nest insight

Opt-out payroll savings

A new way to support financial wellbeing in the UK?

Industry and employer perspectives

BlackRock

Money & Pensions Service

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nest insight

Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information visit **nestinsight.org.uk**

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About this report

This report is part of our evolving workplace emergency savings research programme. More information and other research reports are available by visiting **nestinsight.org.uk/workplace-emergency-savings**. You may also be interested in our summary of the legislative and regulatory considerations around developing opt-out workplace savings models, which can be found on our website **here**.

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Executive summary

There is growing interest in the idea of employers adopting an opt-out approach to workplace payroll saving. There are early indications that this approach could contribute to boosting financial wellbeing at scale, particularly for those households on low to moderate incomes. However, there remain significant barriers to its adoption in practice.

An opt-out approach to payroll saving would mean that, rather than employees needing to actively sign up to save from their salary, they would automatically start saving if they did not opt out. This paper brings together a range of employer, savings provider and other industry perspectives. It is intended to give interested employers, providers and policymakers an overview of some of the context and considerations around the idea of opt-out payroll savings. The views summarised here were collected during a period of stakeholder engagement through roundtable discussions and interviews in late 2021 and early 2022.

Nest Insight's workplace emergency savings research programme[1] is focussed on understanding the role workplace saving could play in improving financial wellbeing in the UK, and how it might best be supported and scaled. Alongside evaluating the impact of workplace saving solutions on employee financial wellbeing, this also includes considering the extent to which employers are looking to support their employees to save, whether they are interested in adopting an opt-out approach to workplace saving and, if they did want to do so, how feasible this would be. To be clear, Nest Insight is not advocating that employers should have to automatically enrol employees into payroll saving – we are simply looking at whether it is desirable and possible for an employer to do so in the current context.

There is broad employer support for workplace savings solutions and increasing interest in the idea of adopting an opt-out approach to support employees to get started with saving. A growing number of employers offer payroll saving to their employees, but take-up remains stubbornly low, despite there being a need and demand for payroll saving when employees are asked. In recent Nest Insight research, 8 in 10 employees said they think it is important to save money for an emergency. 6 in 10 thought that a payroll savings product could help them, rising to 8 in 10 amongst those struggling with bills and commitments.[2] A report this year on UK workers found two thirds of employees (65%) would like their employer to provide more help with their finances and half of employees said they wanted access to saving products that make it easier to save.[3] Some employers are therefore starting to look at ways to behaviourally support employees to use the savings tools already available to them. The potential for an opt-out approach to payroll saving to increase savings participation amongst those employees who want and need to save, but don't get around to signing up, is therefore acknowledged. However, this is quite a new idea and there are some significant considerations for both employers and savings providers.

It's clear that any opt-out approach would need to be delivered in the right way. There would need to be a cultural fit in the organisation. Its adoption would need to be supported by employee groups and, where relevant, trade unions and professional bodies. Implementation and administration would need to be straightforward for the employer and provider. For employees, it would be important that the savings vehicle offered was appropriate for the purpose, that communication was clear, timely and accessible and that there was an easy and straightforward opt-out step for those who did not want to or could not save. There would also need to be appropriate ongoing engagement with savers so that they feel in control of their own money and can easily access it if they need or want it.

The greatest barrier to employers and providers choosing to implement an opt-out approach to payroll saving is current regulation. Nest Insight has previously shared an overview of what we understand the regulatory considerations to be.[4] These include difficulties related to employment law, data protection law and financial services regulations. These rules and their accompanying guidance were not developed with this scenario in mind and so there are some questions of interpretation – for example should money that is paid direct from salary into an instant access individual savings account in the employee's name be considered a deduction? Could legitimate interests be legal grounds for an employer sharing data with a provider to create a savings

1 **https://www.nestinsight.org.uk/research-projects/workplace-emergency-savings/**

2 Nest Insight, **Supporting emergency saving: early learnings of the employee experience of workplace sidecar saving**, July 2021

3 **https://wagestream.com/state-of-financial-wellbeing-2022/**

4 Nest Insight, **Opt-out payroll saving: the regulatory considerations**, December 2021

account for an individual? A couple of pioneering employers have found legally-compliant ways to implement an opt-out approach, but in these cases a contract change, or a pre-employment consent step have been required. To most employers and providers, navigating these considerations still feels novel, complex and potentially risky. Only if these regulatory considerations are addressed and relevant guidance or easements are communicated is it likely that this kind of approach could be adopted at scale in the UK.

There are also challenges to scale on the supply side. The business model for accessible savings is already not straightforward. Accessible cash savings products are rarely feasible as a standalone offer for a provider, unless a charge is made to the employer or employee, so there may be little business incentive to increase their adoption. The commercial viability of savings provision is often interdependent with other products, for example with loans in many credit union, building society or benefits provider models. For credit unions, the ratios between loans and assets and liquidity requirements are strictly governed by the Bank of England Prudential Regulation Authority. This means that a step-change increase in savings could fundamentally unbalance an organisation and would be undesirable. A bulk account creation model may also present administrative challenges for some savings providers.

We understand from this period of stakeholder engagement that there is demand amongst employers and savings providers for regulatory comfort and guidance to make it possible to implement opt-out approaches to payroll saving. If enough large employers were to do so, the number of households with an emergency savings buffer could increase significantly. It is also possible that the pension system could provide an alternative or complementary route if pension regulation could be amended to allow pension providers to hold savings deposits for this purpose. This route might be particularly suited for smaller and medium sized employers although is as yet untested and may present different barriers.

