Payroll saving behaviours

Learnings from the UK sidecar savings trial

BlackRock. Money & Pensions Service JPMorgan Chase & Co.

Authored by

Jo Phillips, Annick Kuipers, Michelle Cremin and Will Sandbrook, Nest Insight.

Research and analysis conducted by

Sarah Holmes Berk, Jessica Schultz and Jay Praveen Garg, Harvard University; Shreenidhi Subramanian, Salary Finance; Peter Smith and Adrian Baxter, Yorkshire Building Society (YBS); Amy Tomkins, Amy Tomkins Consulting; Roxana Prisacaru, the Money and Pensions Service (MaPS) and Annick Kuipers and Jo Phillips, Nest Insight.

Acknowledgements

With thanks to the BlackRock Foundation, MaPS, JPMorgan Chase, Salary Finance and YBS, whose support made this research programme possible, and to the trial employers BT, ITV, StepChange, Timpson and the University of Glasgow. We're grateful to the other members of the project advisory group: Caroline Rookes CBE, Professor Andy Lymer, Rob O'Carroll, Emelia Quist, Julie Stenlake and Sian Williams as well as to Sarah Holmes Berk, John Beshears, James Choi, David Laibson and Brigitte Madrian for their research collaboration. We'd also like to thank all the individuals who generously gave their time to take part in interviews as part of the research. Finally, many thanks to Matthew Blakstad, Shadia Braimah, Clare Hodgkinson, Guineviere Nicholas, Jennifer Sheehan, Mark Hopkins, Tess Lee and all of the Nest Insight team and our colleagues at Nest for their contributions to this work.

About 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**

About Nest Insight's strategic partners

BlackRock is a global investment manager serving the UK market for more than 30 years with a purpose to help more and more people experience financial well-being. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from the BlackRock Foundation. The initiative brings together partner companies and nonprofit financial health experts to make saving easier and more accessible for low- to moderate-income people across the US and UK, ultimately helping more people to establish an important financial safety net. For more information, visit **blackrock.com/corporate/about-us/social-impact**

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Building on its strong track record in defined contribution research, and its existing partnership with the University of Cambridge Judge Business School, Invesco partnered with Nest Insight to support their ambitious programme of research, publications and events. For more information visit **invesco.co.uk** NYSE: IVZ

Programme partners

BlackRock.

Our strategic partner, BlackRock, provides support for our workplace emergency savings research as well as the wider Nest Insight programme.

Money & Pensions Service

The Money and Pensions Service (MaPS) vision is 'everyone making the most of their money and pensions'. MaPS is an arm's-length body committed to providing access to the information and guidance people across the UK need to make effective financial decisions over their lifetimes. For more information, visit **maps.org.uk**

JPMORGAN CHASE & CO.

JPMorgan Chase & Co. (NYSE: JPM) is a leading financial services firm based in the United States of America ("U.S."), with operations worldwide. JPMorgan Chase had $4.0 trillion in assets and $285.9 billion in stockholders' equity as of March 31, 2022. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S., and many of the world's most prominent corporate, institutional and government clients globally. Information about JPMorgan Chase & Co. is available at **jpmorganchase.com**

Delivery partners

Salary Finance

Salary Finance's mission is to help millions become financially healthier and happier. They do this by partnering with employers to provide a holistic suite of salary-linked employee financial wellbeing benefits. Their comprehensive, award-winning benefits offering currently reaches over 4 million employees within 550+ of the UK's largest employers including Tesco, Royal Mail, BT, the NHS and 20% of the FTSE 100. For more information on Salary Finance's solutions for helping employees to get out of debt, start saving, advance their pay, protect their future and learn better financial habits, visit **salaryfinance.com**

YORKSHIRE BUILDING SOCIETY

Yorkshire Building Society (YBS) is a mutual organisation, owned by its members and customers. It's driven by social purpose and here to serve its members. It's proud of the difference it makes to people's lives by helping them to achieve their goals. It's here to create long-term member value, help people have a place to call home and support them towards greater financial wellbeing. It believes that helping people with these goals is how it can make the biggest contribution to society. For more information, visit **ybs.co.uk**

Contents

Foreword

I'm delighted and excited to publish this report, which is the latest in a series emerging from our programme of research looking at workplace savings. We think it's critical that we look at this topic in the round. Just in the last few weeks, we've shared reports exploring employer and savings-provider attitudes to opt-out or 'autosave' models[1]; and capturing employee views of such models and how best they can be communicated to savers[2]. Last year, we set out findings about the regulatory barriers to wider adoption of opt-out models[3], as well as a series of interim reports sharing early data from our Jars trial[4].

But in many ways, this for me is the most exciting insight yet. We can all rehearse the statistics about people's low levels of financial resilience. Those statistics can be striking, but they are also faceless. It's important in evaluating these tools to hear directly from those actually using them. And the individual, personal stories people tell are in many ways more powerful than the picture you get from the data.

The things people have told us about how they are using Jars, and how and why it's helped them, do so much to bring the idea to life, and to help us interpret the administrative data from the trial. And in sharing their experiences, they challenge some of our pre-conceptions. We've talked, as have others, about the need to view 'saving as a verb' – a thing people do, not necessarily a thing people have. This is important, because it creates space for use-cases of workplace savings tools that don't have much or anything to do with accumulating 'wealth' or growing a savings balance, and yet can still be hugely beneficial to someone's financial health.

I suspect a lot of us in this space have tended to envisage something like the 'building a safety net' use-case described in this report when they think about workplace savings – a model where people access money infrequently to deal with emergencies while still growing their balance over time. This is a totally valid and appropriate approach but does not give us the full picture.

When you encounter the 'budgeting and cashflow management' use-case, it makes you stop and think. Is it, as some stakeholders we have spoken to initially thought, a sign of someone over-extending themselves – someone who perhaps couldn't really afford to start saving? Or is it something much more positive? It appears clear from the discussions we've had with savers that it absolutely can be the latter. Tools like Jars can act as budgeting tools and commitment mechanisms to ensure some money is kept back for essentials that hit closer to the next payday. In doing so they might help with some objective measures of financial health – for example, diminishing reliance on things like short-term loans. But financial wellbeing isn't just about what people do, or what their finances look like on paper. It's also about how they feel – their emotional wellbeing and sense of control or anxiety in relation to money. People in the 'budgeting and cashflow management' use-case seem to benefit at this emotional level and that in itself is also an enormous prize. Of course, this approach to saving may pose challenges to existing provider business models, putting the onus on us as an industry to figure out how to design communications and products that can work with the diversity of saver needs.

Our research continues to show us that the individual benefits of tools like Jars don't yet scale well, because take-up remains low. Achieving greater take-up of these tools is a major focus for us and is what has led us to our current trials of opt-out approaches. But that focus is given its impetus by the evidence showing that, at the individual level, those benefits are very real indeed. This report really brings that to life, and that's why I'm so pleased we're able to share it.

