Workplace emergency saving

A landscape review of existing evidence

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Authored by

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Introduction

Background and purpose of this review

Concern about low levels of short-term financial resilience is not new. It surfaces in a broad range of discussions; from those around problem debt, to mental wellbeing and productivity, right through to retirement security. The Covid-19 pandemic has exacerbated that concern, and rightly so: it has shown that without accessible savings we are indeed vulnerable to unexpected financial shocks. The pandemic has reinforced the importance of having some sort of easily accessible financial buffer to protect against any potential emergencies that come our way.

At Nest Insight, we believe in building on existing evidence bases and testing practical solutions. Our interest in sidecar savings, and emergency savings more broadly, stems from the powerful logic that can be found in evidence and research here in the UK and abroad:

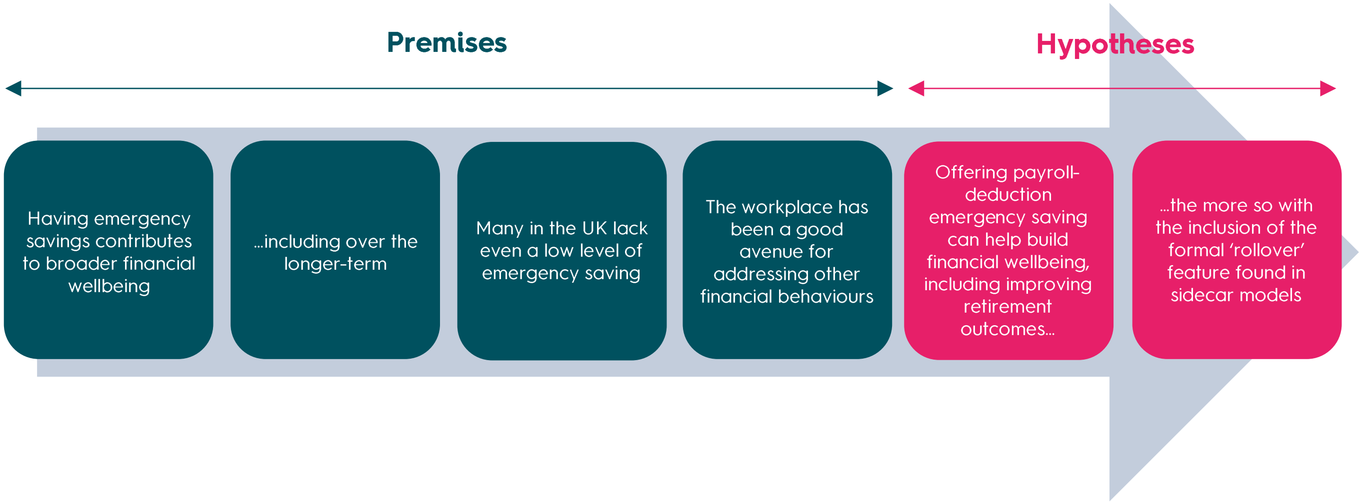
A. 'Emergency savings' - money set aside to prepare for unexpected financial emergencies – have significant benefits: having a small financial buffer is linked to a number of other positive financial behaviours and characteristics. It is a key part of the foundation for overall financial resilience and wellbeing, as well as acting as a platform for people to be able to save adequately for their retirement.

B. Many millions of people in the UK do not have savings of this type and would welcome help and support to change this.

C. And finally, the workplace has proved to be an excellent context in which to address adjacent challenges such as saving for retirement. In particular, 'set and forget' payroll deductions have proved highly effective in stimulating savings. And this is viewed by both workers and employers as a promising route for increasing emergency savings.

These can be thought of as the premises underpinning our research programme on emergency saving, as summarised alongside our hypotheses in figure 1, below.

Figure 1: The logic underpinning our workplace emergency saving research



As we set out in the body of this paper, the evidence around these premises is strong – extremely so in some places. The evidence to support the hypotheses themselves is naturally not as strong – this is why we've developed our research programme in this area. However even there, looking across the research landscape, there is a growing body of supportive evidence, albeit intertwined with more challenging evidence and remaining evidence gaps. All of these areas are dealt with in this landscape review.

Many others are interested in these ideas, and are looking to our research and that of others to understand the role that the workplace might play in addressing these important challenges. The Nest Insight team is committed to robust research methods. Some of the research questions we are seeking to answer require data to be gathered over a substantial timeframe, to which we need to add the up-front work of bringing employers into the trial and the time they need to then implement the sidecar model. We have always seen this programme of work as a multi-year enterprise.

But we are also committed to sharing insights from the programme as soon as we can. We have already published two evidence briefs from the trials, and are publishing a third alongside this paper which focuses on the employee experience of the trial to date.

Since we started looking into this topic three years ago, the broader evidence base around workplace emergency saving has expanded significantly. Increasingly, it is being supplemented by on-the-ground evidence and evaluation of workplace savings models. So, we're publishing this landscape review for the following reasons:

1) To summarise the evidence that led to our establishing a programme of research looking at workplace emergency saving and sidecar models
2) To update that evidence, including efforts made so far to evaluate the effectiveness of these programmes, and bring it together in one place.
3) To summarise the strength of the case and to highlight those areas where the evidence is either less positive or less conclusive, as the basis for our own ongoing work in this space, and to encourage others to contribute to the evidence base.

We hope that this paper will be useful for those in the industry who may be interested in expanding coverage of workplace emergency savings initiatives – providers, advisers and employers, for example – in helping set out the evidence that exists to date to support this kind of intervention. We also hope it will contribute to policymakers' thinking in considering whether and how future policy interventions might be merited to support increased emergency saving.

Context and concepts

What we mean by 'emergency savings'

Emergency savings are a form of short-term savings, which provide a buffer of protection against financial shocks, such as an unexpected appliance breakdown, car repair, higher than usual bills or out-of-the-ordinary charge. They may also be used to smooth uneven or precarious income[1].

Individuals and households living on low to moderate incomes (LMI) have thin margins between income and expenditure in any pay period. For people in this situation, even a small amount of savings set aside and mentally labelled as 'for emergencies' can protect against negative impacts from a financial shock, which could include having to borrow money, potentially getting into problem debt, anxiety, stress, and loss of productivity.

It's important to distinguish the purpose and characteristics of emergency savings from other forms of saving. Emergency savings are for managing unexpected costs and ups-and-downs in income, rather than saving towards a specific goal.

At Nest Insight, we are interested in taking a holistic view of people's finances, to understand how different behaviours and products interact or compete, and to identify solutions that can help make people more financially resilient and healthier in the round. This interest encompasses work underway or planned in areas such as the interaction between debt and savings, and between other intermediate savings objectives that lie between 'emergency saving' and 'retirement saving' - savings for specific goals, for example. However, the focus in this paper is primarily on how to support people in emergency saving. Where evidence is drawn from other areas it is nonetheless with this focus in mind.

Sidecar vs payroll savings

Nest Insight's work in this space started out with a specific focus on 'sidecar saving'. The sidecar model is a specific example of the broader category of payroll-deducted emergency saving. In sidecar saving, the emergency savings account is part of a hybrid wrapper that also includes a workplace pension. The two accounts are integrated, at least to the extent that there is an 'automatic' rollover feature from the emergency account to the pension once the emergency account reaches a given level[2].

This approach fits well with the findings of behavioural economics. People tend to exhibit present bias (the tendency to prefer smaller rewards today rather than greater rewards later suggesting they may prefer liquid savings over pension saving). But they are also often prepared to make decisions with a longer-term payoff if those decisions are deferred to the future – for example, when asked to choose a snack ahead of time they will pick fruit but in the moment, will pick chocolate[3]. When applied to retirement saving this has led to innovations such as Save More Tomorrow[4], where people commit to increase their pension contributions in the future, times to coincide with likely pay-rises. Sidecar borrows from this logic, as it asks people to

[1] In this paper and our work on emergency savings we are focused on this kind of saving and not, for example, saving to protect against income loss where common rules of thumb focus on the need to hold around three months of income as savings. While there is no single standard for how much emergency saving people might want or need to hold, our work to date has focused on supporting people to build perhaps around £1000-£2000 as an emergency savings buffer.

[2] More information about the sidecar product used in our trials can be found here: https://www.nestinsight.org.uk/liquidity/

[3] Daniel Read and Barbara van Leeuwen, Predicting Hunger: The Effects of Appetite and Delay on Choice (1998) https://www.sciencedirect.com/science/article/abs/pii/S0749597898928035

[4] Richard H. Thaler and Shlomo Benartzi, Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving (2004) https://www.jstor.org/stable/pdf/10.1086/380085.pdf

commit to increased future pension contributions only when their more immediate need for liquid savings is satisfied.

As we've carried out our work on sidecar, we've also become more interested in the broader category of workplace emergency savings, with or without the hybrid link to workplace pensions. This is because we increasingly see evidence that people's capacity to make adequate provision for the long term depends on their broader financial resilience and wellbeing. As set out in part 1 of the paper, even a small emergency buffer can make a material difference to people's capacity for positive financial behaviours, including saving for retirement. Because of this, our future work will probably also cover more traditional forms of payroll emergency savings without the 'sidecar' rollover element.

Approach

Key considerations

Methodology and rigour

This report is not intended to be a comprehensive literature review or formal 'Rapid Evidence Assessment': rather, it is intended to bring together in one place research and evidence that we are aware of and that is informing our thinking as we continue to work on our own research in this area.

At Nest Insight, our approach has been to set up our emergency savings research to contribute as robustly as possible to the evidence on the topic. This is why we're working with leading academics on the trial design, and why we're gathering data through a variety of methods over a multi-year timeframe. We are also aware of several other recent and ongoing initiatives which have robust evaluation built into their designs.

However, there is a wide range of research available on topics relating to emergency saving, its impact on financial wellbeing, and on the specific topic of workplace emergency savings. This evidence varies considerably in terms of robustness and analytical rigour. Our approach to compiling this document is described in a bit more detail in Annex A. Our intention in producing it has been to signpost the information we are aware of – ranging from anecdotal examples of innovation that we think are interesting up to formal peer-reviewed academic papers – and to provide some commentary around what we take from this information and how it is influencing our own work. As such the parameters for this paper have been inclusive – we have not excluded any evidence on grounds of robustness. This has enabled us to include, for example, evidence where its available from on-the-ground workplace savings initiatives, recognising that these real-world examples are valuable but are rarely set up with formal evaluation in mind: indeed according to Aon's 2021 UK Benefits and Trends survey, only 9% of employers currently measure return on investment for their initiatives in the area of workplace financial wellbeing,[5] let alone set them up to facilitate any more formal public evaluation.

We have included references to all the research and examples cited, so that readers can draw their own conclusions as to the validity and reliability of the conclusions reached or seek further information from those involved in the research. We also hope that this paper will stimulate others to come forward and contribute to this debate with additional evidence and research that we have missed in this review.

