Boosting financial resilience and wellbeing through workplace saving

June 2022

Building Societies Association

Foreword

In the Spring of 2022, the Money and Pensions Service (MaPS) published four national delivery plans outlining how partners and MaPS will take forward the goals set out in the UK Strategy for Financial Wellbeing. MaPS has a statutory duty to coordinate this UK Strategy, alongside delivering the MoneyHelper service to support people, particularly those in vulnerable circumstances, to make the most of their money and pensions, and commissioning debt advice services in England.

To achieve the scale of change needed, MaPS coordinates the UK Strategy, working in partnership with stakeholders across financial services, government, education, community settings and the workplace to improve the financial wellbeing of millions of people across the UK. This is placed into even sharper focus by the increased cost of living pressures faced by many.

Nation of Savers – where our collective goal for the next decade is to increase the number of new savers on low-to-modest incomes by two million – is one of the core pillars of the UK Strategy for Financial Wellbeing. When four in ten people have less than £100 in a savings account, working with employers and providers such as building societies and credit unions to help expand at scale the offer of payroll-deducted savings schemes is at the heart of meeting this challenge. So, we warmly welcome this report's focus on workplace savings and the financial resilience and security it could offer to millions in these uncertain times.

In the last few years, MaPS has contributed funding to test opt-in models of workplace savings. By employing various behavioural nudges, our partners have succeeded in increasing take-up rates, but recently, MaPS has supported early testing of autosave workplace savings, where an employer automatically opts a new employee into a fully accessible payroll-deducted scheme, unless the employee chooses to opt out. Initial signs are positive that this results in more people, by default, choosing to build a savings buffer through their employer. Further testing is now under way on autosave models, plus research on the best ways to communicate such schemes to people who could benefit from them.

Whichever model of workplace savings – opt-in or autosave – employers wish to offer their workforce in the years ahead, we look forward to working alongside BSA and its members as, collectively, we build a Nation of Savers.

Sarah Porretta
Propositions, Insights and External Engagement Executive Director
Money and Pensions Service

Money & Pensions Service

Introduction

The Covid pandemic and the subsequent substantial rise in the prices of energy and other commodities have highlighted the vulnerable financial position of many households. Even prior to the pandemic, 11.5 million people had less than £100 to fall back on if they got into difficulty[1].

Many households are now finding their finances stretched by rising prices but for those that are able, regularly putting a little aside can help to soften the blow from future unexpected events and give greater peace of mind.

Many people see the benefit in saving, but often it is hard to maintain those good intentions against other demands and temptations to spend. One way that people who are in work might be helped to develop a pot of savings is if their money was moved on their behalf into a simple savings account straight from their pay.

This report draws on a survey by YouGov of over 2,000 employees. It looks at why employers might want to help their employees by offering a workplace savings scheme, and how this could work.

[1]Money and Pensions Service 2020, The UK Strategy for Financial Wellbeing

Many employees are under financial strain

61% of employees say keeping up with bills and credit commitments is a burden

Our research shows that at the start of 2022, 15% of employees in Britain felt that keeping up with bills and credit commitments was a heavy burden, and another 45% found it somewhat of a burden. Just a third of employees (33%) said it wasn't a burden at all. The survey was conducted in January, and further increases in energy and food prices are expected to put more pressure on household finances through the year.

In addition, 5% of employees said that they would not be able to cover living expenses for a week if they lost their main source of income, 15% would not be able to last a month.

This adds to other research showing that various households have little or no resilience should they experience a shock to their income or a sudden need to spend a sizeable sum of money. As well as the direct impact on their day to day lives and their finances, the lack of resilience can have a detrimental effect on people's mental health, which in turn can impact on other areas of their life, such as work[2].

Over a quarter say money worries have affected their work

Over a quarter of employees (27%) say that money worries have affected their ability to do their job over the last year. Unsurprisingly, this percentage is higher for those with signs of lower financial resilience: 63% of those that found bills and credit commitments a heavy burden had seen their ability to do their job impeded due to money worries, and 55% of those that would not be able to cover living expenses for a month had seen an impact on their work.

Much research highlights the importance of attitudinal or behavioural factors in determining individuals' financial situations, beyond more obvious factors such as levels of income[3]. We also asked employees whether they thought various statements around money management were good descriptions of their behaviour. These often related to the person's level of self-control, asking whether they felt under pressure to spend like their friends, buying things when they couldn't afford them, or simply preferring spending to saving. People who agreed with these statements were also more likely to say that they had experienced money worries that had affected their ability to do their job.