Despite the current challenges, most of the stakeholders we spoke with believe the opt-out savings model is worth exploring further. The potential benefits at individual, organisational and societal levels are high, and, because the savings are accessible and the sums of money involved are small, the risk of harm appears low.

This paper features case studies of two organisations which have found a way to trial an opt-out approach to payroll saving amongst parts of their workforce. The initial results are very promising with higher numbers of employees saving than under opt-in conditions, and very positive feedback from employees who have been given this boost to start saving. Nest Insight will be sharing more evidence as soon as it becomes available. We are also keen to work with other employers and providers to pilot and evaluate similar savings schemes.

Summary of employer and provider perspectives on opt-out payroll saving

Issue	Employer perspectives	Savings provider perspectives
Organisational fit	› Growing awareness that employees want and need support with saving. › An opt-out approach feels more appropriate in some organisational cultures than others. › Most would like to seek employee and union feedback on the idea. › Some employers would be interested in offering opt-out payroll saving to a subset of their employees, such as those earning lower income.	› Strong fit with the purpose of credit unions, building societies and commercial workplace financial wellbeing providers. › The commercial viability of savings provision is often interdependent with other products. Savings product take-up would need to be carefully balanced with other areas of business.
Legal and regulatory barriers	› Most thought regulatory change would be required for an opt-out approach to be feasible. › Some employers thought employment contract change could be a viable route.	› Most thought regulatory change would be required for an opt-out approach to be feasible at scale.
Implementation and administration	› Would need to be straightforward and easy to integrate with payroll systems -	› Some providers more able than others to bulk create accounts and manage data flows.

	more challenging in some organisations than others. › Would welcome support with scheme design such as how to set a default saving amount.	› Steps might need to be taken to manage dormant accounts.
Engagement	› Important that employees are supported to actively engage with their savings.	› Important that employees are supported to actively engage with their savings.

Why take an opt-out approach to payroll saving?

Saving via payroll could be a powerful route to building financial resilience amongst UK workers, but there is currently a wide gap between employee intentions to save and actions. Taking an opt-out approach could support more people who want to save to do so.

There is growing recognition of the consequences of low levels of financial resilience for living standards, physical and mental health, and the ability of people to save for the future.

Analysis of the Wealth and Assets survey by the Resolution Foundation 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 pay cheque. Almost half of respondents felt they could not cope for more 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.[5] An unexpected financial shock, like a car or boiler breaking down, or higher than expected energy bill, can mean that these people have to turn to high-cost credit to finance costs. This can lead to stress, deteriorating physical health, reduced productivity and earning potential, and make it difficult to save for the long-term and retirement.

Increasing levels of emergency savings therefore has an important role to play in increasing financial resilience. By emergency savings, we mean money which is designated for managing unexpected costs and ups-and-downs in income, rather than saving towards a specific goal. We also distinguish between emergency saving and what might be termed ‘precautionary’ saving, to cover larger financial challenges such as medium-term loss of income. When advisers give rules of thumb for precautionary saving, they will often talk about 3-6 months of expenses or income, whereas when we talk about emergency saving we usually think in terms of access to £1,000-£2,000 in liquid savings. Generally emergency savings accounts allow people to instantly access their money when they need it, and do not have penalties or other fees for doing so.

The need to increase savings participation is recognised in the UK Money and Pensions Service’s 10-year UK Strategy for Financial Wellbeing. The strategy includes a ‘Nation of Savers’ ambition, with the goal of two million more working age financially ‘Struggling’ and ‘Squeezed’ people saving regularly by 2030.[6] Employers are also increasingly aware of the negative impacts of low financial resilience on their employees, and many want to help support them to build up emergency savings. This reflects a general concern for the wellbeing of their employees and also a recognition that more financially resilient employees will be happier, healthier, and more productive.

In the UK, there are a number of examples of efforts to improve financial resilience through workplace payroll emergency saving, in which employees contribute to an emergency savings account or pot through payroll deductions or through in-app services. These are provided by a large number of credit unions and by commercial providers including Cushon, Level, Salary Finance and Wagestream. In January 2020, the UK Building Society Association’s members committed to help create one million workplace savers by 2025 and Yorkshire Building Society has recently entered the market for workplace payroll emergency saving with a particular focus on small and medium-sized employers.

The evidence is that for those who use them, these schemes help savers build up a level of emergency saving that protects them from financial shocks and improves financial wellbeing. As they increase financial resilience, they also support people to better save for retirement and the long-term.

However, take-up of workplace emergency savings schemes is very low, with participation rates below 5% in most cases, and very rarely above 10%, where they are offered – which is still in only a small minority of workplaces. The barriers to participation include low levels of awareness and also the behavioural challenges that are common to encouraging saving of any form, such as inertia (the tendency towards inaction and avoiding the costs of action) and present bias (the tendency to prefer smaller rewards today rather than greater rewards later).

In many ways this is a similar picture to the low levels of pension saving in the UK prior to the introduction of auto enrolment in 2012 (albeit at a much lower base level of participation). A change from an opt-in to an opt-out

5 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/**

6 **https://moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/**

savings mechanism has been hugely successful in increasing pension saving in the UK, with 87% of eligible employees saving into a pension in 2018, up from 55% in 2012.[7] It is possible that a similar mechanism could be effective in overcoming the structural and behavioural barriers to participation in workplace emergency saving, whilst preserving the choice not to save if a person wishes not to.