Will Sandbrook, Managing Director of Nest Insight

[1] https://www.nestinsight.org.uk/wp-content/uploads/2022/03/Opt-out-payroll-savings-Industry-and-employer-perspectives.pdf

[2] https://www.nestinsight.org.uk/wp-content/uploads/2022/05/Talking-about-payroll-autosave-with-employees-a-practical-guide-to-communicating-an-opt-out-approach-to-payroll-saving.pdf

[3] https://www.nestinsight.org.uk/wp-content/uploads/2021/12/Opt-out-payroll-saving-the-regulatory-considerations.pdf

[4] https://www.nestinsight.org.uk/research-library-emergency-savings/

Quick read

Jars is a hybrid savings tool designed to support both shorter-term and retirement savings behaviours. Jars is currently offered as a workplace benefit to employees in five UK organisations as part of a research trial. Employees sign up to save via payroll, setting a saving amount and a savings target. Each payday, their money goes first into a liquid savings account, and then, if they reach their savings target, into their workplace pension in addition to their existing regular contributions. The trial is designed to build an evidence base around the impact of having access to a sidecar savings tool over a multi-year timeframe.

Jars facilitates different savings behaviours. It meets several different financial needs through the same payroll deduction mechanism and the ability to partition money into an accessible savings account separate from day-to-day money. In our analysis so far we have identified three broad patterns of saving behaviours or 'use-cases' for Jars:

1 Budgeting and cashflow management

In a Jars user's words

> **"I took money out on average once every couple of weeks, the odd £20 to top up the gas card, or if the food shopping was more than we thought, I'd take money out so I could buy my lunches."**

Need

Keeping money for ongoing ad hoc essential expenses such as bills, fuel, shopping and social participation set aside from day-to-day spending account.

Behaviours

Frequent withdrawals of smaller amounts (mostly under £100). Balance cycles up and down but overall stays quite flat over time.

2 Building a safety net

In a Jars user's words

> **"Jars is for big, emergency spends […] My car needed serious engine work and I had to decide whether to sell it or keep it. I used quite a chunk of the Jars for that. It's for something that's way beyond what you would be able to afford from your normal budget."**

Need

Establishing a financial buffer to protect against unexpected expenses or income shocks, such as a car or appliance repair, or working fewer hours.

Behaviours

Withdrawals of part or all of balance periodically, perhaps once or twice a year – balance builds over time, but with moments of drop-off.

3 Working towards future goals

In a Jars user's words

> **"It worked, I just felt like I was prepared for Christmas last year. I didn't feel like I was on the back foot in the new year. January was then a normal month, not having to catch up. It helped me feel a bit more in control."**

Need

Building a fund towards known events which could be shorter or longer-term, for example Christmas, holidays, a wedding or a home deposit.

Behaviours

Money usually not withdrawn until goal is met. Balance builds over time and then one big withdrawal, possibly to zero, before saving for a new goal begins.

- Individuals may move between these different savings behaviours over time, or hold multiple saving goals concurrently.
- There is an opportunity for Jars and other payroll savings solutions to help employees by supporting these different savings behaviours, each of which can build financial resilience for individuals at different stages on their journey towards financial wellbeing.
- Each of the different saving behaviours can make a big difference to people's confidence and sense of self-agency, which, in itself, can support financial wellbeing. Small steps can make a big difference, reducing anxiety and giving greater peace of mind.
- By better understanding these behaviours, we can design products and communications around user needs, potentially making payroll saving more relevant to a wider audience. For example, providers and employers could:
  - reward the savings habit, rather than the balance
  - facilitate withdrawals
  - avoid being too prescriptive about what the saving should be for
  - allow people to earmark money saved in their own way
  - build confidence by recognising and celebrating milestones
  - connect saving to support and guidance around other aspects of financial health.

Introduction

Workplace saving in the UK

Nest Insight's workplace emergency savings research programme[5] 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.

There is good evidence that having liquid savings helps people to avoid financial hardship, and we also know that short-term saving can act as a foundation for retirement saving adequacy[6]. The need to increase savings participation is recognised in the UK Money and Pensions Service's (MaPS) 10-year UK Strategy for Financial Wellbeing[7]. 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. 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.

Nest Insight's sidecar savings trial

Nest Insight is currently in the third year of its sidecar savings research, with workplace savings tool Jars being trialled in five UK workplaces: BT, ITV, StepChange, Timpson and the University of Glasgow.

Jars is designed to help employees first build up a liquid savings fund, before then building up additional retirement savings in their workplace pension. When employees sign up to save, they choose an amount to save per pay period, and a savings target. Their chosen amount is deducted from their salary each pay period. At first this money goes into the emergency savings jar. Once their savings target is reached, the salary deduction is sent to the saver's pension pot, on top of their normal auto enrolment pension contributions. The saver can take money out of their emergency savings jar as often as they want. Whenever the balance drops below their savings target, this salary deduction starts going into the emergency jar again.

Jars is offered by Salary Finance, with the accessible savings account provided by Yorkshire Building Society (YBS). Jars works alongside whatever workplace pension provision the employer already has in place.

The research is being led by Nest Insight, working with academics Sarah Holmes Berk, John Beshears, James Choi, David Laibson and Brigitte Madrian as well as MaPS. Since the first employer launched Jars in July 2019, the research team has been steadily collecting growing evidence on the use of the tool, which will form the basis of the final programme evaluation which we expect to publish mid-2023. The most recently onboarded employer launched Jars in June 2021. Further information on this research programme, the trial partners and previous reports of early learnings from the trial can be found on our website[8].

We know interest in the trial remains high, so our aim is to share insights as soon as we are able to, before the trial evaluation is complete. This paper presents some emerging learnings around the different savings behaviours we are starting to see amongst Jars users mid-way through the trial. We expect this picture to build and evolve as the trial continues.

Data sources used in this report

The overall trial design brings together different research methodologies in order to address the research questions comprehensively. This paper is based on analysis of the following types of data:

---

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

6 Nest Insight, Workplace emergency saving: a landscape review of existing evidence (2021): **https://www.nestinsight.org.uk/wp-content/uploads/2021/07/Workplace-emergency-saving-a-landscape-review-of-existing-evidence.pdf**

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

8 **https://www.nestinsight.org.uk/liquidity/**

- **Administrative data**
  Individual account usage data collected by Salary Finance and aggregated YBS account data allows us to look at account usage including savings deposits, balances and withdrawals over time.
- **Survey data**
  We are conducting ongoing surveys with employees who are offered Jars by their employer, measuring self-reported financial wellbeing and responses to the Jars proposition.
- **Qualitative research**
  Research interviews were conducted with Jars users in the summer of 2020 and in the spring of 2022, to gain a deeper understanding of how Jars fits into the wider financial and life contexts of users. The anonymised case studies included in this paper are drawn from these interviews. All names and some personal details have been changed to preserve respondent anonymity.

More than one way of saving

Jars facilitates different savings behaviours, meeting several different financial needs through the same payroll deduction mechanism and the ability to partition money into an accessible savings account separate from day-to-day finance.

In July 2021 we shared early learnings of the employee experience of Jars, including[9]:

- The sidecar saving concept appeals to many employees, particularly those who are currently struggling financially.
- In particular, the payroll deduction mechanism and ease of getting started with saving are valued by employees.
- Jars has brought people in the financially 'squeezed' and 'struggling' segments[10] into saving. These are target groups for workplace saving who may not have previously had a financial buffer in place to protect them from income and expenditure shocks.
- Jars users are saving persistently once they have signed up and very few accounts have been closed.
- Despite the effectiveness of the 'set and forget' payroll saving mechanism, Jars users are actively using their accounts. We see signs that some users are making withdrawals to manage financial shocks or smooth income. We also see users making changes to the amount they are saving, flexing both down and up, and making ad hoc deposits outside of payroll.