27%

say that money worries have affected their ability to do their job

rising to

63%

of those that found bills and credit commitments a heavy burden

and to

55%

of those that would not be able to cover living expenses for a month if they lost their income

[2] Yorkshire Building Society 2019, Using the workplace to get Britain saving [3] Toynbee Hall, 2019, Beyond age and income: encouraging savings behaviours

People *expect* their employer to care about their financial wellbeing, but most don't think their employer currently does

Importantly, employees think their employer has a responsibility to care about their personal financial wellbeing. By financial wellbeing, we mean a person's sense of security and control over their financial future.

Almost two thirds (62%) of employees think that their employers *should* care about their financial wellbeing. Just 10% disagree.

However, just 24% think that their current employers *do* care about their financial wellbeing. This gives a **financial wellbeing gap** of **38** percentage points between the proportion that think their employer should care and those that perceive that they do.

38 percentage points

= the financial wellbeing gap

62% say employers **SHOULD** care about financial wellbeing

24% say employers **DO** care about financial wellbeing

Leaving a wellbeing gap of **38%** points

The financial wellbeing gap is biggest in

- Employees of larger organisations
- Those working in media/marketing/PR & sales, and education sectors
- Younger employees
- Those with low financial resilience
- Those saying they have lower self-control

However there are no substantial differences across

- Income groups
- Gender
- Geographic regions

What is the solution?

Workplace savings schemes are a way that employers could help

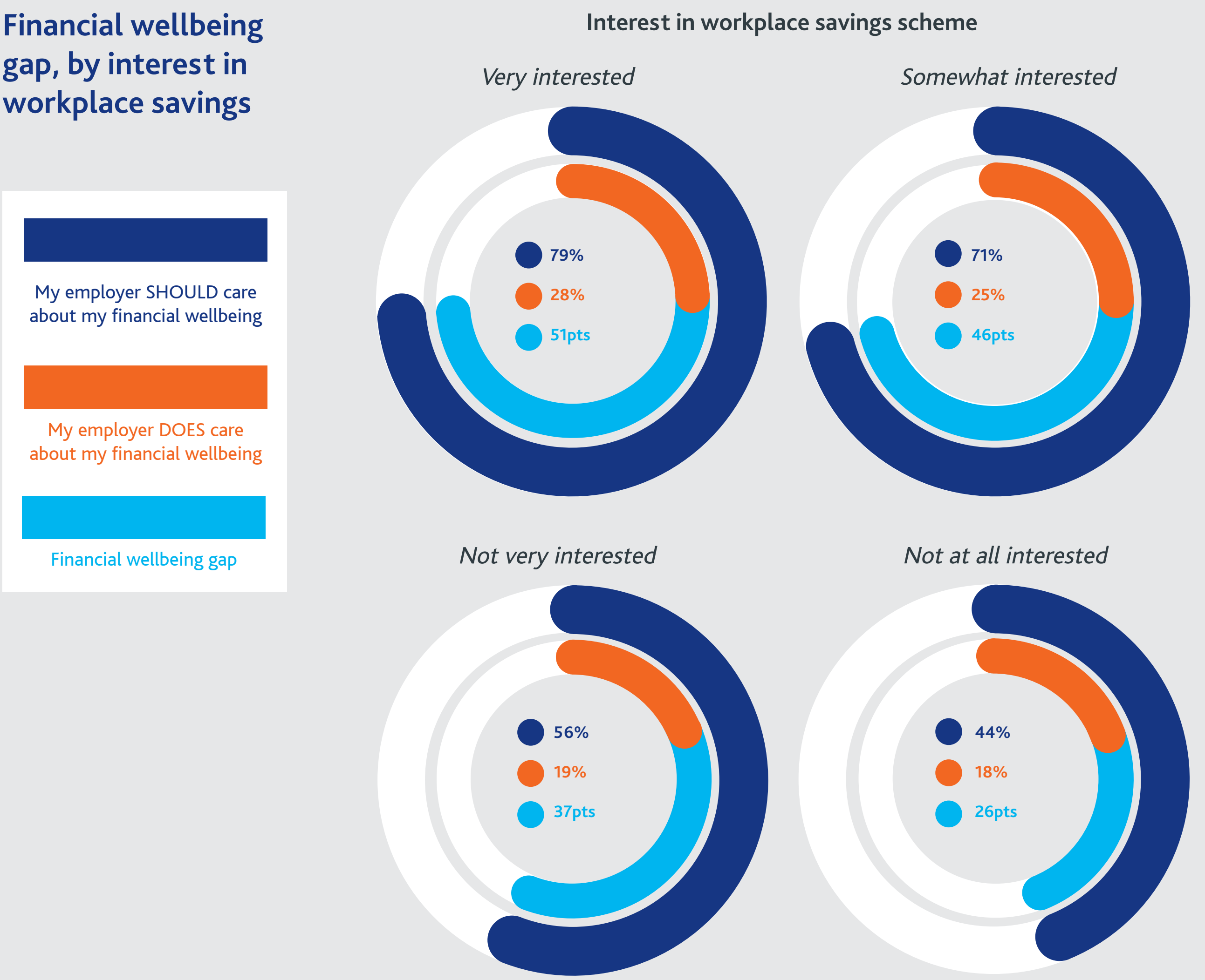
Offering workplace savings could be a good way to support employees' financial wellbeing, by helping to boost their resilience to sudden financial shocks.

