PUTTING IDEAS INTO ACTION: MAKING PAYROLL SAVINGS WORK

HOW PAYROLL SAVINGS SCHEMES CAN HELP BUILD FINANCIAL RESILIENCE IN LOWER-MEDIUM INCOME WORKERS

POLICY RECOMMENDATIONS

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REPORT SUMMARY

- We have made little progress tackling financial exclusion[1] and helping households build financial resilience in the UK despite significant resources spent on research on the subject, financial education initiatives, and innovations such as fintech. Helping people build up a savings cushion is a priority as it stops them getting into a vicious cycle of having to borrow to make ends meet, being unable to build up savings, borrowing again and so on.
- So, it is important we identify interventions that work and, importantly, can be scaled up to promote savings. We must turn ideas into action. The impact of Covid-19 on the finances of lower-medium income households makes the challenge all the more important – and difficult.
- Payroll savings schemes, where workers have savings automatically deducted from their wages and paid into a credit union account, have been around for some time. But, these schemes are not in widespread use.
- The Financial Inclusion Centre has published a new research report called Getting Workforces Savings-Payroll Savings with Credit Unions | The Financial Inclusion Centre. This contains the findings from a two year project funded by the Money and Pensions Service (MaPS) designed to evaluate: the effectiveness of payroll savings in promoting positive savings behaviours and financial resilience amongst workers; and different ways of encouraging workers to sign up to payroll savings.
- The project was undertaken with two major employers in the Yorkshire region (Leeds City Council and NHS York) and Leeds Credit Union (where the savings of participating workers are paid into).
- The research concluded that payroll savings is effective at encouraging positive savings behaviours and promoting financial resilience amongst lower-medium income workers (earning £17,500-£24,999 a year). The research found these workers were typically saving £50-70 a month.
- Importantly, payroll savings is a relatively simple concept which could be scaled up given the right support and effort. Backing payroll savings could make a significant contribution to MaPS strategic goal of getting two million more people who are either squeezed or struggling to start to save by 2030.
- Payroll savings could improve the efficacy of government initiatives such as Help to Save. The scheme was launched in September 2018. But, just over 90,000 people have opened an account and saved £13 million saved (an average of £144 per person). However, the scheme allows for people to save up to £2,400 over four years with the government topping this up by 50 percent or £1,200. This scheme is not being used to its full potential.
- To accompany the research report, we are publishing this separate policy paper which: reminds of the savings crisis amongst low-medium income households in the UK; summarises the findings of our new research into the benefits of payroll savings for lower-medium income workers; and makes a series of policy recommendations to expand the take up of payroll savings.

THE CRISIS OF SAVINGS AND FINANCIAL RESILIENCE

- Millions of households went into the Covid-19 economic crisis already in a financially vulnerable state. Covid-19 will have exacerbated problems for many people – and created new problems for many more who may not have experienced financial vulnerability of this nature before.
- Research published in 2018 found that 10.7 million adults (21% of the population) rarely or never save, and 11.5 million (22%) have less than **£100** in savings.[2] Other research found that 26% of

[1] There are some notable exceptions such as the success of basic bank accounts and actions against payday lenders. Moreover, we should acknowledge the efforts that have gone into defensive measures that have stopped matters getting worse for vulnerable households. Nevertheless, it has to be said that, while we might have held the line, we have made little progress.

[2] Building the Financial Capability of UK Adults – Initial Findings from the 2018 Adult Financial Capability Survey' (Money and Pensions Service, 2018)

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working-age adults have **no** savings to fall back on and a further 29% have less than £1,000 saved.[3]

- Then Covid-19 hit. During the lockdown, one-third of low-income households were saving less.[4] Moreover, households with the least savings were most likely to be saving less than usual.[5] Those on low-to-middle incomes were most likely to have increased their use of consumer debt.[6]
- Lack of savings leaves households vulnerable to financial shocks such as unexpected bills. MaPS research estimated that nearly three-quarters of households receive an unexpected bill every year.[7] Research by StepChange estimated that thirteen million people in the UK did not have enough savings to keep up with essential bills for just one month if their income dropped by a quarter. Not surprisingly, financial resilience was weakest amongst low and middle income households. Twenty seven percent of all households did not have sufficient savings. But, this rose to 34 percent for those earning £15,000-£25,000, and 42 percent of people earning less than £15,000 per year.[8]
- The combination of low financial resilience and unexpected financial shocks can force people to take out costly debt to make ends meet, which in turn makes it harder to build up savings - so a chronic, vicious cycle begins. Building up a savings cushion reduces the risk of people getting into debt. Analysts have estimated that if households build up £1,000 in accessible savings this could reduce their chances of being in debt by 44 percent, and could protect 500,000 from problem debt.[9]
- There are wider costs to low levels of financial resilience. Low levels of financial resilience is a significant cause of stress in the UK workforce and there is evidence it undermines productivity.
- If building financial resilience was already a priority, Covid-19 means we face even greater headwinds rebuilding and restructuring household finances. It is now even more important that we deploy and scale up interventions that work.

