Help to Save reform

Fair4All Finance response

Summary

We welcome the government's announcement of the extension of Help To Save as well as the decision to consult on reforms to the scheme. This is a great opportunity to expand access to this generous scheme at a time when low income households are struggling more than ever to save.

Our response draws on Fair4All Finance's work with people in financially vulnerable circumstances and applies lessons from the success of community finance providers in helping people with low incomes develop savings habits. In order to improve uptake, we believe it is important that the scheme is designed to be as simple and frictionless as possible, and that it works in a way that reflects the complex financial lives of the people it supports.

Our suggestions for reform include

- Expanding the range of providers who can offer a Help To Save account in order to increase uptake of the scheme. In particular, allowing the scheme to be run through credit union accounts would harness the huge success of community finance in promoting savings among people with low incomes
- Learning from the success of pensions auto enrolment and considering automatically setting up new benefit claimants with a Help To Save account
- Expanding the eligibility of the scheme to include people with low incomes who don't work, such as pensioners and carers, and making the scheme work better for people with variable incomes

About us

Fair4All Finance is a not for profit organisation founded in early 2019 to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services. We have three main priority areas:

- Expanding provision of affordable credit through a scaled community finance sector
- Partnering with banks and financial services providers to support the delivery of products and services for customers in vulnerable circumstances
- New product and market development – developing and scaling products and services to address market gaps

Our response

We welcome the government's announcement of the extension of Help To Save as well as the decision to consult on reforms to the scheme. This is a great opportunity to expand access to this generous scheme at a time when low income households are struggling more than ever to save.

Without a savings buffer, a financial shock such as job loss or an unexpected expense runs the risk of tipping you into long term debt or financial distress. But savings levels are low among people with lower incomes. Among Fair4All Finance's segmentation of 17.5m adults in financially vulnerable circumstances, we estimate that 61% have less than £1000 in savings and 33% have none at all.

And recent rises to the cost of living are making it harder to save. The Resolution Foundation reported that from December 2022 to March 2023, 44% of people – over 23 million adults – reported using their savings to make ends meet. We therefore strongly support the government's aim to encourage take up in this target group through these reforms.

There are lessons that can be learned from the success of community finance providers in supporting people with low incomes to save. The credit union 'save as you borrow' model is a popular and well established approach where someone who wants to borrow has to open a credit union savings account at the same time, and put away a small amount alongside their regular loan repayments. At the end of their loan term, the borrower has saved a modest amount and will have greater financial resilience in the future. For some people, this will be the first time they have saved regularly.

Earlier this year Fair4All Finance published research into credit union deduction lending, where people's loan repayments are deducted at source either from their payroll, through a partnership between the credit union and their employer, or through non-means tested Child Benefit payments.

This model is typically delivered with the credit union save as you borrow approach, and our research demonstrated the positive impact this had on savings behaviours.

- Prior to borrowing with the credit union, overall levels of saving were low, with 72% of benefit loan borrowers and 54% of payroll loan users saying they rarely or never saved. Additionally only 23% of borrowers previously had a savings account.
- Yet 73% of those repaying by Child Benefit and 72% by payroll deduction agree that the loan had helped them save more regularly
- And 79% of borrowers said they intended to continue saving after they paid their loan

The lessons that can be learned from these approaches are to make saving simple, frictionless and automatic as possible, and to work with people's behaviours rather than against them. For example, integrating the opening of a savings account into a loan application process means that people who would never see themselves as savers can start to put money away for the first time.

A key way to increase uptake of the scheme would be to expand the range of providers that can offer Help To Save accounts. For example, allowing a bank to market and offer one of their current account holders a Help To Save account, accessible in the same app they do their everyday banking in, would reduce the friction involved in setting up a new account.

And in particular, allowing the scheme to be run through credit union accounts, and linked to payroll and benefit deduction savings schemes, would allow the government to harness the huge success of the community finance movement in promoting savings among people with low incomes.

Response to questions

1. **Considering the focus on working people with low incomes, what changes, if any, would you recommend making to the eligibility criteria to reach the target group? How could that be implemented? Please provide details.**

The government could exclude Help to Save accounts from Universal Credit rules that reduce people's benefit entitlements once they have over £6000 in savings. At this point the mechanism starts to disincentive people from continuing their saving habits and starts to act in opposition to the aims of the scheme.

The government could consider extending the eligibility criteria to include people who do not work and whose main income is from benefits, such as pensioners, carers, or people with long term illnesses. Whatever its source, all people with low incomes would benefit from being supported to build a savings habit and improve their financial resilience.

Our research into credit union deduction lending shows that even people who derive most of their income from benefits are still able to make loan repayments, put aside money and develop savings habits. Twenty percent of benefit loan borrowers classified themselves as unemployed and more than half of benefit loan users had an annual household income below £15,000.