The financial wellbeing gap is greater among those employees who would be very interested in workplace savings, with nearly four out of five (79%) of them believing their employer should care about their financial wellbeing, a gap of 51 percentage points over the proportion who think their employers currently do care (28%). This contrasts to a gap of just 26 percentage points for employees who are not at all interested in workplace saving (44% less 18%)

51 percentage points

= the financial wellbeing gap among employees who are very interested in workplace savings

Financial wellbeing gap, by interest in workplace savings



Half (50%) of employees who aren't currently offered a workplace savings scheme would be interested in taking part if one were to be offered by their employer. This rises to 60% of those who say that money worries have affected their ability to do their job compared to 47% who say they haven't had money worries that affected their work.

Workplace saving would help those that show signs of financial stress to boost their resilience. The most common reason for using workplace savings given by those employees who say that keeping up with bills and credit commitments is a heavy burden was to build a savings buffer for emergencies or unplanned spending. In contrast the most common purpose for those for whom bills are not a burden at all is building up savings but for no specific reason.

What is workplace savings?

Workplace savings is where an agreed amount is taken out of an employee's pay packet and put into a savings account with a financial services provider such as a building society, credit union or bank on their behalf. It is sometimes called Payroll Deduction.

How it typically works

The employee opens an account with the chosen provider and tells their Payroll how much they want to put aside each month. This is all they need to do.

The employer's Payroll department then deducts the chosen amount from their pay packet from their after-tax pay.

The employer transfers all the participating employees' savings to the financial services provider, and they allocate the relevant amounts to the individual employees' saving accounts.

Pay packet by pay packet, more is gradually accumulated into the employee's workplace savings account without them having to do anything. The employee can access the savings whenever they want, for whatever they need.

For an employee, workplace savings is:

Simple:
An easy way to save as you don't have to think about it

Flexible:
As you can change the amount you save each month. You can access the savings whenever you want, to use for whatever you want.

Low risk:
Workplace savings schemes typically offer a simple instant access account, so you aren't locking your money away. And your savings will benefit from the coverage of the Financial Services Compensation Scheme (FSCS) at the building society, credit union or bank in the usual way, which insures your savings up to £85,000 per provider.

There can be some misconceptions around workplace savings.

Here are some things that workplace savings isn't:

The savings are not held by your employer.
They are held in your own account with the financial services provider, like any other savings account you open yourself. So your employer doesn't know how much you have in savings. And there is no impact if you leave your employer, it is still your savings account and your savings.

It is not a tax advantaged way of saving.
Unlike pension saving, which is deducted from your earnings before tax, workplace savings are taken after your taxes have been deducted. This means workplace savings does not affect your pension arrangements in any way, and if you have to make a tax return, you treat the interest the same as any other savings accounts.

It is probably not going to offer the highest returns on your savings.
As the main benefit of workplace saving is the ease of accumulating a pot of savings, often in an instant access account, there may be alternatives that would earn higher rates of interest. Once you have built up a savings pot via workplace savings, there is nothing to stop you moving some or all of it to another account. People who are experienced savers may prefer to keep managing their own savings and investments and see little benefit in payroll deductions.