WHY PAYROLL SAVINGS – WHAT DID THE RESEARCH FIND?

- Payroll savings, like pensions automatic enrolment, just make sense. Both interventions help overcome consumer inertia and create economies of scale so reducing the cost of helping individuals save. But, the findings from our new research on the benefits of payroll savings lend further weight to the idea. As mentioned, lower-medium income workers in the payroll savings scheme were saving between £50-70 a month. If workers saved £50 a month they could reach the £1,000 cushion in just over three years.[10]
- What matters is that people develop a savings habit. Saving regularly seems to be more important than the amount saved.[11] This new research found payroll savings was certainly effective at promoting regular and persistent savings amongst lower-medium income workers. 66% of workers in the credit union said they saved every single month compared to 52% of colleagues who are not members.
- In the £17,500 - £24,999 income band, 69% of payroll savings scheme members reported saving every month compared to 44% of workmates who are not members of the credit union. 74% of lower-medium income credit union members using payroll savings said they saved roughly the same every month, compared to 43% of workers who are not credit union members.

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[3] Closing the savings gap Insights from Money Advice Service research, p1

[4] Resolution Foundation for the Standard Life Foundation, Rainy days | An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Figure 40, p68

[5] Ibid, Fig 41

[6] Ibid, Fig 42

[7] Closing the savings gap Insights from Money Advice Service research, p1

[8] £1,000 in savings would protect 500,000 households from problem debt (stepchange.org)

[9] Ibid

[10] We assume that savings increase in line with average earnings and that savers withdraw half the amount they saved in the first year increased in line with inflation.

[11] FinCap Survey | Financial Capability Stategy for the UK - FinCap

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- Lower-medium income workers in the payroll savings scheme were more resilient to financial shocks than their workmates with the same income not in the scheme. The savings cushion built up means they were less likely to have to resort to borrowing if they lost their main source of income.
- They reported higher levels of satisfaction with their financial circumstances. They were less likely to report that thinking about their financial situation made them anxious, and that money worries had affected their health over the previous year.

THE POTENTIAL FOR PAYROLL SAVINGS

- We conclude from our project that payroll savings could deliver significant benefits for lower-medium income workers. But, as it stands, it appears that only 200,000 workers are saving through payroll savings schemes. To put this in context, this represents just over 10% of the 1.9 million adults currently members of credit unions in Great Britain.[12]
- 850 employers currently offer a payroll savings scheme. There is a wide diversity of employers, public and private, large and small, from all sectors of the economy. However, penetration rates are low. There are 25,430 public and private sector employers with over 100 employees – these employ a total of over 19 million employees. There are 5,400 employers with over 500 employees – employing a total of 15 million employees.[13] It is important to recognise the key role of employers in getting widespread acceptance of payroll savings schemes. Improving financial resilience would result in a less anxious, more productive workforce. However, employers also need reassurance that setting up and maintaining schemes is not onerous.

POLICY RECOMMENDATIONS

- We make over 40 policy recommendations for government, employers, other stakeholders, and credit unions designed to expand the use of payroll savings schemes. The key recommendations are:
    - The UK government, and governments of the nations of the UK, should make scaling up payroll saving a key policy priority for tackling undersaving amongst lower-medium income households. The ambition should be to get ***at least*** 500,000 workers signed up to payroll savings within five years of a national plan being started, more than doubling the current numbers.
    - We stress that this should be a minimum. We support the ambition of The Building Societies Association (BSA) taskforce to create a million workplace savers by 2025.[14] MaPS has a wider strategic goal of getting get two million more people who are either squeezed or struggling to start to save by 2030.[15] We believe payroll savings, if action is taken, can make a significant contribution to this goal.
    - Government should consider allowing payroll savings to be deducted from gross rather net wages to increase the amount of money paid into savings accounts. This should be limited to employees earning up to national median wages. Payroll savings accounts should qualify for the Help to Save initiative (or whatever succeeds it).