The role of income and correlation vs causality

One important consideration when dealing with financial behaviours and in trying to interpret the evidence base is the role of income, which correlates both with people's savings levels and with a range of other financial behaviours and wellbeing indicators. Because of this it can be difficult to disentangle what is doing the real work in terms of driving the behaviours we want to explore – are the apparent benefits of having a savings buffer really just the benefits of higher income? In academic studies and at the more robust end of the research spectrum, research will control for income and conclusions drawn will therefore take into account the impact that income levels might have had on the data. Some of the research covered in this paper does not explicitly control for income considerations, although some does so implicitly by, for example, focusing only on specific income groups where low levels of saving are already known to be an issue.

[5] Aon, UK Trends and Benefit Survey (2021) https://health.aonunited.com/download_the_aon_benefits_and_trends_survey_2021

Related to this is the issue of correlation vs causality. Much of the research described in this paper focuses on the correlations that can be identified between having savings and other indicators, but is not able to support the stronger claim that starting or building savings will cause improvement in other measures of financial wellbeing or resilience It may be, again, that it is really higher income causing the observed correlations, or it could be something else altogether. This is a reason for further caution in interpreting the evidence presented here. There are a number of barriers to developing robust causal research in a field such as financial wellbeing, but this is clearly something which future research on workplace saving should address if possible, and is something we are aware of and working to address in our own research in this area.

Scope

We've seen from our sidecar trial that the pension rollover is not the primary feature people focus on when considering whether to take up the benefit. For some, unprompted awareness of this element is low. Because of this, we believe that evidence from sidecar models and from more standard payroll-deducted emergency savings models without a pension rollover can be viewed as at least somewhat interchangeable. The users of sidecar don't necessarily differentiate. There are also few, if any, sidecar models in use outside of our trials. For both these reasons, we've included a range of different types of workplace emergency savings models in this paper.

Our priority for this paper was to find material relating specifically to the effectiveness of these workplace emergency-saving schemes. But as set out above, we recognise that there are very few full academic trials in this space and only limited robust research material. In order to set out the evidence for each step of our logic, we have included evidence from very different types of initiatives, recognising that this means direct comparisons to the domain of workplace emergency saving may be limited. Our priority has been to focus on the insights such evidence can provide. We have reviewed material to see what reassurance it can give us – namely, to see where the evidence is strong and we can be more confident, and also where the position seems less certain.

Specifically, we have examined evidence about the UK's Save As You Earn (SAYE) and Share Incentive Plan (SIP) arrangements, as these can provide useful insights about how people respond to opportunities to save through their employer. But given the limited potential for direct comparison, we've not made detailed investigation into such schemes. SAYE and SIP schemes are quite distinct in their structures and the ways they work. Historically they have been targeted at more engaged workers and can only be offered by certain types of employers. They wouldn't be suitable for scaling to a mass market savings proposition, meaning the details of their workings are of limited relevance to this paper.

We have not restricted ourselves to evidence from the UK only. We have also assessed international material, with a particular interest in the US, where appetite for stimulating liquid savings is also high. Some caution is needed in these comparisons – the US benefit landscape is different to that of the UK for a number of reasons. The US DC pensions infrastructure already allows for emergency access to pension savings. Also, the employer-centric nature of US healthcare provision has led to benefits such as Health Savings Accounts. The distance to travel to a system of workplace emergency saving is therefore shorter. However, this has also meant that much of the innovation and thinking in this area has come from the US and there is clearly a lot that we can learn from these innovations – much as we did with pensions automatic enrolment 15 years ago.

Research from the US has therefore been reviewed and incorporated into this paper where relevant.

Paper structure

The paper is split into three sections:

- **Part 1**: reviews the evidence around the benefits of emergency savings for wider financial wellbeing and the current state of play for levels of saving within the UK population.
- **Part 2:** sets out what is known about the potential role of the workplace as a springboard for financial resilience, and describes the emerging evidence to support a direct link between payroll savings and improved financial wellbeing.
- **Part 3:** sets out the challenges for workplace emergency savings models within the evidence and reviews the areas where there are clear remaining gaps in the overall evidence base.

Part one: The need for action on emergency savings

The link between liquid savings and financial resilience

There is evidence that having liquid savings correlates positively with various desirable outcomes. This includes avoiding financial hardship and weak financial resilience, and protection against other negatives associated with financial anxiety, such as stress and lower productivity. Importantly, this evidence also seems to suggest that these correlations hold even for relatively small amounts of saving. It is worth noting that the evidence in this area, though considerable, is focused on correlation rather than causality, with research into any causal relationships an important area for future research.

Savings help people to avoid financial hardship and financial detriment

Analysis suggests that that having low levels of savings, or no savings, is associated with higher levels of debt and/or is a strong predictor of debt.[6] This is not surprising, as savings increase households' resilience against financial shocks:

- Research from StepChange found that if a household has £1,000 saved, this reduces its chances of falling into problem debt by almost half.[7]
- More recent survey evidence from the same organisation supports this link, pointing out that the most common financial coping mechanism among those affected negatively by Covid-19 was borrowing to make ends meet (33%), only then followed by using savings (23%), as well as asking family and friends for help (15%), applying for Universal Credit (10%) and selling items (10%).[8]
- A (US) study commissioned by the FINRA Foundation and SaverLife found that even small amounts of savings in low-income households correlated with important drivers of financial resilience. This included avoiding high-cost borrowing, as well as being better able to maintain stability in fundamental lifestyle factors such as keeping utilities turned on and maintaining housing security. This disparity narrowed when controlling for household income, gender, age, marital status, presence of dependents and education, but people who couldn't maintain a balance above $100 were still 39% more likely to use high-cost borrowing.[9]
- Recent Morningstar research (also US) also found that emergency savings are a strong predictor of a household's wider financial resilience. The amount of savings a household had before the pandemic robustly predicted its ability to manage debt and pay bills on time, even after controlling for income, age, and partnership status of the household.[10]

It is notable that these patterns also seem to apply over the longer term. Analysis from AARP in the US found that households holding a substantial savings buffer (approx. $2,500) at any point are significantly less

[6] Competition and Markets Authority, Problem debt: A report commissioned by the Consumer Protection Partnership (2014) https://www.gov.uk/government/publications/problem-debt-report

[7] StepChange Debt Charity, Becoming a nation of savers (2015) https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf

[8] StepChange Debt Charity, Tackling the coronavirus personal debt crisis (November 2020) https://www.stepchange.org/Portals/0/assets/pdf/tackling-the-coronavirus-personal-debt-crisis.pdf

[9] SaverLife FINRA, Savings: A Little Can Make a Big Difference (December 2020) https://static1.squarespace.com/static/5d8a81e7c9f15145936073c0/t/5fc6ab8beaf37e3b64885184/1606855565044/RGB+FINRA+Paper+SaverLife-Nov30_v3.pdf

[10] Morningstar, The COVID-19 Pandemic, Retirement Savings, and the Financial Security of American Households (April 2021) https://www.morningstar.com/lp/finances-during-covid

likely to experience extreme financial hardship up to three years later.[11] Other studies from the US have also found a connection with social mobility and saving. Even for lower-income households, saving is associated with greater chances of upward social mobility. It seems that families with savings have the option to then invest in wealth-building assets that deliver more in the longer term, such as housing and education.[12]

Short-term saving may act as a foundation for retirement saving adequacy

There is also evidence to suggest that having liquid savings can help maintain savings for retirement:

- A recently published UK study looked at the factors associated with 'discretionary' retirement saving among British workers aged between 30 and 49. Although discretionary retirement savings was closely connected to an individual's income and home ownership, financial resilience was found to be the strongest predictor.[13]
- In the US[14], surveys among those with low-to-moderate incomes found that 401k plan participants were less likely to take loans and hardship withdrawals when they reported having liquid savings. As at July 2020, 8% had made early withdrawals but the proportion was significantly higher (16%) among those people who had not saved for emergencies.[15]
- The Morningstar research cited above, found that the more a household had in emergency savings before the pandemic, the less likely it was to report borrowing or withdrawing from workplace retirement accounts during the pandemic.[16]

Clearly, given the presence of early access to savings in the US system, the US data is not directly applicable in the UK. However, it does further evidence the link between short-term resilience and capacity to save for retirement. It's worth noting that there is also at least some anecdotal evidence of pension savers over the age of 55 in the UK accessing cash from their retirement savings in response to the pandemic, and so the US evidence of a link between financial resilience and pensions withdrawals may turn out to have some analogues in the UK system.

[11] Jorge Sabat and Emily A. Gallagher, Does Short-Term Emergency Savings Translate into Longer Term Financial Wellness? (November 2020) https://www.aarp.org/content/dam/aarp/ppi/2020/11/does-short-term-emergency-savings-translate-into-longer-term-financial-wellness.doi.10.26419-2Fppi.00117.001.pdf

[12] Prosperity Now, Saving for now and saving for later: Rainy day savings accounts to boost low-wage workers' financial security (June 2018) https://prosperitynow.org/sites/default/files/resources/Saving-for-Now-and-Saving-for-Later-Rainy-Day-Savings-Accounts-to-Boost-Low-Wage-Workers-Financial-Security.pdf

[13] Ellie Suh, CUP, Can't save or won't save: financial resilience and discretionary retirement saving among British adults in their thirties and forties (April 2021). https://www.cambridge.org/core/journals/ageing-and-society/article/cant-save-or-wont-save-financial-resilience-and-discretionary-retirement-saving-among-british-adults-in-their-thirties-and-forties/F05B7D9FC8247A0CAA492A80674FEBC5 Financial resilience in this study was determined based on reviewing responses to questions around individuals' ability to keep up with expenses and bills without turning to overdraft or credit facilities, coping for some time when faced with a loss of incomes and having a tendency to make sure some money is left at the end of each month

[14] In the US retirement system, in contrast to the UK. people have some pre-retirement access to their pension savings. This access was further liberalised during the Covid-19 pandemic by the CARES act, which suspended the tax penalties for early withdrawals.

[15] Commonwealth, Saving Through a Crisis: How LMI Retirement Plan Participants Are Weathering COVID-19 (June 2020) https://buildcommonwealth.org/blog/post/saving-through-a-crisis-how-lmi-retirement-plan-participants-are-weathering-covid-19

[16] Morningstar, The COVID-19 Pandemic, Retirement Savings, and the Financial Security of American Households (April 2021) https://www.morningstar.com/lp/finances-during-covid

Saving improves financial and wider wellbeing

The presence of even low levels of savings is associated with more positive attitudes to managing finances, and lower levels of financial concern[17]. Being in the opposite state – financially anxious or insecure – is associated with various negative consequences. Financial stress is clearly damaging for the individual, for example in terms of their mental health and their ability to maintain good personal and professional relationships.