What is it about workplace savings that really helps some people?

Numerous research has found a significant role for psychological or behavioural factors in people's decisions.[4] These factors help to explain why people sometimes make decisions that aren't always in their best interest, such as spending more money than they can really afford. A workplace savings scheme works with these psychological factors so that they don't prevent people from building up a pot of savings. Two features are particularly important:

Making the decision to save in advance:
People often have the best intentions to save, but when they have an opportunity to spend the money right there, right then, it can be hard to resist. By getting the employee to commit in advance to save directly out of their pay packet, people can act on their best intentions before temptation arises.

Savings are deducted before they are missed:
As the saving is deducted via Payroll before the pay goes into the employee's bank account or purse, they don't get the sense of giving up spending that money on other things.

[4]For a summary see FCA, 2013, Applying behavioural economics at the Financial Conduct Authority

ScotWest Credit Union and North Lanarkshire Council

ScotWest Credit Union has partnered with North Lanarkshire Council to provide a workplace savings scheme to the council's employees. Ian Stanger is responsible for People & Organisation Development at the council. He said:

"At North Lanarkshire Council we appreciate the importance of the financial wellbeing of all of our colleagues and we understand the impact that money worries can have on their personal lives as well as their working lives.

"Payroll deduction through Scotwest Credit Union has been a simple and straightforward way of providing our employees access to a safe and easy way of saving directly from their salaries. With their finances being understandably a personal and private subject, it has been beneficial for our employees to be engaging directly with Scotwest on any queries or changes to their savings and lending rather than speak to us as their employer.

"The service is free and is simple and easy for our personnel team to manage with a minimal impact on their time. Working alongside Scotwest to promote the service across the council has been just as easy with the option of visits as well as online and printed marketing materials."

Workplace savings helps to foster new savings habits

Workplace savings supports rather than detracts from existing savings activity, especially pensions savings

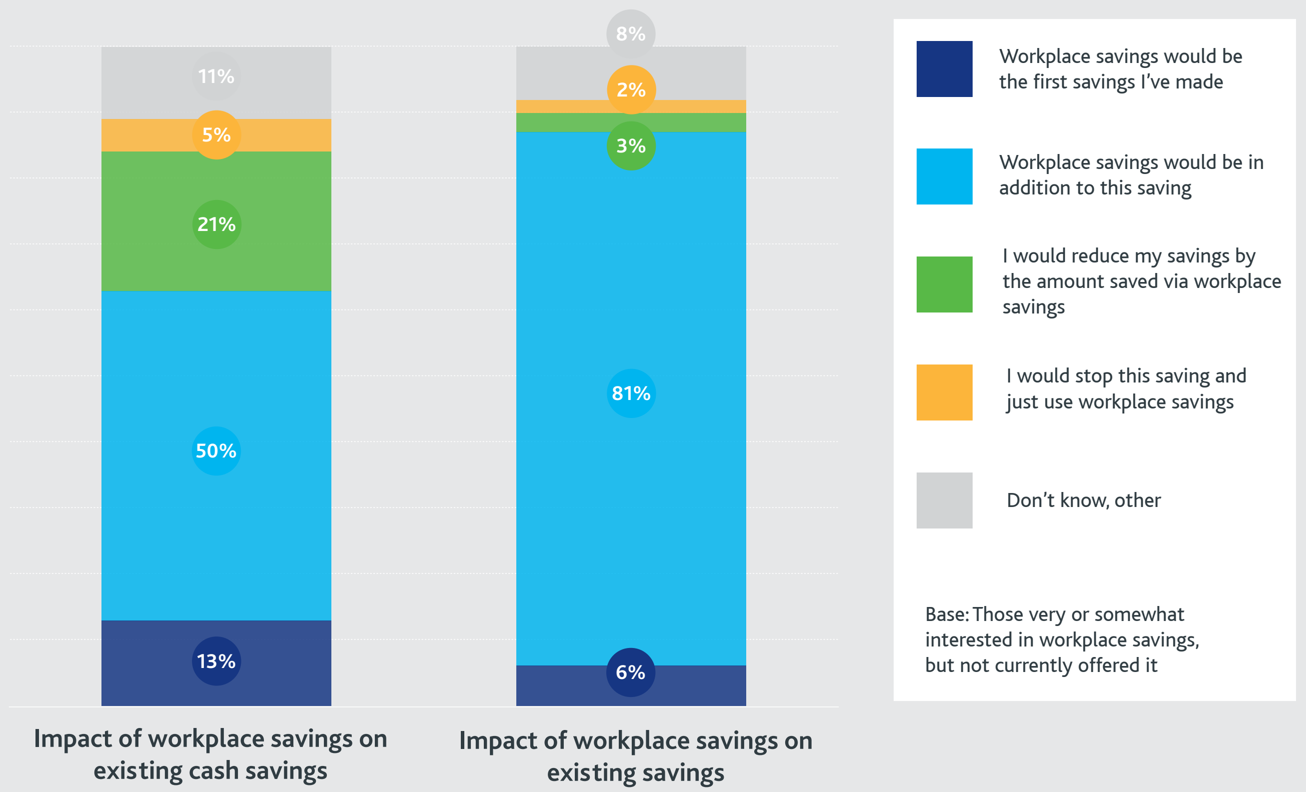
The employees we surveyed who weren't currently offered workplace savings schemes but were interested in taking it up were much more likely to say that any saving they did through workplace savings would be **in addition** to their current saving activity, or would in fact be their first formal saving.

