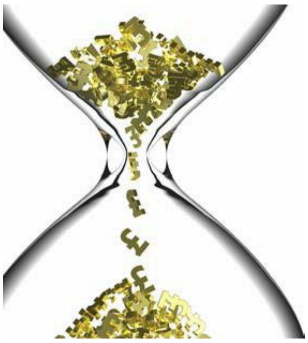
CHASM Centre on Household Assets and Savings Management

# Birmingham Savings Summit
# Towards a Savings Manifesto for Lower-Income Households
# Briefing Paper



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**Birmingham Savings Summit**

**Towards a Savings Manifesto for Lower-Income households**

**Briefing Paper**

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## Introduction

This Briefing Paper sets the context for the University of Birmingham Savings Summit, to be held in Birmingham on May 24th. The Barrow Cadbury Trust has commissioned the University's Centre on Household Savings and Management (CHASM) to produce a Savings Manifesto, aiming to kick-start a renewed national and local debate on the importance of a coherent savings framework, designed to help lower-income households to build up a financial cushion and a greater level of financial resilience. The aims of the Summit are:

- To understand the savings needs of low-income households, regionally and nationally
- To learn from local and national practitioners and policy makers
- To develop a prioritised list of proposals to feed into a Savings Manifesto

## Policy context

There have been a number of savings policy initiatives in recent years. The aim of these initiatives has been to help people save more, particularly those on lower incomes. In the 2000s we saw the introduction of the Child Trust Fund, which gave extra help to lower income families, and the two Savings Gateway Pilots, which offered a matched savings account for lower-income households, was due to be rolled out in 2010.

However, in the run-up to the 2016 Budget the government heavily trailed the idea of a new Help to Save scheme for lower-income households and, prior to the Budget itself, David Cameron announced the details before budget day, stating that: "I've made it the mission of this government to transform life chances across the country. That means giving hard-working people the extra support they need to fulfil their potential" (Gov.UK, Press Release, March 14th 2016). In the case of Help to Save, it means a matched savings scheme available to all individuals claiming tax credits or universal credit, with the government topping up every pound saved (up to maximum of £50 a month over four years) by 50 pence.

The broader context reveals other important developments in saving policy, mostly focussed on either retirement saving/investment or help for first-time homeowners. The most notable of these are a Lifetime ISA product for younger people (aged between 18 and 40) and a Housing ISA, to be used only for a housing deposit. Both schemes are based on a top-up model, adding 25 percent to the account (up to a maximum of £4,000 annually for the Lifetime ISA and £3,000 annually for the Housing ISA).

## Key cross-cutting themes

In developing a new savings agenda for low-income households we need to ask questions of both purpose and design. Below we set out some broad thematic questions regarding the purpose of saving for lower-income households. The more 'normative' questions below lay beneath the surface of the more practical questions we raise in this Briefing, and which we will discuss at our Savings Summit.

- *What do we expect from low-income savers?*

  To what extent are we seeking to change behaviour (for example, creating a 'savings habit') and, if we are, what products or forms of assistance are most suitable?

- *Short-term saving versus long-term investment*

What are savings to be used for? To deal with unplanned expenses or loss of income, or for longer-term retirement planning?

- *Saving for personal consumption or welfare consumption?*

Should support for savings come with restrictions on the way in which the savings are spent? For example, should it only be used for basic necessities or welfare services?

- *What is the appropriate balance between 'market', 'state' and 'community'?*

Who, or what institutions, are we expecting to help low-income savers? Should there be more emphasis on the 'rights and responsibilities' of financial services providers?

## The values of savings: what can we expect from a new savings agenda?

In the last 15 years there have been a number of attempts to measure the benefits of saving for low-income households. These studies have sought to go beyond a simple account of the benefits of saving as a means of smoothing consumption and have looked at the potential impact of savings on individual wellbeing in a broader sense. In evaluations of the Saving Gateway pilots it was found that a savings cushion did have a positive effect on people's sense of security, lowering anxiety and allowing a more positive outlook (see Lister, 2006, for discussion).

