BOOSTING LOWER-INCOME SAVING

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Having £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[1].**

In 2015 StepChange Debt Charity 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[2].

We therefore welcomed the government's Help to Save (HTS) scheme. The HTS scheme, arriving in 2018, will be a key tool in helping boost savings, as long as it is implemented effectively.

However, the scheme will not be enough alone to solve the problem. In the long term more innovative approaches to saving must be looked at by government and commercial financial services providers.

This short briefing discusses how HTS should be implemented and what more can be done to boost lower-income saving. It contains the results of a survey of StepChange Debt Charity clients on the provisions of the HTS scheme and their ongoing savings needs.

What is Help to Save?

HTS accounts will be available to individuals in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours paid at the National Living Wage, or those in receipt of Working Tax Credit. Individuals who save are eligible for a 50% bonus on up to £50 of monthly savings.

Accounts will run for two years from opening with the option to extend for a further two years after this. Alternative approaches for how the bonus will work have been put forward. These include:

- Paying the bonus on the highest balance achieved (excluding interest)
- Paying the bonus on the average balance of the account
- Allowing individuals to access the government bonus every six months

HM Treasury has not yet decided whether to offer the scheme via multiple commercial providers, or a single provider, such as National Savings & Investment (NS&I).

In an average two year period, how often do you need to pay an unexpected cost (for example, for a broken boiler or for car repairs) that savings would help you deal with?

Once a month	11.1%
Once every six months	**42.3%**
Once a year	24.6%
Once every two years	3.4%
Never	6.2%
Don't know	12.5%

Without savings, how do you deal with an unexpected cost?

I borrow from family and/or friends	**38.6%**
I use my credit card	11.8%
I use high-cost credit (for example, a payday loan)	5.1%
I use another form of credit (for example, a personal loan)	3.8%
I cut back on spending on essentials (for example, food or heating)	36.7%
Don't know	4.0%

Survey methodology

The survey was responded to by 1,551 StepChange Debt Charity clients who came to the charity for advice in 2015 and 2016. The fieldwork was conducted online between June 28th and July 11th 2016. The survey sample contained: 25% clients in receipt of Working Tax Credits, 25% clients in receipt of Jobseekers Allowance, 25% clients 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. This sample was selected to best capture the potential target audience for HTS in 2018, given the fluidity individuals show in switching between such conditions.

How can Help to Save be most effective?

StepChange Debt Charity

Getting people into the scheme

The bonus

The proposed two year time period over which a HTS account will run before savers receive their bonus may disincentivise applicants.

1. The process of 'hyperbolic discounting'[3] means that individuals tend to under-appreciate financial benefits the further away they are. This means if potential HTS account holders don't think they will get a bonus for two years they may not apply.
2. The target audience for this product suffer economic shocks on a much more regular basis than every two years (see infographic opposite).

In an average two year period, when you have had to pay an unexpected cost (for example, for a broken boiler or for car repairs) how much did it come to?

Less than £100	8.9%
£101-£200	24.3%
£201-£300	**24.8%**
£301-£400	11.9%
£401+	14.7%
Don't know	15.4%

HM Treasury should therefore consider how to structure the bonus to ensure maximum take-up and best fit with the situation lower-income consumers are in. In order to do this the bonus needs to reward positive savings habits and make the two year period look less daunting to people who operate on a financial cycle much shorter than that. They need to access the bonus before two years is up.

Imagine you have a savings account with a government 'bonus' of 50p for every £1 you saved. You can only receive that bonus every two years. How would you like that bonus to be calculated?

On the highest balance in the account over the course of the two years	**32.2%**
On the average balance in the account over the course of the two years	22.7%
After every six month period	29.8%
Don't know	15.3%

The best option would be a bonus that is based on the highest balance achieved, incentivising account holders to continue to build their pot, which they can access 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.