This was particularly the case in relation to their pension saving. 81% said that the workplace saving would be in addition to their pension, and 6% said that the workplace saving would be their first formal saving. Just 3% said they would reduce their pension saving by the amount they saved through workplace saving, and 2% said they would stop saving in their pension and just use workplace saving. Even these small proportions show the need for some information to be provided with workplace savings schemes on the relative benefits of and reasons for pensions saving relative to savings for shorter term goals.

For cash savings, workplace savings would be the first formal saving that 13% of the employees had made, showing the potential for the scheme to boost these employees' financial resilience. 50% say that the savings would be in addition to their current cash savings. A sizeable 21% would offset the savings made via workplace savings by reducing their cash saving into other accounts, and 5% would stop other cash saving altogether.

The median amount that people who said they were interested in using workplace savings would put aside through the scheme was £100 a month. If this was the case and they saved this amount each month, they would have £1,200 pot of savings after a year plus any interest earned.

Anticipated impact of workplace savings on existing saving activity



Most employees felt that signing up for workplace savings schemes should be optional. Over half of employees (54%) would be displeased if they were signed up automatically.

We asked employees what could encourage them to participate in workplace savings. Employees generally felt that anything that was certain to increase the amount saved, whether a matched payment from the Government (89%), a good interest rate (86%), an opening contribution from the employer (85%), an end of year bonus (85%), a reward for regular saving (83%), or a tax incentive would help (82%). A prize draw, implying there was just a chance of winning, was seen as less of an incentive (49%).

The bottom line

Many people find keeping up with bills and credit commitments a burden, and this is only likely to intensify as general price inflation rises over coming months. For those that are able to put some money aside, workplace savings could help to increase their future resilience to sudden changes in income or expenditure, improving their financial wellbeing and reducing the detrimental impact of money worries on their work.

Many credit unions and a number of building societies offer this type of account, and several building societies are actively exploring how they can help in this area.

Yorkshire Building Society and Salary Finance

YORKSHIRE BUILDING SOCIETY

Saving direct from salary is a way we at Yorkshire Building Society can support those who would otherwise struggle to put something aside. We have continued our partnership with Salary Finance, which has enabled 1,305 people to save in 2021. For many, this account is their only means of saving.

The Salary Finance/Yorkshire Building Society initiative aims to help make it easier for people to start a savings habit. Employees choose a regular amount of money to save and deposits are taken directly from their salary. This allows savings to be kept separate from day-to-day spending. However, money can still be accessed and withdrawn at any time, without loss of interest, if it's needed.

Baroness Ros Altmann, Consumer Champion and former Pensions Minister, said: "Salary Finance and Yorkshire Building Society launched an initiative that can enable employers to … improve the financial confidence and resilience of workers across the UK."

All figures, unless otherwise stated, are from YouGov Plc. Fieldwork was undertaken between 6th - 13th January 2022. The survey was carried out online using YouGov's Employee Omnibus. Total sample size was 2003 adults. The sample is made up of employees in the private sector, who are ranked as middle managers or below, and work in businesses with 2 or more employees. The figures have been weighted and are representative of British business size.

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