Consultation Response

Help to Save: consultation on implementation

StepChange Debt Charity response to HM Treasury

July 2016

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Introduction

StepChange Debt Charity welcomes the Help to Save (HTS) scheme. We have previously argued that boosting accessible cash savings among lower-income groups is vital to keep struggling families out of debt. In 2015 we published a report, *Becoming a nation of savers*, containing extensive new research on the relationship between savings and debt and recommendations on how to increase savings levels across the UK[1].

We are the UK's largest specialist not for profit debt advice and solutions provider. In 2015 we were contacted by over 500,000 individuals in financial difficulty.

Research we commissioned using the Wealth and Assets Survey has shown that £1,000 in accessible cash savings reduces the likelihood of a household falling into debt by 44%. If every household in Great Britain had at least £1,000 saved it would reduce the number in problem debt by 500,000[2].

We believe the HTS scheme will be a key tool in helping boost savings. A survey we commissioned specifically for this consultation response demonstrates its importance[3].

The survey shows over three-quarters (78%) of respondents to the survey said they need to pay an unexpected cost at least once per year, with this cost on average between £201 and £300. Without savings, a significant number of these respondents either cut back spending on essentials such as food or heat (37%) or borrowed money (21%), either of which can be very harmful in the longer term.

Once in debt, people face additional barriers to regaining work, are less productive when they are in work, and lose confidence in their ability to progress in their career. Severe problem debt turns everyday obstacles into long term problems, and acts as a major roadblock to key government objectives. For example, 43% say that being in debt has led to them being unable to concentrate at work and 15% say that their debt worries led to changes in attendance such as arriving late or taking more time off[4].

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[1] https://www.stepchange.org/policy-and-research/becoming-a-nation-of-savers.aspx
[2] Ibid
[3] Survey methodology: we surveyed 1,551 StepChange Debt Charity clients online between June 28th and July 11th 2016. The client sample contained 25% clients who are in receipt of Working Tax Credits, 25% clients who are in receipt of Jobseekers Allowance, 25% clients who are in receipt of Employment and Support Allowance, Incapacity Benefit or Disability Living Allowance/Personal Independence Payments, and 25% clients who receive no benefits but earn less than £21,000 a year. We believe this captures the potential target audience for HTS in 2018, given the likely movement of individuals between different circumstances.
[4] https://www.stepchange.org/policy-and-research/held-back-by-debt-financial-resilience-in-britain.aspx

Problem debt costs the UK £8.3bn through the damage it causes to family life, mental and physical health, productivity and employment prospects and costs to the welfare state, the NHS, local government and other agencies[5].

Although we support HTS, in our response below we make some recommendations on how we believe the HTS scheme could work for the maximum benefit of such vulnerable families.

Q1: Please provide any comments on the government's proposed approach for the operation of HTS accounts.

We are broadly supportive of the proposed approach to the operation of HTS accounts.

However, we have some concerns regarding the two year time period over which the accounts will operate, on aspects of the eligibility criteria and on how HTS scheme savings would be treated during insolvency or enforcement action by creditors

Two year time period

We believe the proposed two year time period over which a HTS account will run may disincentivise applicants. This is for two main reasons:

1. Firstly, the behavioural tendency towards 'hyperbolic discounting' means that individuals tend to under-appreciate future financial benefits the further away they are likely to arrive[6]. Overcoming this is one of the key arguments for pension auto-enrolment. We are therefore concerned that if individuals don't receive their bonus for two years they will not see the potential benefits of the offer.

2. Secondly, the target audience for this product suffer economic shocks on a much more frequent basis than every two years. Our survey shows that 42% of those who may apply for the scheme face an income shock every six months and 78% face an income shock at least once per year. If these people are not adequately informed that they can withdraw within two year period they may feel they cannot apply.

We believe some of this can be mitigated by the way the bonus operates (see below), however we would recommend **the Government must think very carefully also about the way the scheme is advertised in order to minimise this potential problem caused by perception of a rigid two-year account length.**

Working Tax Credits

[5] https://www.stepchange.org/Portals/0/documents/media/reports/8_billion_challenge.pdf
[6] http://www.behaviorlab.org/Papers/Hyperbolic.pdf

We are concerned, that if eligibility is based on current criteria for claiming Working Tax Credits (WTC) this might discriminate against those under 25. Currently those under 25 only qualify for WTC if they work at least 16 hours a week and qualify for a disabled worker element, or are responsible for a child.

This means that it would not be possible for anybody under 25 who does not qualify for a disabled worker element, or is not responsible for a child, to have a HTS account.

This problem should be partly mitigated by the switch to Universal Credit[7]. But given the slow rate at which people are transferring to Universal Credit – currently it is not planned to be fully rolled out until 2021 – it is likely that many younger people will miss out on HTS due to Working Tax Credit rules.