If a savings account offered you a bonus, would it be more attractive to you if you could only get that bonus:

Every month	**34.8%**
Every six months	31.1%
Every year	23.9%
Every two years	1.7%
Every four years	0.2%
Don't know	8.4%

HTS should also allow 'top-up' monthly payments above £50, so families can save an average of £50 per month over two years. Again, the aim is to incentivise saving, as many people in the target group will have fluctuating income.

Would you prefer a savings account where you could pay in up to a maximum of £50 per month, or an average of £50 per month (e.g. if you paid in £25 one month, you could pay £75 the next month)?

I would prefer to be able to pay in up to a maximum of £50 a month	33.2%
I would prefer to be able to pay in an average maximum of £50 a month	**33.6%**
I don't mind	18.5%
Don't know	14.7%

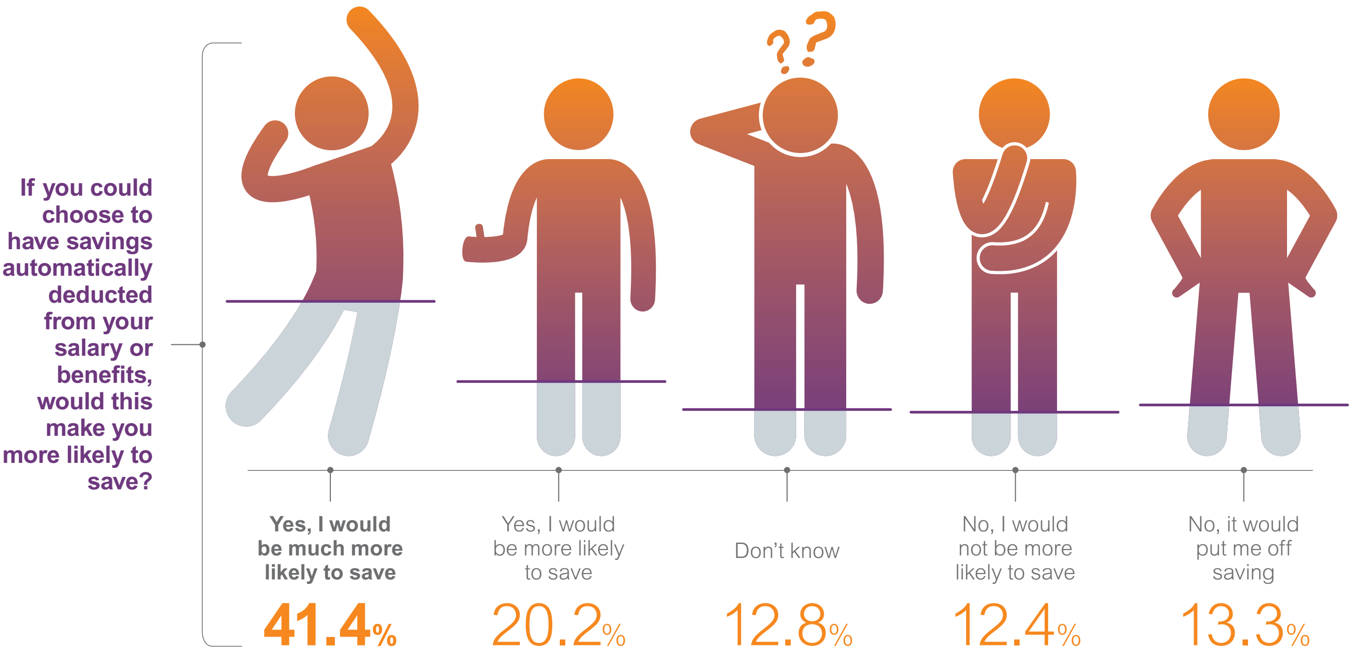
Auto-enrolment / payroll or benefits deduction

An 'auto-enrolment' 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.

Such an approach has proved successful abroad. Auto-enrolment savings plans in the US have increased participation rates from 49% to 86%[4].

Our survey shows an auto-enrolment approach would be successful among the HTS target group.