- A 2019 survey of over 1,000 employers found that 22% noted productivity was reduced due to money-related stress, with surveys amongst employees highlighting the same issues.[18]
- Another earlier study looking at the employee perspective found that one in twenty workers (6%) had missed work in the last year due to money worries.[19]
- Poor financial wellbeing in the workplace appears to impact the youngest generations most. In its inaugural Financial Wellbeing Index assessing the financial wellbeing of UK employees, Close Brothers found that 87% of millennials, and 72% of those age 35–54, felt money worries affected them while they were at work. Those aged 55 and over appeared to suffer the least, but still almost half (47%) of this cohort worried about money while at work.[20]

This situation has implications beyond those immediately affected, as they in turn need additional resources to support them through these challenges. These impacts can scale up to form a significant cost to society. Research by CEBR and Aegon estimated that absenteeism and presenteeism[21] caused by a lack of financial wellbeing costs UK businesses £1.56bn each year.[22]

Evidence on the current levels of emergency saving

Overview

Recent comprehensive national surveys have established the level of financial vulnerability in the UK population. These surveys give an insight into the numbers of people who do not have the money to withstand a financial shock.

According to the Financial Capability Survey (2018), 11.5m people have less than £100 in savings to fall back on.[23] Unsurprisingly, this situation is more common among those with low-to-moderate incomes. Within the groups defined by the Money and Pensions Service (MaPS) as 'financially struggling' and 'financially

[17] Commonwealth, Rise with the raise: The Promise of Straightforward Employer Benefits for Building Lower-Wage Employee Financial Security (February 2019)

[18] People Management, Most employees now affected by money worries at work, survey finds (January 2019) https://www.peoplemanagement.co.uk/news/articles/most-employees-affected-money-worries-at-work

[19] Katie Evans, Social Market Foundation, Working well: How employers can improve the wellbeing and productivity of their workforce (January 2016) https://www.smf.co.uk/wp-content/uploads/2016/01/Working-Well-How-employers-can-improve-the-wellbeing-and-productivity-of-their-workforce.pdf

[20] Close Brothers Asset Management, Financial Wellbeing Index (2019) https://www.closebrothersam.com/for-employers/news-and-insights/25-million-uk-employees-affected-by-money-worries-while-at-work/

[21] Defined as employees still coming to work but operating a level below their potential with a consequent fall in the quality of their activity

[22] Aegon and CEBR, Financial wellbeing in the workplace (2018) https://www.aegon.co.uk/content/dam/ukpaw/documents/financial-wellbeing-CEBR-condensed.pdf

[23] Financial Capability in the UK (2018) https://www.fincap.org.uk/en/articles/financial-capability-survey

squeezed', there are 11.1m working-age people who don't save regularly. 14% have no savings at all, 12% have savings of £1–99, and 19% have savings of £100–499.[24]

Resolution Foundation analysis of the Wealth and Assets survey also suggests that low financial resilience affects a significant proportion of people. Over a third of respondents (38%) said that at least once a year they run out of money before their weekly or monthly paycheque. Almost half of respondents felt they could not cope more for than three months if their household lost their main source of income and one in ten said their savings would not last them one week.[25]

Longer-term trends have impacted attitudes to and capacity for short-term saving

Arguably, longer-term dynamics in the labour market and the economy have brought emergency saving more sharply into focus for many.

Analysis of the Federal Reserve Board's Survey of Consumer Finances in the US highlights an interesting trend. From 1989 to 2019, retirement and liquidity (having cash on hand) have swapped positions as the primary reason given for saving: since 2010, liquidity has been the top driver. As the accompanying commentary discusses, this greater prioritisation of cash on hand could be as a result of the greater sense of financial uncertainty felt by many following the global financial crisis.[26] These attitudes are likely to be echoed in the UK.

Up until the start of the pandemic, recent years had seen record high levels of people in employment. However, the rise of zero-hours contracts, gig working and self-employment more generally have forced households to focus more and more on managing ups and downs in their incomes. Moreover, salary volatility is also found among those with steady jobs, in particular lower earners. Analysis of 7m anonymised bank accounts carried out by the Resolution Foundation in 2018 found that more than 80% of low earners with steady jobs had volatile pay, compared with two-thirds of higher-earners, and the pay changes of the former were more likely to be relatively large and negative.[27]

Linked to this, there is growing interest in rethinking how savings work, described in more detail in box 2. Rather than focusing on a goal of achieving a fixed or growing amount of money, savings are used to smooth over volatility of income. Research from the Aspen Institute in the US has shown that saving, especially by low- and moderate-income households, stimulates a dynamic cycle in which savings are used up and rebuilt, time and again.[28] Recent analysis from the JPMorgan Chase & Co. Institute in the US brings this to life: those who were unemployed roughly doubled their liquid savings during the four-month period between March and July 2020 (when they will have received the $600 weekly supplement from the federal government), but then moved into another phase of the cycle when the benefit supplement expired at the end of July and spent two-thirds of the accumulated savings in August alone.[29]

[24] The Money and Pensions Service, Market Segmentation (May 2016) https://moneyandpensionsservice.org.uk/wp-content/uploads/2021/03/market-segmentation-report-an-overview.pdf

[25] Resolution Foundation, In this coronavirus crisis, do families have enough savings to make ends meet? (April 2020) https://www.resolutionfoundation.org/comment/in-this-coronavirus-crisis-do-families-have-enough-savings-to-make-ends-meet/

[26] Nerdwallet, More Americans Are Saving Than Ever Before, Though in Unequal Amounts (January 2021) https://www.nerdwallet.com/article/finance/data-unequal-savings

[27] Daniel Tomlinson, Resolution Foundation, Irregular payments: Assessing the breadth and depth of month to month earnings volatility (October 2018) https://www.resolutionfoundation.org/app/uploads/2018/10/Irregular-payments-RF-REPORT.pdf

[28] Aspen Institute, The Cycle of Savings: What we gain when we understand savings as a dynamic process (September 2020) https://www.aspeninstitute.org/publications/the-cycle-of-savings/

[29] J.P. Morgan Chase, The unemployment benefit boost: Trends in spending and saving when the $600 supplement ended (October 2020) https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/Institute-UI-Benefits-Boost-Policy-Brief_ADA.pdf

A paper from the FCA found a similar connection between financial wellbeing and financial volatility. The analysis focused on the relationship between subjective (self-reported) financial wellbeing and objective financial wellbeing, measured by the same respondents' bank account data. It is perhaps to be expected that those with the highest self-reported wellbeing had higher incomes, higher average account balances and were less likely to use their overdraft facility. However, someone's financial wellbeing was also predicted by whether they had a large available overdraft limit and greater month-to-month variability in both their balance (a negative correlation) and their spending (a positive correlation).[30]

This suggests that more volatile *expenditure* may simply be an indicator of being able to afford to spend more, at least in the short term - and hence higher reported financial wellbeing. Whereas a volatile *balance* indicates that incomings and outgoings do not line up, creating stress and leading to lower subjective wellbeing. Savings could help to address this sense of anxiety by reducing balance fluctuations, offering liquidity to top up and smooth out any volatility in account balances.

[30] Joe Gladstone, Jeroen Nieboer and Karthik Raghavan, FCA, Understanding consumer financial wellbeing through banking data (October 2020) https://www.fca.org.uk/publication/occasional-papers/occasional-paper-58.pdf

Gender, ethnicity and saving

There is evidence to suggest that women are more likely than men to suffer low financial resilience. This is perhaps not surprising as it reflects a bigger picture in which women tend to be less financially secure in general than men. A recent survey carried out by Salary Finance found that a third of women in their sample ran out of money each month compared to just 22% of men.[31] Likewise, the FCA's Financial Lives survey shows that before the pandemic, a higher proportion of women than men displayed characteristics of vulnerability – 51% compared to 40%. More recent FCA survey data shows that levels of stress due to negative changes in one's financial situation (following Covid-19) were slightly higher among women compared to men – 22% compared with 19%.[32] Women also seem to be more negatively affected by the financial constraints resulting from raising a family: 73% of women had had to take on additional debt as a result of taking maternity leave, whilst only just over a quarter of men took on debt as a result of paternity leave. Overall, Salary Finance found that 41% of women are worried about money compared to 32% of men.[33]

Looking across to the US, the picture is similar. Analysis carried out as part of BlackRock's Emergency Savings Initiative (ESI) found that women were less likely to have any savings and tended to have lower balances on average, with median balances of $2,500 compared to $4,500 reported by men. As discussed by the report authors, this is likely to be linked to the fact that more of women's lower and more volatile earnings are used to cover household expenses than for men. It seems there are various factors reinforcing the greater potential for financial precarity among women, though of course at least part of this picture will be explained by the structural issue of gender income inequality, rather than differences in financial behaviours.[34]

Certain ethnic communities also face lower financial resilience. Data from the Wealth and Assets survey (as referenced above) shows which households are able to cover a total loss of household employment income for a certain period. Analysis was carried out to account for differences in household financial resilience due to characteristics such as age, sex, education, socio-economic classification of the household head, household composition and housing tenure. After controlling for these factors, the 'Black African or Other Black' ethnic group were less likely than most other ethnic groups to be able to cover a three-month drop of household employment income by 20% or 100%. 64% of households with 'Black African or Other Black' heads had enough financial assets to cover a 20% loss of employment income. This compares to 80% for 'White British' households.[35]

[31] Salary Finance, Women, work and financial wellbeing (March 2020) https://us.salaryfinance.com/uk/blog/women-and-financial-wellbeing

[32] FCA Insight, Gender, personal finances and Covid-19 (May 2021) https://www.fca.org.uk/insight/gender-personal-finances-and-covid-19

[33] Salary Finance, Women, work and financial wellbeing (March 2020) https://us.salaryfinance.com/uk/blog/women-and-financial-wellbeing

[34] BlackRock's ESI, Lack of Savings Has High Cost for Women (March 2021) https://savingsproject.org/lack-of-savings-has-high-cost-for-women/

[35] ONS, Coronavirus and the social impacts on different ethnic groups in the UK (December 2020) https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/coronavirusandthesocialimpactsondifferentethnicgroupsintheuk/2020#financial-resilience

Shorter-term factors, notably the pandemic, have had a mixed impact

Increasing amounts of evidence show that the financial impact of Covid-19 is being felt unequally across the population. Overall, household savings levels have increased considerably as expenditure has fallen for more people, and by larger quantities, than income. According to the Bank of England, savings levels had increased for 28% of households and fallen for 20% of households, according to data gathered in August and September 2020.[36] However, those households saving more have tended to be among higher income households, whereas many who were already struggling financially, or at risk of doing so, have seen their financial position deteriorate as a result of the crisis:

- The FCA's Financial Lives survey monitors those with low financial resilience.[37] The survey update completed in February 2020, before the impacts of the pandemic were felt in the UK, found 20% of UK adults (10.7m) had low financial resilience. This was a slight improvement on the first wave of Financial Lives in April 2017, when 23% (11.6m) had low financial resilience. However, a further wave from October 2020 showed that these gains had been more than undone by the early months of the crisis, with 14.2 million adults classified as having low financial resilience.[38]
- Debt charity StepChange carried out research six months into the pandemic showing that the number of people who had fallen behind on essentials or borrowed to make ends meet had increased from 4.6 million prior to the pandemic to 5.6 million. Whilst borrowing may address the immediate financial challenge, it also risks increasing the likelihood of more severe debt problems later.[39]
- Standard Life Foundation's 4th Coronavirus Financial Impact Tracker Survey revealed the very precarious situation faced by some. It found that a quarter of all households had used savings in the previous four weeks to make ends meet. Among the households categorised as being in 'most serious difficulties', a fifth claimed to have depleted their savings.[40]
- The Q1 2021 update of the Scottish Widows UK Household Finance Index suggests these pressures and concerns are feeding through into increased interest in accessible savings, but perhaps with other more negative repercussions. Saving for an emergency or rainy day was the biggest priority for households, despite one in five saving less for retirement in the same period. Tellingly, 18% would have withdrawn from their pension funds given the chance.[41]
- A recent report from the Resolution Foundation compared the 'Covid income shock' experienced by individuals across Europe. This found those in the UK much more likely to have resorted to borrowing. The share of respondents with a fall in income, who also reported that they had taken on debt to cover living expenses, was 17% in the UK. This was roughly twice as high as in Germany (9%) or in France (8%). As well as holding more debt overall, households in the UK were more likely to have used short-term and high-interest loans to manage their finances: 37% in the UK reported that they hold high-interest debt, compared with 7% in France and 9% in Germany[42].