[12] Credit union quarterly statistics - 2020 Q3 | Bank of England

[13] National Statistics, Annual business population estimates for the UK and regions in 2019, Table 2: Number of businesses and other organisations in the whole economy with their associated employment and turnover, by type of business and number of employees, UK, start 2019, https://www.gov.uk/government/statistics/business-population-estimates-2019

[14] BSA - Press office - Press releases

[15] UK-Strategy-for-Financial-Wellbeing-2020-2030-Money-and-Pensions-Service.pdf

- Government should consider allowing employers to offer matched savings to participating, qualifying employees and receive tax relief in return. This should be limited to employees earning up to national median earnings. Employers who establish payroll savings schemes should be allowed to deduct the cost against corporation tax (CT)
- Government should ensure that every government department and non-departmental public body offers a payroll savings scheme for their staff (following the lead of Ministry of Defence and Department of Work and Pensions). Government should embed payroll savings in public sector procurement – as part of demonstrating public value government should require or encourage bidders for public sector contracts above a certain level to either have or commit to implementing a payroll saving scheme.
- Government and the Confederation of British Industries (CBI) should actively engage the largest private sector employers in each UK region. The initial goal should be to get the ten biggest employers in each region to establish a credit union payroll savings scheme. The British Chambers of Commerce and Federation of Small Businesses (FSB) should promote payroll savings amongst their members - the benefits of payroll savings is not limited to employees of large firms.
- Trades unions, and other influential representative bodies such as NHS Providers, Local Government Association, and National Housing Federation should promote payroll savings amongst their member groups.
- Funders with an interest in promoting financial inclusion and financial resilience should collaborate to fund a venture to take responsibility for promoting and supporting the establishment of payroll savings schemes.
- Payroll savings schemes involve a fairly straightforward process. The key challenge is persuading sufficient employers to set up and employees to join schemes. Relying on fintech is not going to 'pull' sufficient employers and employees to adopt schemes. It requires the 'old-fashioned' hard work of persuasion and selling the idea to decision makers. However, fintech can very much help enhance the effectiveness and experience of the basic savings processes.
- Technology providers should develop communication tools to help participating employers and credit unions communicate better with employees and to help workers keep track of savings, create savings goals, make financial plans, and track progress against those plans.
- Specifically, the payroll savings concept would benefit from a dedicated app which would allow workers to plan and monitor financial goals, including checking eligibility for government schemes such as Help to Save, and allowing savers to understand the impact of savings on social security entitlement.

CONCLUSION

- The desk research and new research with employees in Leeds we undertook for this project persuades us that expanding the use of payroll savings schemes could make a significant contribution to tackling the crisis of undersaving and low levels of financial resilience amongst lower income households – if that expansion is supported.
- Good ideas must be turned into action. We urge stakeholders to adopt these policy recommendations and collaborate on expanding the take up of payroll savings schemes amongst employers and employees. We look forward to working with interested parties on making this important initiative work.

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THE CRISIS OF SAVINGS AND FINANCIAL RESILIENCE

If households are to be financially resilient against economic and financial shocks, such as a loss of income or unexpected bills, they need a cushion of accessible savings. But, millions of UK households have little or no savings to fall back on. This was evident even before the effects of Covid-19 were felt.

Research published in 2018 found that 10.7 million adults (21% of the population) rarely or never save, and 11.5 million (22%) have less than **£100** in savings.[16] Other research found that 26% of working-age adults have **no** savings to fall back on and a further 29% have less than £1,000 saved.[17]

MaPS research estimated that nearly three-quarters of households receive an unexpected bill every year.[18] Research by StepChange estimated that thirteen million people in the UK did not have enough savings to keep up with essential bills for just one month if their income dropped by a quarter. Not surprisingly, financial resilience was lowest amongst low and middle income households. Twenty seven percent of all households did not have sufficient savings. But, this rose to 34 percent for those earning £15,000-£25,000, and 42 percent earning less than £15,000 per year. [19]

The combination of low financial resilience and unexpected financial shocks can force people to take out costly debt to make ends meet, which in turn makes it harder to build up savings - so a chronic, vicious cycle begins. The same StepChange analysis estimated that having £1,000 in accessible savings reduces the chances of households being in debt by 44 percent, and could protect 500,000 from problem debt. This is critical. The nature of regular payroll savings can help households build up this savings cushion.