In the context of emergency saving, we believe that these benefits could be considerable, while the risks to employees of harm from an opt-out model appear low. Employees could choose not to save, either by opting out from the start, or by pausing or stopping their payroll contributions at a later stage. Money held in an emergency savings account would be freely accessible, eliminating the risk that the money is illiquid in a time of need.

What do we mean by an 'opt-out approach' to workplace payroll saving?

Opt-out workplace payroll emergency savings models offer the potential to increase the numbers of people saving for financial shocks, and in doing so help improve physical and mental health and the ability of people to save for the future.

By opt-out, we mean savings mechanisms in which an employee will be defaulted into payroll saving by their employer without them having to do anything themselves. They would retain the choice to opt out of saving if they wished to, but the default is that they would be enrolled by their employer into an emergency savings account.

Opt-in model	Opt-out model
If an employee wants to save, they sign up via a form or webpage, entering the information required to open an account and choosing how much to save each pay period.	If an employee wants to save, they don't need to do anything. An account is opened in their name, and they start to save a default amount each pay period unless they make changes to personalise the amount.
If you do nothing you don't save.	**If you do nothing you do save.**
In both models, employees can choose not to save.	

In order for the default to be switched from 'not saving if you do nothing', to 'saving if you do nothing', in its purest sense, there should be no requirement for action of the employee in the period between the communication of the savings scheme and the commencement of payroll saving. Any requirement for the employee to give consent or actively provide information to initiate payroll saving or set up a savings account would interrupt the 'do nothing and save' default, rendering a pure opt-out approach unfeasible.

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/883289/automatic-enrolment-evaluation-report-2019.pdf

Employer perspectives

Employers are keen to support employee financial wellbeing and would like to boost take-up of payroll saving where they already offer the benefit. However, adopting an opt-out approach is not currently straightforward. To realise the potential of the employer channel to build widespread savings habits, regulatory reassurance and easy-to-implement solutions would be required.

Overview

Employers are increasingly recognising the importance of financial resilience to their employees' personal wellbeing and their productivity and performance at work. Many employers have introduced financial wellbeing tools and products, such as financial education, payroll saving, loans and earned wage access, in their workplaces in the last five years. Feedback from employees has been positive.

The Covid-19 pandemic has increased awareness of the low levels of household financial resilience in the UK, and has acted as a catalyst for many employers to consider offering financial wellbeing support to their employees. Forthcoming rises in energy bills, taxes and inflation over the coming year are also intensifying this focus.

"We want to make the lives of all our colleagues better. We're worried about living costs – it's going to impact low and mid earners, including those people you would think are ok. So, we've been working on how to support wellbeing – now we talk about 'wellbeing' rather than 'benefits'."

[Employer]

Where employers offer payroll saving, they had made efforts to communicate the benefit to employees. However, even when promotion is sustained, take-up remains stubbornly difficult to build.

"We've launched it, it's a good idea, we've had positive feedback on the concept, but take-up is low."

[Employer]

"9 or 10% of colleagues use our credit unions [for loans or savings] – and that's taken 30 years to build up. It can be a long game."

[Employer]

Responses to the idea of taking an opt-out approach to payroll saving were mixed. Employers welcomed the idea of a solution that would help with supporting employees to get started with saving. Many of them are frustrated because they know that colleagues want and need support with saving, but don't see this reflected in participation rates. However, this is a very new idea, and in the absence of precedents or guidance, employers understandably expressed concerns about how it could be implemented and how it might be received. They were keen to hear examples of how it could be done in practice, and to see real-world evidence of the impact, including from Nest Insight's current trial with SUEZ and TransaveUK.

Employer considerations

Organisational fit

Employers expressed different views on the idea of opt-out payroll saving depending on the cultural norms and expectations in their organisation. At some workplaces this kind of direct support felt more comfortable, and in others it could feel over-interventionist.

> **"There is a cultural concern – is an opt-out approach a bit paternalistic, old fashioned?"**
>
> [Employer]

> **"…in terms of it being paternalistic – it's what our employees expect… they do come to us when they need help, we do take that role."**
>
> [Employer]

Employers who feel less comfortable with this level of direct behavioural support were keen to understand whether other approaches could increase savings participation, although they acknowledged that they would likely be less effective.

> **"There is a whole gradient between a situation where you have to go and find a bank yourself and opt-out. There are other steps we can take, like when we pay people, we could prompt people on payday morning to save £10."**
>
> [Employer]

Employers wanted to better understand how their employees might feel about an opt-out approach and in some cultures would want to actively consult employees on whether it should be implemented. For employers with unionised workforces, union support would also be key.

> **"…If we were going to do something like that, we would want to spend time with employees in focus groups knowing what people want and how they feel about it."**
>
> [Employer]

> **"The trade unions have quite a big say… it's so important, you could have the best idea in the world but if you don't have the trade unions on board then it's not going anywhere."**
>
> [Employer]

There is growing evidence that employees do need support with saving and that they increasingly expect their employer to provide this. For example, one recent research study found that building a 'rainy day' fund was the most commonly-cited financial priority (along with reducing debts) for employees and 'better support for finances and money' was a primary reason employees were likely to seek out employment elsewhere.[8] We believe it is

[8] https://wagestream.com/state-of-financial-wellbeing-2022/

likely therefore that employers will feel increasingly confident that supporting employees to save is an appropriate step for an employer to take, rather than being overly paternalistic.