[36] How has Covid affected household savings? How has Covid affected household savings? | Bank of England

[37] Defined as having limited ability to withstand financial shocks, for example, not being able to withstand even a £50 reduction in monthly income or losing the main source of household income for even a week

[38] FCA, Financial Lives 2020 survey: the impact of coronavirus (February 2021) https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

[39] StepChange Debt Charity, Tackling the coronavirus personal debt crisis (November 2020) https://www.stepchange.org/Portals/0/assets/pdf/tackling-the-coronavirus-personal-debt-crisis.pdf

[40] Standard Life Foundation, Bearing the brunt: The impact of the crisis on families with children (March 2021) https://www.standardlifefoundation.org.uk/docs?editionId=d1d29721-a5fd-48d6-811e-a755e572fce2

[41] Scottish Widows, UK households pay down debt through winter lockdown (March 2021) https://www.markiteconomics.com/Public/Home/PressRelease/86c7436af44c4373a23babd61d053e42?s=1

[42] Resolution Foundation, After shocks: Financial resilience before and during the Covid-19 crisis (April 2021) https://www.resolutionfoundation.org/app/uploads/2021/04/After-shocks.pdf

'Having savings' vs 'doing saving' and the importance of measuring the right thing

Much of the data used to explore the issue of saving focuses on the extent to which people 'have' savings. Indeed, we use data of this type earlier in this section as evidence that there is a problem with not enough people having emergency resilience.

In practice, specifically in the arena of emergency savings, this is not an adequate or suitable measure, at least on its own, because as set out earlier in this paper, the purpose of emergency saving is to provide a buffer of protection against financial shocks. As such, spending the money saved for this purpose should be seen as a marker of success if it enables an individual to ride out a financial shock without resorting to other, less preferable, mechanisms such as high-cost debt, or incurring fees for late payment of a bill. In this context, zero balances may well be a sign of success. Measures need to include an assessment of the extent to which people are periodically able to put money away, even if over time they aren't really accumulating 'wealth'.

There is a risk that the narrative of 'having' savings and wealth contribute to people choosing not to use their emergency savings even when they 'should'. People can experience a sense of failure if they spend down their savings, sometimes making them resort to sub-optimal mixtures of saving and borrowing.

These are the issues that our US partners, the Aspen Institute Financial Security Programme, highlighted in their recent work in this space. They talk about the idea of emergency saving 'as a verb': 'The ongoing act of building, using, and replenishing savings that strengthens financial resiliency'.[43]

In practice, reflecting the various financial needs and goals people have, true financial resilience is likely to involve both this act of 'doing' saving and then drawing on it periodically when needed, and 'having' savings – building wealth and assets over time. This is one of the reasons we're excited by the early data from our sidecar trial, published alongside this paper. The data show that balances are accumulating over time - people in the programme are building wealth. But withdrawals are also common – people appear to be dipping into their savings when they need them.

These considerations have informed our approach to designing and communicating the sidecar trial, to make sure, as much as possible, that people don't view accessing the money negatively. They also inform our thinking about evaluation, where we will continue to focus on the accessing of funds as a measure of success for the programme. We would like to see more the debate, and the data used as part of it, to recognise these important distinctions.

[43] Aspen Institute, The Cycle of Savings: What we gain when we understand savings as a dynamic process (September 2020) https://www.aspeninstitute.org/publications/the-cycle-of-savings/

Part two: The role of the workplace

The following sections set out the evidence base around the potential role of the workplace, and mechanisms such as payroll deduction, as a route for addressing low levels of emergency saving and financial resilience. It addresses:

- The theoretical and practical evidence around the benefits of set-and-forget mechanisms in general and the use of payroll deduction in particular
- Evidence for the demand for workplace-based savings and financial resilience benefits among workers and support for them among employers
- Evidence around the current scale and scope of the supply-side market for workplace savings, and
- Emerging insights and evidence from evaluations of existing workplace savings interventions

Reviewing the effectiveness of payroll and similar 'set and forget' mechanisms

This section sets out the evidence to support the hypothesis that that the 'set-and-forget' architecture of payroll deductions could make a positive contribution to people's ability to build up savings.

Establishing any kind of mechanism for saving makes a difference

The evidence suggests that establishing any mechanism to 'formalise' savings can help people to build a savings habit, over and above passively hoping to have some money 'left over' after spending. This could include simply setting up a separate account specifically for saving.

In the US, researchers analysed the longitudinal National Financial Capability Survey (2009, 2012, 2015 and 2018) to understand the relationship between various factors and having money set aside for emergencies. They found that subjective financial knowledge, financial confidence, and savings account ownership (though not objective financial knowledge) were significant and consistent predictors of having an emergency fund. In fact, savings account ownership was the strongest predictor.[44] This suggests that having a separate 'pot' to save into helps with putting money away – perhaps more so than being educated about what to do.

Also, in the US context, similar conclusions were reached by Commonwealth, a not-for-profit which uses innovation and partnerships to help build financial security among the financially vulnerable. They reviewed the impact of different potential actions and interventions to increase financial security among individuals, and found that the presence of a savings account made it possible for employees to save when the opportunity arose, including when they received a pay increase. Employees with savings accounts were more likely to use the money from a raise to accumulate short-term savings than employees who did not have savings accounts, regardless of their wage rate.[45]

Other research from AARP echoed these findings. The AARP research looked at responses to the 2018 US Financial Health Pulse baseline survey question "Does your household have an emergency savings account?". Those who answered yes to this question were more likely to have a 'substantial buffer' saved up.

[44] Mathieu R. Despard, Terri Friedline and Stacia Martin-West, Why Do Households Lack Emergency Savings? The Role of Financial Capability, Journal of Family and Economic Issues (May 2020) https://link.springer.com/content/pdf/10.1007/s10834-020-09679-8.pdf

[45] Commonwealth, Rise with the raise: The Promise of Straightforward Employer Benefits for Building Lower-Wage Employee Financial Security (February 2019) https://buildcommonwealth.org/assets/downloads/Rise_with_the_Raise_Report.pdf

83% of those with an emergency savings account had $2,000 or more in liquid savings compared to only 36% of those without an emergency account.[46]

These findings are consistent with concepts explored within the behavioural economics literature around mental accounting[47], earmarking and partitioning.[48] Research studies have shown that getting people to put money into a separate 'pile', earmarked to cover a particular type of spending, discourages them from tapping into it for other spending needs. In this way, earmarking supports the build-up of savings.[49] This was echoed in recent research from the US, which looked at the connection between split direct deposits and savings among low wage workers. Analysis showed that the relationship between the use of split direct deposit and savings was positive for accumulated savings, financial concerns, as well as allocation of funds when the opportunity arose.[50]

Some approaches link savings payments to money coming in, i.e. wages. Salary Finance did research[51] among employees with access to its savings products and found that most UK employees can be split into two different types of savers: those that save as soon as they get paid (33%); and those that save whenever they can (40%). Of those who put money aside as soon as they get their salary, only 10% have less than £500 in savings; of those who save, but only whenever they can, 85% have less than £500 in savings. This suggests that setting money aside when it first comes in correlates with more substantive savings. However, it is not clear whether the research data controlled for income, which may itself have been a driver of savings levels.

The workplace has an established role in supporting other financial behaviours, notably pension saving

There is high-level historic evidence to suggest that workers who are offered the chance to save through their employer are more likely to save than those not offered the opportunity. One estimate, from unpublished analysis in the US, suggested that those offered a payroll deduction pension through their employer were 15 times more likely to be saving for retirement than those who were not. In the UK context, patchy compliance with stakeholder pensions regulations prior to 2012 make it difficult to clearly identify which of those employees not saving into a pension were choosing not to, and which simply weren't offered one. However, recognising that:

- there was a known correlation between employer size and compliance rates, and
- micro employers were exempt from the stakeholder pensions regulations and generally did not offer a pension scheme to workers…

… it is instructive that pre-2012 rates of workplace pension saving were materially lower among micro employers (<20%) and small employers (<30%) than in large and very large firms where it was over 50%[52]. Many factors will have been at play here, and a small number of those not saving through their employer may have made private pensions arrangements outside of the workplace. Still, the strong correlation

[46] Catherine S. Harvey, AARP Public Policy Institute, Unlocking the Potential of Emergency Savings Accounts (October 2019) https://www.aarp.org/content/dam/aarp/ppi/2019/10/unlocking-potential-emergency-savings-accounts.doi.10.26419-2Fppi.00084.001.pdf

[47] Thaler, R. (1985). Mental accounting and consumer choice. *Marketing science*, 4(3), 199-214.

[48] Soman, D., & Cheema, A. (2011). Earmarking and partitioning: Increasing saving by low-income households. *Journal of Marketing Research*, 48(SPL), S14-S22.

[49] Dilip Soman and Amar Cheema, Earmarking and Partitioning: Increasing Saving by Low-Income Households, Journal of Marketing Research (2011) https://www.jstor.org/stable/pdf/23033462.pdf

[50] Commonwealth, Rise with the raise: The Promise of Straightforward Employer Benefits for Building Lower-Wage Employee Financial Security (February 2019) https://buildcommonwealth.org/assets/downloads/Rise_with_the_Raise_Report.pdf

[51] Salary Finance, How employers can help their people avoid the UK savings crisis (March 2020) https://us.salaryfinance.com/uk/blog/employers-help-employees-avoid-saving-crisis/

[52] DWP, Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2009 to 2019 (June 2020) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/892841/workplace-pension-participation-and-saving-trends-2009-2019.pdf

between employer size, the presence of a workplace pension, and workplace pension participation rates, seems to support this link.

