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What makes people save? A comparison of the UK's Housing ISA and Oregon's IDA

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The importance of personal wealth has been widely documented in the literature on financial inclusion (Rowlingson & McKay, 2012). Besides the economic benefits of having savings such as having a cushion to fall on in case of a financial emergency, ability to enjoy better retirement and plan for future expenses, there are also social benefits. Kan and Laurie (2010) found that peoples' wellbeing increases when they have savings. McKnight and Karagiannaki (2013) found links between health of young adults and wealth, whilst Sherraden (1991) has argued that the security provided by asset ownership leads to an 'asset-effect', which transforms the way in which the individual sees and interacts with society.

Yet there are still many individuals in the UK that do not save at all. According to recent research, in a survey conducted in 2010/11, only 42% of the sample said that they had some kind of savings and in 2014, 22% of the surveyed sample said that they would be able to find £200 emergency money at short notice (Rowlingson and McKay, 2015). So much more needs to be done to spread the benefits of saving, even if it is only to prompt people to start setting aside a small amount of money. In modern policy terms we are familiar with the use of 'nudges' and incentives to encourage certain behaviours. One of the latest nudges we see is in UK savings policy, where a new matched savings scheme (Help to Save) in which the government tops up the savings of lower-income savers, is about to be introduced.

This Briefing looks at this under-explored aspect of this kind of nudge: the language that is used to promote or market savings products. Of particular concern is the language framing saving choices for lower-income individuals and households, and the impact that this may have on their attitudes to saving. The Briefing starts with a brief review of some recent 'nudges' in savings policy before contrasting the language in which two savings schemes are framed. The comparison focusses on two types of saving scheme: Individual Development Accounts (IDAs) in the US and the new Help to Buy ISA (in part modelled on Individual Savings Accounts) in the UK.

Individual Development Accounts (IDAs) in the USA are designed to enable low-income families to save towards property purchase but also post-secondary education and small business ownership. Account holders are entitled to match-savings bonuses, typically at a rate ranging from one to three dollars for each dollar saved. In addition, many providers offer a comprehensive financial education and counselling.

Since 1999 British savers have been able to open Individual Savings Accounts (ISAs). These allow individuals to save or invest in stock and shares in a tax-favourable way, with profits untaxed up to a capped point (currently £20,000 per annum since April 2017). In contrast to the IDA there is no matched saving component. In December 2015, however, a Housing ISA became available. The basic features of this ISA are that people saving for a deposit towards a home purchase can pay in up to £200 a month, with a 25% top up from the government, with a maximum top-up of £3,000 over the full period. There is also a minimum (£1,600) that must be saved before the top-up kicks in.

What we know about saving behaviour

We know that there are a number of ways in which individuals can be 'nudged' to save more (Sunstein and Thaler, 2008), even if they only have a little money (Rowlingson & McKay, 2015). In the United States the Save More Tomorrow (SMarT) scheme, developed by Thaler and Benartzi, encouraged people to allocate a proportion of their future salary increases towards a retirement savings. Dedicating future increases in income allowed people to avoid the difficult decision of whether and how to cut their spending in order to save a proportion of their income. The average saving rates for participants increased from 3.5% to 13.6% over the course of 40 months (Thaler and Banartzi, 2004).

More recently, In the UK, some banks have introduced schemes such as the Save the Change operated by Lloyds Bank and TSB Bank. Every time a participant spends money using their debit card, the amount payable is rounded up to the nearest pound and the round up is transferred to their saving account. These are valuable innovations. But there are also still lessons to be learnt about the way in which the potential benefits of saving can be explicitly communicated and promoted, with more of an active push as well as subtle 'nudges'.

Framing the Choice: Individual Development Accounts and the Help to Buy ISA

This section examines the ways which two savings schemes are presented. Our analysis draws upon Bagozzi and Dholakia's (1999) account of goal setting and goal pursuit: "What are the goals I can pursue, and why do I want to pursue them?" And: "How can I achieve that for what I strive?"