Wider research into the impact of wealth and saving also suggests that there are a range of potential benefits associated with holding wealth or savings. These include:

- ✓ Mental and physical health benefits for adults with a small amount of wealth or savings
- ✓ An association between wealth and savings and greater family stability, with decreased marital dissolution
- ✓ The use of wealth or savings as a springboard, with savings allowing people to start a business or undertake education/training

## The savings challenge: low income, low savings

Whilst the savings rate in the UK is historically low across the population there is a particularly low savings rate amongst low and middle income households. CHASM's 'Financial Inclusion Monitoring Report 2015' found that:

- 1/5 of the bottom income decile (the poorest 10% by income) were able to save 'now and then'
- 50 percent of those in the bottom half of the income distribution were able to save approximately £50 a month
- Only 28 percent of the population would be able to raise £200 in an emergency 'without difficulty'

The most recent figures from the Resolution Foundations annual survey of low to middle-income households paints a similar picture. It finds that 57% of the households it monitors have no savings at all, but that 43% would like to save at least £10 a month – if they could afford to do so. (Resolution Foundation, 2016, pp. 67-69).

## Where are we starting from?  How can we build on this?

This section outlines many current policy measures/savings schemes in the state, third and private sectors.  A key question for the Savings Summit will be to consider:

- Which of these might we prioritise for future development/support in order to help those on lower incomes who wish to save?

### Help to Save

The new Help to Save scheme is expected to come into operation by April 2018. At present there are a number of concerns regarding its precise structure, but the broad outlines are clear. It will be a true matched savings scheme, targeted on lower-income households (those claiming universal credit), with every pound saved topped up by 50 pence, up to a maximum of £50 a month for four years. The maximum help received from the government will therefore be £1,200, which comes on top of any interest gains from the saving itself.
Key points to consider include the following questions:

- How well will Help to Save work for low-income savers? Would some savers be better off using different products?
- How will market providers react to Help to Save?
- Will it be accessible at point of need and bridge investment and savings?

### A lifetime savings account

In the run-up to the announcement of Help to Save there had been rumours of a different product with a very similar name. For a number of years policy thinkers from across the political spectrum have been developing ideas for a savings product, under the brand of a 'life-time savings account' (LISA). This will be targeted by age rather than income, with all 18 to 40 year olds eligible to open an account, depositing up to £4000 a year with a 25 percent government top-up. The savings will only be usable for either a deposit on a home purchase, or for use in retirement after the age of 60.

- Is this a suitable product for lower-income savers? How many low-income households are likely to use this product?
- Would low and lower-income households be better off saving/investing with another product?
- Is this product too inflexible for the real needs of low-incomer savers, 'locking away' savings in a way that is too restrictive for some households?

### The role of credit unions

Credit Unions have played an important role in broadening financial inclusion for a number of years. As non-profit providers, typically with a strong community connection, they can help individuals in more deprived areas access affordable credit, whilst also offering an opportunity for individuals to save. However, the return on savings is generally low and often not as high as the rates of return offered by high-street lenders. The level of participation in credit unions has more than doubled in the last 10 years in England Wales but remains very low as a proportion of the population.

Key questions:

- Can credit unions ‘scale up’ and offer higher saving returns without losing their community ethos?
- Can and should credit unions ‘compete’ with the high-street, or can the two be brought together in cooperative ways?

## Between state, market and community – the role of social landlords

Over the last ten years there has been an increasing emphasis on ‘holistic’ housing management, with landlords seeking to help tenants in areas such as education and employment, rather than just offering a more traditional management service. More recently, in part because of changes to the welfare regime and a desire to protect rental income, a number of housing associations have taken an increased interest in offering financial advice to their tenants. However, housing associations could potentially play a more ambitious role, helping individuals not just to manage their budgets, but also to proactively save.

Key questions:

- Is it possible for housing associations to deduct a small amount of weekly/monthly rent to pay into a savings account?
- Could housing associations form a bridge between state-led savings schemes and community based initiatives?