As explained, millions of people in the UK went into the Covid-19 economic crisis already in a financially vulnerable state. Covid-19 will have exacerbated problems for many of those households – and created new problems for more households who may not have experienced financial vulnerability of this nature before.

Covid-19 has had some unusual effects. Many households appear to be doing very well. The household savings ratio at one stage reached an astonishing 29%. But, this is an aggregate figure. During the lockdown, one-third of low-income households were saving less, while one-third of high-income households were saving more.[20] Moreover, households with the least savings were most likely to be saving less than usual.[21] Those on low-to-middle incomes were most likely to have increased their use of consumer debt (and high cost debt products).[22] Remember, lack of savings forces people to turn to debt.

[16] Building the Financial Capability of UK Adults – Initial Findings from the 2018 Adult Financial Capability Survey' (Money and Pensions Service, 2018)

[17] Closing the savings gap Insights from Money Advice Service research, p1
[18] Closing the savings gap Insights from Money Advice Service research, p1
[19] [£1,000 in savings would protect 500,000 households from problem debt (stepchange.org)]
[20] Resolution Foundation for the Standard Life Foundation, Rainy days | An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Figure 40, p68
[21] Ibid, Fig 41
[22] Ibid, Fig 42

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THE WIDER COSTS OF FINANCIAL VULNERABILITY

But, it is not just individuals who pay the price for low levels of financial resilience. It affects employers and the wider economy. Financial anxiety causes stress, which contributes to higher levels of absenteeism in the workplace, and lower levels of productivity. Many employers want to help their employers because they have a good sense of corporate responsibility. However, there is a commercial benefit, too. Building financial resilience through workforce payroll savings schemes can help address anxiety amongst employees which should contribute to a healthier, more productive workplace environment.

In 2018/ 19, the equivalent of 12.7 million working days were lost due to stress, depression, or anxiety – 54% of the total of 23.5 million working days lost.[23] Although money worries are not the only cause of such problems, research suggests that there is a clear connection, with financial stress contributing to higher absenteeism, lower productivity, and reduced cognitive performance.

Analysis by the Social Market Foundation (SMF) concluded that low levels of financial resilience is a significant cause of stress across the UK workforce[24]. The SMF found that one in 12 workers are finding things financially difficult, while nearly one quarter said they were just about managing. Moreover, 40% of workers said that money worries had made them feel stressed over the previous year; 25% said they had lost sleep over money worries; 13% said that money worries had affected their ability to concentrate at work, while 6% said they had actually missed work due to money worries.

According to the Association of British Credit Unions (ABCUL), 59% of those with money worries say they are not working at their best.[25] Other research has found that one in four people (25%) report that money worries have affected their ability to do their jobs.[26]

A vicious cycle can develop. Concerns about the relationship between mental health issues and money problems are well documented.[27] People with problem debt are significantly more likely to experience a mental health problem, while people with mental health problems are more likely to be in problem debt.[28] This affects ability to work which in turn creates further money worries – and so on.

Many employers seem to be well aware of the problems caused by financial stress and the need to address financial well-being amongst their workforces. A recent survey of over 1,000 employers reported that 22% said productivity was reduced due to money-related stress.[29]

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[23] https://www.hse.gov.uk/statistics/dayslost.htm Table 3: Estimated days lost (full-day equivalent) and average days lost per (full-time equivalent) worker due to self-reported illness caused or made worse by work, by type of illness, for people working in the last 12 months Great Britain
[24] http://www.smf.co.uk/publications/working-well-how-employers-can-improve-the-wellbeing-and-productivity-of-their-workforce/
[25] See: http://worknotworry.org/
[26] CIPD, Close Brothers, Financial well-being: the employee view, Survey report January 2017, page7.
[27] Fact Sheet - Debt and mental health | National Debtline | National Debtline
[28] https://www.moneyandmentalhealth.org/money-and-mental-health-facts/
[29] https://www.peoplemanagement.co.uk/news/articles/most-employees-affected-money-worries-at-work

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WHY PAYROLL SAVINGS – WHAT DID THE RESEARCH FIND?

