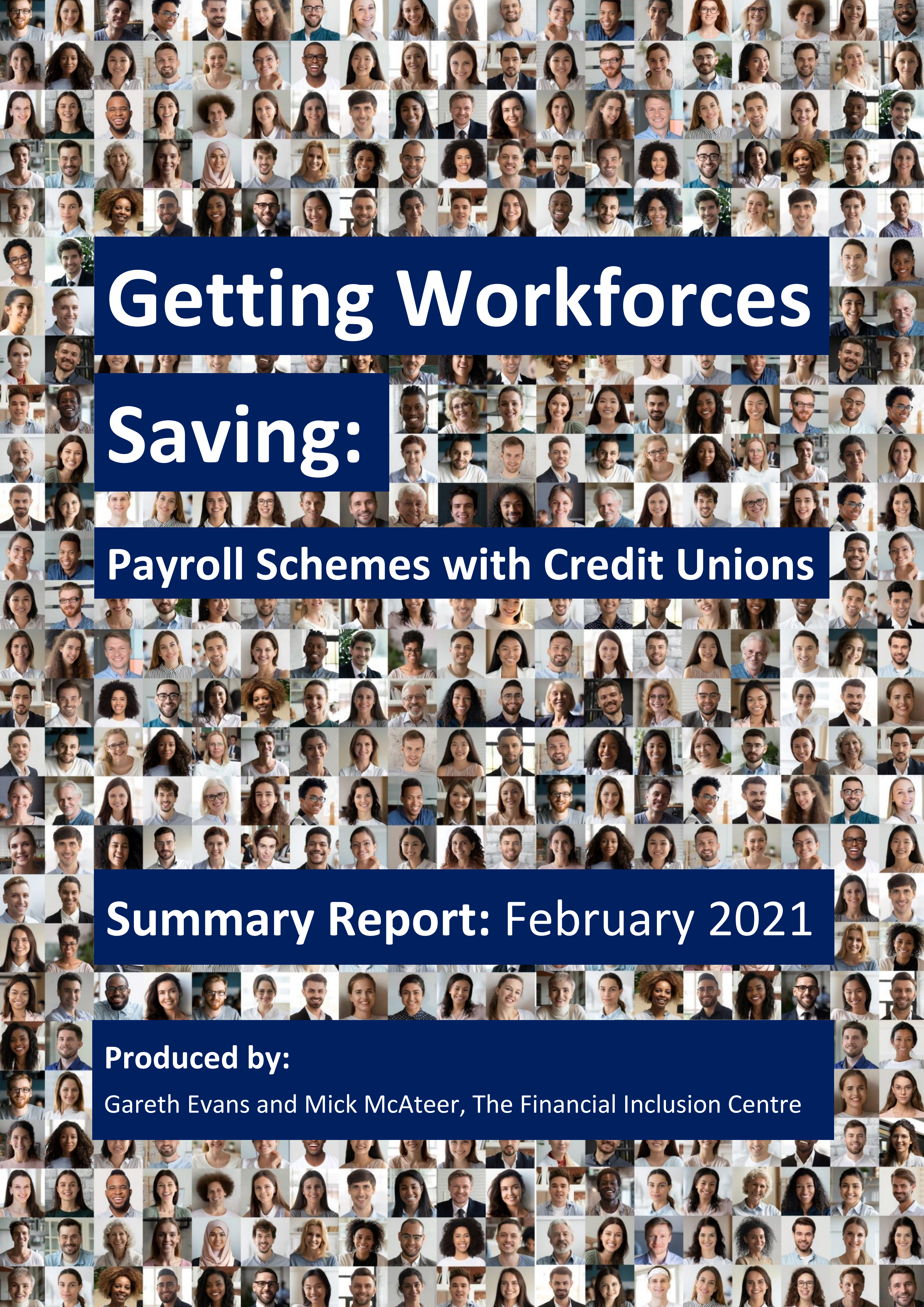

Getting Workforces Saving:

Payroll Schemes with Credit Unions

Summary Report: February 2021

Produced by:

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Funded by:

The Money and Pensions Service (MaPS) is the newly launched arm's-length body ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. MaPS is a What Works Centre, collaborating with other organisations to create, share and use high quality evidence for decision-making.

www.moneyandpensionsservice.org.uk

Produced by:

The Financial Inclusion Centre (FIC) is an independent research and policy innovation think-tank dedicated to promoting financial inclusion and fair, efficient, competitive and accountable financial markets.

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Delivery partners:

Operating for over 30 years, Leeds Credit Union (LCU) is one of the leading community-based credit union with over 37,000 members, offering straightforward, affordable financial services.
www.leedscreditunion.co.uk

Leeds City Council (LCC) is one of the largest regional employers with over 14,500 staff (mostly employed in-house) and a recognised leading authority around the Low Pay Charter and workforce financial well-being.
www.leeds.gov.uk

NHS York provides a comprehensive range of acute hospital and specialist healthcare services across eight hospital sites with a workforce of approximately 9,000 staff working across its locations and in the community.
www.yorkhospitals.nhs.uk

Summary Report

Low levels of financial resilience leaves households vulnerable to economic and financial shocks, and can have collateral effects on health and mental wellbeing, relationships, and workplace performance. Efforts to increase financial resilience, by building a cushion of accessible savings that can help protect against financial shocks, were already a priority before being further emphasised by the pandemic.