## The Role of Employers: Save as you Earn

There has been a longstanding scheme allowing workers to save as they earn. First introduced in 1980, Save As You Earn (SAYE) allows private companies to offer their staff the opportunity to save as they work, with a monthly deduction going to an approved bank or building society. Employees can then use their savings to buy shares in the company at a discounted rate. The shares are then given favourable tax treatment, only being taxed if sold rather than transferred into an ISA, and there is no tax paid on the interest accrued on the savings, which may simply be withdrawn at the end of the scheme. Yet whilst this may help some individuals with longer-term savings plans it does not help with kind of accessible ‘rainy day’ saving that is beneficial to many low-income households

Key questions:

- How could we make SAYE more flexible for low-income savers, allowing them to access savings (without penalty) in financial emergencies?
- How could we extend SAYE from the private sector to others types of employer, small as well as large?

## Looking to the Market: what's on offer, what could be on offer?

We have looked at both existing policy and some policy suggestions. Here we now look to some of the best innovations that are to be found in the market, both in the UK and abroad.

In recent years there has been growing interest in 'nudging' individuals in certain directions, with savings policy often leading the way. We now have auto-enrolment for pensions, based on the assumption that people are less likely to make an active choice to opt-out. There is also a body of evidence that suggests that we don't miss what we never felt we had. Some recent innovations in the market have built on this. For example, in the USA, *Save more Tomorrow (SMarT)* encourages employees to decide on a proportion of any future salary increase to put into their pension pot. There are also more modest nudge innovations. In the UK we are seeing a number of innovations from banks and lenders that work on the same principles of 'nudge'. Lloyds Bank offers a *Save the Change* scheme on its debit card, in which any purchase made is rounded up to the nearest pound and transferred to a savings account. In the United States *Upromise* operates on a similar principle, allowing members of the scheme gains credits from a number of consumer purchases, with the option of then putting their credits into a savings account or paying down student loans.

Key questions:

- Does 'nudge' work for everyone in practice – and who does it work best for?
- Are the smallest nudges enough, or do they distract us from the bigger picture and need for saving on a larger scale?

## Community Saving Clubs

There has been a long tradition of 'Christmas Clubs' in the UK, in which groups of friends, families and neighbours each commit to save a certain amount weekly or monthly, and hand this amount over to a chosen member for safe keeping**.** This is now being taken a step further and has an emerging ROSCA (Rotating savings and credit association) presence online; for example, MoneyPool, Puddle and Moneyfellows.

The idea of a rotating savings and credit association, which is particularly popular in developing countries, is that a group of people come together for a fixed period to help each other save and raise funds. All members will bring a certain amount to each meeting. Once a set goal is achieved all of that money will be given to one person in the group. The target is then re-set and the next person in line receives the same lump sum, and so on until all have received the same amount. As a form of micro-finance, this can help individuals raise a small amount of capital to start a business, or to pay for a major life-course event, such as a wedding.

Key questions:

- What is the right balance of freedom and regulation – how can we encourage savings clubs whilst also protecting individuals?
- Can community saving be used as a form of informal financial insurance as well as a vehicle for specific savings goals?

## Other policies/schemes

There are already a number of other policy measures/schemes designed to help people to save. These include: the introduction of 'Granny Bonds' in January 2015; the abolition of tax on the first £1,000 of interest earned every year on savings from April 2016. This policy will effectively abolish tax on income from savings for 17million savers; and the provision of Premium Bonds and other National Savings schemes

Key questions:

- Are there other policies/schemes of relevance here, particularly in Birmingham and the Black Country?
- Are these schemes targeted on the right people? Are they effective?
- How should we prioritise support for all the different schemes mentioned in this section of the Briefing Paper?

## Where could we go from here? Alternative proposals

This section moves forward from existing policies/schemes to consider alternative proposals in this space. Once again, our key question is:

- Which of these might we prioritise for future development/support in order to help those on lower incomes who wish to save?