Lower-medium income workers (earning £17,500-£24,999 a year) in the payroll savings scheme were saving typically between £50-70 a month. As outlined above, having £1,000 in accessible savings can significantly reduce the risk of people getting into problem debt. We calculate that if workers saved £50 a month they could reach this £1,000 cushion in just over three years.[30]

Identifying interventions which work is a priority and the findings on the benefits of payroll savings schemes in the new report are compelling. Previous research has concluded that what matters most is that people develop a saving habit, that the act of saving regularly seems more important than the amount saved.[31] The project found that payroll savings was certainly effective at promoting regular and persistent savings amongst lower-medium income workers.

Membership of the payroll savings scheme left workers more resilient to financial shocks than their fellow workers with the same income level who were not in the scheme. Workers in the payroll savings scheme reported higher levels of satisfaction with their financial circumstances than their workmates with the same level of income not in the scheme.

Some of the key findings include:

- Being a member of the credit union makes workers much more likely to be saving regularly. 66% of workers who are members of the credit union said they saved every single month compared to 52% of colleagues who are not members.
- In the £17,500 - £24,999 income band, 69% of payroll savings scheme members reported saving every month compared to 44% of workmates who are not members of the credit union.
- Payroll savings also encourages *persistency* in savings behaviours. In the £17,500-£24,999 annual income band, 74% of credit union members using payroll savings said they saved roughly the same every month. This compares to 43% of workers who are not credit union members. For the £25,000-£34,999 band, the reported figures were 75% and 50% respectively.
- A higher proportion of payroll savings scheme members than credit union members not in payroll savings scheme say they think it is very important to save for a rainy day – 62% compared to 55%.
- Membership of the payroll savings scheme appears to support financial resilience. 54% of credit union members who are not payroll scheme members said that, if they lost their main source of income, they could only cover their living expenses and bills for less than a month without having to borrow money or ask for help from friends and family. A much smaller proportion of payroll savings scheme members, 38%, reported the same.
- Longer standing payroll scheme members appear to have greater financial resilience – 55% of newer payroll scheme members said they could cover living expenses for just a month compared to 34% of longer standing scheme members.
- Membership of the payroll savings scheme mitigates the effects of being on a lower income. The savings cushion built up means they are less likely to have to turn to borrowing if hit by a financial shock. 31% of payroll scheme members in £17,500-£24,999 income band said they could last under a month with having to borrow. This compares to 41% of their workmates in the same income band who are not members of the credit union.

[30] We assume that savings increase in line with average earnings and that savers withdraw half the amount they saved in the first year increased in line with inflation.

[31] FinCap Survey | Financial Capability Stategy for the UK - FinCap

- Lower income workers (in the income band £17,500 to £24,999) in the payroll savings scheme rated, on average, satisfaction with their overall financial circumstances as 5.8 out of 10 (median of 7). Work colleagues in the same income band who are not members of the credit union rated their satisfaction, on average, at 4.9 (median 5).
- Workers in the £17,500-£24,999 income band in the payroll savings scheme were less likely to report that thinking about their financial situation made them anxious, and that money worries had affected their health over the previous year.

PAYROLL SAVINGS SCHEMES JUST MAKE SENSE

As the new research shows, payroll savings schemes produce real benefits for individual employees and, in doing so, should produce benefits for employers. We also believe that payroll savings schemes help credit unions – a critical part of the community finance and local economy ecosystem.

Automated payroll deduction reduces the unit costs of administering savings. It helps credit unions plan better as they can predict with more certainty the level of savings coming in. It establishes a regular relationship with employee-members. This makes it easier for credit unions to make more affordable loans to employees.

Even without the new research we have published which strongly supports the concept, payroll savings schemes would just make sense. We have seen how automatic enrolment has increased participation in employers pension schemes. While payroll savings is not quite as interventionist at automatic enrolment, it draws on some of the same lessons. The essence of automatic enrolment and payroll savings is normalising regular, positive financial behaviours. Both are designed to help people get into the habit of saving. Both are designed to address consumer inertia and to overcome the barriers to saving.

Trying to persuade large numbers of individuals to save (whether in a pension or savings account), is resource intensive and has been ineffective. Both payroll savings and automatic enrolment utilise the fact that employers – as trusted intermediaries - can reach large numbers of employees cost effectively at the same time.

The resource and effort involved in establishing relationships with hard-to-reach, underserved citizens is one of the most difficult, underappreciated barriers to financial inclusion. The distribution costs involved pushes up the total unit costs of establishing and maintaining relationships with lower income households who may not have that much money to put aside.

