moneyadvicescotland
Scotland's Money Charity

RESPONSE

HM TREASURY

HELP TO SAVE: CONSULTATION ON IMPLEMENTATION

July 2016

About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free, independent, impartial, confidential money advice.

Our mission is to be the driving force towards financial wellbeing for the people of Scotland.

Background

Money Advice Scotland is grateful for the opportunity to respond to the HM Treasury consultation on the Help to Save scheme. The Government's proposed approach to providing people on low incomes with a genuine incentive to save is certainly to be welcomed.

According to the Office for National Statistics, people in the UK are saving a smaller proportion of disposable income than at any time since records began in 1963.[1] Whilst it is important to remember that slow wage growth and increasing expenditure are the main causes of the reduction in the saving ratio, the lack of a tangible incentive to save with interest rates at historic lows will also influence people when making decisions about their finances.

Help to Save will have particular relevance for organisations who provide financial capability interventions. For our part, Money Advice Scotland operates the Scottish Government's financial capability project and even at this early stage in the development of Help to Save, we can envisage a clear opportunity to incorporate the scheme as part of our existing work on budgeting and saving.[2]

Question 1: Please provide any comments on the government's proposed approach for the operation of Help to Save accounts.

There can be little doubt that it is the proposed 50 per cent Government bonus element that sets Help to Save apart from other initiatives to impart a long term savings habit in those on the lowest incomes.

Yet as much as this is the element of the scheme that we most welcome in principle, we are of the view that this could be tweaked to ensure the best chance possible of engendering a long-term saving habit in people on low incomes.

Research increasingly shows that households on the lowest incomes are subject to intense volatility and get by on a day-to-day and week-to-week basis.[3] Two years is a long time for someone to wait for the element of the scheme that most underlines the incentive to save. We prefer a system that would phase the bonus in over the course of the two-year period. For example, an account holder could receive a proportion of the bonus after six months with the remainder to come at the end of the account term.

[1] Office for National Statistics, *Households & NPISH saving ratio: CP: SA*, March 2016
[2] More details can be found here http://www.moneyadvicescotland.org.uk/content/financial-capability
[3] Research cited here http://www.gcph.co.uk/latest/blogs/649_we_all_make_mistakes_with_our_finances_but_the_poorest_pay_the_heaviest_price

An alternative to a phased-in bonus mechanism would be for the scheme to communicate clearly and consistently with the account holder, issuing regular statements and updates that show the gains so far. For example, "if you continue at the rate of saving 'A' per month, then you are on track to receive a bonus of 'B'."

The Government may also wish to consider extending the scope of the scheme. The consultation closes in the same week that the Institute for Fiscal Studies reports that incomes for those aged 22 to 30 has fallen 7 per cent since the financial crisis.[4] This followed previous research indicating that this generation of young people are set to be poorer than their parents at each and every stage of their lives.[5] Extending the scheme to young people on low incomes – even if they are not in receipt of Universal Credit or working tax credit – may help contribute to developing a savings habit at a time when they are just about to start making decisions about their finances.

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

Simple to understand

We welcome the principle of making Help to Save as simple to understand as possible. Levels of financial capability remain frustratingly low with one in five people unable to read the balance on a bank statement.[6] This finding should be kept firmly in mind when designing the communications, terms and conditions that will accompany the accounts.

All too often, people on the lowest incomes can view financial services products as something that is "not for them." Help to Save has the distinct advantage of a clear and tangible incentive to save via the bonus element and this should be highlighted to prospective account holders from the very outset.

Cost effective

We know that the Government has costed the scheme on take-up by 500,000 individuals in the first two years – around one in seven of those eligible.[7] This remains a small proportion of the population at a time when the Money Advice Service's recent Financial Capability Strategy found that 21 million people would be unable to pay an emergency bill of £500.

The consultation document does not make clear whether the scheme will be operated as one per eligible household, or one per eligible individual. Here, we would recommend that the scheme applies to each individual rather than each household, as is the case with the Help to Buy: ISA.

The consultation correctly points out the advantages of the nudge theory. The success of auto-enrolment in its early stages shows the benefits of deploying this type of approach in attempts to encourage people to save more for the future. This points towards a potential template for Help to Save whereby deductions are made from payroll or Universal Credit awards and this may prove more cost effective than account holders applying directly to the

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[4] IFS, *Living Standards, Poverty and Inequality in the UK: 2016*, July 2016
[5] Institute for Fiscal Studies, *The Evolution of Wealth in Great Britain: 2006-08 to 2010-12*, November 2015
[6] Money Advice Service, *Financial Capability Strategy for Scotland*, January 2016
[7] HC Deb, 13 April 2016, cW (Written question 33187)

provider. Previously, this approach has also been successful in encouraging take-up of credit union membership.[8]

Financial capability providers will also have a role to play in promoting the Help to Save scheme. Money Advice Scotland currently delivers financial capability workshops to a range of employability groups and low-income individuals and the scope for incorporating Help to Save into this work is clear.

