nest insight

Our long-term programme works with real households across the UK to learn how financial volatility affects people's lives

Real Accounts

Impact brief #2 Balancing Points: the struggle for stability

Founding partner

AVIVA Foundation

Research collaboration with

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About Nest Insight

Nest Insight is a public-benefit research and innovation centre finding better ways to support people's financial wellbeing, now and in later life. We focus on understanding the lived experience of people on low and moderate incomes, learning about their financial needs, challenges and goals through rigorous and thoughtful analysis. We partner with employers, product providers, academics and policymakers to identify, invent, test and evolve practical solutions and see what works best for people in the real world. This builds the case for systems-level change. Our findings are shared widely and freely so that people around the globe can benefit from our work. For more information visit **nestinsight.org.uk**

About Nest Insight's strategic partner

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 and The BlackRock Charitable Gift Fund. The initiative brings together partner companies and non-profit 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**

Programme partners

The Aviva Foundation aims to help people and communities feel in control and positive about their financial futures. Millions in the UK are struggling and worried about money. The Foundation funds organisations working on new ways to help people prevent and prepare for financial challenges, or deal with and recover from financial setbacks. The Foundation gives organisations the support and stability they need so they can use their expertise to innovate and transform the lives of those who need it the most. For more information, visit **aviva.com/sustainability/aviva-foundation/**

The Centre for Personal Financial Wellbeing at Aston University is an interdisciplinary, academic, research centre that seeks to get to the heart of the causes and consequences of personal and household financial insecurity. It focuses on providing accessible and timely insights to support a wide range of leaders and decision makers including those in the financial service industry, third sector organisations, academics as well as the general public. For more information, visit **aston.ac.uk/cpfw**

Glasgow Caledonian University (GCU) is shaping society, influencing governments and transforming people's lives around the world. GCU delivers research with outstanding impact, and the 2023 UK Research Excellence Framework classified 91% of their health research as world-leading or internationally excellent for its impact. GCU's Yunus Centre for Social Business and Health runs the FinWell programme, a financial diaries research project evidencing how a better understanding of community-based and health-focused initiatives can improve lives. See **gcu.ac.uk**

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The

Real Accounts

Impact Briefs

In this series of Impact Briefs we share early findings and ideas from the first six months of research. We go beyond snapshots and averages to try to capture the day-to-day and week-to-week ups and downs that households experience.

Using first-hand stories from monthly interviews, along with digital financial transaction tracking, we are able to build an in-depth, in-the-moment understanding of households' income, spending and money management strategies over time.

Through the briefs we're sharing our growing understanding of people's real financial lives, and why an understanding of volatility is central to that understanding. We began our series with a look at the acute challenges faced by millions of people in the UK living on variable pay. We're now looking more deeply into the different aspects of our findings:

- We explore how people on volatile incomes must innovate and build their own solutions to manage their finances. And we reveal how pursuing resilience can cost people more than it benefits them when they're working against a system that wasn't built with them in mind.
- We take an in-depth look at the data on the drivers and impact of income volatility, and the opportunities to disrupt cycles that erode people's financial resilience
- We introduce the 'volatility premium' and the ways that life is more expensive if you are on an irregular or unpredictable income
- From 'data for good' to ethnographic tools, our methodology has included approaches to understanding households' circumstances and identifying levers for change. We explain more about how we conducted the study, and how we hope our research can be built upon

As you read, we invite you to consider how you might be part of the impact of Real Accounts in the real world. And, going further, we want to explore the role we can all play in creating a better one.

Life is more complicated than a simple sum of income minus expenses. While low-income households are grappling with negative budgets, where their income doesn't meet their basic expenses, many also face uncertainty around pay amounts, pay dates, and the impact this can have on benefits.

It matters when your income hits your bank account, and when your bills need to be paid and how. It matters if your benefits entitlement changes with the amount that you work. It matters if there is flexibility with repayments or if you can choose the dates that your direct debits come out of your account.

Households on low-incomes are the most likely to face the challenges of income volatility, and least likely to have the savings buffer to deal with fluctuations in pay. This is a huge issue for many low-income families and if we are to improve the resilience of household finances, it needs to be a priority for government, employers and organisations collecting payments to address it.

Rachelle Earwaker
Joseph Rowntree Foundation

Executive summary

Balancing Points: the struggle for stability

Effort is supposed to produce results. But, time and again, our Real Accounts households find that all the work in the world can come to nothing when an inflexible system offers constant resistance to your efforts.

Financial volatility, to a greater or lesser extent, is part of nearly everyone's life. As we showed in our last Impact Brief, it's the norm, not the exception – we estimate that it affects more than 25 million people on low and moderate incomes. And we explored why it matters that volatility should be recognised as a hidden vulnerability that affects people on the lowest incomes the most.

In this brief, we look towards solutions. We share a deeper understanding of the strategies that people employ to make things work in spite of the system, and the sometimes overwhelming mental burden this places on them.

Among those strategies, we find:

- Avoiding direct debits, instead paying recurring bills in the moment.
- Hyper-dynamic, micro budgeting, constantly moving money between accounts.
- Using informal loan circles to create access to 'just-in-time' credit, borrowing and lending among friends and family based on whose income can cover a cost at a given moment.
- Or banking on, and with, trusted household members, by asking them to hold or 'protect' their money.

Managing this way takes huge effort, and often comes at additional cost – and it isn't necessarily successful. Most people manage to 'just get by' in spite of things. Others find themselves in a very precarious position.

To introduce a way forward, we look in greater detail at three main areas, and discuss the promising solutions that could make a difference to the lives of our Real Accounts households:

- **Informal credit**. We show how, if you're excluded from many mainstream borrowing options, the reliance on informal credit is a vital tool, but one that has major limitations and can cause significant personal stress.

  We then explore the need for greater understanding of the drivers behind people's need for debt and credit solutions. We look at the need to more closely align those solutions with people's lived experience, including innovations in payroll and credit union provision. We reveal how improving financial literacy around why some solutions may not be available can direct people away from risky or expensive providers. And we look at promising developments in the fields of debt respite, workplace loans and flexible pay schemes, and greater choice about repayment frequency.

- **The struggle to save.** We see how complicated financial lives make it difficult, often impossible, to build up any savings.

  And we look at some promising possibilities that could make a powerful difference to many lower-income workers. We discuss the need for short-term emergency savings, alongside savings for the longer term. We reveal more about our own research into opt-out payroll savings, which offers a proven, powerful and popular solution which has attracted wide-ranging support. And we introduce further promising developments including debt-to-savings pathways, save-as-you-borrow and salary sacrifice schemes, as well as the government's Help to Save scheme.

- **Seeking stability.** Finally, we see the huge burden that constant juggling and decision making can place on households trying to operate in an inflexible system that's out of sync with the realities of their lives – especially when they are already impacted by poverty. We see how one apparently minor issue can lead to a household's finances veering off course without access to the solutions that people in more stable situations might take for granted.

  We then discuss the promising management solutions that are beginning to emerge in the field of flexible pay schemes and flexible loan repayments. We look at the double-edged sword presented by some automation and streamlining tools, and we invite providers of financial products and services to challenge their assumptions about how stretched households engage with the options available to them.