Payroll deduction is well-established in supporting a range of benefits

Payroll deduction schemes are not 'outside the norm', and they are not only used for savings. Payroll deduction is deployed across a wide range of employer-sponsored benefits, such as health insurance, payment for cafeterias, loans to purchase bicycles and travel tickets, and more.

Saving via payroll means that money is saved before the individual has had a chance to 'see' it in their current account. This is a feature that appeals to people. For example:

- Cushon carried out research among employees who had access to a workplace savings scheme. Close to a third said they liked having the ability to save directly from their pay. [53]
- In their preliminary research as part of their workplace savings trial, MaPS and the Leeds Credit Union (LCU) found that there was almost universal positivity among existing users and a large majority (79%) gave ease and simplicity as the main reasons for participating in a payroll deduction scheme.[54]
- In research carried out by the AARP to assess interest in payroll-based rainy-day savings schemes, employees similarly valued the ease and 'invisible' aspect of this approach. When asked why they would be likely to enrol, the top reason selected was to save money (chosen by 18%), but then 16% selected 'I won't see or handle the money' and 12% chose 'It's automatic and easy to set up'.[55]

These sentiments are echoed in the research carried out by credit unions in their investigation of how their members feel about saving. Even though these credit union members had outstanding borrowing and were simultaneously paying back their loans through payroll deductions, as well as putting money aside for later, members were very positive about having the opportunity to save in this way. They highlighted how saving was made easy and that it would have been difficult for them to save otherwise.[56]

It is not hard to understand the reasons for these attitudes. Once set up, the experience of saving through payroll is smooth and friction-free. The positivity towards this feature should not be underestimated; it suggests that this kind of savings approach has more chance of success as it works with, rather than counter to, what people find helpful.

There are other important advantages that come with the link between savings and payroll. It means that the level of savings can relatively easily respond to changes in the individuals' wages, whether this is a decrease or increase. With regard to the latter, the benefits of this approach have been demonstrated in the Save More Tomorrow (SMarT) programmes in the US[57], discussed below.

Savings enabled through the workplace also appear to bring with them a number of softer benefits. In general, employers are trusted, including when it comes to keeping finances private.[58] Whilst there may still

[53] HR News, 40% of businesses offer a workplace savings scheme (November 2020) http://hrnews.co.uk/40-of-businesses-offer-a-workplace-savings-scheme/

[54] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions scene setting report (October 2019) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2019/10/Getting-Workforces-Saving-Payroll-Deduction-Schemes-with-Credit-Unions-Summary-Report-FINAL-October.pdf

[55] Catherine Harvey and David John, AARP Public Policy Institute, Saving for a rainy day at work (September 2018) https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf

[56] The Fairbanking Foundation, Save as you borrow – credit unions creating good habits (February 2017) http://fairbanking.org.uk/wp-content/uploads/2017/02/Save-While-You-Borrow-web-1540217.pdf

[57] Richard H. Thaler and Shlomo Benartzi, Save More Tomorrow: Using behavioral economics to increase employee saving (February 2004), http://www.jstor.org/stable/pdf/10.1086/380085.pdf

[58] Salary Finance, What financial wellbeing benefits are most important to employees? (October 2018) https://us.salaryfinance.com/uk/blog/most-important-financial-wellbeing-benefits/

be some sense of a taboo about discussing money issues at work, employers could play a role in helping address this.[59] With workplace saving there can also be the sense that saving is a social norm, as others within the same community are also engaging in this behaviour.[60]

'Set-and-forget' and automatic mechanisms can be particularly effective

Such mechanisms can take many different forms. One of the more obvious – though clearly successful – examples is automatic enrolment in pensions saving. With the introduction of the automatic enrolment policy, the historic downward trend in UK workplace pension participation among eligible employees was reversed. Participation rose from just over half (52%) to 88% today.[61] US research has revealed similar clear upswings in participation when auto enrolment is introduced to retirement savings plans.[62]

Even if auto enrolment is not brought into play, there is evidence to suggest that other forms of automaticity can be linked to positive savings behaviours in the workplace. The initial research for the SMarT programme showed how automated increases in saving rates, linked to pay increases, can deliver higher overall savings rates among participants.[63]

Alongside pre-commitment, another key feature of the SMarT programme was 'set-and-forget'. Employees were approached about increasing their contribution rates a considerable length of time before their next scheduled pay increase. This made it psychologically more palatable to agree to the deductions. Savings can work better when people 'set' the mechanism and then 'forget' – the desired action still takes place.

Setting up automatic transfers of money is a lower level but still powerful mechanism linked to positive savings outcomes. The AARP research, investigating those who claim to have some amount of money saved for emergencies, found a correlation between the use of automatic transfers and having an emergency savings account. Among people whose household has an emergency savings account, 55% use automatic transfers, compared with 25% of those whose households have no emergency savings account.[64]

There is growing interest in saving through the workplace

Part 1 of this paper established that a substantial proportion of the UK population lack accessible savings and that this status is associated with negative outcomes and risks. These learnings support the idea that many people may benefit from policies to encourage saving. Whilst there are a number of possible approaches to doing so, it is useful to consider whether doing this through the workplace aligns with the attitudes and preferences of employers and employees.

[59] Salary Finance, The Employer's Guide to Financial Wellbeing 2020-21 https://www.salaryfinance.com/media/0oqmreeu/the_employers_guide_to_financial_wellbeing_prospect_salaryfinance.pdf

[60] The Fairbanking Foundation, Save as you borrow – credit unions creating good habits (February 2017) http://fairbanking.org.uk/wp-content/uploads/2017/02/Save-While-You-Borrow-web-1540217.pdf

[61] DWP, Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2009 to 2019 (June 2020) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/892841/workplace-pension-participation-and-saving-trends-2009-2019.pdf

[62] Brigitte C. Madrian and Dennis F. Shea, The power of suggestion: inertia in 401(k) participation and savings behaviour (May 2000) https://www.nber.org/system/files/working_papers/w7682/w7682.pdf

[63] Richard H. Thaler and Shlomo Benartzi, Save More Tomorrow: Using behavioral economics to increase employee saving (February 2004), http://www.jstor.org/stable/pdf/10.1086/380085.pdf

[64] Catherine S. Harvey, AARP Public Policy Institute, Unlocking the Potential of Emergency Savings Accounts (October 2019) https://www.aarp.org/content/dam/aarp/ppi/2019/10/unlocking-potential-emergency-savings-accounts.doi.10.26419-2Fppi.00084.001.pdf

Employees are receptive to saving through work

A major study among working-age employees (aged 25–64), carried out by AARP in the US, established that a clear majority (71%) would be interested in participating in a payroll-deduction rainy day savings scheme if their employer offered one. Notably, their analysis found that income did not significantly influence employees' interest, suggesting the wide appeal of such an initiative.[65] This strong interest in employer-based emergency savings plans has been echoed in more recent surveys from the US[66] and the UK.[67]

However, there also is room for improvement on what's already on offer. A study from Willis Towers Watson found that only 20% of employees thought that what they were offered in terms of financial wellbeing provision was 'effective' for helping them deal with day-to-day debt issues.[68] Dissatisfaction with existing levels of support also came through in a survey from Pay Dashboard looking into the current state of financial health and wellness amongst UK employees. This found that 40% felt they received little or no financial advice and support from their employer.[69]

Employers and providers want to support employees' financial wellbeing

The upheaval and challenge brought about by Covid-19 appears to have energised many employers interested in supporting their workers more comprehensively. Recent wellbeing initiatives not only help staff stay fit and healthy physically, but also emotionally. A survey from March 2021 found that one in five employers are concerned about helping staff manage the long-term mental-health impact of the pandemic.[70] This often includes help with sources of stress, including money anxiety.

Employers are aware of the knock-on effects of these financial worries. As discussed above, these can include loss of concentration and productivity. Earlier surveys, such as the Financial Wellbeing Index from Close Brothers, found employers were already experiencing these impacts pre-Covid. Organisations were feeling the strain from a lack of financial wellbeing on multiple fronts including: reduced productivity (22%); loss of talent (22%); higher short-term and long-term absences (both 19%); reduction in retirees (17%); and higher healthcare costs (13%).[71]

Nest Insight research conducted in 2020 found that employers were keen to improve financial wellbeing and build resilience among a wide range of employees. They recognised that many people find saving difficult and that the salary deduction mechanism could be a very effective way to initiate a savings habit.[72]

These sentiments are echoed in the Aon 2021 Trends and Benefits survey[73]. This found that 61% of employer respondents agree that the employer is responsible for influencing employee financial wellbeing. In terms of

[65] Catherine Harvey and David John, AARP Public Policy Institute, Saving for a rainy day at work (September 2018) https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf

[66] Bipartisan Policy Center, New BPC Survey Shows Americans Need Better Ways to Save for Emergencies (February 2021) https://bipartisanpolicy.org/blog/new-bpc-survey-shows-americans-need-better-ways-to-save-for-emergencies/

[67] Employee Benefits, 72% of employees want access to a workplace savings scheme (July 2020) https://employeebenefits.co.uk/72-of-employees-want-access-to-a-workplace-savings-scheme/#_ftn1

[68] Employee Benefits, 41% of employees trust financial wellbeing tools (May 2021) https://employeebenefits.co.uk/41-employees-trust-financial-wellbeing-tools/?ID=zqjqf~qrz9xf~n9ztf9~W4ik~Ky0gk&utm_campaign=Employee%20Benefits-TUES-THUR-FRI-060521-DE&utm_medium=email&utm_source=newsletter&utm_content=newsletter

[69] Employee Benefits, How Financial Worries Are Having A Negative Impact On Mental Health (April 2021)

[70] Employee Benefits, Employers concerned about long-term mental health impact of pandemic (May 2021)

[71] Close Brothers Asset Management, Financial Wellbeing Index (2019) https://www.closebrothersam.com/for-employers/news-and-insights/25-million-uk-employees-affected-by-money-worries-while-at-work/

[72] Nest Insight, Supporting emergency saving Briefing Paper 1 (2020) https://www.nestinsight.org.uk/wp-content/uploads/2020/10/Supporting-emergency-saving-policy-considerations-and-questions-for-future-research.pdf

[73] Aon, UK Trends and Benefit Survey (2021) https://health.aonunited.com/download_the_aon_benefits_and_trends_survey_2021

activities envisaged, whilst it is perhaps not surprising to find that easier-to-implement initiatives such as communications and services (e.g. financial education seminars) are common (planned by 75% and 68% respectively), it is notable that one in five is thinking about savings products (e.g. corporate ISAs) and that these are more popular than debt products, such as salary advance, considered by 16%.