Legal and regulatory barriers

Most employers expressed concern about the regulatory considerations around opt-out payroll saving. Most felt they would only be able to consider implementing an opt-out approach if there was regulatory change. There was wide awareness that the Pensions Act and its requirements of employers had overridden some of the regulatory challenges identified in this context as they relate to pensions. Given that pensions auto enrolment is employers' recent experience of automatically starting employees saving if they don't opt out, it is perhaps unsurprising that they look for a similarly 'black and white' legal cover when considering taking an opt-out approach to payroll saving.

"Until everything has been agreed and has been used and has been put through law, my organisation would just say no. It's hard when you can see a really great product… and you're limited by those things."

[Employer]

"Those barriers at the moment are totally insurmountable for an employer to put in an opt-out model as discussed. You would need a change in legislation to make this possible. The only way I can think of getting round this is if it's in some way wrapped up with the pension scheme… If a portion of your pension contribution could go to this that could work, otherwise too complicated and risky for employers to consider."

[Employer]

Other employers were more comfortable with the idea of using a contract change to give legal grounds for implementing an opt-out approach. This was particularly true of employers who had prior experience of doing so, most commonly because of implementing a salary sacrifice scheme:

"We had to do a contractual change when we flipped our pension schemes to salary sacrifice. We amended everyone's contract by writing to tell them. They could object, otherwise we assumed consent. A few people objected and it just didn't happen for them. The principle is there and already well established."

[Employer]

There are also moments when contractual agreement may be easier to collect, for example when an employment contract is signed by new employees, or when employees sign up to related services such as employee benefits platforms and apps. However, a contract change does not feel straightforward to all employers. Some were uncomfortable with the idea of assuming consent if an employee did not respond to the communication of a global contract change. Others were concerned about the work involved in the process, including the engagement of stakeholders and trade unions.

> **“Contract changes would have to go across the board, through the trade union process. Any contract change would be the key hurdle for this.”**
>
> [Employer]

There are three main areas of regulatory concern for employers – employment law, data protection and financial services regulations. Of these, the first two areas were most familiar to employers and some felt more comfortable than others that these laws could be interpreted to permit an opt-out approach. Specifically, the requirement that there be contractual grounds or employee consent to make a deduction from salary could be deemed to be irrelevant here if diverting salary from an employee's current account to an accessible savings account or pot in their name does not constitute a ‘deduction’. And there could be legal grounds for sharing employee data with the provider of that savings vehicle if it was deemed to be in the legitimate interests of the employee to do so.

Employers were less comfortable with financial services regulations. They expressed some concern about whether they would be introducing employees to a financial product and whether this would place them in an ‘advisory’ role. However, it seems unlikely to the legal advisers we have consulted that the role of the employer in this scenario would present it with insurmountable concerns under the Financial Services and Markets Act. The employer would not itself be taking deposits or executing payment transactions. Communicating about the availability of an emergency savings vehicle would not constitute the regulated activities of advising or arranging. There may though be considerations around financial promotion and communication of the opt-out approach. Employers would welcome clarification in this area. Guidance and communication templates from the regulator would support employers to feel more confident to facilitate saving for their employees without the fear they would stray into regulated activity.

Implementation and administration

Most employers have faced additional administrative challenges over the past couple of years, including as a result of navigating Covid-19 impacts and the UK’s withdrawal from the European Union. In this context, it is perhaps even more important than usual that any change in benefits provision can be straightforwardly implemented and run. There is clearly limited capacity for discretionary initiatives at the moment.

> **“There’s an admin concern – our systems and HR admin teams are under a lot of pressure as it is.”**
>
> [Employer]

Employers who already have payroll saving solutions in place provided reassurance to those with less experience of the administration involved, that the process of managing savings contribution amounts is largely run by the savings provider and does not place a great additional burden on payroll. Nevertheless, it’s clear that payroll systems would need to be able to easily accommodate any additional contributions administration. Some payroll systems are more flexible than others – in particular, the bespoke systems operated by many large employers can be difficult and costly to adapt. However, there are a growing number of payroll add-on solutions that could provide an interface with savings providers.

Employers also looked for guidance on how to design an opt-out savings scheme, including on how to set a default amount per pay period for employees to start saving at. Ideally this amount would flex to different earning levels (perhaps as a percentage of income) and would be low enough to be manageable for employees but high enough to build a meaningful savings buffer. Providers could have a key role to play here in providing employers with information and guidance for this decision-making.

Engagement

Employers questioned whether an opt-out journey into saving could lead to lower employee engagement than a journey where the employee actively signs up to save. This concern was largely informed by experiences of pensions auto enrolment where many employees have very low levels of engagement with their pension saving.

> **“Engagement is low [with pensions]… one of the big concerns that I’d have about this is how do we make sure that the same thing doesn’t happen here and they lose connection with their money.”**
>
> [Employer]

Employer-based financial wellbeing programmes are often designed to actively engage employees in their own financial wellbeing journeys, providing education and support to facilitate individuals taking greater control over their finances. It’s therefore important to employers that employees actively engage with their savings.

> **“The journey towards financial wellbeing should be giving people more responsibility. We’re very pro-choice.”**
>
> [Employer]

It seems unlikely to us that an opt-out approach to accessible short-term savings would lead to similarly low levels of engagement as those seen in the pensions context. Whilst pension savings are illiquid and designed to be left locked up until retirement, emergency savings are likely to be used throughout working life. Cash savings are also more familiar to people than pensions, which can seem complex and out of reach. Several approaches for ensuring engagement were discussed. For example, employees could be regularly reminded by the savings provider of their savings balance, how to access it, and that they could change their savings amount up or down. There could be incentivisation of savings behaviours, perhaps acknowledging or rewarding people who have saved regularly for six months or a year. Nest Insight will be able to share evidence around engagement levels from current trialling activity over the coming months.

