financial situation amid easing inflationary pressures.



"Despite the severe cost-of-living crisis still impacting most households, this slow but persistent movement towards positive territory for the personal finance measure looking ahead is an encouraging sign for the year to come."

**Joe Staton, client strategy director at GfK**



November '23 cost of living concern levels monitored by Hodge were at 76% compared to a higher 83% in 2022.



72% of consumers are now more confident with their finances compared to 65% in 2022.

A woman with blonde hair, wearing a vibrant orange, green, and white striped turtleneck sweater, is seated in a living room. She is looking down at a document she is holding in her hands. The room is dimly lit, with a warm glow from a lamp or window. A radiator is visible in the background on the right side. A dark blue circular graphic is overlaid on the bottom left of the image, containing the number '3.' and the text 'Energy costs' and a paragraph.

3.

## Energy costs

Despite increasing confidence in managing finances and the future, consumers are still concerned about the cost of living crisis.



# Energy and the cost of living



According to our latest research 77% are concerned about fuel prices, although less people are reducing electricity. Those aged below 50 are especially concerned.

However, trends show people were far less worried about fuel prices in 2023 than 2022, this is in line with fuel costs during the same time frame which can be seen in a trends report from RAC. Although consumers are slightly less worried about energy prices, 80% of people are still concerned about the cost of energy.

As a result, we've seen a huge decrease in the usage of electricity, with consumers consciously cutting down on the use of electrical items and thinking up smart ways to save on electricity. A report from Statista shows energy consumption in the UK was the lowest it has ever been in 2023.

In a previous Hodge survey focusing on reducing energy costs, consumer have reduced usage by turning off unused electricals, lights and using natural lights instead.

A photograph of two men in a bright, modern home, surrounded by cardboard boxes, suggesting they are moving. One man is wearing a light blue shirt and the other a yellow t-shirt. They are both looking down at the boxes. The scene is set in a hallway with a staircase in the background and a large window in the foreground.

4.

## Mortgages and affordability

Higher mortgage rates and rising costs of living make it harder for people with mortgages to afford their repayments. This could cause some households to default, or cut back sharply on their spending, posing a risk to financial stability.

## How can lenders best assess their customers' affordability during a cost of living crisis?

Open Banking could provide real-time insight into how price increases are impacting on disposable income, which should help make affordability models more sensitive to sharp changes in costs. Open Banking take-up is currently estimated at around 5.5 million users in the UK, so just over ten per cent of the adult population, however this is expected to increase to around 60 per cent by September 2023.



A review of our affordability model this year showed that for an interest only mortgage, a single applicant would need an income of close to £45,000 before affordability would allow at 4.5 times salary. If we did the same for repayment at 4.5 times salary, household income would need to be closer to £90,000.



**"There's a need for advisors and lenders to work together to navigate the complexities of borrowers financial stories. To support their clients' needs, advisors need to be prepared to take the time to understand the full picture and lenders must get comfortable enough with their own appetite to make it worth them listening. Lenders also need to continue to innovate when it comes to assessing and evidencing the ability of a customer to service their mortgage payment."**

**Emma Graham,**  
Business Development Director



5.

## A study on *savings*

Higher mortgage rates and rising costs of living make it harder for people with mortgages to afford their repayments. This could cause some households to default, or cut back sharply on their spending, posing a risk to financial stability.



## How is the cost of living affecting peoples' savings habits?

Hodge research shows that 50% of people are having to dip into their savings to live day to day. For those Consumers who are saving, they are prioritising their savings on emergencies rather than treats and luxury goods with 63% stating they save for 'emergencies' and as a result, the market has seen a huge growth in Easy Access savings accounts where consumers can have quick access to their funds in the case of an emergency.

### Hodge research shows:



**50%**  
are having to dip into savings to live day to day during the cost of living crisis



**63%**  
of high earners are saving for an emergency fund



**64%**  
of adults say that the rising cost of living is making it hard for them to save, rising to 75% of Millennials



# The rising cost of retirement

Over the course of three cost-of-living surveys, the effect on pensions and retirement income has remained consistent. Around a third of people are worried about pensions and retirement.