A few months on, the 'oldest' Jars users have now been saving for two or more years, while the 'youngest', who have only recently signed up, are just starting their payroll saving journey. As the Jars trial has progressed, we have been able to understand more about how the sidecar savings tool idea, first proposed by members of the team of US academics working on this trial and others[11], is used in practice by employees.

Looking at average savings amounts and savings targets, we can see that users are commonly saving around £50-100 per month and have set targets of a couple of thousand pounds. On this basis, most users would take two to three years at least to reach their savings target if they were to make no withdrawals. Indeed, very few Jars users have reached their savings target during the trial period to date.

Average savings amounts and savings targets by employer

	Median savings amount p/m	Mean savings amount p/m	Higher / lower editable savings amount defaults seen	Median savings target	Mean savings target	Higher / lower editable savings target defaults seen
Employer A	£50	£66	£60/£20	£2,000	£6,575	£1,500/£1,000
Employer B	£50	£95		£2,000	£3,888	
Employer C	£70	£64		£1,200	£2,029	
Employer D	£50	£109	£120/£40	£5,000	£9,107	
Employer E	£50	£100		£2,500	£5,266	

Source: Salary Finance data from active Jars users as at April 2022

Notes: When signing up to Jars, employees saw either a higher or lower editable default amount when they chose their savings amount and savings target. Median savings targets exclude those who did not set a savings target.

9 Nest Insight, Supporting emergency saving: early learnings of the employee experience of workplace sidecar saving, (July 2021) **https://www.nestinsight.org.uk/wp-content/uploads/2021/07/Supporting-emergency-saving-early-learnings-from-the-employee-experience.pdf**

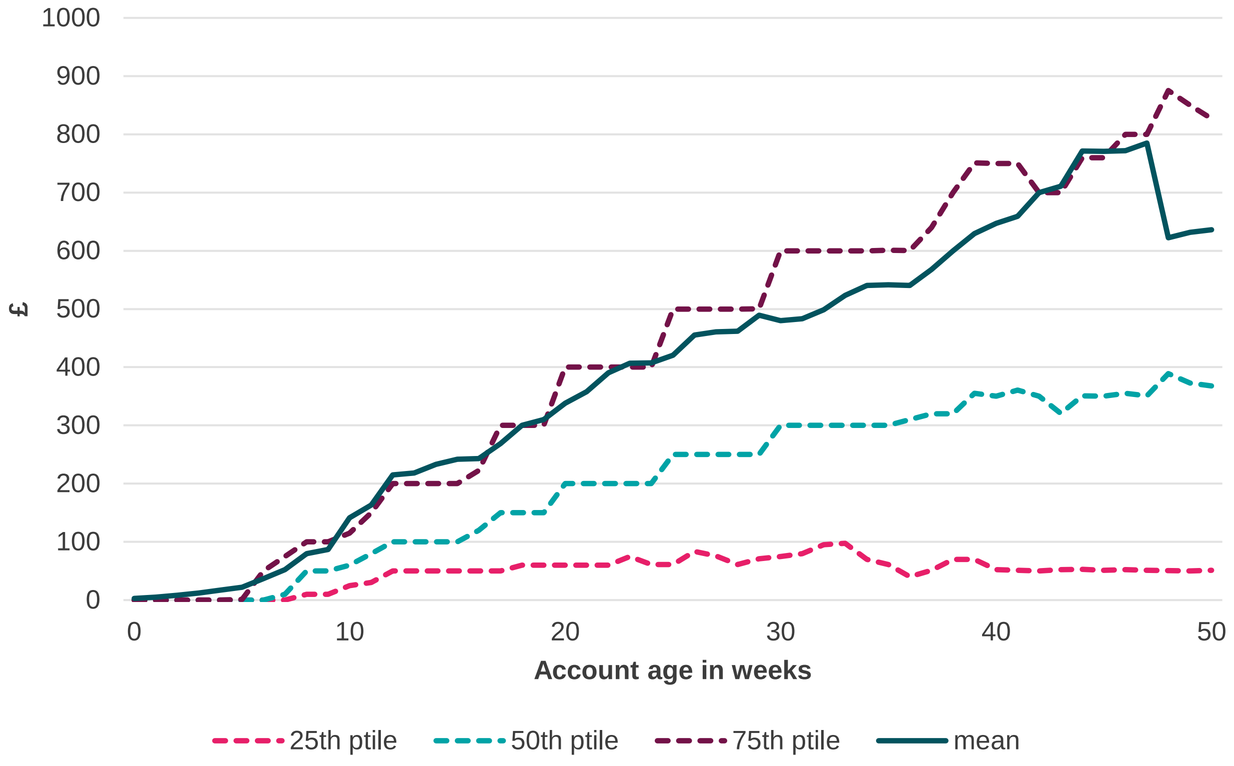
10 **https://moneyandpensionsservice.org.uk/wp-content/uploads/2021/03/market-segmentation-report-an-overview.pdf**

11 Beshears, J., Choi, J., Clayton, C., Harris, C., Laibson, D. and Madrian, B. Optimal Illiquidity. United States: University of California (2014)

Previously, we were only able to look at an aggregate level at how Jars was being used by employees. We saw that although many Jars users were making withdrawals, balances were still growing over time because, on average, people were taking out half of their balance when they made a withdrawal. When we looked at the data at that point, the average savings account balance was £336 after six months and just over £550 after one year.

Now that some analysis of individual level administrative data has been conducted, we are able to start to look under the surface of that average picture. The following chart shows the distribution of how Jars users' balances are changing over time. Whilst the top portion of balances are growing, the balances of the bottom quartile stay relatively flat over time.

Jars balances by account age



Source: Analysis of Jars administrative data provided by Salary Finance as at February 2022

Notes: Analysis based on preliminary data and may be subject to amendment. Percentiles calculated each week. Sample size: 425 at Week 0; 277 at Week 50. Observations included in the graph are conditional on having an open account.

It's important to note that people may move between percentiles, so these are not individual Jars saver journeys, but this overview does start to point towards different savings behaviours. We have explored these further in our data analysis and qualitative interviews and have identified three different behavioural patterns of Jars usage:

1. **Budgeting and cashflow management**
   where people are keeping money set aside from day-to-day spending accounts for ongoing ad hoc essential expenses such as bills, fuel, shopping and social participation.
2. **Building a safety net**
   where people are establishing a financial buffer to protect against unexpected expenses or income shocks, such as a car or appliance repair, or working fewer hours.
3. **Working towards future goals**
   where people are building a fund towards known events which could be shorter or longer-term, for example Christmas, holidays, a wedding or a home deposit.

We give more detail on each of these observed behaviours here, and will continue to track them and evolve our understanding as we complete further research and analysis.