Persuading a comparatively small number of employers (especially larger employers) to offer payroll savings can open up channels to large numbers of savers. Not only does this increases coverage, it creates economies of scale for savings institutions so reducing unit costs. This in turn can help credit unions provide affordable loans when they are needed.

Finally, there is the important, if less direct, benefit that payroll savings schemes allow employers and community finance institutions to build and strengthen community bonds and local economies.

THE POTENTIAL FOR GROWTH IN PAYROLL SAVINGS SCHEMES

We conclude from our project that payroll savings would deliver significant benefits for low-medium income workers. But, as it stands, it appears that only 200,000 workers are saving through payroll savings schemes. To put this in context, this represents just over 10% of the 1.9 million adults currently members of credit unions in Great Britain.[32]

Figures from the Find Your Credit Union site[33] indicate that there are least 850 employers in England, Wales and Scotland listed as having an existing payroll deduction schemes with credit unions. However, while this is likely to provide a significant underestimate - as many credit unions do not provide information on their payroll partnerships and rarely update their information so will likely be outdated – it does point to just how few employers have adopted this facility.

There is a wide diversity of employers, including by size of organisation (from those with a handful of workers to some of the largest workforces in the country with hundreds of thousands of employees). Employers come from across all sectors and types of employers, including: government departments (Ministry of Defence and Department for Work & Pensions), public sector bodies/agencies (NHS, Police and Fire Service), faith organisations (The Church of England), local government, housing associations and a range of private sector companies (such as British Airways, Boots, John Lewis, and Royal Mail) who all have dedicated payroll schemes in place with individual credit unions.

But, the take up has been small seen in the context of the total number of employers in the UK. There are 25,430 public and private sector employers with over 100 employees – these employ a total of over 19 million employees. There are 5,400 employers with over 500 employees – employing a total of 15 million employees.[34]

There would seem to be demand for payroll savings amongst employees. According to research conducted in 2015 by the Chartered Institute of Payroll Professionals (CIPP), 55% of employees aged 16-65 would like their employer to offer saving and borrowing through payroll.[35] A more recent study in 2020, identified that 72% of employees surveyed would like their employers to offer a workplace savings scheme in addition to a pension.[36]

Looking at the numbers and the hitherto low penetration rate of payroll savings schemes, there does seem to be potential for significant expansion. It is important to recognise the key role of employers in getting widespread acceptance of payroll savings schemes. The research does support the view that payroll savings helps employees – and in turn should generate benefits for employers in the form of a less anxious, more productive workforce.

But, employers also need reassurance that setting up and maintaining schemes is not onerous. While some employers, particularly those that already have an embedded benefits strategy in place

[32] Credit union quarterly statistics - 2020 Q3 | Bank of England

[33] https://www.findyourcreditunion.co.uk

[34] National Statistics, Annual business population estimates for the UK and regions in 2019, Table 2: Number of businesses and other organisations in the whole economy with their associated employment and turnover, by type of business and number of employees, UK, start 2019, https://www.gov.uk/government/statistics/business-population-estimates-2019

[35] https://www.cipp.org.uk/financial-education/saving-through-payroll.html

[36] https://employeebenefits.co.uk/72-of-employees-want-access-to-a-workplace-savings-scheme/#_ftn1

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see payroll deductions as a good thing, others are sceptical.[37] A recent study undertaken in Scotland demonstrated how employers need persuading to take up payroll deduction schemes. The report concluded that '*credit unions perceived that some employers appeared to be overwhelmed by other payroll initiatives such as automatic enrolment in pensions'*[38] and that *'Local employers could not see any direct benefit in payroll deduction and perceived that there would be costs involved in entering into such a scheme, particularly in terms of non-financial resource.'*[39]

Therefore, employers need to be persuaded that payroll savings schemes provide a very real benefit for their employees, would contribute to a more positive workplace environment, and are not a burden to set up and operate.

[37] https://www.nestinsight.org.uk/wp-content/uploads/2020/12/Supporting-emergency-saving-early-learnings-from-the-employer-experience.pdf

[38] Community Credit Unions and Payroll Deduction A report on a field trial, Robert I Mochrie Kathryn Waite, Heriot Watt University, Chartered Institute of Payroll Professionals (CIPP), Ethical Finance Hub, Scottish Universities Insight Institute, page 10 .