### A Lifetime Bonus Saving Account

Here are the most salient points from a proposal from the Institute of Public Policy Research (IPPR, 2011). Their Lifetime Bonus Saving Account would be:

- A universal product available to all regardless of income, with government tops up on a sliding scale, based on three year average holding, up to a maximum of £180 a year
- Account holders can make four withdrawals a year without penalty, and all savings in the account would be exempt from means-testing processes, allowing account holders to invest for retirement whilst also saving for emergencies or planned consumption
- The Lifetime Bonus Saving Account would be available through market products, as well as (potentially) directly through the state in the form of direct debit from welfare payments

Key questions:

- How much will such a scheme help households with very low incomes, and should it be targeted more on these households?
- Are market products equally suitable for all people and how would more vulnerable households be protected from the risks of the market?

### Bringing community back in – or bringing market to the community?

There has been a long emphasis on the role of credit unions as key third sector actors in the UK's savings framework. More recently there has been some new policy thinking that adds a new dimension to this, with a greater emphasis on the relationship between community and financial institutions. Both Demos (2009) and the Centre for Social Justice (2015) have called for there to be a binding duty on banks and other lenders to meet the needs of all who live and work in their areas of operation.

Key questions:

- Is there potential to introduce in the UK an equivalent of the United States' 1977 Community Reinvest Act, requiring financial institutions to offer low-income savings products?
- What other ways might there be to encourage financial institutions to help low-income savers? Is there a place for (e.g.) tax incentives to encourage this?

## Alternative Financial Institutions (AFIs)

Having for many years focussed on the perils of unsustainable personal debt, the Centre for Social Justice has more recently turned to the more positive agenda of savings products for low-income households. The vision of AFIs that the CSJ is currently advocating has the following key features:

- 'FinTech', the co-option of new technologies to harness efficiencies in markets, should be developed to bring innovative products for *lower-income households*
- Lower-income savers are to be treated primarily as *consumers* in the market, not as beneficiaries of state largesse
- A key means of achieving this is through regularity reform, allowing more disruptive players to enter the market

Key questions:

- Are all savers equally able to benefit from FinTech and how can we avoid leaving out savers who are less able to use new technology?
- What role can/should the state play in this market; as a provider, or just as a regulator?

## A Savers Champion

One of the central conclusions to come out of CHASM's 2013 Policy Commission on the Distribution of Wealth (http://tinyurl.com/zxljehk) was the need for an organisation that solely represented the interests of savers. At present there is no organisation solely dedicated to providing this service, and savers are faced with a huge numbers of products with subtle and sometimes quite complex differences. However, this does seem to be an area in which the market itself is helping to provide part of the solution. For example, the savingschampion website (https://www.savingschampion.co.uk/) offers extensive online information for free, with a Freephone advice, funded out of fees charged to consumers who want more bespoke advice.

Key questions:

- Do low-income savers need more help to make the right saving choices in the market?
- Does a savings champion need to do more than offer online advice and information – does it need more 'muscle' to act on behalf of low-income savers?

## The wealth lottery

There is evidently a strong appetite for lottery schemes in the UK, as we can see from the National Lottery. But we have also had the much longer-running (and more modest) Premium Bond system in the UK. This allows individuals to buy redeemable bonds from the Treasury, with the potential of winning a prize between £25 and £1,000,000, with each bond's number entered into a lottery draw every month. However, no interest is paid on the bonds, so the 'premium' paid out is a matter of luck. Moreover, changes in 2015 effectively reduce the 'premium' – the chances of actually winning.

Key questions:

- Are Premium Bonds a suitable product for lower-income savers?
- Is it possible to maintain the attractive 'prize' element of premium bonds whilst combining this with more conventional savings products?

## Next steps

Thank you for reading this Briefing. We hope it will give you food for thought and a good understanding of the questions we will be exploring at the Savings Summit on May 24th. We very much hope that you will wish to bring your own knowledge and expertise to the day, and we encourage you to engage with this Briefing critically as well as positively. The Briefing and the Savings Summit are an important part of a process, which will lead to a Savings Manifesto later in the summer. Your participation is an important part of this process.

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