2. **Do you think savers should be able to open another account after their first Help to Save account matures or is closed? Should there be any restrictions to doing so? What are your reasons?**

The government could consider allowing people who have closed their account without receiving a bonus the opportunity to try again to make use of the scheme.

3. **To what extent does the limit on monthly savings act as a barrier to maximising the benefits and or objectives of the scheme? Without making the scheme substantially more costly to taxpayers, how could this be overcome? Please provide details.**

The government is right to recognise that the circumstances of individuals using the scheme can vary significantly month to month. We would support changes that allow people with variable incomes more flexibility to save.

Raising the monthly savings limit would benefit those with fluctuating incomes, such as the self employed or seasonal workers, allowing them to maximise savings in better months.

4. **To what extent does the restriction on replacing savings that have been withdrawn act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details**

The Help To Save scheme intends to support people with low incomes, who often have complex financial lives. To better support people in financially vulnerable circumstances, who are more likely to have variable incomes or experience an unmanageable financial shock, we believe the scheme should allow people more flexible access to their savings without this unduly affecting their access to the savings bonus. More frequent application of the bonus could be one way to enable this.

5. **Do you think the current limitations on ways to pay money into a Help to Save account presents a barrier for savers? If so, how could this be overcome? Please provide details.**

We agree that having no facility to directly deposit cash into Help To Save accounts adds friction for savers, particularly as cash use is higher among people with low incomes.

As suggested above, this would be addressed by expanding the range of providers and accounts that can deliver the Help To Save scheme to include a range of banks and credit unions. This would allow savers to choose an account that suits their preferences towards cash or digital only.

6. **Do you think running the scheme for 4 years provides the best value for money for the taxpayer?**

No comment.

7. **Could incentivising a regular, long-term savings habit be better achieved over a different time period? Please provide details**

As set out above, the experience of the credit union save as you borrow approach suggests that people can develop saving habits over the course of a short term loan of 12 months or fewer.

A study of a Dutch government savings programme found that the saving habits of participants increased over time, peaked at 19-24 months, then flattened.

Four years is therefore likely sufficient to incentivise a sustained savings habit and there may be scope for greater flexibility for people with shorter term saving goals.

8. **To what extent does the bonus structure or calculation method for savers act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details**

9. **Without making the scheme substantially more costly to taxpayers, what changes, if any, would you suggest to the bonus structure or calculation method to improve customer understanding and uptake? Please provide details.**

10. **Do you think a change in bonus frequency would make it simpler to understand and/or create a bigger incentive for the target group to save? Please provide details**

We believe that increased simplicity will be key to increasing uptake of the scheme. More frequent bonuses could be a good way to make the scheme more simple to understand as well as make the incentives for saving more tangible to account holders. As suggested in the answer to question four, more frequent bonuses could also enable people greater flexibility to withdraw savings when necessary, without unduly reducing their eligibility for a savings bonus.

11. **Are any complexities or barriers caused by paying the bonus to the saver outside of the Help to Save account? What changes would you suggest to the way the bonus is paid to the saver? Please provide details.**

12. **Are there alternative options to encourage and make it easy to continue the savings habit?**

We believe it should be made easier to continue saving automatically after a Help To Save account matures.

Again, there are lessons to be learned from the credit union repay and save model. At the end of the loan term the member has a savings account with the credit union that they can continue to use. It is common to encourage the member to continue saving a similar amount that they were paying towards their loan repayments.

Since Help to Save is currently delivered through National Savings and Investments, which offers a range of products, it should be relatively simple to default the matured Help To Save account into an easy access NS&I savings account. The saver could of course access their money and their bonus immediately, but they might also be encouraged to continue their saving habit.

If Help To Save was expanded to other providers, as suggested below, this approach should also be applied, allowing matured Help To Save accounts to default into saving accounts with the saver's chosen provider.

13. **Are any complexities or barriers caused by there being one provider of Help to Save accounts? How could this be overcome? Please provide details**

Yes, the government should expand the range of providers who can offer a Help To Save account in order to increase uptake of the scheme.

in particular, allowing the scheme to be run through credit union accounts, and linked to payroll and benefit deduction savings schemes, would allow the government to harness the huge success of the community finance movement in promoting savings among people with low incomes.

This would have the added bonus of supporting the government's goals to help the growth of community finance and improve access to affordable credit.

14. Are there any other areas of complexity, barriers or any changes you would suggest for Help to Save that have not been covered in this consultation?

There are also lessons to be learned from the huge success of pensions auto enrolment. Making people default into their workplace pension has transformed levels of pensions saving. We believe that the government could consider automatically setting new benefit claimants up with a Help To Save account.

Additionally, the government should consider attempting to integrate the scheme with workplace liquid savings schemes – such as Nest Insight's 'sidecar savings' trial – to allow workers with low incomes to maximise their saving through such schemes.

The government should also look at how providers of the Help To Save account could integarate benefit checkers and income maximisation tools into the application process, to help address the £19bn of benefits that go unclaimed every year.