Other stakeholders involved in facilitating workplace savings also seem positively disposed towards the idea, and expect this to be a growing area. In its annual review of the workplace savings marketplace, Corporate Adviser asked intermediaries about interest in one form of saving – workplace ISAs. These products are viewed as attractive propositions: 67% of advisers feel that the availability of a workplace ISA option is nice to have, but not essential. Whilst these products remain a limited part of their portfolios, adviser responses suggest a growing appetite for workplace ISAs among their clients. One in eight advisers expect around a third of their clients to offer these products over the next 12 months.[74] This aligns with recent US research with nine of the largest recordkeepers (retirement plan administrators), which found strong interest in emergency savings, catalysed by the experience of Covid-19. This interest was seen among both administrators and employers. It seems to show that those involved in retirement support increasingly believe that their role encompasses support for wider financial security among participants.[75]

Workplace savings is currently a small market, but growing

Despite the strong interest in workplace savings evidenced above, it is hard to determine accurately the scale of this interest, as national data on take-up is lacking. The market for payroll-deduction savings products still seems nascent. Credit unions are active in this area. Industry estimates suggest that around 5m people are covered by a credit union/employer partnership that includes payroll deducted savings, though actual participation in these schemes is much lower. Many credit unions are relatively small and so this part of the market is somewhat fragmented.

Beyond this, there is limited activity in the more mainstream savings market. Research carried out by the Association of Consulting Actuaries in 2019 showed that only 9% of 580 employers surveyed currently offer a workplace ISA or non-pension savings option.[76] This form of saving is also is on a much smaller scale than retirement saving. For example, Hargreaves Lansdown – the biggest workplace ISA provider in the UK – has only £478m in workplace ISA assets compared to £4.2bn in their DC pensions. Moreover, most of this ISA saving is not through payroll deduction but organised through the adviser's own personal savings and investment platforms. This is also true for other advisers. The overall picture is of a much more hands-off role for employers, and more limited engagement in savings schemes.[77]

There will be many factors at play here, as we discuss in later sections. However, it appears there is an ongoing problem of low awareness, meaning only low demand, which may in turn contribute to the limited supply for workplace savings schemes. Certainly, low demand – as measured by low take-up rates – is an issue found in most payroll savings examples, as discussed later in this paper. The Financial Inclusion Centre, LCU and MaPS recently conducted a trial of workplace savings schemes with two employers. In a baseline survey, carried out to help with preliminary scene-setting, the partnership found a lack of awareness about these ways to save. Almost two-thirds (62%) of those not already saving via payroll were unaware they

[74] Corporate Adviser Workplace Savings Report (2020)

[75] Commonwealth, Eye on Systemic Change in the Retirement Industry: How Recordkeepers are Leading the Charge to Address the Emergency Savings Crisis (March 2021) https://buildcommonwealth.org/assets/downloads/CW_Eye_on_Systemic_Change_in_the_Retirement_Industry.pdf

[76] REBA, A rainy-day fund: how to implement workplace savings schemes to encourage financial resilience (July 2020) https://reba.global/content/a-rainy-day-fund-how-to-implement-workplace-savings-schemes-to-encourage-financial-resilience

[77] Corporate Adviser Workplace Savings Report (2020)

could make regular savings via their employer, even though the scheme was already being used by colleagues at the same workplace.[78]

Reviewing insights and learnings from existing workplace saving schemes

As highlighted above, there are signs of growing interest in workplace-based saving schemes. A number of initiatives have been started within the last couple of years in both the US and the UK, many with a specific focus on emergency saving. Few involve full impact evaluation trials and it is too early to draw firm conclusions from many of them. Nevertheless, there are several useful insights emerging that help build an overall evidence base.

There is a lot of recent and current innovation in the area of emergency saving

Looking across some recent examples of workplace emergency savings schemes, a number of different models can be seen emerging:

- Prudential Retirement started a pilot in 2018, in conjunction with Prosperity Now, to introduce an emergency savings facility alongside existing workplace 401(k) plans. This allowed employees to withdraw their after-tax savings if an emergency arose, while preserving the before-tax retirement contributions.[79] Employers who implemented this savings tool have responded positively. MGM Studios reported good levels of take-up, even where this involved only modest rates of saving. An executive director of human resources at the company observed, 'We were really surprised with how many people put another 1% or 2% in, after tax, just to build that cushion should something come up down the road.[80] This suggests that even small levels of saving carried out through work are valued.
- Since February 2020, John Hancock has allowed participants in its retirement plan to easily set up an additional emergency savings account. Once a savings goal is entered, the participant links their checking account (current account) and can set up recurring weekly deposits. Participants can track progress towards the savings goal and are able to withdraw funds at any time with no fees.[81]
- Since the start of last year, the Massachusetts Mutual Life Insurance Company (MMLIC) made available an emergency savings solution to the 2.6m workers who participate in one of the insurer's defined contribution plans. Interestingly, whilst there is a minimum commitment (minimum deposit of $25 per month), there are also links to rewards (through the Millennium Trust's cash account sweep programme, savings can be earning a more competitive market rate of return).[82] MMLIC has reported average contributions of 4% of pay.[83]
- Some initiatives are delivered in partnership with specialists to focus on supporting saving among those who may struggle to do so. For example, an education company, New Horizon Academy, piloted a new

[78] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions scene setting report (October 2019) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2019/10/Getting-Workforces-Saving-Payroll-Deduction-Schemes-with-Credit-Unions-Summary-Report-FINAL-October.pdf

[79] Prudential (Newsroom), Making it easier for people to save for emergencies (December 2019) https://news.prudential.com/making-it-easier-for-people-to-save-for-emergencies.htm

[80] CNBC, This workplace perk could make it easier to save for emergencies (January 2019) https://www.cnbc.com/2019/01/25/this-workplace-benefit-could-make-it-easier-to-save-for-emergencies.html

[81] John Hancock (News), John Hancock Expands Financial Wellness Offering to Include Emergency Savings Accounts and Comprehensive College Planning Tools (February 2020) https://www.johnhancock.com/about-us/news/john-hancock-retirement/2020/02/john-hancock-expands-financial-wellness-offering-to-include-emergency-savings-accounts-and-comprehensive-college-planning-tools.html

[82] Business Wire, Emergency Savings Solution Now Available to All Workers Who Participate in a MassMutual Retirement Savings Plan (January 2020) https://www.businesswire.com/news/home/20200123005420/en/Emergency-Savings-Solution-Workers-Participate-MassMutual-Retirement

[83] InvestmentNews, Interest in emergency savings accounts likely to grow post-COVID-19 (April 2020) https://www.investmentnews.com/interest-emergency-savings-accounts-likely-grow-covid-19-192162

savings programme with the help of Commonwealth, a not-for-profit that works on solutions to drive up financial security. The programme allowed employees the option of having a pay rise diverted through the payroll system into a savings account in each pay period, instead of having it go into their normal current account.[84]

- Voya and UPS are two more organisations that have recently partnered with Commonwealth to launch a way of building up rainy day savings automatically after tax.[85] This is one of several initiatives under BlackRock's ESI, where BlackRock has made a $50 million philanthropic commitment to supporting the building, testing, and piloting of short-term savings tools and strategies for people living on low incomes.
- The Money and Pensions Service (MaPS) has been working with Leeds Credit Union and two employers to trial methods of increasing participation in an existing payroll deduction emergency savings account.
- Level, a financial health platform that employers can offer to employees, has been developing 'easier to join' payroll savings options. It has partnered with Capita and the Behavioural Insights team to trial interventions to increase take-up.[86]

Early evidence suggests financial incentives may help

Another approach we're seeing is the use of increased incentives to encourage participation. SunTrust Banks, for example, is offering a $1,000 incentive to workers who complete a financial education programme and then contribute at least $20 with each month's wages. SunTrust have reportedly invested over $18 million on the programme.

53% of the company's 23,000 employees qualified for the cash, whilst internal polling found the programme not only made participants feel better prepared for emergency expenses, but also more optimistic about life and more likely to feel the company cared about their well-being. The one-year retention rate of new hires who completed the programme rose to over 90%, compared with about 60% among those who did not participate – though of course this may be the result of adverse selection.[87] This example is particularly interesting, because the presence of a financial incentive appears to have resulted in much larger take-up than has been seen in most equivalent, non-incentivised schemes.

Emerging evidence: signs of positive outcomes for participants

Workplace savings schemes may help develop a savings habit…

Looking across the discussion of the results from various workplace savings schemes in the UK and the US, as well as survey data from those who participated, there are positive early signs. Those who enrol successfully build up savings, including those who have not really saved before.

For example, employees at Levi Strauss & Co could participate in a six-month programme offered by their employer in partnership with the Red Tab Foundation[88] using the SaverLife platform. The SaverLife programme actively helped employees with saving; for example, they were encouraged to set personal goals and to access financial education resources. Participants were also incentivised with matched savings rewards. The data released for media coverage of the plan showed that 63% of savings accounts

[84] Employee Benefit News, Employer-sponsored savings programs could be the future of financial wellness (July 2019) https://www.benefitnews.com/news/reduce-stress-increase-productivity-with-financial-wellness

[85] Commonwealth, Behind the Scenes: How Commonwealth Partnered with UPS and Voya to Achieve an Emergency Savings Milestone (October 2020) https://buildcommonwealth.org/blog/post/how-commonwealth-partnered-with-ups-and-voya

[86] Can a Nudge or two make us better savers? - BBC News

[87] Business Insider, Companies concerned about employees' money stress are spending millions to branch out beyond 401(k)s (June 2019) https://www.businessinsider.com/personal-finance/companies-incentivizing-employees-save-money-emergency-funds-2019-6?r=US&IR=T

[88] The Red Tab Foundation is a not-for-profit set up for Levi Strauss & Co. employees

connected to the savings programme from Levi were first-ever accounts.[89] It also seems there was a positive boost to saving because of employer support: Levi employees who enrolled in the SaverLife platform through their work were 46% more likely to start saving, compared to those who had heard about SaverLife from community groups, other not-for-profits or social media campaigns.[90]

In the MaPS-LCU trial, 59% of the new payroll scheme members had never or rarely saved before joining the scheme, compared with only 14% who said they had saved regularly every month before joining.[91]

There are similar insights available from participant research released about the Yorkshire Building Society's (YBS) ShareSave scheme.[62] This research suggests that if it was not for the ShareSave scheme, many would not be saving. Just over one in four (28%) have no other regular short- or medium-term savings.[92]

…and stimulate regular saving

In many instances, workplace savings schemes are run for limited periods. This is often because of the level of investment involved in making them successful. This can include communication campaigns and other activity to drive up awareness and understanding, or financial incentives. However, it is worth nothing that among those that enrol in workplace savings schemes, there is evidence of longer-term impacts and the development of lasting savings habits.

- Due to the nature of the programme design, the Levi/Saver Life scheme encouraged regular saving. To qualify for the matched savings, participants needed to deposit at least $10 a month for six months. However, as reported in the Red Tab Foundation annual report, over 90% of participants who graduated from the programme continued to save over the following six months, even though the match incentive had ended.[93]
- Research carried as part of the MaPS-LCU trial found that, in general, membership of a workplace payroll scheme correlated positively with persistent saving. 70% of payroll scheme members saved every month compared to 52% of employees who were not members of the credit union at all. Moreover, among those who newly joined the payroll savings scheme as part of the trial, the vast majority (89%) maintained or increased the amount they saved every month.[94]

There is some emerging evidence to link workplace saving to stronger financial resilience and wellbeing

As highlighted in part 1 of this paper, a lack of liquid savings is associated with lower financial resilience. It is therefore worth noting that there seems to be evidence that participating in a workplace savings scheme can be linked with increased financial resilience and more positive attitudes to finances.