Targeted

Given that Help to Save will be open to 3.5m adults in receipt of Universal Credit or working tax credit, it would make sense to integrate this as closely as possible with the initial application for these qualifying benefits. This may also cut down on the costs of promoting and marketing the scheme.

As we note in Q1, the Government may also wish to considering extending the scope of the scheme to young people on low incomes more generally.

Accessible

Accessibility is another important principle that will be central to the success of the scheme. This has particular relevance for remote and rural communities in Scotland where the reduction in bank branches is well-documented. What's more, island communities can face a situation where there is no bank at all, let alone a choice of banks. Our membership also regularly note the additional cost of delivering services in rural and remote communities.

The cost of living is also higher in remote and rural Scotland. In 2013, research from the Highland's and Islands Enterprise found that the minimum acceptable living standard in remote rural Scotland is typically 10–40 per cent higher than elsewhere in the UK.[9] This will impact on a person's ability to set aside a contingency. The Help to Save scheme will benefit from developing a specific strategy for engaging participation in these areas.

Timely

In terms of timing, we support the intention of launching the scheme at the earliest opportunity. The consultation paper expects the first accounts to be opened by April 2018 at the latest. This will mean that the first bonus payments may not be paid out until April 2020. As we argued earlier in this response, there is a case to be made for expediting part of the first bonus payment so that the benefits of saving are more realisable for participants in the scheme.

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

[8] The Scottish Government, *Scotland's Credit Unions: Investing in Our Future*, 2016
[9] Highlands and Islands Enterprise, *A minimum income standard for remote rural Scotland*, 2013

We broadly welcome the proposed information and reporting requirements. As well as logging the numbers of Help to Save accounts being closed, it would also be helpful if an indication of why a person has opted out of the scheme is offered.

Equally, it will be useful to record how many participants are able to put aside the full £50 limit. Despite welcoming the incentive to save, questions can be asked of whether an individual on a low income will have this amount of income disposable each month. Recording this data as part of reporting requirements will help to establish whether people are not saving due to other financial pressures.

Although not necessarily a reporting requirement, the Government may consider undertaking a survey of participants to help evaluate what decisions people are making with their money when they sign up to the Help to Save. For example, are people cutting back expenditure in other areas to meet the savings requirements? The intention to build up a savings buffer in the long-term is a good one, but not if it is at the expense of meeting the cost of necessities in the present.

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

- interest payments
- branch access
- account transfers

Interest payments

We support the idea of including a return such as interest on the account. Whilst this may not be considered a compelling incentive at present when rates remain at historically low levels, should interest rates rise then we see no reason why Help to Save account holders should not receive the same benefits as other savers. Here, the precedent would be the Help to Buy: ISA, where savers receive both interest and the Government bonus.

In our view, it is important that the Help to Save scheme is not considered as a type of second-rate product. What's more, if the Help to Save is to be seen as the first step towards instilling a longer-term savings habit, then the scheme must bear close resemblance to regular savings accounts. These types of distinction may act as a deterrence to some individuals.

Branch access

The issue of ensuring adequate branch access would be best met via delivery by multiple providers. As we set out in Q2, the issue of branch access has particular pertinence in Scotland, especially in rural and remote communities. Delivering the Help to Save scheme via multiple providers will ensure greater branch coverage, whatever the merits and demerits of the multiple provider approach more generally.

That said, it is important to remember that the first port of call when someone is interested in a new financial product is more often than not the existing provider. If the existing provider is not part of the Help to Save scheme, then what measures will be put in place to ensure that the referral process to another provider is reliable and efficient? The more occasions that an individual has to engage contact with the provider, the more likely it is that they will lose interest and fall out of the system altogether.

Account transfers

The consultation document suggests that account transferability will lead to additional costs. Whilst that may be the case, it is important that Help to Save accounts bear close resemblance to a regular savings accounts to help encourage this behaviour in the longer term. Again, we are of the view that the Help to Save scheme should not be seen as some type of second class product.

Further, this question should also be considered in the wider context of consumer choice. One of the most recurring recommendations given to consumers is to switch when services are not offering good service or value for money. We see no reason why low income savers should be precluded from this remedy.

Question 5: Do stakeholders agree with the government's assessment of the options to deliver Help to Save accounts through either a single in-house provider or a single private sector provider? Please provide additional comments as appropriate.