Provider perspectives

Many workplace savings providers have a purpose-driven desire to increase savings participation, and there is widespread recognition that this is an employer and policy priority. However, the commercial and regulatory considerations are challenging. Digital technology and platforms offer opportunities for effectively scaling an opt-out approach.

> **“I have no doubt that opt-out saving as a model will work just as it did in the pension space so overcoming all these barriers is worth doing for that prize which is to get people saving for short-term needs.”**
>
> [Provider]

Overview

There are several different models of payroll saving in the UK. Credit unions have been offering accessible payroll saving for many years alongside affordable loan products. A common and effective credit union model is to require employees with loans to simultaneously save a small amount while paying off the loan. Some providers of employee financial wellbeing benefits also offer savings products alongside products such as payroll loans, earned wage access, Help to Save accounts, financial education and insurance. Some providers offer a choice of cash and stocks and shares accounts, including Individual Savings Accounts (ISAs), Lifetime ISAs for a home deposit or retirement saving (LISAs), Junior ISAs (JISAs) or General Investment Accounts (GIAs), which provide employees with an opportunity to save or invest in different ways depending on their needs. A small number of payroll software providers are offering the option for employees to save in the context of accessing pay-related platforms. In some cases, savings go into e-money ledgers, which can offer a more frictionless sign-up journey, but do not have the status of a savings account.

Many of these providers offer customer apps where information can be viewed, changes to settings made and money withdrawn easily and quickly using a smartphone. Employee engagement in app-based savings is high. Some providers offer debit cards for employees to withdraw or spend their emergency saving. Others require an employee to transfer money from their savings to their current account to access it.

This wealth of options means that there is likely to be a saving solution available that suits different employees and their workforce. It also means that there is a diverse range of perspectives and opinions around opt-out payroll saving. And while these are overwhelmingly positive, the key considerations do differ.

Many providers offering payroll saving see low take-up. Although official sector-wide data on participation is not available, Nest Insight has now consulted with over 30 different providers of workplace saving and established that savings take up is usually below 5% and very rarely above 10% in an opt-in context. Where it is higher, this is often the result of decades of effort in improving visibility within organisations, or savings being a requirement for loan customers. Even where providers and employers had spent time and effort increasing employee awareness of the saving offerings and building a narrative around short-term saving, saving rates remain low.

Provider considerations

Organisational fit

There is a strong fit between the idea of opt-out payroll savings and the purpose of credit unions, building societies and commercial workplace financial wellbeing providers. Increasing savings participation would support their goals of supporting financial wellbeing in the UK.

> **“It's about mission – assisting members to get into a savings habit.”**
>
> [Provider]

Some providers talked about the opportunities that workplace saving present to reach a wider and more diverse audience than traditionally sign up for savings. This was felt to be both good for the individuals and also good for the provider, in broadening their customer base.

The business model for accessible savings is not straightforward. Accessible cash savings products are rarely feasible as a standalone offer for a provider, unless a charge is made to the employer or employee, so there may be little business incentive to increase their adoption. The commercial viability of savings provision is often interdependent with other products, for example with loans in many credit union, building society or benefits provider models. For many providers, in particular credit unions, ratios between loans and assets and liquidity requirements are strictly governed by the Bank of England Prudential Regulation Authority. Other providers have their own internal ratios. This means that a step-change increase in savings could fundamentally unbalance an organisation and would be undesirable.

> **“We have our liquidity ratios and a significant increase in deposits versus loans can unbalance those very very quickly. So that would be a challenge in taking on a significant upscaling of deposits in a short period of time.”**
>
> [Provider]

Yet, while this was acknowledged as a challenge, many credit unions saw the wider opportunities that such a model could present to them in terms of raising awareness of their offer within an employee population.

> **“I think it would be a real opportunity for penetration and engagement with the employer workforce. So, there may be challenges in terms of managing the scale of that… but I think the opportunity is worth taking that challenge on.”**
>
> [Provider]

There may be opportunities to treat savings in this scenario differently, such as by using the Bank of England or another legitimate banking arrangement for excess deposits, which would allow an organisation to continue to meet their liquidity ratios and also offer accessible savings accounts to a large number of employees.

> **“I think it’s a very attractive model, certainly from our perspective… the barrier which has been mentioned a number of times… is our capital asset ratio. If we could find legitimate opportunities to place our excess deposits… where we wouldn’t breach our cap asset, then that would be a huge barrier removed.”**
>
> [Provider]

Legal and regulatory barriers

All providers took their regulatory obligations very seriously. Most thought that, at present, the only route to opt-out saving is to have a consent or contract process in place. Indeed, many providers do not think there is a way around meeting all of the barriers originally outlined and develop a ‘pure’ opt-out without legislative change.

> **"I think you're right to highlight the regulatory barriers, particularly the ones from the FCA and about anti-money laundering and so on and I think no provider is going to want to – or their compliance teams aren't going to let them – waive those."**
>
> [Provider]

For some providers, there was a consideration of whether anti-money laundering (AML) checks could be undertaken at the point of withdrawing the money (rather than on setting up the account). However, there are concerns about creating friction at the point where people need to withdraw their money, in some cases urgently to cope with a financial shock. Alternatively, where payments into the account can only be made through payroll, the risk could be considered sufficiently low that the employer could provide evidence on the employee's behalf.