Finally, we conclude by reflecting on the complex strategies our Real Accounts households have to employ and what that means for their financial wellbeing and their lives in general. We acknowledge the difficulty of the terrain we're attempting to cross, and recognise that a complex challenge may require a multitude of approaches. And we open the floor more widely – to policymakers, employers, academics and product owners alike – to recognise the opportunity to improve the lives of countless households, and to move towards better, fairer solutions.

Introduction

One size can never fit all

We've already seen how the design of our financial system relies on an assumption that doesn't hold up under scrutiny – that most people have a regular, predictable, monthly income. We're now going further, to reveal the efforts our Real Accounts participants go to just to squeeze their volatile financial situation into a system that isn't designed for them.

Real Accounts households are proactive and tenacious. They have to be. Their financial lives don't fit into the one-size-fits-all template of monthly, regular payments and stable finances, so they create their own processes and solutions, working with the tools most readily available to them. They complement credit cards and catalogue payments with loans from sisters and mums. Their bespoke saving solutions often rest on the strength of their memories and social networks – from 'holding' money in mental pots to relying on family members or friends to literally hold it for them. And they budget constantly, transferring money from one account to another while mentally keeping track. But there are costs to this ingenuity. Their experience of working outside the standardised environment includes the mental stress of perpetual admin, social pressures of having to rely on others more than they might like to, the financial costs of not being able to work within the system. Ultimately, the result of all this constant improvisation is a life that's held together by a patchwork of makeshift (albeit inventive) solutions and best-guess strategies. For some of our households, the approaches they adopt in the absence of products and services that work with their lived realities mean that simply keeping on top of the repairs to their financial resilience becomes a job in itself. Eventually, something has to give.

The 7 Real Accounts volatility profiles

In our first Impact Brief, Why understanding volatility matters, we introduced seven profiles that reveal households' diverse experiences of volatility – we refer to these profiles throughout this brief.

These profiles have been informed by the Real Accounts' households' lived experiences. So although they are not a universal segmentation that applies to vulnerable households, they do describe the drivers and impacts of volatility as it's experienced by those on low and moderate, variable incomes across the UK – and the many contexts in which they can be found.

Treading water

A steady but insufficient source of income, often complemented with volatile sources

A constant balancing act

Households rely on a combination of multiple, often irregular income sources, resulting in monthly fluctuation between low and middle and occasionally high incomes

Out of sync

Low to middle income households whose income volatility is driven by variable pay patterns

Stable and steady

Middle income households earning stable and regular incomes

An ideal journey

Able to use income volatility (e.g. optional overtime) to their advantage to save up or invest in their future

Caught in a safety net

Benefits are the primary income source, and benefit and employment changes drive volatility

An unsure bet

Mature students who fluctuate between low and middle income as they navigate their studies and employment

Real Strategies

Informal credit

When money is needed urgently and you can't call on traditional help, people reach for the nearest thing to hand

Despite their different situations, what unites many Real Accounts households is the use of informal credit. It's central to many households' financial management strategies, and worth understanding better.

Little fires everywhere

Unexpected costs, big ticket purchases, delayed invoices and lighter-than-expected payslips can feel like small fires breaking out in a household's balance sheet. In the absence of savings that could be used to stamp them out quickly, credit can be the first thing many of us reach for to douse the flames. Bank loans or credit cards all play a part – often with a side benefit of improving your creditworthiness and increasing access to other helpful products. But for those on volatile and low incomes, limited access to credit means working outside the system. That can mean using a mix of options that meet a need for flexibility, low or no interest, and customisable repayments. This most often involves combining mainstream credit sources with forms of informal debt[1]. Just over half of the Real Accounts households use informal credit as a crucial complement to formal sources. It's a hybrid approach that fulfils needs and bypasses barriers that traditional credit doesn't. But it has limitations.

In this section, we look at many of the informal strategies our participants employ, and why our emerging understanding is crucial to designing financial services, policies and products that could help households to tackle fires before they run out of control.

Who's using informal credit and how?

Although nearly every household we worked with used some form of credit, those with more severe or complex variability relied the most on informal loans. Those in the most precarious situations were also the most burdened by the stressful and demanding work of finding a way – sometimes unsuccessfully – to stay on top of their finances while having access to the fewest traditional options.

1 We use the term informal debt to describe no interest loans that Real Accounts participants received from, and provided to, friends and family. We didn't observe Real Accounts households use other, riskier forms of informal debt such as borrowing from money lenders and loan sharks during the project and do not refer to those in this section.

Real Accounts households' use of formal and informal credit

	Formal Credit			Short term Credit			Falling behind		Informal credit	
	Mortgage	Bank loans and other types of formal loans	Student loan	Non-traditional (eg BNPL, shopping credit)	Credit card	Overdraft	Arrears	IVA and debt repayment plans	Rotating savings & credit association (ROSCA)	Informal loans
Treading water	Around sample average	Around sample average	Below sample average	Above sample average	Above sample average	Below sample average	Around sample average	Above sample average	Above sample average	Around sample average
Constant balancing act	Above sample average	Above sample average	Around sample average	Above sample average	Above sample average	Around sample average	Below sample average	Around sample average	Around sample average	Below sample average
Out of sync	None	Around sample average	None	None	Below sample average	Above sample average	None	Above sample average	None	Above sample average
Stable and steady	Above sample average	Above sample average	None	Below sample average	Above sample average	Below sample average	Below sample average	None	None	Below sample average
An ideal journey	None	None	Above sample average	None	Below sample average	None	None	None	None	Around sample average
Caught in a safety net	None	Below sample average	None	Above sample average	Below sample average	Above sample average	Above sample average	None	None	Above sample average
An unsure bet	Below sample average	None	Above sample average	None	Below sample average	Above sample average	None	None	None	Around sample average

Above sample average | Around sample average | Below sample average | None

Flexibility and custom timelines

We met Halima in our first Impact Brief. She's a single mother and tenacious money-manager, with a single income that comes primarily from benefits – her experience aligns with the 'Caught in a safety net' profile. Halima strives to create a sense of stability for her children. She's had to become an expert at navigating the benefits system, and a stickler for a strict groceries budget. Despite her hard work to stay on top of things, Halima often depends on credit to make ends meet. But she has limited options. She has a poor credit score thanks to previous debt issues and most of her earnings coming from benefits.

Halima's income volatility and circumstances make it very challenging for her to reach for tools that those in a stronger financial position might use to manage a household budget. Instead, she manages by rotating between the options she does have: a combination of an overdraft (maximum £500), a credit card, using buy-now-pay-later, falling into arrears – and regularly receiving in-kind support and loans from a family member. Of all the things she uses to manage, borrowing informally best meets her need for flexibility:

'The good thing is, if I borrow from [family], she waiting until I pay back, but she never asks me. She never saying "give me my money'. (...) She say 'don't worry, when you're gonna get it, you're gonna give it to me."'

A stopgap accessible when needed

Jolene is also a single mother who's 'Treading water'. Most months, after she has covered her household expenses, there is little or nothing left over and, like many of our Real Accounts households, her income is out of sync with her expenditure. So although she typically knows how much she will be paid, some months her biggest outgoing – her rent – is due before her salary comes in. That forces her to take a short-term loan from a family member that she pays back only days later. Ideally Jolene would draw from a savings pot, but the combination of low and irregularly timed pay make this very difficult.