The single in-house provider has the distinct advantage of providing the potential account holder with one point of contact. As the consultation document notes, "facing a choice over which provider to use may introduce an additional layer of decision making and complexity that could potentially put off some individuals from opening an account."

Perhaps the most attractive element of the in-house provider option is that NS&I will be able to confirm eligibility requirements with a government administrator. Again, this will streamline the process for account holders. The NS&I option also benefits from being a trusted institution with prior experience of delivering Government policy.

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 Help to Save 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

Calculate the government bonus

As outlined previously, the proposed bonus offers a genuine incentive to save that is not available at present. We agree that account holders should not be unnecessarily penalized for withdrawals. The very fact that the accounts are targeted at people on low incomes means that budgeting shocks will be more likely. A number of Universal Credit claimants will also be in the transition of budgeting on a monthly basis that in and of itself will bring challenges. For this reason, a system that allows account holders to effectively bank any bonus is attractive. The bonus element of the Help to Save scheme is the unique incentive and this should not be undermined.

Rather than settle upon one option, another alternative would be to adopt a similar system to the triple lock on pensions where the highest of average earnings, the Consumer Price Index (CPI) or 2.5 per cent is used to determine the annual increase. Under this type of model, all four options stated in the consultation paper would be considered, and the saver would benefit from the calculation that leads to the largest bonus and underlines the incentive to save.

It is important that the outcome for account holders closely matches that of the headline attraction of the scheme – namely that savers receive a 50 per cent bonus from the Government. If the account holder's original expectations are not reflected in the actual outcome, then the scheme will be unlikely to engender the longer term savings habit that it is designed to achieve and may indeed have the reverse effect.

As we note at the outset of our response, it can also be argued that the bonus element should be brought forward or phased in earlier in the account term. Whilst the incentive is clear under the Help to Save, it is entirely loaded at the end of the scheme.

Deliver second term Help to Save accounts

A central aim of financial capability is to embed long-term behavioural change. In this respect, we are attracted to the position that would see accounts automatically rolled-over unless the account holder chooses to opt-out of the scheme.

The consultation paper suggests that at the end of the two-year period, the account holder must confirm with the account provider that they wish to continue in the scheme with the aim of receiving another bonus. We take the view that this should happen by default to help secure longer term behavioural change that extends beyond the initial two-year period.

Permit saving above the monthly limit

It would seem unlikely that a person already on a relatively low income will be able to save more than £50 per month. That said, if an account holder finds that they are able to pay in extra then it would seem incongruous to dissuade them from doing so when the aim is to entrench a long term savings habit.

Similarly, where someone has had to make a withdrawal to cover an emergency, then it would certainly be appropriate for an account holder to pay in more than the monthly limit to 'catch-up.' In that scenario, the bonus should still only be payable up to £1,200 to ensure fairness across the board.

Target eligibility on people who do not already have significant savings

The Money Advice Service's Financial Capability Strategy for the UK estimated that 21 million people did not have £500 to cover an emergency bill. This research would suggest that the target of 3.5 million eligible people will only go a small way to addressing the downward trend in saving. With that in mind, the Government may wish to consider extending the scope of those eligible for the scheme as we suggest throughout this response.

By basing eligibility on entitlement to Universal Credit or working tax credit, qualifying criteria already exists. As it stands, entitlement to these benefits is adjusted for claimants with savings of over £6,000. That would seem an appropriate cutting-off point and would also avoid the need to introduce a new layer of eligibility criteria which may put people off and add to the cost of the scheme. This effort and investment would be better spent promoting the scheme to ensure higher levels of take-up.

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

As we outline throughout the response, to ensure higher take-up, the Government may wish to consider allowing automatic deductions from Universal Credit awards or payroll. This is very much in line with the stated principles of ensuring that Help to Save is simple to understand, accessible and targeted.

In Q6, we argue that Help to Save accounts should also migrate seamlessly into other types of savings account by default unless the account holder expressly chooses to opt-out of the scheme. Under a pilot of a similar scheme, the Savings Gateway, only 23.9 per cent of savers from a sample size of 4,709 spent all the money at the end of the term.[10] With that in mind, it should be made as simple as possible for savers to continue saving with another type of account and help contribute to longer term financial resilience. The account holder should also be provided with information on other savings products. For example, if a person is able to save more than £50 per month by the end of the term, it may be suitable to signpost them to other Government backed savings schemes such as the Help to Buy: ISA.

Finally, when marketing and promoting the scheme, emphasis should be placed on the Government-backed bonus. This is the element that sets the scheme apart, offers a real incentive and may be sufficiently different to encourage people to develop a savings habit.

[10] HM Treasury, *Final Evaluation of the Saving Gateway 2 Pilot: Main Report*, May 2007