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nestinsight.org.uk

Payroll savings schemes

Building the evidence, making the case, expanding take-up

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Payroll savings schemes in the UK

- **Payroll savings schemes** aim to help people save by *automatically* diverting a proportion of their salary into a savings vehicle each month.
- Core recommendation for **MAPS' Nation of Savers**, which seeks to encourage 2 million more working-age 'struggling' and 'squeezed' adults to start saving regularly.
- Research shows that **72% of employees surveyed want access to a workplace savings scheme & 92% of employers would implement a workplace savings scheme**
- Three main types of payroll-deducted scheme in the market: standalone; repay-and-save; and linked to a workplace pension (sidecar).
- Data on employer and employee take up rates for such schemes and their impact on financial wellbeing are patchy.
- Key challenge is encouraging **employees** to take up payroll-deducted savings – sign up rates are **roughly 5% for opt-in schemes**.



Building the evidence for payroll savings at MAPS

Leeds CU/ FIC



Sidecar (Jars) trial



Large employer Trial

Large professional services employer

Fintech payroll savings provider



Northern Ireland project

Small employer A

Small Employer B

Credit Union A

Credit Union B



What we did



- **Tested 4 engagement and messaging approaches:**
 - ✓ sign up prize draw incentive.
 - ✓ face to face promotion.
 - ✓ using existing payroll savers as champions.
 - ✓ campaigns that promote borrowing (with the requirement to save).
- **Assessed impact on users' savings attitudes & behaviors.**



What we learned

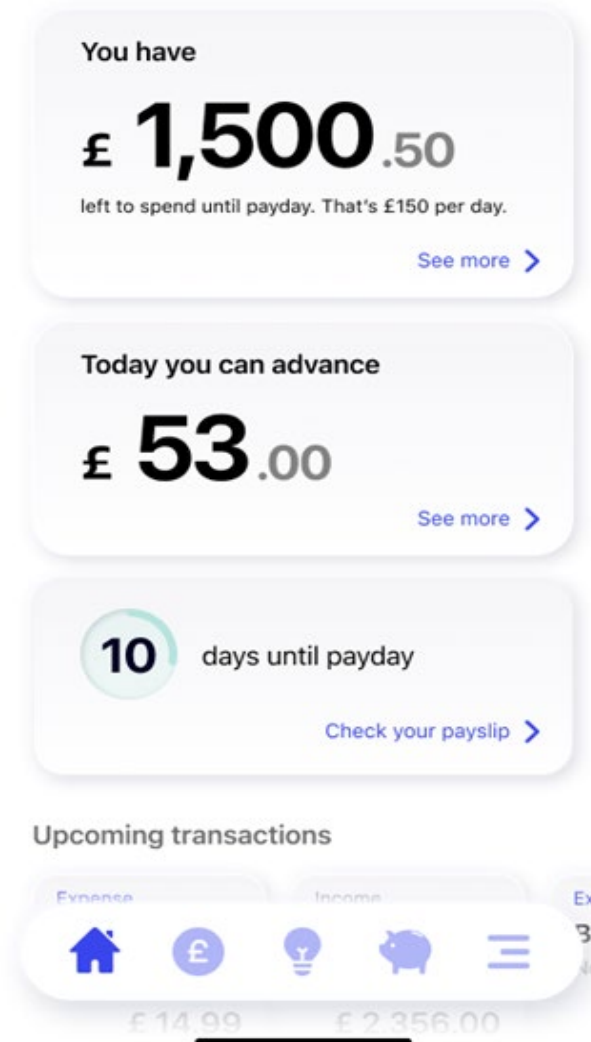


- Offering a **sign-up prize draw incentive** was most effective at attracting staff to join the credit union and start saving.
- **Face-to-face promotion** was least successful in attracting new savers, and the most expensive in terms of customer acquisition.
- Using **existing payroll savers to champion their benefits** – and **campaigns that promote borrowing** – proved comparatively successful at getting staff to start saving & were cost-effective.
- **Monthly reminders** & **positive saving messages** encouraged more persistent saving and led to an overall increase in the amounts being saved.
- Payroll deduction appears to be an **effective mechanism** for attracting non-savers and converting them into regular savers.
- Payroll savings users tend to **report higher level of financial satisfaction** & **lower anxiety and financial vulnerability** than non-users.