Smoothing irregular incomes – with no interest and minimal financial risk

One of the key challenges of irregular incomes is the need to smooth consumption. For Justina, a tight social network is the solution for the volatility she experiences. Her employer pays on a 4-weekly pay pattern, and she also receives an irregular income from self-employment. Whenever she has an unexpected expense, Justina relies on being a member of a close circle of four friends and family members. Each of them get paid at a different point of the month, ensuring there is always someone who can lend money when needed. They trust each other to pay what they've borrowed – and to step in when the next person needs help:

'There's trust involved. You know there's not really any judgment that comes from my family and my friends.'

Giving and receiving

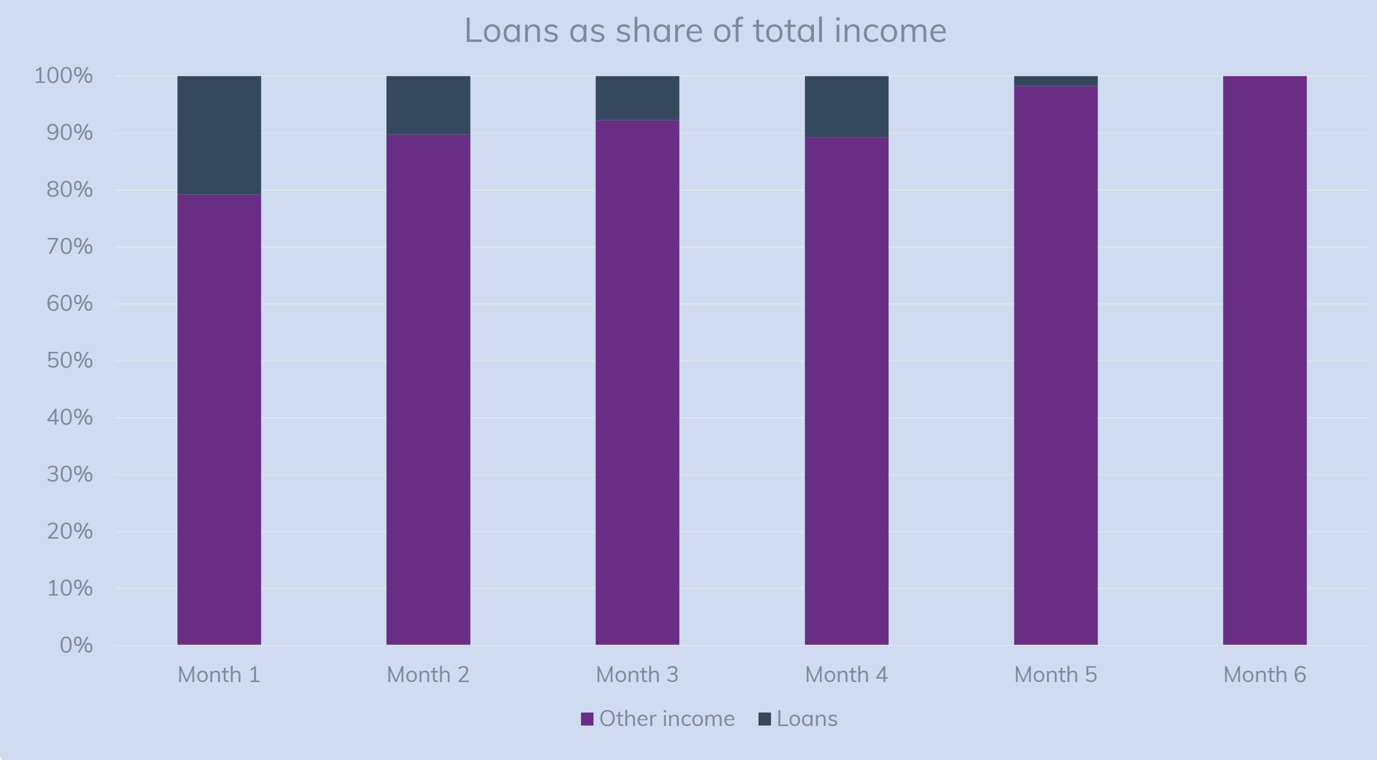
Reciprocal arrangements maintain the relational bonds that informal loans require.

Real Accounts participants provided as well as received informal loans. Ruth is a mother, a student, and an employee, and has a lot on her plate. But when a friend needed her help, she didn't hesitate to use her savings to support him. Reviewing her monthly transactions with the Real Accounts researchers, she explains:

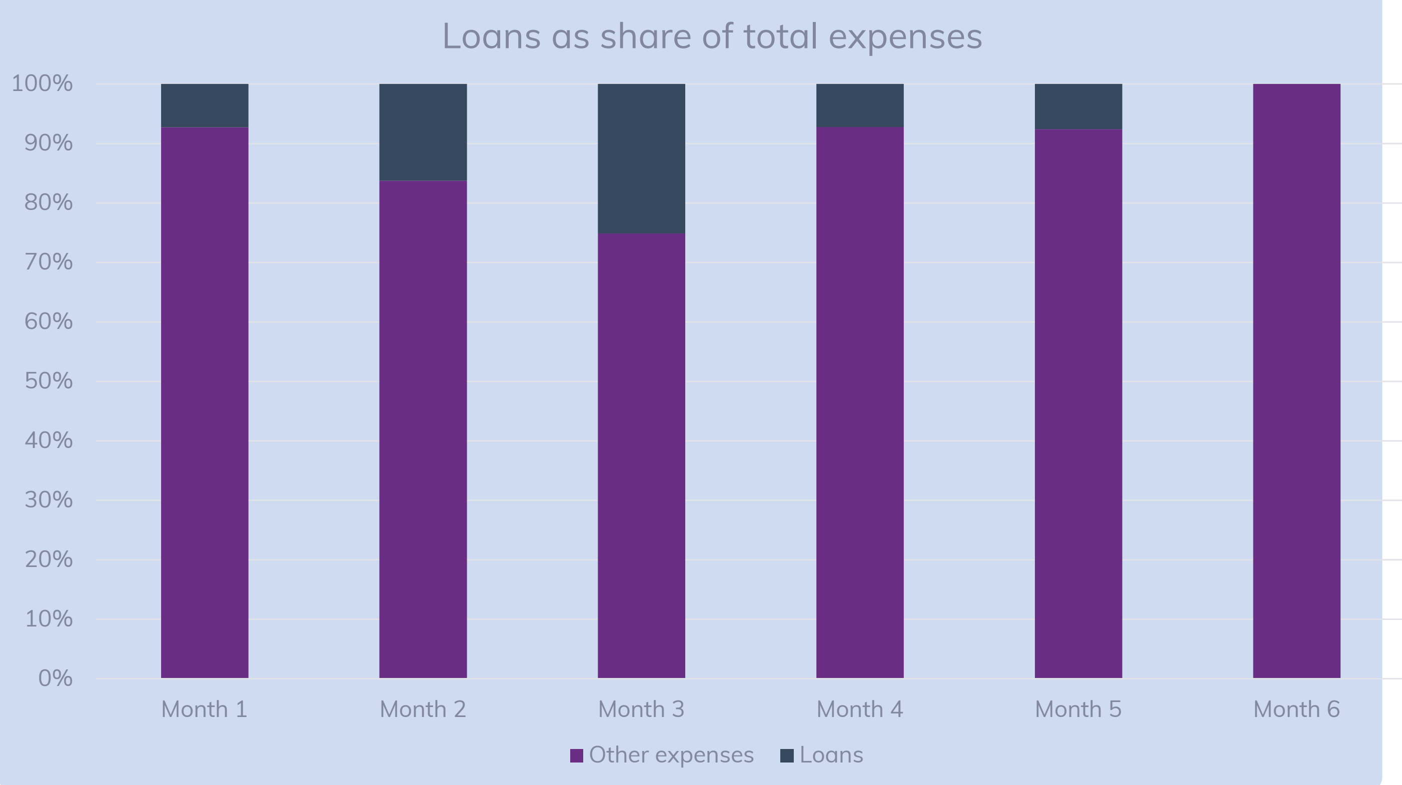
'You will see there's some money I kept on sending but my friends will be refunding it back to me. If you see there's an expense of about £520 from my (...) account that I sent to my friend. He was really in trouble and he had a date that was going to bounce and that would not be good, so it will be coming back to me, he will be giving it back to me.'