1 Budgeting and cashflow management

Keeping money aside from day-to-day spending accounts for ongoing ad hoc essential expenses such as bills, fuel, shopping and social participation

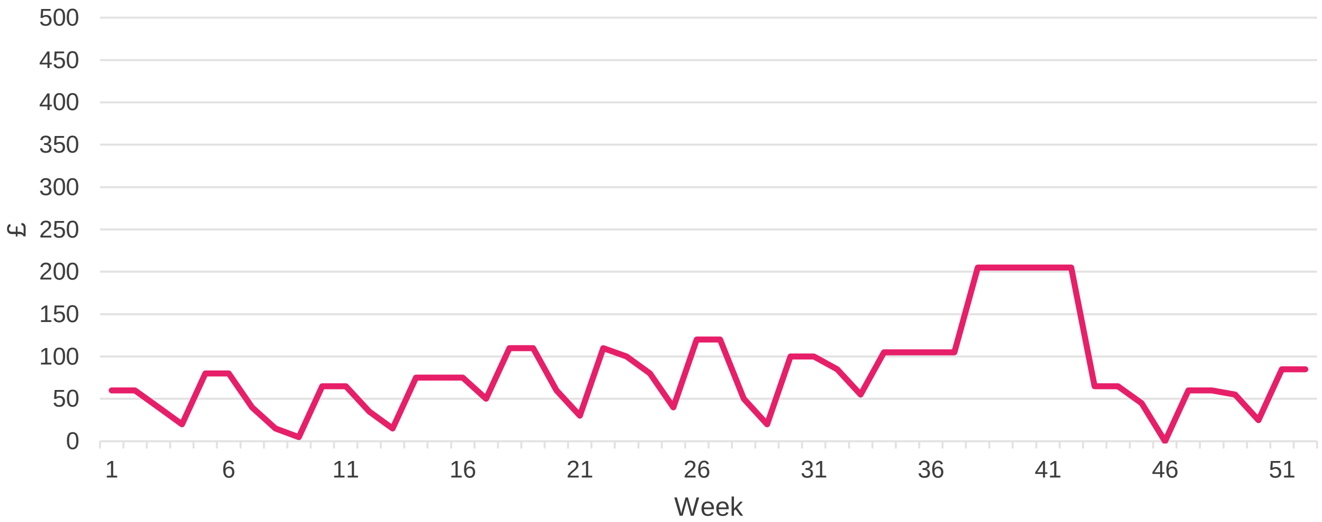
What saving and withdrawal behaviours do we see?

Of the three saving behaviours observed, this is perhaps the most challenging to current thinking and industry norms around what ‘saving’ is. Although the employee saves regularly and persistently through payroll, they do not accumulate a growing balance while in this pattern of behaviour, as they are also making frequent withdrawals.

Withdrawals are of smaller amounts, mostly under £100, for essential expenses that occur relatively frequently. Examples given for the reason for withdrawals included paying bills, topping up pre-payment gas and electricity meters, paying for school trips or uniforms, paying travel fares, for doing a big food shop or to be able to participate in a social event such as a birthday party or work drinks.

The pot is replenished each payday and then partially or wholly depleted during most pay periods before it is topped up again. The savings account balance therefore cycles up and down but overall stays quite flat.

An example budgeting and cashflow management profile: Jars savings account balance over time



Source: This chart is an illustrative example of a savings behaviour pattern we have observed based on looking at individual level administrative data and qualitative interviews with Jars users.

In this behavioural pattern, employees are using Jars as a way of actively managing their money when finances are tight, to make sure critical expenditure is prioritised and money can be put aside at the start of the month to cover upcoming expenses. Holding this money in an account separate from their current account facilitates a partitioning of funds for different upcoming needs and ringfences it effectively, similar to jam jar or envelope budgeting methods.

Users expect to spend the money they save rather than building up a balance, although they may manage to do the latter to some extent if they have a better than usual level of spending for a period. The money set aside may be used within the month, or may be saved over months, for example over three months to manage a quarterly service charge payment.

We think it's likely that these savers may be the most active managers of their Jars accounts. People we spoke to described adjusting their monthly saving amount up or down depending on how well or badly the previous months had gone, and frequently checking their balance.

This savings behaviour has been previously recognised in patterns observed in financial diary research[12] and described in previous papers on savings behaviours.[13] It therefore makes sense that a payroll saving product would be used in this way by some employees, although this use-case is not often discussed in the context of payroll saving.

Who might save in this way?

It is likely that this behaviour correlates with the financially 'struggling' segment of the population identified in MaPS's segmentation[14], making up about a quarter of the UK adult population. These are the least financially resilient employees who struggle to build a financial buffer. It may take a more significant change – perhaps a pay rise, getting to the end of a schedule of debt repayment, or receiving a windfall of some kind – to enable them to shift to a different savings behaviour in which it is more possible to build a balance over time.

It's also possible that people using Jars in this way are not aware of other budgeting and money management tools that would have been available to them before they were offered Jars. We know that some Jars users are saving for the first time simply because payroll saving was offered by their employer. Although other products are available to manage money in this way, such as current accounts with different 'pots' that different bills can be paid out of, or credit union budgeting accounts, many employees may not be aware that these exist or know how to set them up.

This kind of saving is 'affordable' even to those who don't have money to spare by the end of the month. However, we think there are people who would benefit from using a payroll savings product for this purpose but do not feel able to take up the offer because this sort of saving is not often talked about, and may be discouraged by industry and cultural norms around what saving is. It may be possible to signpost more actively that a payroll savings product can be used in this way.

What are the benefits of this saving behaviour for the saver?

Although the saver would like to be able to build a savings balance in future, they still value the positive impact that this cyclical usage of the product has on their financial wellbeing.

Jars provides a commitment device, allowing them to put money away so it is available later. The fact that this money is held in an account other than their current account boosts spending self-control and resilience to a spending culture. Users feel that this gives them greater control over their money.

> **"I took money out on average once every couple of weeks, the odd £20 to top up the gas card, or if the food shopping was more than we thought, I'd take money out so I could buy my lunches."**

Using Jars for this purpose, rather than, for example, an envelope or a jam jar, means that the user has the savings account 'plumbing' already in place if their financial situation improves in the future. This makes it easier to build a savings safety net if this behaviour becomes feasible.

12 For example, data from the U.S. Financial Diaries demonstrated the total money going into the savings accounts of the lower income families they tracked was three times more than year-end account balances. Morduch et al. "Savings Horizons." U.S. Financial Diaries (June 2015) **https://www.usfinancialdiaries.org/issue5-savhoriz** and U.S. Financial Diaries. "Saving for Sooner: How and Why Short-Term Savings Matter." **https://www.usfinancialdiaries.org/saving-sooner**

13 For example, The Aspen Institute paper 'The Cycle of Savings: What we gain when we understand savings as a dynamic process', (September 2020) **https://www.aspeninstitute.org/wp-content/uploads/2020/09/The-Cycle-of-Savings.pdf**

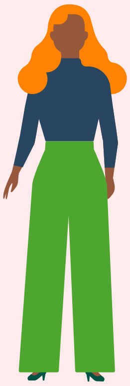
14 The Money and Pensions Service, Market Segmentation (May 2016) **https://moneyandpensionsservice.org.uk/wp-content/uploads/2021/03/market-segmentation-report-an-overview.pdf**

Potential implications for future product design and communications

We have heard examples of savings providers discounting this type of saving behaviour as someone over-reaching themselves in the savings amount set or failing, because a balance is not built over time. We believe there is an opportunity for providers and employers to recognise this saving behaviour and as a result to build confidence amongst employees saving in this way and encourage more people to do so. For example:

- Providers and employers could celebrate the savings habit, for example by acknowledging milestones like three months or six months of regular saving.
- If incentives such as prize draws or bonuses are offered, consider rewarding persistent saving rather than savings balances.
- Penalties for frequent withdrawals would be likely to put people off saving in this way. Although YBS does not penalise frequent Jars withdrawals we are aware that in some provider business models this is the case. Is there a way to avoid this?
- Many providers and employers already provide money management guidance and support, including for example providing links to relevant websites like MoneyHelper’s budget planner or to proprietary financial education tools. Are there other ways to support budgeting, for example by actively suggesting ways to use payroll savings to budget and manage cash flow?
- Providers of payroll savings could consider allowing users to partition the savings account, and to label these sub-pots for different bills and expenses.