One of the main lessons from the pandemic is that millions of households went into the economic crisis financially unprepared. It was estimated that, in 2018, 10.7 million adults (21% of the population) rarely or never save, and 11.5 million (22%) have less than £100 in savings.[1]

In addition, research to date suggests that the economic impact is being felt most by lower income working-age households. The pandemic has placed even greater importance on the deployment of interventions that are effective at rebuilding household finances and guarding against future economic and financial shocks.

Increasingly, the workplace is seen as a prime arena for the delivery of financial services as well as financial guidance and support, offering an efficient opportunity to reach an accessible audience at scale. At the same time, the benefits of improving the financial wellbeing of staff are increasingly recognised by employers of all sizes. The theory being that workers with better financial wellbeing will have lower financial stress and anxiety and therefore be more effective and productive.

Although not a new concept, payroll deduction is growing in prominence as a mechanism for workers to access loans and put aside savings.

How does automated payroll deduction with Credit Unions work?

Payroll partnership with credit unions enable staff to consistently save on a regular basis and/or repay affordable loans via deductions that are made directly from their salary.

As part of the process of joining the credit union, the employee can opt to make deposits via payroll deduction and simply selects the amount they would like to deduct from their salary. These instructions are then provided to the designated HR department to be added to the payroll system and deducted at the next pay date – similar to other payroll deductions (such as pensions, union subscriptions).

After each pay run, the employer forwards the schedule of all deductions together with the remittance of the funds.

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

Credit unions (not-for-profit financial cooperatives) have been delivering such schemes with employers for decades. Yet, while the potential for this method to develop regular savings is clear, there is little evidence about its effectiveness at encouraging greater levels of savings and other positive financial behaviours.

This two-year research project, supported by the Money and Pensions Service (MaPS), aims to address this gap in knowledge by testing the impact of a payroll deduction scheme operated by Leeds Credit Union (LCU) and determining its effect on household savings and financial resilience. The research was delivered with two large employers, Leeds City Council (LCC) that has operated its payroll scheme for over 33 years for its 14,500 employees (35% of which are already members of the credit union) and York Teaching Hospital NHS Foundation Trust (NHS York) that has been running its payroll deduction scheme for 3 years for its 8,630 employees (1.5% of which are members of the credit union). The research conducted 2,997 surveys with workers from across both employers (of which 639 held savings accounts with LCU) together with in-depth interviews with 16 staff. The study also tested four different engagement methods over a 12-month period to identify the most successful and cost-effective approaches to attract new savers to join the credit union and set up a payroll deduction. In addition, the impact of regular savings messages on ongoing savings behaviour was then tested, with a sample of the 112 LCC staff that joined during the trial window and started saving by payroll.

Theory of Change

The Theory of Change underpinning this project is that payroll savings schemes are an effective way of:

- Reaching large numbers of people, to encourage them to save;
- Encouraging positive saving attitudes, and regular and persistent savings behaviours; and as a result
- Building financial resilience - with an emphasis on lower-income workers[2].

The Theory of Change also posits that payroll savings schemes provide benefits for employers by mitigating the impact of financial-related stress and anxiety on employee wellbeing and therefore productivity. This is key to persuading employers to offer and support payroll savings schemes, and converting the theory into action.

> "By helping staff members save, I suppose it could have a knock-on effect to their daily job, and I mean obviously day-to-day stresses are going to impact on your working hours whether you like it or not."
>
> Case study 4

[2] Although the research was not limited to low to medium income workers, the project specifically sought to examine the potential benefits for this group.

Key findings

Profile of payroll savers:

Credit Union members were found to have lower household incomes than the rest of the workforce. The research found that the average incomes of new and existing members were generally lower than non-member employees. While 54% of members had a household income below £35,000, this figure was 42% amongst non-member workers.

Payroll savings engagement and messaging:

Offering a sign-up prize draw incentive was the most effective of the four tested campaigns at attracting staff to join the credit union and start saving, when adjusted for the size of each workforce. Having an incentive resulted in 75% of new joiners opting to save via payroll deduction, the second highest proportion across the four campaigns. When surveyed, half of new LCC joiners point to this financial incentive being an important driver in their decision to start saving. It was also found to offer the best value for money, costing approximately £17 for every new saver that signed up for payroll deduction.

Face-to-face promotion was the least successful in attracting new savers, and the most expensive in terms of customer acquisition. From the 11 sessions delivered over the four-month period, just 17 staff joined and started saving. Unsurprisingly, this meant it offered the worst return on investment, costing £127 for every new saver that signed up for payroll deduction. Yet, despite the low numbers and the poor value for money, it was the most effective method at encouraging new joiners to choose to save via payroll deduction, with 82% adopting this over other methods.