Justina and her circle of friends rely on each other for loans

Most months, loans make up 10-20% of Justina's income…



…as well as up to 25% of Justina's expenses



The limitations of informal borrowing

Many Real Accounts participants felt conflicted about using informal loans. They saw the benefits of being part of a supportive network, highlighted that sometimes that network was their only option, and yet recognised drawbacks of informal loans.

Elaine, also a single mother, uses a variety of credit sources to make ends meet, but she regularly relies on help from a family member. Her stable, yet insufficient income, illustrates the experience of the 'Treading water' profile. She remembers supporting her sister when she was younger – and now receives support herself:

'With me and my sister it's pretty much been always like that where there's been times throughout our adolescent years, adult years where I've given her money to go out, when I started working and stuff coz my mum wasn't able to. And I think it's just like now, the shoe is on the other foot really. Kinda like she's doesn't have as many outgoings as I do, like she doesn't have a child, so yea it's just swings and roundabouts really. She's aware of the money issues that I have. She's my main source of support.'

A relatively short line of credit

The first limitation of informal loans is that they are usually limited in size, about enough to cover a specific bill or larger day-to-day expenses. This is not an issue for those who can access other forms of responsible credit to make up the shortfall, but it creates a challenge for those who can't. When Elaine's car broke and created a need for credit that was off the scale of informal loans from her sister, she was fortunate in being able to get a loan from her local credit union, rather than having to look for high-interest credit elsewhere:

'The credit union, they do do quite a bit of education, and I think, I wouldn't say I had to jump through hoops to get the loan, but I did have to go into my finances in as much detail as I am with you. They have to make sure because they are a responsible lender. Whereas other times in the past when I've lent [borrowed] money, it's been like, people have overestimated, they have had too much confidence in my ability to pay them back basically'.

A strain on relationships

But loans from friends and family can cause stress, and participants were careful to not overuse their network. Conversations we had with Real Accounts participants around debt were among the most emotional of the study. Many felt ashamed to be using credit at all and described the effect having to ask for help, or rotating across a limited credit portfolio, could have on their mental health. Elaine says she is hesitant to ask anyone other than her sister for support:

'I'm also against lending [borrowing] money from certain people, like family and stuff, because if anything happened and you can't pay them back it damages that relationship in a massive way and I'd much have them around me when I need them for non-financial things.'

Opportunities

Rotating across multiple credit sources and managing the balance between using informal credit when needed, yet not overusing networks meant that, for many Real Accounts participants, staying on top off debt was stressful. And it could be an unsuccessful effort. For example, Halima's system of rotating credit between short-term and informal sources reached its limit when a delay in her application to Universal Credit meant that she was without a stable source of income for two months, causing her to fall behind on her rent.

To avoid situations like this, Real Accounts participants need more financial options that are designed with an intricate understanding of how they engage with informal credit – and complement, support and mirror existing use patterns rather than offer a 'one size fits all' solution.

Real Solutions

Debt and credit solutions

New solutions to enable people on volatile incomes to manage debt must address the needs for affordability, accessibility and low financial risk. They can do so in a number of ways.

- First, policy and practice would benefit from a better understanding of what drives people's need and use of debt and credit solutions in the first place. While persistent low income will be an issue for many, our discussions with Real Accounts households highlight the need to find ways to smooth the dips and spikes in their incomes. Solutions that support them to do so might include 'earned wage access' or salary advances.
- Next, there is a need for better, responsible debt options in the market, that are more closely aligned with people's lived experiences and needs. For example, credit union lending models offer accessible, affordable loans that also promote savings. Concepts like this are especially effective when linked to payroll, which can make it more accessible for people who might not otherwise seek out loans or who would find the mental burden of tracking and managing regular repayments challenging.
- And solutions must help people understand *why* some borrowing options are not available to them, and what they *can* do next within the system. Many households on variable pay have met with a closed door when trying to access formal credit. For some, this channels them towards risky and expensive providers (loan sharks, informal money lenders, payday loans) or into reliance on small amounts borrowed from friends and family. These households need support to better understand their options when they are refused a loan:
    - Which benefits and social tariffs they may be eligible for
    - How to access debt advice
    - How they can build their credit rating over time.

It is also crucial to continue to find ways to support households on variable pay to manage their existing debt, even where they are not able to repay the same amount every month.

Promising developments

- Breathing Space (Fair4All Finance) is a debt respite scheme launched in 2021. It provides protections for people living in England and Wales who are in debt. This includes pausing enforcement action and contact from creditors, and freezing interest and charges on their debts.
- Employers have a role to play providing low-cost workplace loans. There is a growing body of evidence about how deposit loan schemes can help employees manage the costs of large, upfront payments for housing and travel, especially where variable pay makes it harder for people to save towards those expenses or pay for them at short notice. Workplace loans can also offer a lower-risk route away from some of the coping mechanisms used to manage large, unexpected costs on low, unpredictable incomes. Flexible pay schemes also give households with volatile earnings the ability to more closely align their incomes with their spending needs.
- Allowing people to choose repayment frequency to align with their pay period can also resolve some of the challenges experienced by households trying to balance irregular pay and monthly payments. For many people, their negative experiences of debt are driven by a collection of small household costs that become unmanageable, rather than one big one. Solutions such as Fair For You's affordable loan scheme allows households to apply for low interest loans for household items, decide on a weekly, fortnightly, four-weekly or monthly payment schedule that can be adjusted as needed.

Real Strategies

The struggle to save

According to the UK Money & Pension Service, over a quarter of UK adults have less than £100 in savings. Yet most Real Accounts participants were avid savers – only five of them did not save during the first six months. However, without savings products that were designed to work for those on volatile and often low incomes, managing the money involved a constant series of active decisions and effort – work that still did not result in a positive balance.

In this section, we highlight examples of custom savings strategies Real Accounts participants developed, and describe what is missing: savings products that reduce decision making load, create some access barriers – yet do not fully lock away savings – and provide a pathway from savings behaviour, to accumulating short-term savings, to establishing longer-term savings.

Alexa is a care worker in her 50s and one of the 'Constant balancing act' profiles – drawing on multiple, sometimes irregular incomes. Her strategy is not what we usually would consider saving – she is in fact lending money to a friend.