We therefore recommend HM Treasury amends the eligibility criteria so that those aged under 25 who work at least 30 hours a week can apply for a HTS account.

A secondary concern regarding WTCs is how government will make a judgment on whether an individual is 'in receipt' for the purpose of eligibility for HTS. We understand that there is a possibility that eligibility may be judged on the basis that an individual received WTCs in the previous tax year, rather than the year in which they are applying for a HTS account. If this is the case it is likely to be very confusing for consumers seeking to apply for an account and may undermine faith in the scheme among those denied access even though they should be accepted.

<u>Third party debt orders and insolvency</u>

We believe HM Treasury needs to look closely at the debt collection and insolvency implications of the scheme. Given the target audience of HTS it is likely many will face financial difficulty whilst holding a HTS account. Indeed many will face difficulty while still in the process of building an adequate buffer against a future financial shock. This will leave them vulnerable to third party debt orders and potentially insolvency.

Given that a key purpose of the HTS scheme is to promote long term financial resilience it would be counterproductive if creditors could take money saved to satisfy existing debts, in particular if they can also take the bonus. This would result in creditors benefiting from public money intended to help low-income families build precautionary saving.

Therefore we believe that government should protect money in HTS accounts from third party debt orders or insolvency proceedings. At the very least any bonus accrued should be protected. There is precedent for such an approach with

[7] Although that will be a strange feature of the eligibility criteria, that individuals in exactly the same position will have different eligibility for HTS account deepening on whether they have been migrated onto Universal Credit

the Welfare Reform and Pensions Act 1999. This legislates that approved pension arrangements do not form part of the bankrupt's estate, meaning the Official Receiver has no claim over the majority of pensions or any accruing benefits.

Question 2: Do you agree with the proposed principles for assessing options to implement HTS? Please provide any comments as appropriate.

The principles proposed by the government are a good way of assessing options to implement HTS but we would like to suggest three additional principles.

1. The government aim is to maximise access to the HTS scheme within the target group. Therefore the product should seek to be **innovative**, exploring approaches to saving based in behavioural economics in order to encourage the largest number of the target group to apply (see below).

2. Beyond being innovative to promote access, the HTS product could also serve as a **successful pilot scheme** for commercial providers seeking to improve their offer to low-income families and therefore help boost low-income savings beyond its five year lifespan.

3. HTS could also serve as an example in the treatment of **vulnerable** customers. Those with mental health difficulties can face particular difficulty when engaging with financial products – a recent report from the Money and Mental Health Policy Institute showed that, when making applications for credit, 24% of those with mental health difficulties said they were unable to understand the terms and conditions and 48% said they were unable to weigh-up the advantages and disadvantages of the loan[8]. Those with mental health difficulties may need to set withdrawal conditions to prevent savings depletions when ill. As a government backed scheme HTS should demonstrate to commercial providers the best way in which to offer a sensitive and effective service to such customers.

Question 3: The government welcomes stakeholders' views on the proposed information and reporting requirements under the multiple provider option.

We have no response to this question.

[8] http://www.moneyandmentalhealth.org/wp-content/uploads/2016/06/Money-on-your-mind-full-report.pdf

Question 4: Do stakeholders agree with the government's assessment of the option to deliver HTS accounts through multiple providers? Please provide additional comments as appropriate, including views on:

- interest payments
- branch access
- account transfers

There are advantages and disadvantages to offering HTS through multiple providers.

The advantages of a multiple provider offer are:

- A multiple provider option appears to be slight more popular than a single provider option among the target audience – 32% of our survey respondents preferred a multiple provider option compared to 24% who preferred a single provider option such as NS&I.
- Commercial providers may offer a wider range of products for account holders to "roll-over" into after the HTS two year period concludes.

The disadvantages of a multiple provider option are:

- From discussions with commercial providers we understand there is limited appetite to offer a HTS product. If this is the case we are concerned that if a multiple provider option is chosen, little will be done by those providers to advertise the availability of HTS accounts. A useful example would be the basic bank accounts, which not all providers promoted in the same way resulting in uneven access for some consumers.

- We are concerned that a multiple provider option will lead to choice paralysis among potential account holders, resulting either in a failure to open an account or the automatic choosing of the default account. The latter would undercut much of the rational for a multiple provider offer.

  The evaluation of the Child Trust Fund shows how damaging such choice paralysis can be for the success of any government backed savings scheme. The evaluation found that for a substantial minority, 'the wide range of accounts and providers was one of the main barriers to choosing and opening a Child Trust Fund account.' Not only this, 'similar barriers increased the amount of time it took some parents to eventually open the account.'[9]

Question 5: Do stakeholders agree with the government's assessment of the options to deliver HTS accounts through either a single in-house provider or a

9 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360495/Report_143.pdf

single private sector provider? Please provide additional comments as appropriate.