"It's easy to say I can't afford it. But with it coming straight out of my pay then…. it changed me completely as I've realised that I actually can afford it."

Case study 3

"It's absolutely fantastic because as I say, I needed to save up, and normally I'd be dipping into it and I've not been doing that this time."

Case study 2

Both utilising existing payroll savers to champion their benefits and campaigns that promote borrowing (with the requirement to save) proved comparatively successful at getting staff to start saving, and were cost-effective.

Monthly reminders and positive saving messages encouraged more persistent saving, and led to an overall increase in the amount being saved via payroll deduction. On average, the group receiving monthly emails saved between £14 and £21 more per month, and the average value they saved increased by £6 per month, compared with the group that only received the credit union's standard communications.

Saving behaviors and attitudes:

Payroll deduction appears to be an effective mechanism for attracting non-savers, and converting them into regular savers. Of 109 surveyed employees that joined LCU's payroll savings scheme during the trials, 59% stated that they had never or rarely saved before joining the credit union, and a further 18% saved some months but not others. Only 14% stated that they already saved regularly every month. Among new joiners, 89% went on to keep the same (68%), or increase (21%) the amount they saved every month since joining.

"I love Christmas, but I dread it because it's a struggle and get in even more debt. So, I thought if I could join a credit union and thought if I put something away every month. Because, it goes straight out of your wages."

Case study 5

Being a member of the credit union makes employees much more likely to save regularly. Two-thirds (66%) of employees who are members of the credit union said they saved every single month, compared to 52% of employees who are not members. The difference is even greater for those credit union members on the payroll deduction scheme with 70% reporting that they saved every month. Moreover, amongst longer standing members that had been with the credit union for more than 12 months, 72% stated that they saved every month.

Encouragingly, saving via payroll also leads to higher levels of persistency - with 67% of payroll scheme members stated that they saved roughly the same each month compared to 50% of non-payroll scheme members.

"It's a really good feeling. Like its spurred me on.... I've recently just paid off my overdraft because I now like to see what I've got rather than seeing a negative. So, in that sense it's been really good for my financial wellbeing."

Case study 3

Payroll saving appears to help lower income employees. In the £17,500 - £24,999 income band, 69% of payroll savings scheme members reported saving every month compared to 44% of employees who are not members of the credit union. 74% of payroll savings scheme members in this income band saved roughly the same every month, compared to 43% of their workmates not in the credit union.

Impact on anxiety and wellbeing:

Credit union members tend to report lower levels of financial satisfaction and higher anxiety and financial vulnerability. This is not surprising given that credit union members are usually on lower incomes - 53% of staff who were not part of the credit union strongly agreed or agreed that thinking about their financial situation made them anxious, compared to 63% amongst members. Credit union members were also more likely than non-members to say that money worries had affected their health, family relationships, and work over the past year.

"I'd say I probably feel a bit more responsible and much more secure… coming up to Christmas now, and I'm not as stressed about it as I usually would be, so yeah it probably has had a good impact on my wellbeing, actually."

Case study 3

Being part of the payroll deduction scheme – particularly length of membership – appears to mitigate this effect. When asked to rate their satisfaction with overall financial circumstances, longer-standing payroll deduction scheme members rated this 5.4 out of 10 compared with 4.1 for more recent payroll scheme members. Similarly, 60% of those that have been payroll members for more than 12-months strongly agreed or agreed that thinking about their financial situation made them anxious compared to 74% of more recent members. Lower income workers in the payroll savings scheme were more satisfied with their financial situation and less anxious than workmates not in the credit union.

38% of credit union members said that, if they lost their main source of income, they could only cover living expenses and bills for less than a month without having to borrow money or ask for help from friends and family. This compares to 27% of employees who are not members. **Again, 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. Lower income workers in the savings scheme were more likely to be financially resilient that workmates not in the credit union.

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

Case study 1

Conclusions

This study has shown how the deduction of savings at source, and their automatic allocation to a separate account, is an appealing mechanism for saving – and that the ease of this functionality is an important factor for users.

The findings suggest strongly that membership of a payroll savings scheme is associated with positive savings behaviours, and positive attitudes to regular and persistent savings, especially amongst workers in the Money and Pensions Service's 'Squeezed' and 'Struggling' population segments. These are, in turn, important inputs when trying to build financial resilience.

While employees who are members of the credit union tend to have lower incomes compared to the rest of the workforce, and are more likely to report higher levels of financial anxiety, However, the research finds that membership of the payroll scheme helps mitigate that anxiety.

Interventions that help employees to build their financial resilience and reduce financial stresses should also provide benefits for employers themselves – in terms of the general wellbeing and productivity of their staff. With this in mind, it is hoped that this research helps to make the case, to employers and policymakers, about the benefits of expanding the take-up of payroll deduction schemes.