'It was sort of, not lending her, it was sort of a savings way for me. Because I needed that money for my holiday, so it would have been in my account anyway, but she was desperate and because she gets her money on June 1st, I don't mind helping her because I trust her. Right, do you get it? I couldn't afford it, I need it myself, but I knew it's going to come back to me on a certain day.'

This resonates with what we are observing in the Real Accounts project: only five households didn't save at all during the first six months, but the ways the remaining 39 households saved came in many shapes and sizes. For 31 households those included ways we would usually think of as saving: putting money away in an interest-bearing savings account. Yet saving also often happened through separate current accounts – 32 households used this strategy to keep money separate, yet accessible – or informally with family members or friends.

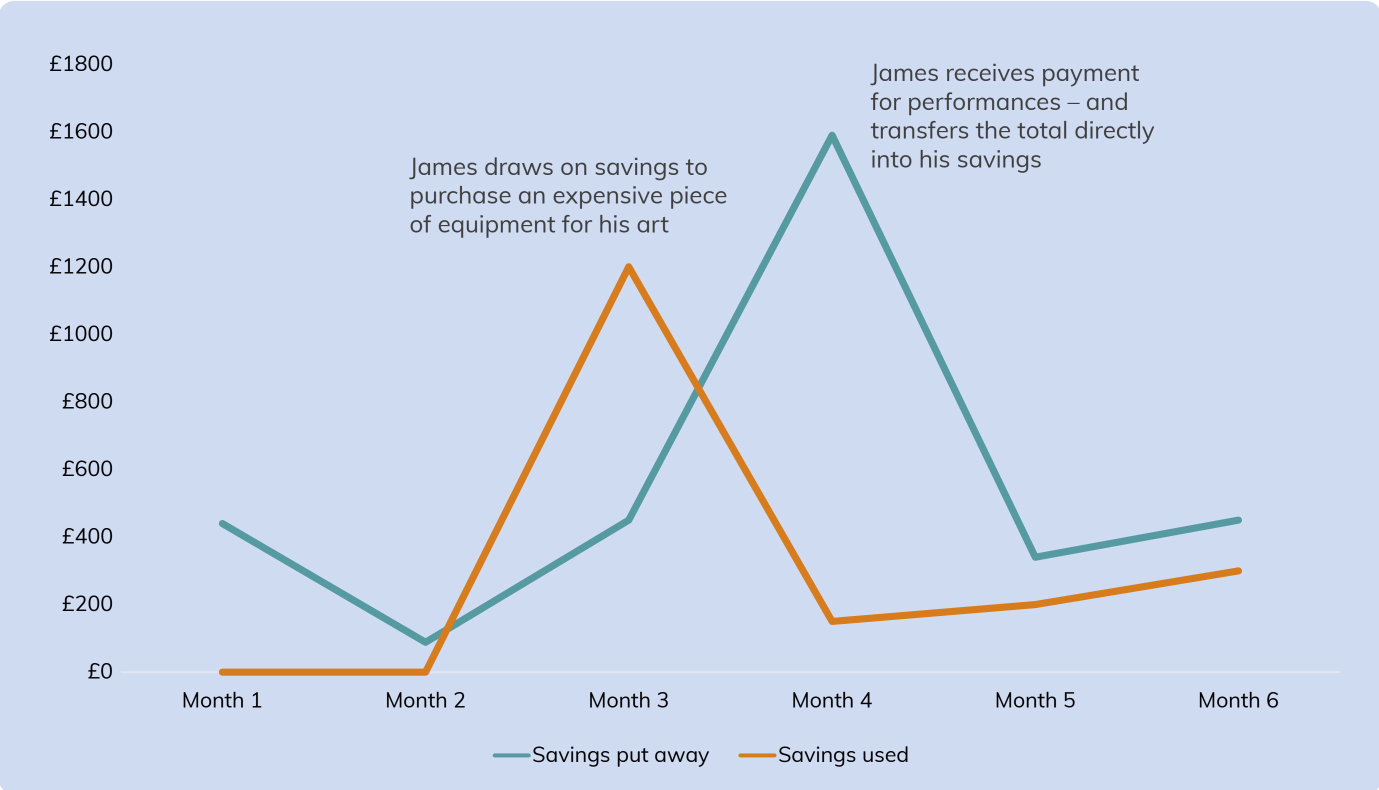
In this section we show how James, Ahmed, and Sadie are each trying to customise a savings product for themselves with varying levels of access barrier – from locking money away in a LISA to entrusting it to a circle of fellow women to keeping it in separate account, even if only for a short period. Where possible, they rely on financial products to help them make their savings behaviour stick – in James's case the Round Up Feature helps him save small amounts regularly without having to actively decide to do so each time.

While all three are highly committed to saving, only James is able to accumulate savings by the end of the six months. A drawback of having to rely on yourself to save is having to regularly make conscious decisions what and how to save. The mental effort, combined with the needs created by low and volatile incomes, meant that for many Real Accounts participants savings behaviours didn't translate into savings accumulation.

James's 'Swiss army knife' approach to saving

Combining products to build long and short-term savings: saves £3385, accumulates £1535

As an artist with a part-time job, James's income is moderate, sometimes unsteady income. He and his partner share a household in the 'Constant balancing act' profile – combining multiple, irregular sources.
To manage this volatility, James is an active and motivated saver.



'I supposed that's because we didn't have money growing up and I don't have a safety net, like I will never inherit anything. There is no history of ownership in my background. For me, it's important to build as much as I possibly can because you know if anything happens no one is going to pick it up.'

James uses a number of financial products to save. He builds up long-term savings through weekly contributions into a LISA. For short-term saving, he uses the Round Up feature that his bank offers – automatically rounding up his purchases to the nearest £1 and setting aside the difference in an accessible savings account with interest. To better mitigate his fluctuating income, he has also set up standing orders from his current account to go into savings. He tops these up with additional transfers whenever his income is higher and draws from them whenever he faces larger expenses. With the help of both the formal savings tools and his own custom strategies, James puts £3385 into savings over the six months. He draws £1850 to finance ongoing expenses and invest in his work, leaving with net savings of £1535 accumulated over 6 months.