## According to statistics from Gov UK



**38%**  
of working age people  
(equivalent to 12.5  
million) are under-  
saving for retirement



Higher earners are  
more likely to be  
undersaving



**42%**  
of the 12.5 million  
people undersaving  
reach more than 80%  
of their target income

More consumers are using equity in their properties to compensate lack of pension. Hodge have seen this with the uptake of their RIO (Retirement Interest Only) mortgage product.



"The most popular reason for our customers choosing a RIO over the past few years has been to reduce monthly outgoings by having an interest only mortgage. Proving the value of RIO as a tremendously useful product for those hitting retirement with sometimes less disposable income, but able to afford monthly interest payments."

**Emma Graham,**  
Business Development Director

According to the Equity Release Council "high levels of debt and a lack of pension savings make it increasingly likely that homeowners will need to borrow against the value of their properties in later life to make ends meet".

"The equity release market has shown a strong resolve to keep an important lifeline open to customers during a challenging period for the UK economy. People are taking smaller loans and a smaller percentage of their available equity. However, the stark outlook for people's pension prospects means property wealth will remain a vital part of the equation to avoid a cost-of-retirement crisis

**David Burrowes, chair of the Equity Release Council**

### Equity release council research shows:



**32%**

of consumers are worried about savings for their pension as a result of the cost of living crisis



**50%**

of 60-70 year olds are the ones who more concerned in this area



**53%**

of people approaching state pension age are on course to miss out on a moderate standard of living



**32%**

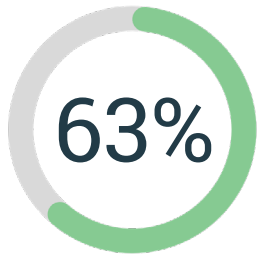
year-on-year increase in people turning to equity release



## Cost of living and *Sustainability*

Consumers are open to withdrawing equity from their home to retrofit their homes but there is a lack of education in terms of how to do this.

# Cost of living, sustainability and equity release



**More and more consumers are considering accessing home equity to save money in the long term and 63% say that sustainability in their home is important to them.**

More and more companies are coming to market to bridge this education gap and financial services are embracing the opportunity and working on new Green initiatives and services for customers.

In previous research conducted by Hodge, 55% of people said that that financial providers should take some responsibility in this area. We listened to consumers and in 2022 Hodge invested in sustainability company, Sero. Sero develops industry leading digital tools and expertise to design and deliver cost effective low carbon solutions for both new build and existing homes. In November 2020, Sero was one of a major consortium to win £7m Welsh Government funding to roll out the large scale decarbonisation of homes across Wales. Sero has already built nearly 500 new homes and started retrofitting more over 3,000 homes, spread across more than 30 social landlords.

A man with a beard and a young girl are looking at a paper model of a house with solar panels on the roof. The man is holding the model, and the girl is pointing at the solar panels. They are outdoors, with a house and mountains in the background.

8.

Our conclusion with

*Amanda Davies*



**Research manager,** Amanda Davies



Our Cost of Living surveys are a vital part of the research programme at Hodge. It really helps us to understand the challenges customers and consumers are facing, providing us with the insight we need to shape products and services to help during these challenging times.

It's clear that while confidence levels are slowly improving and people are becoming more savvy when it comes to budgeting and managing finances, there's more we can do to help. Financial institutions still a need to provide people with more insight, options and tools to help face challenges such as rising energy costs, pension shortfalls, dwindling savings and enforced changes in lifestyles due to the cost of living crisis.

Our Proposition and Insight team is always looking at ways to develop and enhance products and ideas to help. Over the next few months we are looking at launching new products to help with savings, we'll continue to regularly adapt mortgage criteria to assist those who need specialist mortgages and invest time and resource into relevant partnerships to assist customers planning for energy efficiency improvements to save money.

We look forward to running our fourth wave of research in the coming months continuing to monitor levels of confidence and concern as the cost of living crisis continues."



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