[89] CBS News, More big companies helping workers auto-save to build emergency funds (June 2019) https://www.cbsnews.com/news/big-companies-are-helping-workers-sock-away-emergency-savings/

[90] SaverLife and the MetLife Foundation, Big Data on Small Savings (June 2019) https://static1.squarespace.com/static/5d8a81e7c9f15145936073c0/t/5d9f9ec766d51a68bc5b4345/1570741959908/Volume+12_SaverLife+_+Employees.pdf

[91] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions final report (February 2021) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2021/02/Getting-Workforces-Saving-Payroll-Schemes-with-Credit-Unions-Final-Publication-Report-110221.pdf

[92] YBS, Using the workplace to get Britain saving (March 2019) https://www.ybs.co.uk/pdf/YBM11673-using-the-workplace-to-get-britain-saving.pdf

[93] SaverLife and the MetLife Foundation, Big Data on Small Savings (June 2019) https://static1.squarespace.com/static/5d8a81e7c9f15145936073c0/t/5d9f9ec766d51a68bc5b4345/1570741959908/Volume+12_SaverLife+_+Employees.pdf

[94] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions final report (February 2021) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2021/02/Getting-Workforces-Saving-Payroll-Schemes-with-Credit-Unions-Final-Publication-Report-110221.pdf

The MaPS-LCU trial suggests that participating in a workplace savings scheme can be connected to a lower reliance on debt and less need to turn to other forms of borrowing. This is based on comparing the behaviours in survey responses by longer-standing members of the scheme, compared to those who had newly joined the scheme through the trial. Clearly there are likely to be selection effects here, as the first group had self-selected into membership before the trial more proactively encouraged it. Nonetheless, the results are interesting[95]:

- 30% of longer-standing payroll scheme members reported they had not borrowed in the last 12 months compared to 22% of newer joiners.
- 3% of longer-standing payroll scheme members had used their unauthorised overdraft compared to 10% of more recent joiners.
- 35% of longer-standing payroll scheme members had borrowed using a credit card or store card compared to almost half (49%) of more recent joiners.

There are also signs that participation in the scheme correlates with a sense of improved financial resilience.

- 31% of payroll savings scheme members in the £17,500–£24,999 band reported that they could cover living expenses for 'less than' one month, as opposed to 'much less'. This compared to 41% of work colleagues in the same relatively low-income band who were not members of the credit union, and not participating in the savings scheme.

The MaPS-LCU research also suggested that enrolling and participating in a workplace scheme can correlate with feeling more confident about managing money and making financial decisions.

- Payroll scheme members rated themselves, on average, more confident at managing their money than credit union members not in the payroll scheme (6.9 compared to 6.4).
- Furthermore, even though this is not true evidence of a causal relationship, it is still worth noting that the gap between long-standing and newer payroll scheme members was even greater (rating of 7.1 for financial confidence among 'longer savers' compared to 5.9 among those just starting).

That said, anxiety about personal finances remains higher among members than non-members. This is likely at least partly explained by the fact that members were generally on lower incomes than non-members.

- 23% of credit union members strongly agreed that thinking about their financial situation makes them anxious compared to 17% of employees who were not credit union members.
- However, once we focus on lower income workers (those earning £17,500–£24,999), the difference reverses. Lower earners on the payroll savings scheme were less likely to strongly agree (21%) that their financial situation made them anxious than their low-earning colleagues not in the credit union and not in the saving scheme (26%).
- Further evidence to reinforce this link is the fact that longer participation is linked with lower levels of financial concern. Over a third (35%) of recent joiners strongly agreed that thinking about their financial situation made them anxious compared to only 19% strongly agreeing among longer-standing members of the payroll savings scheme.[96]

[95] Ibid
[96] Ibid

Schemes are impactful among those who need them the most

Part one highlighted that certain segments of the population are more likely to be at risk and that this tends to correlate with lower liquid savings and lower incomes. There is evidence to suggest that the positive correlations discussed above are present among lower earners.

This came through in the MaPS-LCU trial, where findings imply that lower earners are more likely to save regularly when in a payroll savings scheme, compared to those who aren't. In the £17,500–£24,999 income band, 69% of payroll savings scheme members reported that they were saving every month, compared to 44% of employees who were not members of the credit union.[97]

The YBS ShareSave scheme referenced earlier also suggests that this kind of scheme can work as a lever to encourage a regular savings habit among those who wouldn't otherwise be able or willing to save. Their research found that over 40% of those in the lowest income groups only use ShareSave for saving.[98]

In our own trial, one of the key emerging insights is that participation in the Jars scheme appears to be most common in the MaPS 'Squeezed' segment, one of the two segments where liquid savings are currently least common.[99]

[97] Ibid

[98] YBS, Using the workplace to get Britain saving (March 2019) https://www.ybs.co.uk/pdf/YBM11673-using-the-workplace-to-get-britain-saving.pdf

[99] https://maps.org.uk/wp-content/uploads/2021/03/the-squeezed-segment.pdf

Part three: Challenges and gaps in the data

Part two of this report set out the emerging evidence from recent implementations of payroll emergency saving. This suggests, albeit on the basis of very limited data, a number of positive outcomes for those participating in the various forms of these schemes.

However, it is also important to acknowledge where the evidence is less positive or suggests limitations to these positive impacts, and to highlight the gaps, and the areas where more data is needed.

Challenges with workplace savings models

Awareness levels and participation rates are low

The biggest challenge that emerges from the data, common across almost all examples, is that participation in these programmes is very low. This appears to be fuelled at least partly by the difficulty in driving awareness but also by other barriers to participation. These barriers can apply even for people who appear positively predisposed to the scheme and state an intention to join.

For example, the MaPS LCU trial tested a range of different ways to drive up engagement and participation. Some were clearly more effective than others, but the overall impacts were nonetheless modest. For example, the most successful approach, 'Sign up to Save', materially increased the numbers joining the credit union relative to the pre-trial period, but in total, under that treatment, only one in every 518 employees joined each month, compared to one in every 884 employees during the previous 12 months when the trial was not running. In total the two trials saw increases of 13% (Leeds County Council) and 188% (NHS York Teaching Hospital) – both strong results, albeit, at NHS York, from a low baseline participation rate.

The per-head cost involved in getting each new signup to payroll saving varied significantly. In the most cost-effective scheme, the cost was £16.71 for each employee who became a credit union member and signed up to the payroll deduction scheme. In the most costly, the cost came in at £126.57 per customer sign-up.[100]

In our own trial, early data suggests that around 1% of employees offered Jars have taken it up so far. The roll-out of Jars has coincided with the pandemic – a period during which employer focus and capacity to promote take-up may have been limited. Employees, too, may have faced additional barriers to participating. However, these levels are not out of line with what we see, at least anecdotally, in other examples, with providers and employers often reporting take-up rates below 5% in total, even when supported by employers' promotional activity.

One reason why an individual might decline a workplace saving offer is that they are already saving outside of the workplace, or they see this as a preferable route. In the AARP survey referenced above, of those who said they would be unlikely to enrol in an employer's rainy day saving scheme, the most common reason given was that they already save on their own (26%), whilst 21% felt they would be able to do this themselves.[101]

[100] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions final report (February 2021) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2021/02/Getting-Workforces-Saving-Payroll-Schemes-with-Credit-Unions-Final-Publication-Report-110221.pdf

[101] Catherine Harvey and David John, AARP Public Policy Institute, Saving for a rainy day at work (September 2018) https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf

This was reflected in the research carried out as part of the MaPS-LCU trial. 25% of people not already saving via payroll deductions cited 'preferring to save through another institution' as a main reason for not enrolling.[102]

It can be challenging to target the groups who stand to benefit the most

Part of the challenge in encouraging participation may be that it can be difficult to ensure that the most effective communications and messages reach the most relevant groups.

As part of its national survey of workplace savings schemes, the AARP carried out regression analysis to identify the factors that seemed to have the strongest impact in getting working adults to participate. The most powerful driver was lower balances in non-retirement savings. Beyond this, the analysis found that likelihood of enrolling is driven primarily by psychographic factors, such as stress over one's financial situation, trust in one's employer and confidence in ability to pay for a $2,000 unexpected expense. This is as opposed to demographic factors, such as household income, age and gender. Demographics are perhaps easier to use when segmenting and targeting employees. However, failure to target the appropriate attitudes and sentiment could mean communications miss the mark and fail to engage the target audience.[104]

Those with most need might have the least bandwidth to engage

Another factor driving low participation is that those who might be most likely to benefit may also struggle to engage with the opportunity to enrol. This includes cases where they can enrol through their employer.

As outlined in earlier chapters, low levels of liquid savings tend to be associated with financial stress and worry, and this can often impact people's ability to make decisions. Other studies have found that financial scarcity can effectively constrain or limit how people evaluate options. This can lead them to follow the cautious route of not making changes and sticking with the status quo.[103] This suggests it may be risky to assume that everyone who needs a workplace savings scheme will take one up. It could be that individuals miss it entirely as they are preoccupied with managing their current worries, or they might be uncertain as to whether it is right for them and lack the capacity to fully think it through.

Many, of course, will actively struggle, or believe they will struggle, to afford a regular savings contribution, even though the savings remain fully available to them and easy to access. In the AARP survey, individuals who did not think they would be likely to enrol in a rainy-day savings scheme included those who felt it was because their income to was too uncertain or insufficient (12%).[104]

There is effort involved for employers

Offering a savings scheme requires commitment from the employer. Regardless of the design of the scheme, for example whether it includes any financial incentives to saving, such as matches or bonuses for initial enrolment and/or savings persistency, promotional resources will be needed. These might include simple measures such as email campaigns, the distribution of posters and leaflets around workplace premises, or more in-depth and face-to-face activity. As we saw in the MaPS-LCU trial, this means that costs for each sign-up achieved can be relatively high.