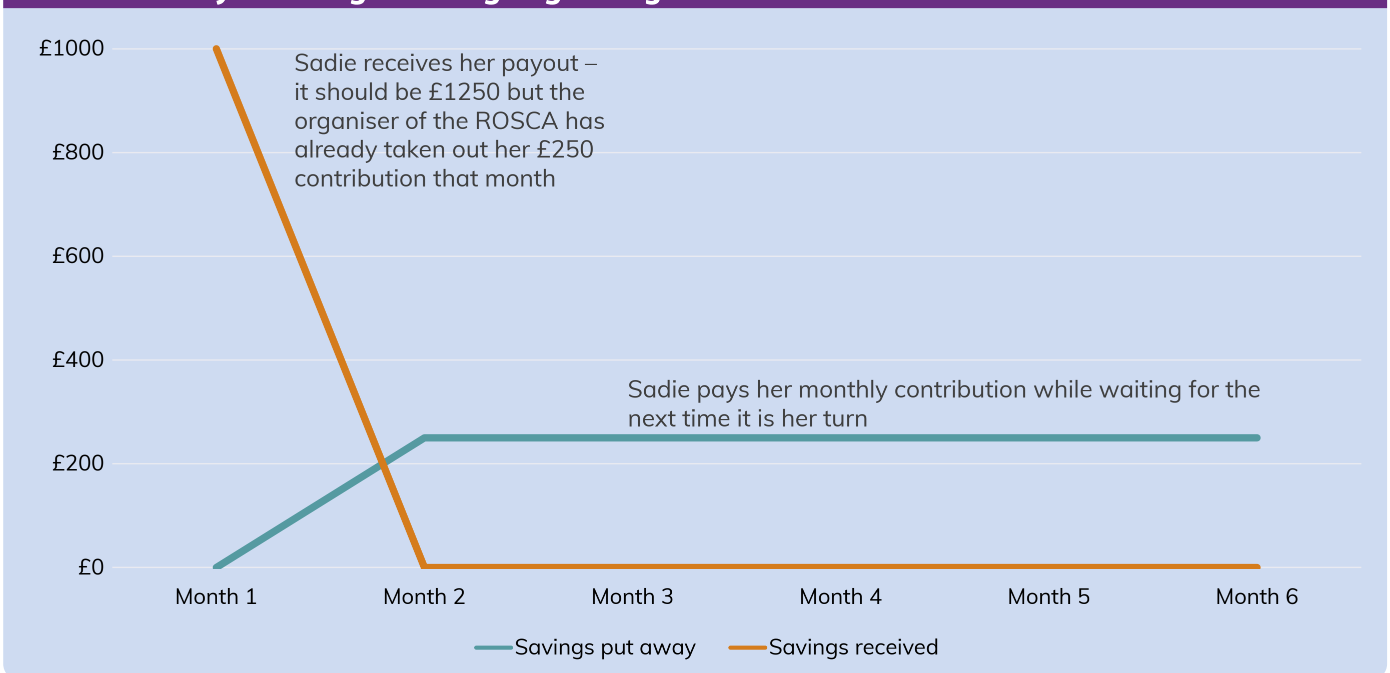
Sadie's circle of trust

Pooling resources and sharing risk saves £1250, accumulates £0

Sadie is a recent immigrant to the UK, a single mother and one of the households in the 'Treading water' profile who struggle to manage on their low income. In addition to working, she is studying to gain additional qualifications that would unlock higher earning opportunities, but struggles to find the resources needed to pay for the process. As a Muslim, Sadie feels excluded by much of the formal financial system that doesn't offer Sharia compliant services. Instead, she has joined a rotating savings and credit association (ROSCA). Her ROSCA consists of six women. Four pay in £500 per month and receive £2500 when it is their turn. A monthly contribution of £500 felt out of reach for Sadie, so she shares her membership with a friend: they each contribute £250 per month and receive £1250 at payout. Even though she hasn't met the other members of her ROSCA, Sadie trusts them as she recognises herself in them: 'We are all broken women'.

Sadie feels highly accountable to the group and appreciates the discipline it provides: her £250 contribution is the first thing she pays when she receives her salary, and she would be unlikely to save at that level without the added sense of accountability. The ROSCA allows Sadie to access a lump sum at the start of the Real Accounts project – it is her turn to receive the £1250. However, without other savings tools to rely on, Sadie is unable to build up longer-term savings or build short-term savings buffers.

Sadie's monthly incoming and outgoing savings



Ahmed's role as the family banker

Building up savings and slowing down spending saves £21,731, accumulates £0

Ahmed is another 'Constant balancing act' household. We introduced his family in the first Impact Brief – showing that Ahmed is responsible not only for his own expenses, but also for managing his multi-generational family's finances. With volatile incomes, they all find it important to save and smooth out income, yet difficult to put money away for long as they often face unexpected expenses or struggle to make ends meet. For his family, Ahmed is one solution: He often serves as an informal bank for several family members who want to save and budget, but find it difficult to do so. They transfer money to 'look after' to Ahmed, then ask him to withdraw it when needed. He explains: '*The reason why they do that [transfer money to him to look after] is because they can't trust themselves [...] it's saving them a bit more money for them*'

As head of the family bank, Ahmed is intent on saving, yet often confronted with sudden expenses or family needs that make it difficult for him to put away a standard amount or lock savings away for a certain time. So he's developed a routine for himself: never leaving more than £60 in his current account. Ahmed transfers any income above that immediately into a separate savings account and then moves parts back when he needs them. This system helps him stay in control, but it also requires constant vigilance. And ultimately, Ahmed is unable to accumulate longer-term savings throughout the six months: even though he moves more than £20,000 of his and his family's money into his savings account over the six months, he isn't able to hold it there, instead having to transfer it back to cover expenses.

Making savings habits more effective

As we can see from James, Sadie and Ahmed, many households with variable incomes do have savings habits. They range from traditional to unorthodox, and reflect the households' priorities around the options available to them. Too often financial products don't serve the needs of households like the Real Accounts participants. They might not offer enough accountability and encouragement – which is where structures like Sadie's ROSCA or Ahmed serving as a family bank come in – or they don't find quite the right mix of flexibility, accessibility and 'locking away' savings that participants need. The strategies that participants come up with instead, such as Ahmed manually transferring money into savings account at certain intervals, have the benefit of fitting exactly into their life, but the drawback of requiring regular decisions and mental effort to keep up with. And, while they are an important tool to feel in control and build up short-term buffers, they have their limitations when it comes to helping participants build savings over the medium term.

Real Solutions

Savings as a foundation

It is critical to support households on volatile incomes to build, use and replenish their savings. The benefits of having an emergency savings buffer are obvious and well-evidenced, and households on low and variable pay can't afford not to have savings.

Translating households' tenacious savings behaviours into real money in the bank requires building on and encouraging existing behaviours and motivations. For many Real Accounts households, the decision to save is a given – but figuring out how to do so requires them to negotiate barriers, rationalise between options and select those that feel right for them.

Ideally, households save regularly and use their buffers to manage shocks. It's no surprise that those on the lowest and most volatile incomes find saving particularly difficult. However, many are trying to save, in whatever ways they can. They are using innovative strategies that align with their household structures, knowledge and immediate needs. But in many cases these strategies don't meet the need for deeper savings pots and greater financial resilience.

Variable incomes require options that provide both sides of this savings challenge – short-term emergency funds, and longer-term security.

Opt-out payroll saving schemes are one example that reduce decision-making load and recognise the need for accessible short-term savings, while providing a pathway towards greater longer-term savings.

Opt Out Payroll Savings offer accessible, low-barrier savings

Since November 2021 Nest Insight has been working with large UK employers on real-world trials of opt-out approaches to payroll-linked saving.

These approaches remove the friction of getting started with saving in a formal account. In an opt-out payroll autosave model, employees automatically start saving into their own accessible savings account through regular payroll contributions unless they choose not to. If they want to start saving, they don't need to do anything. Everything is done for them. Only people who don't want to save have to take action.

- Money can be withdrawn quickly and simply, at any time, without fees.
- The opt-out approach is dramatically boosting saving participation (up to 7 in 10 eligible workers started saving through payroll) and workers say they like the scheme (over 90% of eligible employees are happy or neutral about the saving scheme). The nudge is proven, powerful and popular.
- Within 4 months, saving balances are approximately £100. This is despite the fact that workers are typically low or moderate earners, and many have variable income patterns.
- As one participant said, 'It's an easy option and takes away the need for setting up a saving account elsewhere, where you may be deterred by the need to do form-filling.'

Read more about the research here.