In the case of IDAs and the Home ISA in the UK, the end goal (and hence goal-setting) is limited to what assets are allowed by the schemes. However, the way the schemes are communicated to the general public shows that they are targeted towards people with that specific goal *already* in mind, and therefore do not encourage new savers.

For example, the Help to Buy ISA government website predominantly explains the conditions and benefits of using the scheme, not of owning a house. The only part of the website that does highlight the benefits of owning a house is that dedicated to testimonies of previous account holders. The phrases "You could be closer to saving for your deposit than you think" and "open the door to owning your home", which may be found on the home page, may make people re-evaluate their capacity to accumulate assets - however, these are the only phrases on the main page with such encouraging messages. The ISA calculator, which may be found on under the "Help to Buy: ISA: How does it work" page, may provide some guidance as users may calculate how much bonus they can get on the money they believe they can save. Similarly, private banks that offer Help to Buy ISA do not use encouraging language. Looking at the websites of some of the biggest ISA providers: Halifax[1], Barclays[2], Santander[3], HSBC[4] and Lloyds Bank[5] it is apparent that these use highly technical language that may be intimidating to many people.

Turning to the US, the Oregon IDA Initiative website also presents the benefits of owning a home through the experience of previous account holders. However, this is located at the central point of their website - https://oregonidainitiative.org In the page dedicated to applying for an IDA it uses language such as "start saving for your dream" and "Achieve your goal". The 'apply'[6] page starts with a statement "The Fastest Way to Save For Your Dreams" and "It's not too good to be true".

There are also more subtle differences. Whereas the UK Help to Buy ISA website lists the eligibility criteria under the subtitle "To qualify for a Help to Buy: ISA you must:"[7], the Oregon Initiative IDA uses the statement "Your dreams may be reached if:". This website does not provide a calculator to determine the possible bonus that account holders may receive however it gives an example "If you save $1,000 and receive the usual match rate, you'll have $4,000 to put towards your goal!". The words "goal" and "dream" are used

[1] http://www.halifax.co.uk/isas/cash-isas/helptobuyisa
[2] http://www.barclays.co.uk/helptobuyisa
[3] http://www.santander.co.uk/uk/isas/help-to-buy-isa
[4] http://www.hsbc.co.uk/1/2/savings-accounts/help-to-buy-isa
[5] https://www.lloydsbank.com/isas/help-to-buy-isa.asp
[6] https://oregonidainitiative.org/apply/
[7] https://www.helptobuy.gov.uk/help-to-buy-isa/how-does-it-work/

repeatedly on the website whereas, although the Help to Buy ISA uses the phrase “your first home” which may be considered positive and encouraging, it does not use positive language like “goal” or “dream”. In addition, the educational component of IDA may encourage more people to save as even if they do not believe they are capable of saving money, the idea of gaining skills and knowledge that will enable them to do so may be encouraging.

Although both websites provide a lot of information regarding the terms and conditions of the scheme and explain the process of saving using these accounts, they lack language that would make the reader believe that participants are able to achieve their saving goal, as it assumes that people are already motivated to save. In other words, neither the Housing ISA or IDA promotional material draw people in through a positive and concrete goal. What is needed is a greater emphasis not just on the mechanisms of saving, but on the using of promotional material and product information to help make people feel that they are capable of achieving their goals.

Conclusion

What can we learn from this? One conclusion that we can draw, albeit from a small sample, is that there is a more positive framing of saving in the IDA case than there is in the case of the Help to Buy ISA. The hypothesis we have suggested is that this could have a discernible impact on behaviour, with more positive language leading to more people saving, and saving more. At present we do not have the data that would allow us to test this hypothesis empirically. But there is an important research agenda here. By keeping track of the language and take up of different savings schemes we can hope to add an important layer to our understanding of what makes people save and, ultimately, design policies and products that are attractive and accessible to all, not just the ‘savvy saver’.

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