In addition, if help from existing staff is required to help with promotion and support, this means their time will be spent on this, rather than other activities. This surfaced as a potential issue in Nest Insight's research last

[102] The Financial Inclusion Centre and MaPS, Getting workforces saving: Payroll schemes with credit unions final report (February 2021) http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2021/02/Getting-Workforces-Saving-Payroll-Schemes-with-Credit-Unions-Final-Publication-Report-110221.pdf

[103] J. Haushofer., E. Fehr. (2014) On the psychology of poverty. *Science*. 344, 862–867

[104] Catherine Harvey and David John, AARP Public Policy Institute, Saving for a rainy day at work (September 2018) https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf

year, where employers said that these competing pressures had increased during the pandemic crisis. As a result, employers described themselves as reluctant to enter into major new projects at this time.[105]

These findings are echoed in background research carried out as part of the MaPS-LCU trial. A study from Scotland found employers' enthusiasm for payroll deduction schemes was limited: they were already having to deal with other payroll-based initiatives, such as automatic enrolment, and were concerned about all the types of costs involved in additional schemes.[106]

It is also worth noting that on many occasions, workplace savings schemes require the support of specialist external partners. There are many decisions involved in setting up these schemes, some of which may be outside of employers' expertise or comfort zone. For example, there is no official guidance to help decide what type of financial product to use to capture savings. Other considerations include whether to get involved in influencing the savings behaviour, for example with default savings rates, and if so, determining their level; along with the level of automation versus individual control that should be permitted in the scheme. Dealing with these important but often difficult questions may drive employers to seek the help of specialists in designing solutions to support financial resilience. Or they may rely on expertise from their existing benefits providers. Either way, this advice can add to the time and money costs involved in setting up such a scheme.

Evidence gaps remain

This landscape review suggests there is evidence to support the key elements of logic described in the introduction. That knowledge base is clearly stronger in some areas than others. It's clear that evidence for the effectiveness of workplace emergency savings schemes in addressing the challenges of low liquid saving is:

A. still emerging and relatively anecdotal at this stage, and
B. concentrated on individuals, with aggregate impacts diluted by low levels of take-up.

There remain several areas where more data are needed in order to evaluate workplace emergency savings models. We anticipate that our own trial activity in this area will help address some of these gaps. With our research partners, we have designed our emergency savings research specifically to provide robust, formalised evaluation. This includes running the trial concurrently with employers of different sizes and sectors, helping to reduce the degree of idiosyncrasy that might occur in results from a single employer.

There are some specific areas where we feel the evidence base would benefit from more data, or where it has just not been possible yet to identify robust conclusions. These include:

- Additional data on the benefits to financial wellbeing and resilience, of being offered a payroll-deducted emergency savings product
- Evidence of the extent to which the sidecar model specifically, including the rollover into retirement savings, leads to increased total retirement saving for participants
- Evidence of the impact of stronger nudges towards participation, such as opt-out models or active joining mechanisms
- Further evidence of the impact of different communications approaches to encourage participation

[105] Nest Insight, Supporting emergency saving Briefing Paper 1 (2020) https://www.nestinsight.org.uk/wp-content/uploads/2020/10/Supporting-emergency-saving-policy-considerations-and-questions-for-future-research.pdf

[106] Community Credit Unions and Payroll Deduction A report on a field trial, Robert I Mochrie Kathryn Waite, Heriot Watt University, Chartered Institute of Payroll Professionals (CIPP), Ethical Finance Hub, Scottish Universities Insight Institute, page 10 cited in Better and Brighter? (inclusioncentre.co.uk)

- More data on who participates and on the behaviours they exhibit in building up and accessing savings – what we refer to as the 'cycle of saving' earlier in the paper.
- Further and more robust evidence on the benefits to employers of supporting worker financial wellbeing, given the points made above about the effort involved for employers in offering and promoting schemes of this type.
- Longitudinal data – data on impacts and usage in the months and years following trials of different products, or of approaches to encouraging their use.
- In addition, as many of the initiatives referenced above were relatively small-scale or associated with relatively low absolute levels of participation, there is a need for caution over the robustness of findings. Small samples bring with them a risk of skews in data.

In future, we expect to see more data become available across all these areas. These data will come from our own current and future trial activity, as well as from others operating in this space, such as the Behavioural Insights Team[107] and, in the US, participants in the Blackrock ESI.[108]

[107] https://www.bi.team/

[108] https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/join-blackrock-emergency-savings-initiative

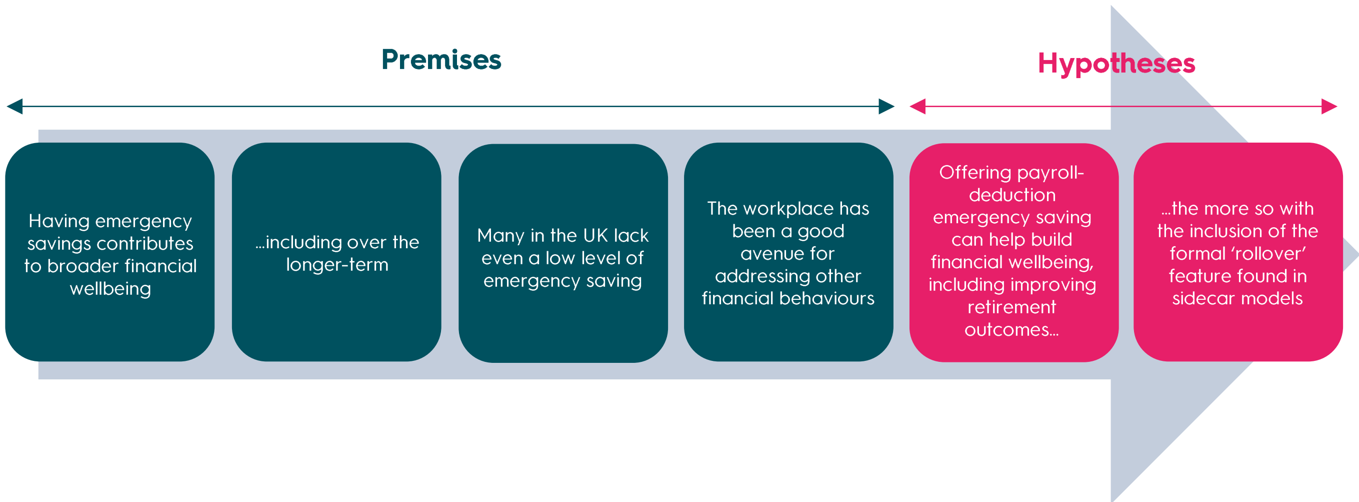
Conclusion

In the introduction to this paper we set out the goals in publishing a landscape review at this time:

1. To restate the evidence supporting optimism about workplace emergency saving and sidecar models
2. To update that evidence picture, including efforts made so far to evaluate the effectiveness of these programmes, and bring it together in one place.
3. To summarise the strength of the case and to highlight those areas where the evidence is either less positive or less conclusive, as the basis for our own ongoing work in this space, and to encourage others to contribute to the evidence base.

We structured this evidence based around the premises and hypotheses underpinning our own research programme looking at workplace emergency savings.

Figure 2: The logic underpinning our workplace emergency saving research



What we believe this landscape review shows is that:

› The evidence base is substantial and robust at the start of the logic described in the model above. In particular, there is very robust evidence for the positive relationship between having an (even quite small) emergency buffer and a range of other measures of financial and broader wellbeing. The evidence that millions of people lack such a buffer is also strong

› As you move through the logic, the evidence becomes relatively weaker. Evidence is growing that emergency savings directly impact levels of retirement saving, including to a robust academic standard, but in lower volumes than for the preceding points. Evidence around the power of the workplace for addressing financial behaviours is strongest within the pensions sphere and where coupled with other interventions such as automatic enrolment, but there is at least some broader evidence about the role of the workplace in supporting other financial behaviours. There is also growing evidence that both workers and employers see a role for employers in supporting emergency saving.

› The evidence around our hypotheses is necessarily weaker. As we have described in this paper and elsewhere, the development of our research in this area stems from a desire to test these hypotheses. Even here, the evidence base around the link between payroll savings schemes and financial wellbeing, at least at the individual level, is beginning to emerge. However, these individual-level benefits need substantiating through further evidence, and are offset by systematic evidence of low take-up which may prevent those benefits from aggregating to a meaningful overall impact. This is one of the reasons our future work in this area will be focused on identifying and testing opt-out approaches to workplace emergency savings.

- Our trial is the only one we're aware of that is testing the formal roll-over between emergency savings and pension savings, at least in the UK and within a 'two-account' model. Because this is necessarily one of the most lagged data elements of that trial, the picture on the second hypothesis is very much unclear at this stage.

Next steps

Our own work in this area can be thought of in two distinct chunks:

- Our original programme of research tests a sidecar model, including the rollover to pensions, when offered to employees on an opt-*in* basis. We are progressing this work with further administrative data-gathering and surveys over the next 18–24 months, through which we expect to gain significant further insight into the hypotheses detailed above, as well as more granular data on who uses sidecar, how they use it and how that usage evolves or changes over time. We have also just brought in a fifth employer to that trial.
- As set out in previous publications and again here, we are also developing a second strand to the work, looking specifically at opt-*out* joining mechanisms for workplace emergency savings. We expect to announce more detail on this in the coming months.

We are also actively involved with other organisations looking at workplace emergency savings: in the UK, in particular through our partnership with MaPS, whose Financial Wellbeing strategy includes work on building emergency savings; and internationally through our partner the Aspen FSP's emergency saving working group and also with the Blackrock ESI. Through these and other avenues we will continue to identify and share evidence that we believe contributes to understanding of the potential benefits for workplace emergency savings models. Our goal is to support the industry's understanding of what is possible in this space, as well as to contribute to the overall evidence base and support policymakers in considering the merits of policy intervention around emergency saving.

We encourage other organisations who are active in this space to share additional evidence that we are not aware of, and we remain open to collaborating with others – including additional employers – to ensure our own work is a wide-ranging and robust as possible.

Annex A: Approach and methodology

As highlighted in the main paper, this report was not intended to be a comprehensive literature review or formal 'Rapid Evidence Assessment'. Our aim was to gather as much insight as possible, along with real-world practical examples, and to draw in material and evidence from a range of different types of sources. Our key priority was to bring to light material which either directly explores saving through the workplace in some form, or which contributes to an understanding of the underlying premises that gave rise to our interest in the topic. We also wanted to identify where the evidence was more challenging or where there were clear evidence gaps.

To do this we used a range of search terms which were necessarily high level and broad. The primary search terms used included 'workplace savings', 'payroll emergency saving', 'workplace liquid savings', 'payroll savings schemes' and 'salary deducted savings', along with variations on those and with the addition of the term 'research'.

In looking for material on these topics, we have not limited ourselves to formal academic studies, such as those listed in Google Scholar, or to reports on trials from not-for-profits and other such organisations investigating and evaluating possible approaches. We have not excluded any evidence on grounds of robustness. Instead, we have included a very diverse collection in our review, such as grey literature, as well as articles showcasing and publicising initiatives being launched by employers and their partners. We were aware that the latter were likely to present only a limited perspective with no formal evaluation; but they are still worth referencing as they help give a sense of levels of activity and engagement with workplace saving.

To supplement our search, we have reached out to our network of academic and research partners in the UK and the US. In particular, this means we have included references to US initiatives and studies which, as highlighted in the report, have to be reviewed with caveats given the different contexts. We have also shared more anecdotal insight, which is clearly limited in terms of robustness but useful for providing a sense of the range of possibilities and developing hypotheses.

We look forward to continuing to develop our understanding in this area.

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