The day-to-day act of saving, even if only to smooth cashflow within and between pay periods, can make a positive impact on people's financial resilience. For some, even that is too challenging, and tools like autosave through work could help those people to get started with saving as a budget management tool. But for those already saving, they also need the right tools to make it more automatic while remaining flexible – this could significantly reduce mental load and also, over time, help them to move from being active savers to building and growing a savings balance.

Other promising solutions

Other areas that might support households struggling to get started saving, or to manage savings with the need to borrow include:

- **Debt to savings pathways**
  Pre-commitment to automatically transform some or all of a monthly debt repayment amount into savings at the point a loan is paid off
- **Save as you borrow**
  When a loan is taken out a savings account is opened at the same time and a small part of the loan repayment amount goes into savings each month
- **Salary sacrifice**
  Make it easier for smaller employers to offer salary sacrifice pension schemes and support employees to put the money saved into an emergency savings account. As one participant said, 'It's an easy option and takes away the need for setting up a saving account elsewhere, where you may be deterred by the need to do form-filling.'
- **Help to Save**
  The government's Help to Save Scheme highlights the opportunity to support better adoption of government support. The scheme allows eligible people entitled to Working Tax Credit or Universal Credit to save between £1 and £50 each calendar month, receiving a bonus of 50p for every £1 they save over four years. The scheme's impact could be amplified by simplifying the sign-up process, and making the savings boost more accessible to households on variable pay who might not be able to save one month, but could for example save £100 the next (which would exceed the current £50 monthly pay-in limit).

Real Strategies

Seeking stability

Constant adjustments, just to stay in control

In this section we show how tightly Real Accounts households attempted to stay in control of their finances and the constant decision making it required. We see how easily one event can have significant consequences – and how more custom products, for example flexible bill payments could help ease that burden.

Managing on a volatile and low income means that many of the mainstream financial options aren't accessible to you. You can't necessarily pay your bills on direct debit, because you might not have enough money in your account at the time that payment would go out. You can't rely on the fact that, overall, your income is sufficient to cover regular expenditure, so you have to actively plan and budget for every expense. You are constantly course correcting in a pressurised environment. For this to work you need to make all the 'right' decisions about how to manage your money and all the 'right' things need to fall into place.

'It looks like we're money laundering', Lisa jokes when explaining the intricate system she and her partner Peter use – moving money from individual to joint accounts, into savings and back on a regular basis. With a regular salary and pension, Peter and Lisa are part of the 'Stable and steady' profile. Nevertheless, they keep a close eye on their finances. Moving money into different accounts helps them ringfence 'pots' of money: for bills, for savings, for everyday expenses. Over the first six months, these transfers amounted to 1.25x their income during that time.

Many participants employed similar strategies of 'mental accounting' and frequent transfers between accounts, especially if they were on lower and more volatile incomes. Ahmed, as we saw in the previous section, never leaves more than £60 in his current account and transfers money back in as needed. Jack and Emily who underwent a lot of uncertainty during the study, as they were transitioning from being mature students to finding employment, made on average 70 transfers per month – more than two a day – to stay on top of their finances.

This wasn't necessarily a choice, but rather a necessity to remain in control of outgoings – an attempt to keep money safe for expenses they knew were coming and sometimes a tool to prioritise which expense was most urgent. Doing so took constant vigilance and effort – and often still wasn't enough to remain stable. Here, we tell the story of one Real Accounts participant and her financial life throughout the first six months showing the strategies she used to stay in control and the circumstances that at times made that impossible.

Becky's story

Forty four households gave their time to share their experiences with the Real Accounts team, and Becky is just one of them. She's not an outlier, and her circumstances aren't unusual. But her situation, and the constant pressure she is under, shows how changes to the system, and improvements to the design of products, could make a radical difference to the wellbeing of countless households just like Becky's.

An active money manager

Becky had been made redundant during Covid and only found part-time employment a few months before joining Real Accounts – putting her in the 'Caught in a safety net' profile. Throughout the month, she transfers small amounts of money into different savings accounts 'to hold it' so she won't 'easily spend it'. She explains: 'I put it aside and if I need it I bring it back to my account. Because sometimes when it's just sitting there, in my normal bills account. I don't want to be like yeah I got money. I know it sounds silly.' She acknowledges the effort constantly making decisions around transferring money in and out takes, but that it works for her: 'it can be a little annoying in that sense but in some silly ways it works.'

To make it easier for her to budget, Becky has also asked for her Universal Credit to be paid in two instalments. 'Previously when I went on UC, my payment was monthly and it's not that I can't budget but when the money is there you tend to be a bit frivolous with it. And by the time you know it, two weeks in and you got nothing. Whereas now, I'm a little more cautious with the payments coming in the first half and it's a little bit of a bonus that okay I'm not constantly without money and such when there's another payment coming in.'

Unexpected opportunity creates uncertainty

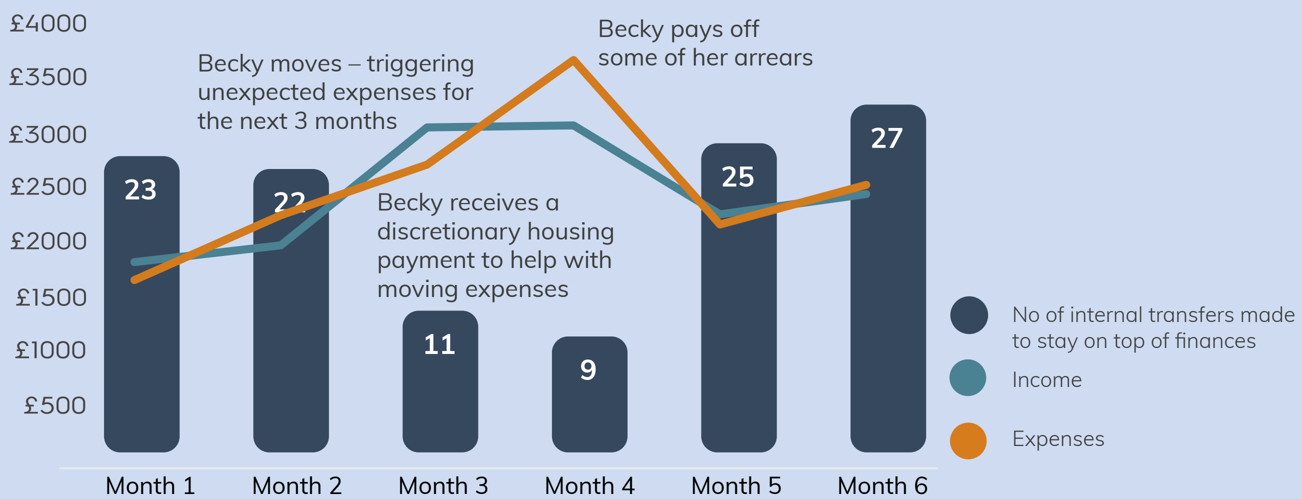
In the first month of the Real Accounts project, Becky's child starts at a new school requiring her to spend around £300 for school supplies and a new uniform. Using her system, she had saved up for this expense the month prior and feels like she could handle it.