Of course, this saving behaviour might present some challenges to the business model assumptions of some providers, given the fact that balances don't build and because there may be frictional costs associated with high-frequency transactions like this. We would be interested to hear views from providers and employers as to the challenges this use-case may present, given what we see as clear benefits to savers, and how they might be overcome.



Case study: Sonia
Budgeting and cashflow management

Jars savings amount: £60-80 per month

Savings target: £2,000

Length of time saving with Jars: six months

Withdrawals: multiple, roughly every two weeks

Context

Sonia works in retail and rents a house with her partner in the north-east of England. She describes her financial situation as challenging, saying she and her partner live pay check to pay check. They have never had a comfortable level of disposable income and have always kept a tight grasp on their outgoings, even more so since her partner was made redundant a couple of months ago.

She describes their situation as stressful and at times very worrying, as, if they had an unexpected bill, they would have to borrow money from family or from a bank to pay for it. Sonia is used to managing a tight budget and is proud to never be in her overdraft or in debt. When things get tight, she manages by selling things online, or by cutting expenditure right back. However, she is concerned about the increasing cost of living, and knows that meeting rising costs each month will be tough for them.

> **“It’s very hard at the moment, we’ve had to seriously look at our finances and cut things back, really look at our lifestyle to live within our means.”**

> **“They say that if you can’t afford a £500 bill you are on the poverty line. I would like to be able to afford a £500 bill, it would put my mind at ease.”**

> **“They've just put the cost of gas up - that's an extra £20-25 a month for us. We have a gas card, if we run out we get charged for that so we have to make sure it's topped up. That's going to hit us, that's going to be tough.”**

Savings goals

Sonia is determined to save regularly and would like to be able to get to a point where she has an emergency cushion to make life a little more comfortable. She would also like to be able to buy a tumble dryer for their home, as well as to have a pot for travel costs for seeing her family in the Midlands, or for treats like a weekend away. Longer term, she would love to be able to save for a wedding and a house.

> **“I really struggle with travel costs. If I want to go home, I have to plan and save as I can’t drive. I’d love to be able to go home more often.”**

Signing up to Jars

Sonia signed up for Jars in early 2021. She’d been in her job a couple of years, but it was only when someone mentioned it to her that she realised it would be a good idea. She trusted her employer to offer her something that would help her, and she liked the fact that she wouldn’t miss the money as it would never be in her take-home pay. She found it easy to set up and set herself a monthly transfer of £80 with a target of £2,000, as an aspirational amount to have saved in future.

> **"I trusted my employer. I find it very hard to trust banks as I don't know a lot about them, so it was good to go with my employer."**

> **"I didn't have to do anything at all to set it up, it was a breeze, my employer did everything."**

> **"It's great because I never saw that money, so I didn't miss it, I like saving money that way. I thought the whole idea was good, not every employer offers that."**

Using Jars

Sonia is an active Jars user. She regularly adjusts the amount she puts in, depending on how tight the previous month has been, but always tries to put in at least £60 each month. Sometimes she has managed £80.

She usually makes withdrawals from the account every couple of weeks, to meet ongoing costs, for example, topping up the gas card or covering a more expensive supermarket shop. She feels guilty for taking money out rather than letting it build up, but she appreciates having money set aside in the account when things get tight between paydays.

> **"A big change for me this year was putting money away each month, getting a good savings pot."**

> **"You have the freedom to tweak it which is really good."**

> **"I take money out on average once every couple of weeks, the odd £20 to top up the gas card, or if the food shopping was more than we thought, I'd take money out so I could buy my lunches."**

Jars is helping Sonia manage her money through the month, and although this means that she is not building her savings as she would like to, she is avoiding the use of credit cards and her overdraft through this method of managing her money. The highest her balance reached was £300, but it has mostly been below £100.

Impact of Jars

Since having Jars, Sonia has worried less about day-to-day spending. She knew she could afford the odd expense or a higher-than-normal bill as she had Jars in the background to support her.

> **"I definitely worried less, even if I did overspend. You'd think it's ok, I've got that there in place. If I got a bill, it was like ok, don't worry, we've got the money there, so it does put your mind at ease."**

2 Building a safety net

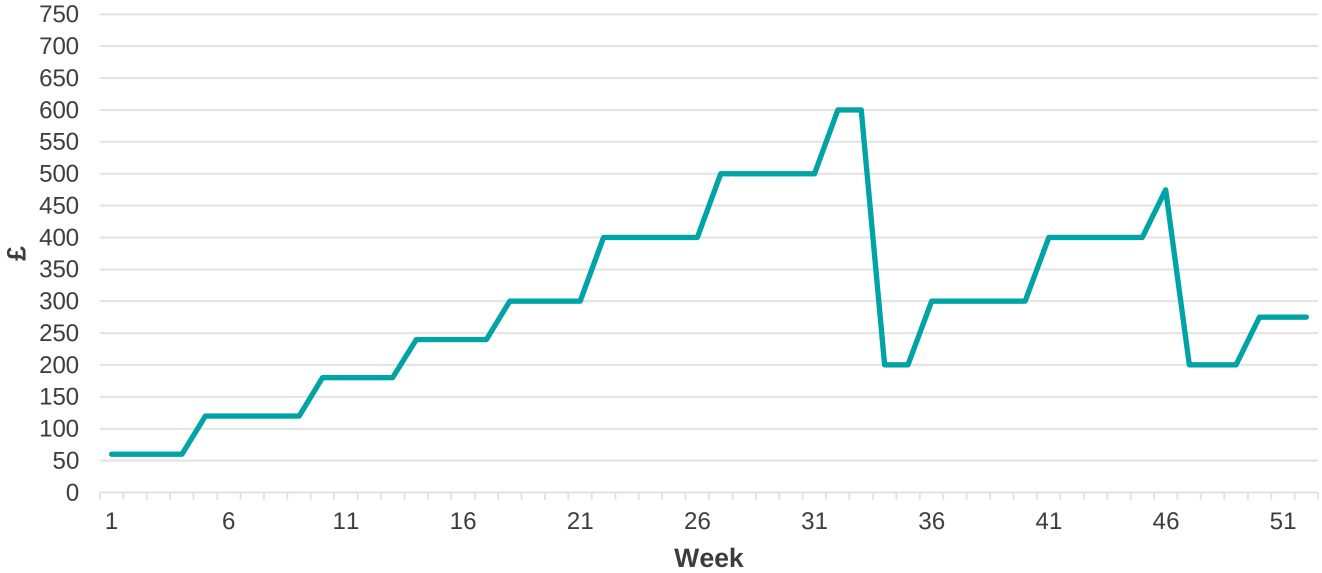
Establishing a financial buffer to protect against unexpected expenses or income shocks, such as a car or appliance repair, or working fewer hours

What saving and withdrawal behaviours do we see?

This saving behaviour is the use-case we imagined when we initiated the sidecar savings trial – it was envisaged that the liquid savings account within the Jars product would be used for ‘emergency savings’ – that is, money set aside to be used in the event of an unplanned expense or drop in income.

Here we see an individual’s saving balance build steadily over time, unless a financial shock happens. At this point the user will withdraw part or all of their balance to cover the cost or drop in income. This pattern looks like a steady upward progression, with moments of sudden drop off, and then renewed progress upwards again.