> **"Because it's done through payroll that gives you some security [in regards to AML]… when you come to withdrawal you might have another opportunity to do more checks."**
>
> [Provider]

For many, the only obvious path they considered to implementing opt-out payroll saving was legislative change.

> **"A legislative instrument might overcome [the regulatory barriers] quite simply but otherwise I don't see how you could do it, particularly with the FCA and the explicit rather than implicit consents – you've got to fill these requirements one way or another and generally that's through documented signatures and acknowledgement. Putting them in an employment contract seems relatively straight forward for new employees. Existing employees is far more difficult."**
>
> [Provider]

> **"None of them [the regulations] are particularly difficult – where there's a will there's a way!... I would certainly be looking at your government and regulatory bodies to sort this out. None of those should be difficult and they certainly shouldn't be a barrier to us getting on with doing something about this need that people have to save."**
>
> [Provider]

Providers were also conscious that employers would need reassurance that an opt-out approach would be compliant and lawful.

> **"I think employers would want some comfort legally as to what they're doing being okay… so there may be the opportunity to do something interesting from the point of view of wellbeing but to ask them to do it without some kind of cover on the regulatory and legal side is important."**
>
> [Provider]

Implementation and administration

Within the implementation and administration of opt-out payroll saving, two main topics were raised from a provider perspective: onboarding large volumes of employees and dormant accounts.

In regards to onboarding large volumes of new members, the projected feasibility for onboarding potentially thousands of new employees in a short time frame depended, as may be expected, on the size of the provider, their existing relationships with employers and their technological capability. Those with app-based sign-up journeys and experience working with larger clients expressed more ease with onboarding. In the current SUEZ trial, only new joiners to the company have been included. This approach would spread the onboarding process of an entire workforce over many years. Where providers lacked the capability for bulk account creation today, they acknowledged that future system and technology developments would make this more feasible.

"Onboarding for us, that's not an issue – we have an online system and could cope with volume [of new members]."

[Provider]

The second possible administrative burden for providers is the potential for dormant accounts. For many providers, savings are offered at cost to the provider and having a large volume of accounts with small deposits and users who become inactive could increase costs.

"One of the risks could be that if you go for opt-out you get a lot of accounts opened that get a small amount of saving in but then don't get used so that becomes a burden over time… but if it gets lots of active savers that would be great."

[Provider]

For many providers, pensions auto enrolment is the reference point for this, where engagement is known to be low amongst pension savers who have been auto enrolled. However, on reflection it was acknowledged that short-term accessible saving and long-term illiquid pension saving are two very different products and therefore there is reason to believe that people will engage more with their easily accessible savings. This, combined with regular contributions through payroll and good customer communications, particularly when employees move onto another job, would decrease the risk of dormant accounts.

Another factor mentioned was introducing the default saving level at a rate that made it feasible for providers. In most instances, credit unions have a minimum contribution on their accounts, typically around £5 per month. With opt-out payroll saving, the default amount is likely to be greater as the goal is to support saving at a level that can build financial resilience. The saving rate should be determined on an employer case-by-case basis with employees made aware that 1) they can access their savings at any time and 2) they can change their contribution rate.

"There is a balance – you need just enough of a default contribution so it is workable for the credit union."

[Provider]

Providers were also conscious that an opt-out approach potentially requires a higher level of administration on the part of the employer if they were to need to share information to allow the creation of savings accounts or pots for employees.

> **"Credit unions often find convincing employers that saving is a pain-free solution that can offer wellbeing benefits without them having to do a huge amount in terms of administrative processes and so on and so forth is a really key part of the discussion when we're trying to form new relationships or persuade employers to do something new. So, that being the case, this feels like it is going the opposite way – we are asking employers to do more in terms of administrative pieces of work."**
>
> [Provider]

This would not necessarily be the case in all models – where a benefits or payroll provider already has a relationship with the employee it may not be necessary for an employer to be involved in the set-up administration.

Engagement

The opt-out joining mechanism is designed to get people started with saving. Payroll deduction is likely to build consistent saving behaviours. The next challenge is how best to engage savers with their savings. Providers with apps and development capabilities may choose to add in-app notifications and nudges to encourage engagement with the account. In instances where providers offer other resources such as budgeting tools or financial education, opt-out payroll saving was considered by some to be a way to make such tools more relevant to employees, building on the benefits of 'just in time' education that provides resources as an individual builds up savings. Opt-out saving could therefore be seen as a way to teach people about the habit of saving without reducing accessibility in times of need or want, regardless of whether a provider has additional educational resources or not. Other providers could offer other incentives to engage employees such as prize draws that reward the regularity of saving rather than the balance of the saving account.

> **"It's very easy for employees and very convenient if it is opt-out but you do need a certain level of engagement."**
>
> [Provider]

> **"Low-income individuals who for whatever reason have come to believe that they are not capable of saving because of their financial circumstances can get into a saving habit if we give them the right kinds of encouragement."**
>
> [Provider]

What could an opt-out payroll saving approach look like in practice today?

Existing options for opt-out payroll saving

We believe there are currently two routes by which an employer could take an opt-out approach to payroll saving within the UK regulatory and legislative landscape: a consent step during an onboarding phase or via an employment contract amendment.