“It’s easy to say I can’t afford it. But with it coming straight out of my pay then.... it changed me completely as I’ve realised that I actually can afford it.” [Payroll savings user].

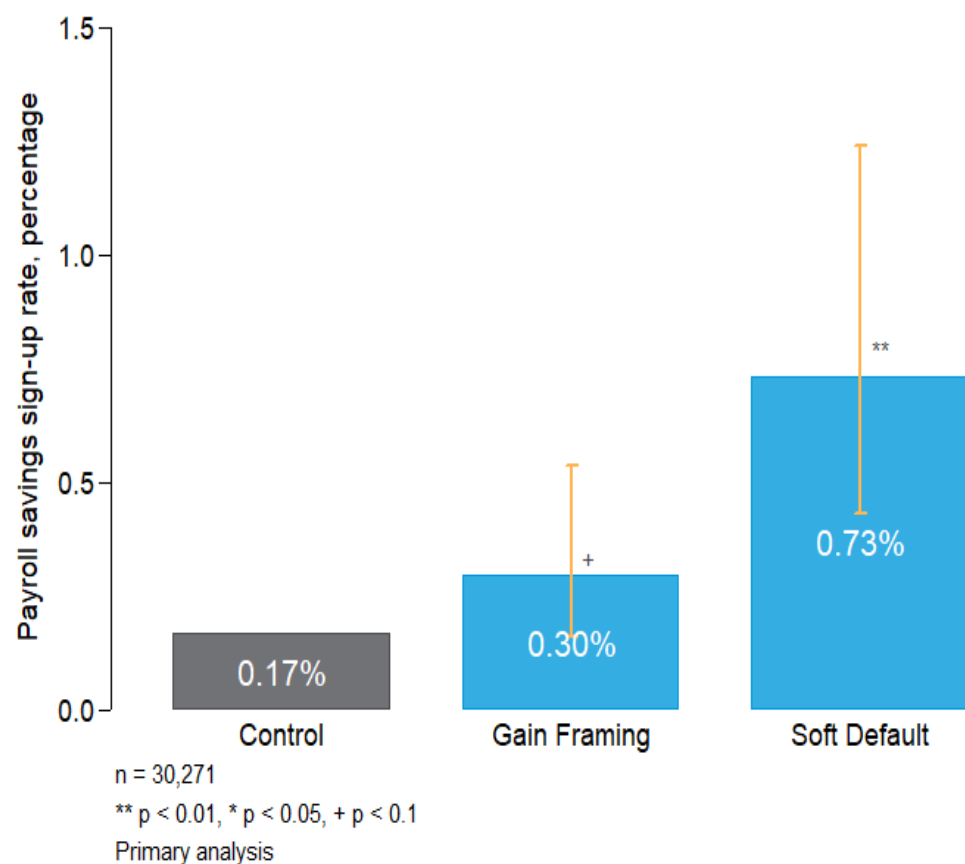
“And knowing that I had a bit of money tucked away. You know that did give me peace of mind. And that is absolutely brilliant because actually, when I did need it, to send to my daughter, it was there.” [Payroll savings user].

We applied behavioural insights to increase signups



- We partnered with a large professional services employer and a fintech to launch a new payroll savings product.
- We designed emails that were sent to 35k employees at product launch.
 - Tested two versions of communications:
 - ✓ **Gain frame** which reframed savings from a cost to something that buys you 'peace of mind';
 - ✓ **Soft default** which highlighted how easy it is to set up an account: "your account is ready for you to use."
- We provided **input on the product design** with specific product features, such as offering users the choice to defer their savings to next month.
- The signup process is very quick with very little hassle.
- The employer provided a **£5 signup bonus** and a **£1,000 prize draw** to further boost sign-ups.
- We evaluated the impact of the interventions and examined the profile of payroll savings users and the initial impact on their financial wellbeing.