[39] Ibid, page 11

POLICY RECOMMENDATIONS

In this section, we make a series of recommendations for stakeholders aimed at:

- Raising awareness of the benefits of payroll savings schemes
- Expanding the take up of payroll savings schemes amongst employers
- Improving the participation rates amongst workers

Ultimately, the objective is to see levels of savings and financial resilience grow – with an emphasis on low-medium income workers. The recommendations are aimed at the various stakeholders who can play a role in expanding payroll savings schemes including:

- Government and policymakers such as the Money and Pensions Service (MaPS)
- Employers and trade bodies
- Trades Unions
- Credit unions and other savings institutions
- Other stakeholders

Government, agencies, and policymakers

If the full potential of payroll savings is to be harnessed, government and other policymakers must create the right framework and give the idea a push. Our recommendations are designed to make this happen.

- We urge the UK government, and governments of the nations of the UK, to adopt payroll saving as a key policy priority - for addressing at scale the lack of savings amongst squeezed and struggling households across the UK.
- UK government, and governments of the nations of the UK, should establish an ambitious and collaborative national strategy and plan to scale up payroll savings. The ambition should be to achieve at least 500,000 workers signed up to payroll savings within five years of a national plan being started, more than doubling the current numbers.[40]
- Government should consider allowing payroll savings to be deducted from gross rather net wages to increase the amount of money paid into savings accounts. This should be limited to employees earning up to national median wages.
- Government should consider allowing employers to offer matched savings to participating, qualifying employees and receive tax relief in return. This should be limited to employees earning up to national median earnings.
- Payroll savings accounts should qualify for the Help to Save initiative (or whatever succeeds it).
- Employers who establish payroll savings schemes should be allowed to deduct the cost against corporation tax (CT).
- Government should ensure that every government department and non-departmental public body offers a payroll savings scheme for their staff (following the lead of Ministry of Defence and Department of Work and Pensions).

[40] We stress that this should be a minimum. We support the ambition of The Building Societies Association (BSA) taskforce to create a million workplace savers by 2025 BSA - Press office - Press releases MaPS has a wider strategic goal of getting get two million more people who are either squeezed or struggling to start to save by 2030 UK-Strategy-for-Financial-Wellbeing-2020-2030-Money-and-Pensions-Service.pdf We believe payroll savings, if action is taken, can make a significant contribution to this goal.

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- Government and MaPS should create and resource national payroll savings promotional campaigns – including the development of a series of marketing campaigns and promotional resources/material that can be adopted and used by credit unions locally with individual employer partners.
- Government and the Confederation of British Industries (CBI) should actively engage the largest private sector employers in each UK region. The initial goal should be to get the ten biggest employers in each region of the UK - with the support of key business groups such as the CBI - to establish credit union payroll deduction scheme. This could mirror similar efforts by the Scottish Government.
- The British Chambers of Commerce and Federation of Small Businesses (FSB) should promote payroll savings amongst their members - the benefits of payroll savings is not limited to employees of large firms.
- The Local Government Association (LGA) should promote payroll savings schemes amongst its local council members.
- The National Housing Federation (NHF) should promote payroll savings schemes to its housing association members.
- NHS Providers should promote payroll savings amongst its NHS Trust members.
- Trades Unions should work with employers to establish payroll savings schemes.
- Trades Unions should establish a facility with an appropriate credit union and offer the option of automatic savings to members alongside paying membership dues.
- Government should embed payroll savings in public sector procurement – as part of demonstrating public value government should require or encourage bidders for public sector contracts above a certain level to either have or commit to implementing a payroll saving scheme.
- Stakeholders should collaborate on developing a 'financial wellbeing mark' for employers – using the successful principle of the Living Wage campaign explore the development a similar charter that includes having a payroll partnership with a credit union.
- Funders with an interest in promoting financial inclusion and financial resilience should collaborate to fund a venture to take responsibility for promoting and supporting the establishment of payroll savings schemes. This venture should work with government, the CBI, British Chambers of Commerce, FSB, trades unions, NHS Providers, LGA, NHF, and other influential representative bodies.

Employers

The first steps are to create the right policy framework for payroll savings, to advocate for and promote the concept, with the goal of persuading employers to offer the benefit. But, once employers have committed to offering the benefit, take up within the workplace needs to be maximised. There are a number of practical measures employers can adopt to enhance take up.

- An aspiration that all employers offer payroll savings for their workforces – every employer, no matter what their size, should consider a payroll scheme an essential component of their workforce financial wellbeing / staff benefits offer.