	Onboarding phase consent step	Employment contract amendment
Description	› Including a set of checkboxes when an individual is onboarded, either pre-employment or to a related app or platform. Separate consents would be required to cover the different regulatory considerations. This would allow opt-out saving to apply once an employee starts at a company or once they have signed up to the platform.	› Including the relevant regulatory considerations in an employee's employment contract.
When could this method be used?	› When onboarding employees to a new role or when employees are signing up to a payroll or benefits app.	› With all employees, a subset of employees, or only new employees
Potential benefits	› Administration could be handled by a provider rather than an employer if there is a relevant app or platform in place. › Could be added to an existing onboarding process.	› This method is as close to 'pure' opt-out as possible under the UK regulations. › Once set up, it does not require ongoing management of consents and opt-out. An employer/provider only needs to monitor opt-out.
Potential drawbacks	› Only applicable to new employees or employees who sign up to a platform or app – does not cover all employees. › It is not a 'pure' opt-out approach in that a degree of active consent is required prior to an employee starting with an employer or payroll provider.	› Contract change may require legal advice and additional employer administration. › Making a change to contracts for new joiners is more straightforward than for all existing employees. › Contract changes may require employee and union engagement which can take time and may not be straightforward.

We are only aware of two UK employers currently adopting an opt-out approach to payroll saving for some of their employees, one using a pre-employment consent step and one using a contractual amendment. We provide more detail on their experiences below.

Case study one: SUEZ and TransaveUK

Adapting the onboarding process for new employees

SUEZ Recycling and Recovery UK has long recognised the vital role they play in helping their 5,800 employees build financial resilience. Amongst their portfolio of financial wellbeing benefits are webinars, retail discounts, emergency loans, earned wage access and payroll saving. Understanding the importance a financial buffer can have on employees' wellbeing, SUEZ was looking for a way to make it easier for employees to save for emergencies. Opt-out payroll saving ticked all the boxes for this and SUEZ were keen to work with Nest Insight to pilot and evaluate the new approach.

> **"We take a holistic approach to employee wellbeing that includes supporting our people with their finances. The trial offered an opportunity to enhance our portfolio of financial wellbeing benefits by creating an accessible and user-friendly way for staff to build up a savings buffer, and was a natural development to our partnership with TransaveUK. We were keen to understand how much an opt-out system would increase the number of employees making use of payroll saving and have been encouraged by the results so far, with over 60% of employees remaining in the scheme each month and positive feedback from participants. The findings will help inform our future benefits offer."**
>
> Michelle Sutton, Head of Compensation and Reward, SUEZ

SUEZ already partnered with the credit union TransaveUK, which offers payroll savings and loans to employees. Until recently, all employees needed to actively sign up to save through payroll. In November 2021, SUEZ started offering payroll savings under opt-out conditions for the first time, to new employees. The launch followed months of careful consideration of the regulatory hurdles, drawing on legal, FCA and industry guidance. Based on this, SUEZ developed a user journey to inform employees about the saving mechanism and produced transparent communications designed to ensure employees were fully aware of their options.

SUEZ new joiners are able to complete the necessary consent steps as part of their onboarding process, alongside signing their employment contract and other policies. For employees wanting to save, the sign-up journey is then drastically simplified compared to opt-in saving when they join as an employee. They receive a series of communications and reminders with information about the saving scheme in their first weeks of employment. Opting out is easy, with employees simply able to email HR to withdraw from the scheme – there are no complicated forms to complete or processes to follow. If they don't opt out, SUEZ provides the information TransaveUK needs in order to set up a savings account in an employee's name and starts diverting a default £40 per month from their pay into it. Even if an employee were to start saving by accident, they can access their money immediately or close their account at any time. It is also easy to change the amount being saved, move the money to an alternative TransaveUK savings account or make additional contributions. This means employees retain all of the flexibility of payroll saving, with far less effort involved than that required previously.

> **"Early indications from the trial suggest that the opt-out savings approach is helping to overcome inertia. And as a result more employees are committing to saving regularly from payroll than we would typically expect through the traditional opt-in savings model"**
>
> Roger Shelton, Marketing and Business Development Manager, TransaveUK

Early indications of enrolment behaviour are positive, with savings participation higher under opt-out conditions than previously. SUEZ have also received positive feedback from employees, some of whom are saving for the first time. Nest Insight's recent qualitative research with employees echoes this positivity.

“Now I have savings, I've never had savings before, that's a nice feeling, my financial situation is improving… I thought it was a good idea. I never would have sorted it out myself. I didn't have to do anything, that all came through the post and in emails – it was all done for me.”

SUEZ employee

“You're not forced to do it – at the end of the day it's up to you whether you want to do it nor not… the offer was there and I took it up. I think it's a very good idea. It's a good idea if you want something for a rainy day.”

SUEZ employee

Case study two: University of Lincoln and Cushon

Making an employment contract change to enable an opt-out approach to payroll saving

Campus Jobs, the University of Lincoln's in-house student employment agency, has been offering jobs to students, combining the ability to earn money with financial education and employability skills, for several years. Like all employees, students working through Campus Jobs are entitled to pension auto enrolment if they are eligible, and the employer pension contribution that comes with this. However, the vast majority earn less than the auto enrolment threshold of £10,000 a year or are under the qualifying age of 22, and so are ineligible for this benefit.

Rather than just accepting that most student employees will miss out on the employer pension match, the university decided to work with Cushon to offer an equivalent contribution into an Individual Savings Account (ISA) for those who are not eligible for pension auto enrolment. They decided to offer it on an opt-out basis to ensure that students didn't miss out on saving because of inertia and the effort involved in having to sign up to a benefit. In order to be able to take an opt-out approach to payroll saving, the University of Lincoln made a universal contract change for all employees working for Campus Jobs.