Individuals should be able to auto-enrol / make payroll or benefit / tax credit deductions into the HTS scheme. The auto-enrolment option for HTS must work in an appropriate way for account holders. For example, if an account holder loses their job they must be able to easily switch from making automatic payroll deductions to automatic benefit / tax credit payments.



Eligibility

Currently those under 25 only qualify for Working Tax Credits 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.

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

Protecting the bonus from creditors

Given the target audience of HTS, it is likely many will face financial difficulty whilst holding a HTS account. This will leave them vulnerable to third party debt orders and potentially insolvency.

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 to prevent taxpayer money going straight to debt collectors. There is precedent for such an approach with the Welfare Reform and Pensions Act 1999. This legislates that approved pension arrangements do not form part of the bankrupt's estate. Thus the Official Receiver has no claim over the majority of pensions or any accruing benefits.

What else can be done?

Even with these changes HTS itself will not be enough to solve the problem. Although it will help many families without savings its scale is too small to help all those who need a rainy-day fund. In the long term more innovative approaches to saving must be looked at by government and commercial financial services providers.

Commercial providers

By incorporating learnings from behavioural economics commercial providers can boost the appeal of savings products to lower-income consumers.

1. Prize-links

Prize-linked saving (PLS) schemes, where account holders have the chance 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. Some commercial providers in the UK do offer these products but they are not targeted at low-income customers.

Starting in 2009, Michigan Credit Unions participated in a PLS-based "Save to Win" (STW) pilot. Annually, one participant won a $100,000 grand prize and there were also monthly prize draws. Participants required only $25 to open an account via STW and could subsequently remain enrolled through only depositing small amounts.

This approach proved popular, spreading to 62 Credit Unions over four states, resulting in 40,000 additional members, 79% of whom were classed as 'financially vulnerable'.

In 2013, STW expanded to two new states, Washington and North Carolina, continuing to successfully target lower-income families. Since 2009, STW has had over 50,000 unique account holders who have collectively saved more than $94 million[5].

We believe commercial providers should examine the use of prize-links within low-income savings products.

2. Digital 'nudges'

Commercial banking providers using digital 'nudges' appears to have been an effective way of improving the financial behaviour of customers at a relatively low cost. This is when firms use online and mobile tools to encourage better savings behaviour among customers. According to research by Deloitte, it is an approach that has already been used with some success overseas[7].

The Behavioural Insights Team tested whether using personalized text messages for collecting fines results in increased compliance. This found that people were more likely to make a payment on their overdue fine if they received a text message containing their name and the average value of fine repayments went up by over 30%[8].

In the UK, one high-street bank recently introduced a text alert service that warns customers when they are approaching their overdraft limit. This service is reported to have saved customers over £85m in overdraft charges since its introduction[9].

However, more could still be done here. **Commercial providers should go faster and further with exploring the use of digital 'nudges', as part of a wider strategy aimed at boosting savings utilising both behavioural and structural elements, to encourage low-income families to maximise savings. For example, systems which identify underspending against a usual expenditure pattern and urge an individual to save that excess could be effective.**

Government

Adapting pensions

There already exists in the UK an incentive-based scheme for getting people saving: auto-enrolment for pensions with a matching element, where government and employers increase the pot of money available to save.

There are clear reasons for using auto-enrolment as a basis for increasing accessible savings:

- It is already in place and working effectively with a suitable system of earnings thresholds and eligibility requirements
- Existing workplace savings schemes could be harnessed rather than replaced
- It contains an auto-enrolment nudge – reversing the default so people save unless they opt not to, using inertia to deliver good outcomes
- It contains a match – both employer and tax contributions boost individual saving

Pension auto-enrolment could be adapted to help people build up short term precautionary saving. By harnessing behavioural incentives government can ensure families save the amount they need but also maintain their savings balance for moments of greatest need. It would not mean significantly reduced retirement income for individuals, or increased costs to employers, pension schemes or the public purse[10].

The government should work with employers, pension providers and banks to allow struggling savers to build a rainy day saving buffer via the pensions auto-enrolment system.

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