As with a multiple provider approach, there are advantages and disadvantages to a single provider approach.

The advantages of a single provider offer are:

- It is simpler for a consumer, offering just one option, and therefore reduces the chance of choice paralysis.
- It cuts down on administrative issues / costs for government and therefore would hopefully be easier and quicker for those trying to open an account.

The disadvantages of a single provider option (assuming it is offered by National Savings and Investments) are:

- There are a limited number of products offered by NS&I that individuals can “roll-over” into after HTS two year period concludes and these products may or may not offer the best value for consumers when compared to some offers from commercial providers.
- Our survey showed that consumers would trust a savings product offered by government (52% ‘mostly trust’ or ‘fully trust’) less than a product offered by a high street bank (63%). This indicates a government offered product may have slightly lower take-up than one offered by multiple commercial providers.

Regulatory issues: multiple providers vs. single provider

We are concerned that if HTS is offered by multiple providers it will create regulatory difficulties for firms without permissions to advise on investments. According to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 advising on investments is a ‘specified kind of activity’ if the advice is —

(a) given to the person in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor; and

(b) advice on the merits of his doing any of the following (whether as principal or agent)—

> (i) buying, selling, subscribing for or underwriting a particular investment which is a security or a contractually based investment, or
>
> (ii) exercising any right conferred by such an investment to buy, sell, subscribe for or underwrite such an investment.

It must also be a ‘specified investment’, which would include deposits (a sum of money paid by one person to another on terms that it will be repaid when a specified event occurs (for example, a demand is made).

This would mean debt advice organisations, for example, might not be able to offer a specific recommendation on the HTS product if there were multiple products on the market.

We believe HM Treasury needs to investigate this issue to make sure it does not create difficulties, should a multiple provider offer be decided upon. If it would create difficulties we believe HM Treasury should create an exclusion for the HTS product regarding regulated advice. It would possibly be able to do so in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

It is unclear whether a single provider model would have the same regulatory issues as a multiple provider model. It would possibly be a financial promotion, rather than financial advice, to advertise the product to clients. However, if this is the case HM Treasury may need to amend the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 to exempt HTS products (as it does for the Child Trust Fund in the ‘advice centres’ carve out – Section 73), so that there is no possibility of another, different, regulatory problem.

Overall, it is important that regulatory constraints do not prevent any organisation getting people to a HTS product, however it is offered. Where government incentives are available, such as with the Child Trust Fund, money should not be "left on the table". Therefore a focus of HTS policy between now and 2018 must be to ensure it has adequate regulatory protection in the best interests of consumers.

Question 6: The government welcomes stakeholders’ views on the detailed policy design issues set out in this section, including how best to:

- *calculate the government bonus*
- *deliver second term HTS accounts*
- *ensure an appropriate rollover of funds to successor accounts*
- *permit saving above the monthly limit*
- *target eligibility on people who do not already have significant savings*

We answer below on how the government bonus will be calculated, and whether HTS should permit people to save above the monthly limit as these issues will have the greatest impact on take-up.

<u>Bonus</u>

Given the aim of the HTS policy is to boost savings among low-income working families, HM Treasury must structure the bonus to ensure as big a take-up as possible. In order to do this the bonus needs to be as generous as possible and it needs to make the two year period the account runs for look less daunting to people who operate on a financial cycle that is much shorter than that.

For this latter reason, HM Treasury will also want to make sure that the savings work as effectively as possible as a buffer against financial shocks - 53% of respondents to our survey say they suffer an unexpected bill at least every six months and these bills most likely cost between £201-£300.

Therefore **we believe the best option would like be a bonus that is based on the highest balance achieved, and crystallises at least every six months.** This would result in the highest amount of bonus for groups who are likely to have to withdraw amounts for essential bills on a semi-regular basis. Our survey shows this option would work best for the target audience. Respondents said they would prefer an account that paid a bonus on the highest amount (32%) to one that operated on the average balance (23%). Furthermore they said a bonus would be most attractive if they could receive it every month (35%) or every six months (31%).

Payment above £50 monthly limit

We believe HTS should allow 'top-up' monthly payments above £50. Again, the aim is to not disincentivise saving, as many people in the target group will have fluctuating income. According to our survey respondents, 34% would prefer to be able to pay in an average maximum of £50 per month. They want to be able to 'overpay' in order to catch-up previous lower payments made in previous months (necessitated by lower income in that month) to maximise their bonus payments.

Question 7: The government welcomes stakeholders' views on options to promote take-up and awareness of HTS accounts, including on the role of intermediaries and opportunities to harness insights from behavioural science.