However, in month 2, Becky gets the sudden opportunity to move into a larger flat, something she has been waiting for since putting her name on the council list for housing. However, in order to secure the new place and avoid having to pay rent twice, she only has five days to move – resulting in sudden, unexpected moving expenses. In addition, the move creates uncertainty around her rent and how much Universal Credit will be contributing, putting pressure on Becky: '*The rent still hasn't been sorted out so literally I'm kind of in a bit of a limbo. I have called them; I've emailed [...] I do need to contact somebody because what's gonna happen is, arrears is going to start building up and I need to make some form of a payment somewhere.*'

Using her system, Becky tries to ensure she has sufficient money put away to cover the amount she thinks she'll likely have to pay in rent, but with the costs of setting up in a new flat, that becomes increasingly hard:

'There has been a lot going on in the house and stuff I had to buy, I have now dipped into my rent payment so it's now for me to do. You know, to minus something else somewhere else and so make sure that rent payment is on point because I'm definitely probably like in the £700 area now of what I need to pay for the rent'

Becky needed to be very active in managing her finances over the six month period, making dozens of internal transfers between accounts and choosing which payments to put off when her expenses exceeded her income



The poverty premium

During this time, Becky's car insurance comes up for renewal and has increased significantly. Paying annually would have decreased the price, but is impossible for her – a common example of the effect of the poverty premium:

'It's gone up to 95 something [from 44.99]. (...) You could get a cheaper price if you pay annually but I don't have £900 something to pay it up, so then you go with the option of instalments. But then what happens is, you tend to have to put down a larger deposit in order for the instalment to continue and the deposit at the moment is in the region of £190 to £250, so that's another chunk of money you would need to pay [...] So you're kind of in defeat'

One thing leads to another

By the time Becky gets clarity from the council and Universal Credit on her rent contribution, she is £800 in arrears. Clearing these arrears is her priority, but has started a domino effect of other outgoings that now are being delayed:

'The more you go into arrears, the harder it is to get out of it. So I have had to sacrifice council tax this month and I'm just gonna have to give them a call to see if they can spread the payments over the next few months'

Managing scarcity – when money is *always* on your mind

Becky's story reveals experiences we heard from many households during the Real Accounts project. They showed the proactiveness with which participants attempted to stay in control of tight budgets, but also significant negative consequences of having to constantly make decisions in an environment of scarcity.

Behavioural economics has found that scarcity – when your resources aren't sufficient to meet your needs – impacts cognitive function and can make it difficult to look beyond the problem at hand or take in potentially useful new information. Many people use some form of mental accounting, for instance – assigning different meanings to money and keeping it separate, at least mentally and sometimes physically. In the past, people might have kept cash in different tins or envelopes – one for bills, one for groceries etc. Today, mental accounting is often done virtually through different online accounts or in apps like Monzo that offer different pots to hold your money. Mental accounting has been shown to help keep an overview of finances, but scarcity makes that so much harder. Faced with often low and volatile incomes, we saw many Real Accounts participants go beyond the regular or occasional accounting and instead feel pressured to constantly make decisions around their finances for fear of losing control.

Real Solutions

Management solutions

Countless people's lives could be made easier by allowing them to better synchronise their available income and expenses. This could be done by reducing the financial consequences of not being able to afford larger payments in one go, and offering options for flexible payments.

Promising solutions

Flexible pay solutions

Campaigners of ending the Poverty Premium have long advocated for ending practices such as the one Becky experienced, where annual rather than monthly payments are cheaper, but out of reach for those households who might need them the most. Moneyline is currently piloting ways to allow for **flexible loan repayment**. And **Fair By Design** is working with the Payment Systems Regulator and utilities regulators to find ways to offer people flexible, more affordable options for paying their bills.

Automating and streamlining budgeting to reduce the mental load of decision-making

We have seen technology be a double-edged sword during Real Accounts – on the one hand helping participants set aside money in different pots and accounts, or supporting habits through features such as Round Up, and on the other making money more accessible and forcing participants to create artificial barriers that might previously have been 'having to walk to the bank'.

Synchronising with people's real lives

There are also opportunities for financial products and consumer-oriented providers to adapt their offers to the needs of households with volatile incomes.

For providers of services like energy and insurance, online retailers, and bill payment platforms, there are insights that could influence pricing, flexibility, marketing and the structures that shape customer journey.

Beyond understanding barriers, the Real Accounts programme has given us a better understanding of some key assumptions about stretched households' behaviour, and how they engage with the options available to them. A recurring debit on the same date every month doesn't work for everyone; 24 hours can make the difference between affordability and an unmanageable expense; adults jointly managing unpredictable household finances don't always have an equal burden or equal decision-making power.

Conclusion

In the first Real Accounts Impact Brief, we revealed the many ways people experience financial volatility, and delved more deeply into Why Understanding Volatility Matters. We've now explored the often complex strategies households have to employ to manage their volatile finances.

Our aim here and throughout the Real Accounts programme, is to shine a light on the effort of seeking stability, and on the financial consequences of managing on a low and volatile income. We hope that the experiences our households have shared, and continue to share, will reinforce the growing evidence base that supports the need for policies, products and services that are better aligned with the real lives of millions of people.

The test of any policy, product, system or service is how well it meets people’s needs. But when there's no choice but to live with what's available, and when those options *don't* meet people's needs, people are forced to improvise, to invent and to make do. In some areas of life, that may not matter a great deal. But when we're looking at people's livelihoods, their ability to pay their bills, feed their families – their whole financial wellbeing – the stakes are high.

At Nest Insight, we work hard to understand and to innovate, creating and testing solutions to support people's lifelong financial wellbeing. The 'Real Solutions' we discuss throughout this Impact Brief are a starting point. Some are already being actively trialled, others require further commitment from within different parts of the system to innovate – independently and collectively – towards a better, and fairer way forward. Our households’ stories and tenacious efforts to make the most of the options currently available to them tell us that there are countless ways in which people – and therefore wider society and the economy – are held back when their lived experience is not recognised and understood.

For policymakers, this means closer scrutiny of how well assessment frameworks, guidance to employers and financial inclusion goals do enough to address income volatility at the source. This would provide a powerful regulatory and normative standard for how the whole system might prioritise the financial wellbeing of the millions of people who have variable incomes. Financial institutions have a role to play in designing solutions that help these households to move into a less precarious environment where they have access to a range of credit and savings solutions that work for them. The Real Accounts work demonstrates that households on variable incomes are complex, clued-in customers who do not lack either the motivation or skills to manage their money. But finding solutions that work for them will require constant challenging of the assumptions about stretched households’ behaviours and how they engage with the options available, building to more contextually-driven views on affordability, risk and household financial management.

There is no escaping the complexity of the landscape, which is why many of the challenges we see our households facing are far from simple to fix. But the sheer number of people who could be positively impacted by the addition of flexibility to a too-rigid system suggests that market opportunity may emerge from a stronger connection with people's lived experience.

It’s now time for wider discussion about the scale and impact of the issues and opportunities that Real Accounts reveals, and we welcome the chance to engage across the board with partners, employers, policymakers and product owners looking to build on the new and exciting insights we are developing.

Innovation that also supports the financial wellbeing of millions of people on the lowest and most volatile incomes, is an outcome that should be grabbed with both hands as the financial system evolves with our changing world of work.

Because, as our research shows, for too many people, right now that system clearly isn't working

Find out more about the
Real Accounts programme at
nestinsight.org.uk/research-projects/real-accounts

Contact us:

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

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