An example building a safety net profile: Jars savings account balance over time



Source: This chart is an illustrative example of a savings behaviour pattern we have observed based on looking at individual level administrative data and qualitative interviews with Jars users.

In this behavioural pattern, users talk about setting aside money ‘for a rainy day’ or to give a ‘safety net’, ‘buffer’ or ‘cushion’. The goal is broad, rather than specific. The saver tries not to use their money but knows it is there if they need it. Examples of times when people accessed the money include for a car repair bill or to cover an appliance breakdown such as a boiler or washing machine. The money may also be accessed if income is lower than expected, for example if an earner in the household loses their job or is offered fewer shifts or less-than-expected overtime. Savers may be motivated by the fact that if they don’t need to use the money and they reach a higher-than-expected balance, they could withdraw some money for ‘something nice’ or a ‘treat’, or that if they hit their savings target they could then save more towards their later life by allowing additional savings to roll over into their workplace pension. If they were to start making additional pension contributions, they are reassured that if they then withdraw money from their savings account, it would be automatically replenished through the Jars product design.

Who might save in this way?

This behaviour may be most prevalent amongst the MaPS financially 'squeezed' segment, who make up about a third of the UK adult population. This group has significant financial commitments and is not highly indebted but has relatively little provision in place for coping with income shocks.

Importantly, we know it is not just workers on low to moderate incomes who lack an emergency savings buffer and we have certainly seen examples in this trial of higher earners using Jars to put aside a safety net pot of money.

People building a safety net through Jars may be new to saving, or they may also be saving in other ways. Most seemed to feel that Jars is better suited than other savings options for this type of saving because of the combination of the payroll deduction mechanism linked to an instant access savings account they can keep separate from other finances.

What are the benefits of this saving behaviour for the saver?

The primary benefits that users saving in this way described were a feeling of peace of mind and a growing sense of self-reliance from knowing that they have money put aside to access if they need to. There are also feelings of relief, freedom and control from knowing they have an alternative to borrowing from friends or family or using more costly means of getting money quickly such as credit cards, overdrafts and payday loans.

> **Jars is for big, emergency spends […] My car needed serious engine work and I had to decide whether to sell it or keep it. I used quite a chunk of the Jars for that. It's for something that's way beyond what you would be able to afford from your normal budget.**

The savings build consistently through payroll deduction before the money hits the user's pocket. Several people said that this meant they were able to build a pot of savings more effectively than they had done previously, when they tried to save any money left over at the end of the month.

Users who are saving to build a safety net like the fact that the money they save in Jars is not immediately visible, and so they are not tempted to spend it, but they know it's there and accessible if they need it.

This combination of benefits means that users may grow in confidence over time, perhaps increasing their savings amount if they have proved that savings is more manageable than they thought, or starting to save in other ways outside of Jars.

Potential implications for future product design and communications

Building a savings safety net is a tool to build financial resilience - but like any tool, it only works if it is used. Measures of successful emergency saving are therefore likely to be different to the success factors of longer-term savings. Providers and employers may wish to reflect this in product design and communications. For example:

- Although this is a savings behaviour that users recognise and talk about, we have found that describing it as 'emergency savings' in communications can be off-putting because it is seen to be negative in focus and less motivating than a positive goal.[15] Finding ways to talk positively about this kind of saving, such as by foregrounding the peace of mind benefit of having a safety net in place, is likely to be more effective.
- It may be helpful to regularly remind people how much they have saved and make sure they know how to use it if they need to, for example by encouraging savers to download an app to manage their account.
- Withdrawing money that has been saved to deal with a financial shock when it is needed should be seen as savings success and not a failure. The achievement of having money to draw upon when withdrawals happen could be acknowledged, for example by allowing users to tag what the withdrawal was for.

[15] Nest Insight, Supporting emergency saving: early learnings of the employee experience of workplace sidecar saving, (July 2021) **https://www.nestinsight.org.uk/wp-content/uploads/2021/07/Supporting-emergency-saving-early-learnings-from-the-employee-experience.pdf**

Case study: Mo
Building a safety net

Jars savings amount: £20, then £50, then £60 a month

Savings target: £5,000

Length of time saving with Jars: two years

Withdrawals: one

Context

Mo works as a PA. He lives with his partner, in a house that they've rented for 15 years.

He describes his financial situation as 'in control'. He used to be more impulsive with spending, but as he's got older, he says he appreciates that you should only buy what you really need. He is in charge of the household budget and keeps a spreadsheet to track their money.

> **"I feel very lucky to be comfortable. I've got control, and on the income we have between us we can live comfortably and not have to sacrifice major things."**

Savings behaviours

Mo used to transfer money ad hoc into an ISA but had never built up a savings habit. However, in the last couple of years he has tried to establish regular savings behaviours. He moved his bank account to Starling, so he could have 'spaces' within his current account. These help him to apportion money for Christmas and for intended purchases such as a new phone. He opened a Jars account roughly two years ago to save money for large emergency spends that would exceed the small amounts he has saved in his current account spaces.

> **"I always found it harder to save for multiple things when I just had my ISA and current account. I could never remember what the money was for and sometimes I'd just spend it before I transferred it."**

Signing up to Jars

Mo signed up to Jars after receiving an email from his employer about the savings product. It had been on his mind to find a regular way of saving, and he'd considered a credit union, but he wasn't familiar with credit unions and so didn't feel confident going down that route. When the Jars email mentioned the Yorkshire Building Society, he felt reassured that this would be a secure way of saving his money because he believes they are a known and trusted brand. He saw Jars as an 'invisible' saving, as it would come straight off his salary, and the money would be accessible if he needed it. He liked the fact that there was an easy-to-use app so he could keep a check on his account balance. Initially, he set a monthly savings amount of £20 and a high target of £5,000.

> **"The salary sacrifice *[payroll deduction]* is the key thing for me, the invisibility of the savings. I don't feel like I'm consciously putting money away into it."**

"It's aspirational to think you're going to get to £5,000 with your savings."

Using Jars

Mo has adjusted his Jars saving amount twice, once to £50 when he got a pay rise, and another about six months ago to £60 when he realised he could spare a bit more each month. He checks his current account every day but he doesn't check his Jars savings account as he 'just knows it's there' and doesn't want to be tempted to spend it. He has only used the money in there once since he opened the account, to pay for car repairs. Without the Jars savings he says he would have had to take the car off the road. He doesn't have any plans for how he will use the money next, but he is letting it build up again, reassured by the knowledge that he has money there if he needs it.

"Jars is for big, emergency spends… My car needed serious engine work and I had to decide whether to sell it or keep it. I used quite a chunk of the Jars for that. It's for something that's way beyond what you would be able to afford from your normal budget."

"It was a godsend to have the money there for my car. Jars pretty much saved the car for me!"

"It's comforting to know you've got something put away. I want it to be a sizeable sum of money that will take care of any emergency."

"I don't have any plans for it, I just like the comfort of it being there."

Impact of Jars

Setting up Jars and seeing the savings grow over time has given Mo confidence that he can save regularly. He now makes sure that he saves about 5% of their household income into the 'spaces' in his current account, as well as continuing his Jars saving, so they have an additional cushion if needed. He likes the security of having an emergency savings pot, and it gives him the permission to also save for things he wants, via his spaces in his current account, such as a new phone. If he moved employer, he would like to take Jars with him, and he hopes to increase his regular savings amount next year if he gets a pay rise.