- Senior level commitment – having senior leadership buy-in and support is essential for a long-term successful partnership.
- Active employer engagement is critical to success. Employers should commit to continuous communication – credit unions can only achieve financial benefits for workforces if staff know about it. Employers are gatekeepers to staff, and without a commitment to ongoing promotion, take-up will always be low. Multiple points of contact involving various staff are needed to help manage and implement the relationship.
- As part of the induction process, employers should inform workers joining the organisation about the benefits of payroll savings.
- Employers should take advantage of engagement points provided by promotions, pay rises, and staff training to promote the benefits of payroll savings to employees.
- Employers should ensure that workplace HR sites include information about payroll savings to encourage take up.
- Loans are not a dirty word – staff borrow money and as identified within this research, often from high-cost subprime sources. Employers should not shy away from also promote the availability of affordable borrowing from the credit union.
- Utilise all internal communication channels – emails, newsletters, staff intranet, pay slip adverts and staff social media are effective options. Carefully consider how you reach ‘offline’ staff.

Credit Unions

The third important group of stakeholders who can make payroll savings schemes work are, of course, credit unions themselves. Therefore, we make a number of recommendations aimed at credit unions.

- Credit unions should invest to achieve payroll growth – attracting new payroll partners and maximising take-up amongst existing providers requires significant planning and dedicated resourcing to be successful.
- Collaboration with other credit unions – explore opportunities to work in partnership to combine resources and implement high-profile payroll partner recruitment and shared promotion campaigns across a city, region, or country.
- Targeted employer engagement –prioritise potential employers and tailor engagement accordingly. Develop case studies and testimonials from existing employers and use them to broker discussions with prospective employers.
- Consider establishing a standalone payroll brand – a number of credit unions operate a dedicated website for their payroll scheme. For example, Bristol Credit Union’s Money@Work (www.moneyatwork.org.uk).
- Dedicated landing pages for payroll partners – these allow tailored messaging and specific campaigns for different workforces as well as the ability to track the effectiveness of marketing activity.
- Utilise data and research – establish a clear evidence base to make the case to new employers and importantly share regular take-up data, impacts and member case studies/reviews.

- Build proactive relationships - the importance of developing and continually maintaining an active relationship with each employer cannot be overstated with tailored 12-month marketing plans and joint KPI targets.
- Cost-effective promotional activity – Work with employers to utilise all appropriate internal communication channels and opportunities. Carefully consider the cost and value of different approaches.
- Existing payroll champions – make the most of existing members to 'normalise' saving and borrowing amongst colleagues and tackle perceptions that the credit union is not for them. 'Word of mouth' via trusted friends and colleagues will always be the best form of promotion.
- Saving incentives work – explore the provision of prize draw incentives, refer a friend initiatives or matched saving schemes – either within a single employer or across all payroll partnerships.
- Communicate with payroll members – send regular and employer specific emails to engage with your payroll members to build understanding and loyalty and as evidenced within this research.

The role of technology

There has been a significant amount of attention and resources devoted to developing 'fintech' solutions for financial exclusion. So far, this has made little inroads into closing the exclusion gap. But, there is undoubtedly potential for technology to make a difference.

Payroll savings schemes involve a fairly straightforward process. The key challenge is persuading sufficient employers to set up and employees to join schemes. Relying on fintech is not going to 'pull' sufficient employers and employees to adopt schemes. It requires the 'old-fashioned' hard work of persuading and selling the idea to stakeholders. However, fintech can very much help enhance the effectiveness and experience of the basic savings processes.

- Technology providers should develop communication tools to help participating employers and credit unions communicate better with employees and to help workers keep track of savings, create savings goals, make financial plans, and track progress against those plans.
- Specifically, the payroll savings concept would benefit from a dedicated app which would allow workers to plan and monitor financial goals, including checking eligibility for government schemes such as Help to Save, and allowing savers to understand the impact of savings on social security entitlement.

CONCLUSION

The desk research and new research with employees in Leeds persuades us that expanding the use of payroll savings schemes could make a significant contribution to tackling the crisis of undersaving and low levels of financial resilience amongst lower income households – if the expansion is supported.

Good ideas must be turned into action. We urge stakeholders to adopt these policy recommendations and collaborate on expanding the take up of payroll savings schemes amongst employers and employees.

Financial Inclusion Centre

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