> **"We are in a unique position as a university of engaging a workforce of students through our Campus Jobs facility. It is really important to us that we offer them a reward package that feels relevant to them as a younger, casual worker and we were finding an increasingly low take up of the pension scheme. This was disappointing for us as an employer as we budget to make contributions to the scheme and it is regretful to not see them utilised. Following numerous discussion groups with the students we identified that the pension as a savings vehicle may not be the relevant option for this workforce.**
>
> **Following this we entered conversations with Cushon and with their guidance have come up with a unique offering of a workplace ISA that allows individuals to take advantage of an employer contribution, support ethical investment plans and own their investment plan. Of course, as an educational institute we have made sure the programme is underpinned by an informing programme of information on being savvy savers and owing their investments. We are delighted with the results so far and the partnership with Cushon and see this as an ideal way to introduce ISA savings prior to full workplace entry.**
> **I really believe this flexibility of options will be the future."**
>
> Ian Hodson, Head of Reward/Deputy Director of Human Resources at the University of Lincoln

When an employee starts a Campus Jobs role they are automatically put into the Cushon workplace saving scheme, and start saving 3% of their pay, with an additional 6% contributed by the university. They can choose whether to save into a cash or stocks and shares ISA, or alternatively they can opt for a Lifetime ISA, Junior ISA or General Investment Account (GIA) if they prefer. They can also choose to increase their monthly savings amount, with an escalating match available from the university in line with the pension scheme contributions matching structure. Employees can opt out of saving at any point by emailing payroll services. Money can be withdrawn from ISAs or GIAs at any time via the Cushon app.

> **"The fact that some employees fall outside of the auto enrolment regulations doesn't mean that they should be missing out on valuable employer contributions or the opportunity to start saving and it's great to work with a progressive employer like the University of Lincoln who share the same view. What we're doing here is ground-breaking and can really change the face of workplace savings. We're showing that by combining tech with innovation, we can provide a solution that gets everyone saving regardless of the regulatory framework.**
>
> **And although the approach is still new, we're already seeing stats that show how a frictionless digital experience coupled with clear, jargon-free communications can help break inertia and get people engaged with financial services, whether that be savings or pensions. The early signs**

are that an opt-out approach to workplace savings can be as successful as pensions auto enrolment and get people saving."

Ben Pollard, Cushon CEO and Founder

While the scheme is relatively new, the early signs are promising with high participation levels and positive feedback from employees.

Implications and potential next steps

The two case studies featured in this paper show that an opt-out approach to payroll saving is feasible today, with some limitations. However, it is clear from the stakeholder feedback gathered here that it is by no means straightforward, and these approaches are not possible in all contexts. To most employers and providers wanting to offer opt-out payroll saving, navigating these considerations still feels novel, complex and potentially risky. Only if these regulatory considerations are addressed and relevant guidance or easements are communicated is it likely that this kind of approach could be adopted at scale in the UK by employers who think it would benefit their employees.

We believe there could be different ways for policymakers and regulators to create space for employers to support their employees to save through opt-out approaches, and for innovation by providers in this space, including potentially:

Regulatory and legislative changes

Changes or clarifications to individual regulations and legislation would allow for individual barriers to be overcome. Given there are a number of regulators overseeing different aspects of legislation pertinent to opt-out, a simpler approach may be to introduce a single act that allows for an employer to offer opt-out payroll saving should they wish.

A product carve-out

Like LISAs or Help to Save, it may be possible to carve out a new financial product category that has the solutions to the opt-out regulatory considerations built into it. As such, providers could offer this product for employers wanting to offer opt-out payroll saving to their employees, with exemptions to some of the current regulatory requirements as long as certain rules are followed.

An amendment to the Pensions Act 2008

Some pension providers already offer both illiquid and liquid cash accounts (used for those in retirement). It could be possible for them to combine these into one wrapper allowing for a small amount of liquid saving within the pension account.

Consideration would need to be given to how to make the savings component available to those who opt out of pension saving or those who are ineligible for auto enrolment – the very people who perhaps stand to benefit most from short-term saving.

This route could potentially make it easier for smaller employers to be able to offer opt-out payroll saving, if the pension provider they have in place to meet auto enrolment duties also made this facility available.

Nest Insight is working to build the evidence base around the impact of an opt-out approach to payroll saving on employee financial wellbeing, including exploring:

- How does payroll savings participation vary under an opt-out approach versus opt-in conditions?
- How do employees feel about the opt-out approach?
- What is the impact on savings behaviours? Are people active users of their accounts?
- What is the impact on financial wellbeing? What is the interaction between payroll saving and other behaviours such as borrowing and pension saving?
- How does opt-out payroll saving affect auto enrolment pension saving, if at all? Does this differ by socioeconomic or demographic factors?

The initial results from the SUEZ trial are very promising with higher numbers of employees saving than under opt-in conditions, and very positive feedback from employees who have been given this boost to start saving. Nest Insight will be sharing more evidence from this trial as soon as it becomes available. We are also keen to work with other employers and providers to pilot and evaluate similar savings schemes.

If your organisation is interested in collaborating with us on workplace savings pilots and research, or would like to find out more, please get in touch: **insight@nestcorporation.org.uk** nest insight

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To find out more, visit our website:
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