"Jars has made me a confident saver. It has given me a safety zone to really have a look at my finances as a whole, in the knowledge that I can save, and I can plan for the future."

3 Working towards future goals

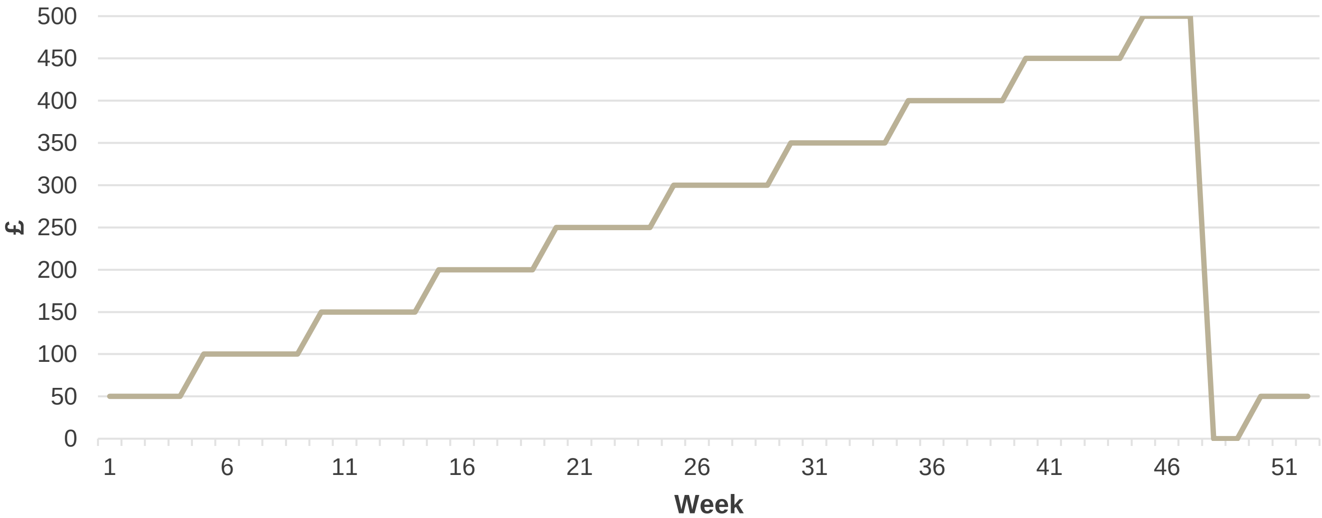
Building a fund towards known events, which could be shorter or longer-term, for example Christmas, holidays, a wedding or a home deposit

What saving and withdrawal behaviours do we see?

The third behavioural pattern we have seen when looking at how employees use the Jars savings tool in practice is working towards future goals. These goals can be shorter or longer term, and may be small or large in nature, but what distinguishes this pattern from the previous two is that there is a specific event in mind, for which the savings are earmarked. For example, an employee may set out to save £20 a month towards Christmas for a year, or to save £200 a month towards being able to put down a deposit on a home over a period of several years. The pattern is the same, although the scale varies.

Here we may see a balance building steadily over time, with no ad hoc withdrawals made until the savings goal is met. At that point, potentially all the money is withdrawn in one go. Because of the ongoing payroll deduction mechanism, the saver will then automatically start building back their savings pot and can start working towards another goal.

An example working towards future goals profile: Jars savings account balance over time



Source: This chart is an illustrative example of a savings behaviour pattern we have observed based on looking at individual level administrative data and qualitative interviews with Jars users.

We've seen examples of this single-minded approach where Jars is used for one savings goal only. However, the reality of this behaviour may also be more blurred, for example if people are saving for multiple goals using Jars, or if they start out saving for a goal but then need to withdraw some or all of the money to deal with an unexpected financial shock that they don't have an alternative savings buffer for. Similarly, savers may have a specific budget in mind – for example 'I want to save £600 to pay for a summer holiday' – or may be trying to save as much as they can towards their goal without aiming for a particular number – for example 'I want to save as much as I can towards my wedding so that I can get married as soon as possible'.

Who might save in this way?

To be able to feel they can start to save in this way, employees usually need to have already managed to build up some sort of safety net. This behaviour may therefore correlate best with the MaPS financially ‘cushioned’ segment, who make up about two fifths of working age adults in the UK. However, we have seen examples of financially ‘squeezed’ and even ‘struggling’ employees using Jars in this way if they are determined to preserve some money for a goal even if money is very tight.

We have seen several examples of employees using Jars to save towards a future goal even if they already have other savings and investments in place, because they believe Jars offers an easy and innovative way to save and because they can designate their Jars pot for a different goal to the other products they are using to manage their money for the future.

What are the benefits of this saving behaviour for the saver?

Savers using Jars in this way like the ‘set and forget’ method of saving made possible by payroll deduction. Once they have identified their goal and decided how much to save per pay period, they know they are saving regularly in the background and making progress towards their target without needing to do anything.

Some more financially literate and confident savers also acknowledged the competitive interest rate that the Jars savings account has, despite there being no withdrawal restrictions. Indeed, in some cases people had moved savings from elsewhere into their Jars account because they felt the interest rate was better, and this allowed them to consolidate savings towards their goal.

> **It worked, I just felt like I was prepared for Christmas last year. I didn’t feel like I was on the back foot in the new year. January was then a normal month, not having to catch up. It helped me feel a bit more in control.**

Savers, particularly those with more modest goals and less comfortable financial circumstances, also appreciate the fact that their savings are accessible at any point if their circumstances change. Although they would not want to take money away from their goal for other reasons, it is reassuring to them that they could if they needed to.

Potential implications for future product design and communications

This is arguably the savings behaviour that the financial services industry is most geared towards already. We know that personalisation and positive reinforcement of progress towards goals can support this kind of saving, but it is important that these kinds of communications and product features do not crowd out the other savings behaviours we have described in the previous two sections of this paper. Light touch support of goal-based savings would be complementary to accessible payroll savings, but, as we have previously said, any design that rewards savings balance rather than behaviour or disincentivises withdrawals may undermine **budgeting and cashflow management** and **building a safety net** behaviours. Ways to support savers in working towards future goals whilst also preserving the use of payroll saving for less financially resilient or confident savers could include:

- Allowing people to personalise their savings pot, for example giving it their own name and picture.
- Celebrating the point at which savings are withdrawn and encouraging people to set new goals at this point.
- Although the version of sidecar savings being piloted in this trial combines instant access and pension savings, we have previously suggested that it could be desirable to include an ‘in-between’ savings vehicle focussed on goal-based saving needs that people can save into once they have built up a liquid savings buffer.[16] Some providers already allow payroll savers a choice of different vehicles to save into. How could hybrid tools be designed to serve different needs and facilitate a range of savings behaviours in ways that help people progress along a personal journey towards financial resilience?

[16] Nest Insight, Supporting emergency saving – policy considerations and questions for future research (October 2019) **https://www.nestinsight.org.uk/wp-content/uploads/2020/10/Supporting-emergency-saving-policy-considerations-and-questions-for-future-research.pdf**

Case study: Jade

Working towards future goals

Jars savings amount: £20 a month

Savings target: £200

Length of time saving with Jars: 15 months

Withdrawals: one, last Christmas

Context

Jade is an administrator. She lives with her husband and two dogs. They rent their flat and have no plans to buy as it doesn't feel financially feasible.