Telling people 'we set up an account for you' made more people sign up



- **Four times as many people signed up** for payroll savings when they received the '**soft default**' email stating that "we've opened an account for you" compared with a standard promotional email. Employees also liked **the emphasis on the 'peace of mind'** aspect of the 'gain framing' email as this reflected how they felt when they have savings.
- **The incentives were effective in generating more payroll savings signups.** However, the second incentive email had a much smaller impact on sign up rates compared to the first incentive email suggesting that the impact of incentives wears off.

We generated a number of interesting findings on how people use the product

- The payroll savings product was most attractive to people who earn under £25,000 each year, have little or no savings, and find it difficult to save consistently.
- **Inertia** has a powerful influence on behaviour. Most users stuck with the preferences they chose when they signed up, with very few adjusting their monthly savings amount. The median monthly savings amount was £50 (default recommended by the app).
- **Savings levels ranged significantly:** monthly savings levels chosen by users ranged from £1 to £5,000, with most users (c.60%) saving the default level (£50) or below. As expected, younger people and low earners saved less. In the first eight months of using the product users **saved a total of £377,686**.
- **As well as increasing signup rates to payroll savings, behavioural insights can be effective to the design of the payroll savings product.**

“You know once I set the initial amount I didn’t really change it. That is the good thing about the app for me: you don’t really have to do much, you sort of forget about it.”

[Payroll savings user]

Payroll savings can be particularly effective at helping those who have struggled to save in the past

- Payroll savings users increased their confidence in managing their money, built a regular savings habit and also had a small savings buffer. The payroll savings product had a larger positive effect for people with lower incomes, who had previously struggled with their finances and found it difficult to save; some even described the product as “transformative”.
- BUT... although we managed to get more people saving, only a minority of employees used the product; despite many saying they would like to.

“I finally managed to store away a small pot for any emergencies, it gives me peace of mind if I have any needs with the house or the car” [Payroll savings user].

“It has completely changed the way I save.” [Payroll savings user]

Northern Ireland Payroll Savings Project

- Employer A & Employer B - each employing about 100 people across Northern Ireland.
- Both employers offered employees the opportunity to set up a payroll savings account with a Credit Union (CU).
- Employees received information about the payroll savings scheme via emails from their employers, and via announcements made at company-wide meetings.
- Signup process to payroll savings was relatively easy via app or face to face.
- Brief research assessed how payroll savings had been implemented by employers and received by employees.



Some preliminary results

- Approximately **10-15% of the workforce** at each employer signed up to payroll savings.
- **High levels of employer trust** and the **role of word-of-mouth** were key factors in encouraging take up.
- **People found the ‘set and forget’ nature of payroll savings and flexibility to withdraw or modify their contributions appealing**, suggesting that schemes should continue to highlight both of these aspects in their **communications**.
- **Credit Unions (CUs) were good partners** to launch the payroll savings products with given that **potential users were familiar with CUs and had high levels of trust in them**.
- **Majority of non-users were positive about doing so in the future**, so take-up rate may increase.
- **The biggest barrier to signing up was simply that people were already saving using other products**.
- **Users and non-users felt that take-up would be higher if an incentive was offered**.

“My idea is to save until Christmas, every year I dip into my savings but this year it will be different”
[Payroll savings user]

Final reflections...

- Payroll savings can be particularly effective at helping those who have struggled to save in the past.
- Users are particularly attracted to automation & ease of set up.
- Default savings levels are crucial when designing payroll savings schemes.
- Behavioural insights can boost engagement with payroll savings - the combination of telling people we had set up an account for them and prize draws helped encourage people to save for the first time.
- For smaller employers, trust and word of mouth are important facilitators in increasing take-up.
- Although we managed to get more people saving, only a minority of employees use the product; barriers include: people are already saving; inertia; data security; product information.

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