Behavioural reasons have been shown to stop people saving:

- Bounded rationality, i.e. a limit on the amount of information an individual possesses and/or a constraint on their decision-making capabilities
- A tendency towards procrastination
- A tendency towards inertia
- Being loss-averse, for example not wanting to have less "take home pay"

Successful solutions to saving need to overcome these behavioural barriers by providing appropriate incentives to low-income customers. The bonus features of HTS could start to do this; however, to be particularly effective we would urge HM Treasury to explore the use of two behavioural incentives that have also been shown to be particularly effective. These are:

- Auto-enrolment
- Prize-links

Auto-enrolment / payroll or benefits deduction

Some incentive schemes use defaults to overcome the inertia and procrastination that prevents many people saving. An 'auto-enrolment' workplace saving scheme sees an individual automatically signed up. He or she then must 'opt-out' to stop money being deducted from their pay or benefits into a savings account. There do of course need to be adequate safeguards to ensure that individuals can miss payments in a given month if it is likely to cause them financial detriment.

Such an approach has proved successful abroad. According to Madrian and Shea one auto-enrolment savings plan they studied in the US increased participation rates from 49% to 86%. Other plans in the US ensured participation rates of over 90%[10].

In our survey we found that an auto-enrolment approach should be successful among the target group. When asked, 'If you could choose to have savings automatically deducted from your salary or benefits, would this make you more likely to save?' – 41% of respondents answered it would make them 'much more likely to save' and 20% said it would make them 'a little more likely to save'.

We recommend HM Treasury works with employers and the Department for Work and Pensions so that individuals can auto-enrol / make payroll or benefit deductions into the HTS scheme.

<u>Prize-links</u>

Prize-linked saving (PLS) schemes, where account holders have the ability to win a prize (e.g. a sum of money) on a regular basis have been shown to appeal greatly to consumers who do not have regular savings habits or who have little existing savings[11]. The popularity of PLS schemes appears to be the blend of a guarantee of no principal loss with a large but low probability gain[12]. This makes them appealing to 'loss-averse' families, who tend to be low-moderate income. PLS schemes seem to be particularly effective when participants have the opportunity to win a prize every time they deposit money, rather than just the ability to win a prize by virtue of having an account[13].

Previous research indicates the particular appeal of prize-linked saving to lower-income families. In 2007, Centra Credit Union in Indiana piloted the first ever prize-linked savings product in the United States across all of its 22 branches. Prior to the full launch, in October 2006, an associated survey was conducted in Clarksville, Indiana[14]. The survey found 58% of potential participants expressed a positive interest in the PLS accounts, 65% of current non-savers expressed an interest and

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[10] Madrian, B. and Shea, D. (2001), *The power of suggestion: Inertia in 401(K) participation and savings behaviour*, The quarterly journal of economics, Vol. 66, no. 4
[11] Tufano, P, Maynard, N and De Neve, J-E (2008), *Saving whilst Gambling: An Empirical Analysis of U.K. Premium Bonds*, Harvard Business School
[12] Ibid
[13] The Doorways to Dream Fund (2012), *Playing the Savings game: A Prize-Linked savings report*
[14] The county has a mean income 13% lower than the US mean and can provide some insight into PLS demand among low income populations

for people who considered their earnings to be substantially below the local average, 62% expressed an interest[15].

Elsewhere, in 1994 the Jonan Shinkin Bank in Japan introduced prize-linked one-year savings accounts. These accounts attracted deposits worth about $US 305 million into the bank in a matter of days, attracting an additional 13 banks to immediately offer similar products[16]. Writing about PLS accounts in Latin America, Guillén and Tschoegl (2002) conclude that "[T]he bankers we spoke with believe that (the products) are especially successful with low-income depositors." Their review of PLS programs around the world notes that the products appealed to "people outside the banking system[17].

We recommend HM Treasury examines the use of prize-links within the HTS scheme. In particular, if the scheme is offered by NS&I we recommend that saving into a HTS account also makes people eligible for entry into the Premium Bonds draw.

Evaluation

We conclude by raising the question of how the government intends to evaluate the success of the HTS scheme post 2018. We would appreciate some further information on this issue in the government response to this consultation.

We would suggest a possible measure of evaluation would be to see how many account holders reach a £1,000 in accessible savings. Our previous research (see above) suggests this would be a good "target" for families seeking to become financially resilient.

[15] Turfano, P, Maynard, N and De Neve, J-E (2008), *Consumer Demand for Prize-Linked Savings: A Preliminary Analysis*

[16] Keaney, M. Turfano, P. Guryan, J. and Hurst, E. (2010), *Making savers winners: An overview of prize-linked savings products*

[17] Turfano, P, Maynard, N and De Neve, J-E (2008), *Consumer Demand for Prize-Linked Savings: A Preliminary Analysis*