Jade feels that she has never been very good at managing her finances and that money has always been a struggle. However, as her husband is now a student, and they rely on her income only, she has become better at budgeting and feels more in control. She worries about the increasing cost of living as she has felt the impact of rising prices over the last year and feels that money is still going to be a source of anxiety in the future.

"I'm better than I used to be [with money] but I'm still stressed."

"In the current climate, with Brexit and everything going on overseas at the moment, prices are going up. I can't see that it's going to get any better."

Savings behaviours

Historically, Jade has never been able to save much as she lived month to month. In January 2021, she really felt the impact of Christmas 2020 as it made the first months of the new year financially strained. This, plus their reduced household income, prompted her to take better control of her finances by changing to a bank account that offers different spending 'pots.' Her bills come out of one pot, and she also has a savings pot that collects any 'round ups' that come from her spending. She finds this makes saving more achievable, as it's less noticeable than putting a chunk away at the beginning of each month. She also decided to set up a Jars account, specifically with the purpose of helping her plan ahead for Christmas 2021 by regularly setting aside money in advance.

"Last year I was back and forth at the vets in April, before I'd set up my Jars account, as my dog was unwell. It happened just before pay day and I didn't have any money to cover it. I had to borrow money from my friend, I paid her back but it wasn't great."

"I shop for Christmas end of November, beginning of December, I'm not an organised person. So it's a really big hit when that money comes out."

Signing up to Jars

Jade signed up to Jars in February 2021, prompted by an email from payroll. She said it was as simple as 'click this link and sign up'. She looked at the Yorkshire Building Society website and thought it sounded like a good thing to prepare for the year ahead. She hoped it would help her set a strict budget for Christmas that she would have to stick to. She'd stopped a gym membership of £20 a month, so she decided to put that £20 into her Jars account instead. She set her target as £200, as with 10 months of the year remaining, that would build an adequate Christmas budget. At present, she doesn't think she would let the money roll over into her pension as she feels she pays a lot in already but said she does see it as an added benefit to the account.

> **"Once I'd had a bit of a nosey, I thought it seemed like a good idea – if I don't like it, I can always stop. Plus, I wouldn't notice the £20 that used to go on my gym membership, as I was used to it not being there."**

Using Jars

Jade saved her £20 a month from February to November 2021, and then took out the £200 she'd saved, as planned, to cover her Christmas spending. She felt really proud of herself for having achieved her target and it meant that Christmas wasn't as stressful. She plans to do the same again this year, although she might stick to the same budget of £200 and withdraw the money a couple of months earlier, so that she has an extra £40 of savings left. If an unexpected vet's bill arises, she also might withdraw money from Jars if she needs to, meaning she won't need to borrow money again.

Jade checks her balance every month to make sure the payment has gone in, but otherwise leaves the money there to accumulate. She likes that it comes direct from her salary, and that she doesn't notice it – just like National Insurance and tax deductions.

> **"It worked, I just felt like I was prepared for Christmas last year. I didn't feel like I was on the back foot in the new year. January was then a normal month, not having to catch up. It helped me feel a bit more in control."**

> **"In my head, it's an actual jar. I have a mental image of the jar on the mantelpiece, and you break it open when it's full, like a piggy bank. "**

Impact of Jars

Jade credits Jars with showing to her that saving isn't as hard as she thought. She admits that she wouldn't have had the motivation to make monthly transfers herself into an account, but signing up to Jars gave her an end goal that she was determined to reach. She feels better about her finances as a result, and whilst money is still tight, Jars gives her a 'security blanket' to use if needed, but she tries not to touch it so that the money is there ready for pre-Christmas spending.

> **"During the summer period, our income dipped *[as her husband became a student]* and the money would have been handy. But I had my end goal and I would have been so annoyed with myself at the end of the year if I'd dipped into it."**

> **"I wouldn't describe myself as a saver, it's a piggybank. Savings is a bigger thing than I have, but it does give me a cushion that I didn't use to have."**

> **"I do feel better about saving now. It makes me think it's doable and I've got more determination with money."**

Conclusions and next steps

Jars was originally conceived as a solution to help UK employees build ‘emergency savings’ alongside their workplace pension savings. It is exciting therefore to learn that some employees are building up a financial safety net through using Jars, and also that the tool is meeting at least two other needs – it is being used for budgeting and cash flow management and for saving for future goals. Identifying and analysing these patterns prompts us to move away from thinking of savings only in terms of the balance, and to consider supporting saving as a behaviour – we can think of saving as a verb rather than a noun.

This understanding is particularly important in the current economic context with rising inflation, and, in particular, fuel costs, leading some to wonder whether payroll saving will become ‘unaffordable’ for more employees. There is a risk that, if we position payroll saving as being only for those who can build their savings pot over time, those who might benefit from using it for budgeting and cashflow management do not feel it is for them. We’ve shared here some thoughts on how communications and products could be designed to support this diversity in savings needs and behaviours. Some providers and employers clearly already meet these needs through the different products and benefits they offer – we are keen to hear examples of what works most effectively to continue to evolve our thinking around the role that hybrid payroll saving could play in supporting financial wellbeing.

Ultimately, Jars is a way of supporting mental accounting and partitioning of money. People use this structure in different ways, depending on their context. Although we might imagine a rational world where people survey the market and weigh up different product options for their different needs, before choosing the one that is most suited, for many people, a payroll saving offer from their employer may be the only form of savings product they encounter or perceive to be accessible to them. For some of the people we spoke to, payroll saving has prompted their transition from ‘non-saver’ to ‘saver’ – they are saving for the first time, despite often low levels of financial literacy.

Crucially, mid-way through this trial, there are encouraging signs that each of these different use-cases for Jars contributes to increased financial resilience and wellbeing – one of the key measures for the overall programme and one which we will continue to evaluate as more data becomes available. As set out elsewhere in our work, there are good reasons to believe that increased financial resilience and wellbeing in the short term – as well as being important in their own right, and contributing to reduced stress and increased productivity - are also important foundations for longer-term financial health.[17] We have also heard from some of the Jars users that consistently saving via payroll has boosted their confidence in their ability to save and manage money, and, in some cases, that they have gone onto start saving in other ways as a result.

> **Jars has made me a confident saver. It has given me a safety zone to really have a look at my finances as a whole, in the knowledge that I can save, and I can plan for the future.**

The potential for payroll saving to support multiple needs and to take people on a journey towards financial security is therefore high. To achieve this, we need to reward persistent saving rather than savings balances and to facilitate, rather than disincentivise or penalise, withdrawals. We should be careful about being too prescriptive about what saving through payroll is for, and ideally allow people to earmark their money for different goals in their own way. We should look for ways to build confidence and celebrate milestones, recognising that small steps can make a big difference to people’s confidence and sense of self-agency, and that this in itself can support financial wellbeing.

As the sidecar savings trial enters its final year, we will continue to monitor the impact Jars has, and to bring together the different sources of data that allow us to understand how it is used in practice. We look forward to sharing further learnings in the coming months, including those relating to the research questions that require the greatest period of data collection to address, such as how people behave around savings targets and the pension rollover.

17 Nest Insight, Workplace emergency saving: a landscape review of existing evidence (2021) **https://www.nestinsight.org.uk/wp-content/uploads/2021/07/Workplace-emergency-saving-a-landscape-review-of-existing-evidence.pdf**

Contact us:
insight@nestcorporation.org.uk

To find out more, visit our website:
nestinsight.org.uk

05/2022