WORK AND SAVE SCOTLAND - REPORT STAGE UPDATE

Contents

SUMMARY

About Work and Save

- This report provides an update on the Work and Save Scotland initiative set up to raise awareness and promote take up of payroll saving schemes among Scottish employers and workers. Work and Save Scotland is run by two leading Scottish credit unions, Capital and Scotwest, and community interest company, Action for Financial Inclusion (AfFI). The initiative is supported by funding received from the Scottish government.
- With payroll saving, employers sign up to a scheme offered by not-for-profit credit unions (or other savings institutions). Employees can then opt to have an amount of their wages automatically deducted and paid into their payroll saving account.

The scale of the financial resilience challenge – why payroll saving is needed[1]

- The United Kingdom failed as a nation to help millions of households build financial resilience after the 2008 financial crisis. As a result, they faced the recent cost of living crisis without a cushion of savings to protect them. Fourteen million adults (one in four) don't even have £100 at hand to cope with financial shocks or unexpected bills. Nearly 13 million adults have low financial resilience.
- Experts say that, as a rule of thumb, people should have enough savings to cover three months expenditure. Forty percent of UK adults say that if they lost their main source of income they could last less than three months before having to borrow or asking family for help.
- Scottish households are struggling more than counterparts in the rest of the UK. Forty eight percent of working age Scottish households say they are in serious financial difficulties or struggling compared to 42 percent of UK households. Forty one percent could last less than three months before having to borrow or ask for help
- Lack of savings means people are more likely to get into debt, which can exacerbate the financial difficulties vulnerable households face, especially if they use high cost credit. The link between overindebtedness, worries about paying bills and mental health problems is well documented. Money worries affect workplace productivity.
- By contrast building savings builds financial resilience, with all the benefits that brings. The more savings the better, but even small amounts can make a difference by providing a degree of protection against financial shocks and preventing people from getting into a worse position.

Payroll savings schemes – the benefits and take up

- The UK needs to learn from the post 2008 failure and expand take up of solutions proven to build financial resilience. Ideas must be turned into action. There is compelling evidence that payroll saving is effective at building financial resilience in two ways. First, it helps people build a savings cushion quickly and secondly, it enables access to fair and affordable loans at times when borrowing makes sense.
- Payroll saving addresses many of the behavioural barriers which prevent people from saving. Once signed up to a payroll scheme, employees quickly get into the savings habit.

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[1] Data sources can be found in the body of the report

- Research shows that payroll saving particularly benefits low-medium income workers. It encourages persistency of savings, and mitigates the impact which money worries can have on mental health. Payroll saving scheme members rate satisfaction with their overall financial circumstances higher than their workmates who are not in schemes.
- Payroll loan borrowers report high levels of satisfaction with their loans. Payroll loan borrowers are much less likely to report missing loan repayments than standard loan borrowers. Moreover, payroll scheme loans were found to help people get into the savings habit.
- Payroll saving helps address the supply side barriers that can make it difficult for credit unions to reach and serve large numbers of individuals. Payroll schemes can generate economies of scale and reduce the unit costs of managing customer relationships, gathering deposits and making loans. This makes savings and loans more economically viable. The evidence suggests that rejection rates on payroll-backed loans are lower than with standard loans and that payroll-backed loans perform better than standard loans in terms of arrears and write offs.
- This is such an important point – expanding access to payroll saving allows credit unions in turn to expand access to affordable loans at a time when financially vulnerable households are being targeted by high cost lenders.
- Payroll saving can also benefit employers by helping address the financial anxiety which can undermine workplace productivity. The additional administration involved is minimal. It is a clear way for progressive employers to demonstrate their commitment to employee wellbeing.
- Despite compelling evidence on the benefits, the potential contribution payroll saving can make towards building national financial resilience is not being harnessed. Although surveys indicate strong support for payroll saving among employers and employees, actual coverage and take up of schemes remains low. The data suggests that just one in 15 medium-large employers provide access to payroll saving, and just over one percent of employees are members of a scheme.

Lessons from Work and Save Scotland

- The two key goals of Work and Save Scotland have been to demonstrate to employers the potential of payroll saving as a means of promoting financial wellbeing among their employees, and to provide reassurance about the administration involved.
- The team faced high barriers when trying to sign up employers, not least having to work in the face of Covid. But, they succeeded in persuading 25 major employers, employing a total of 126,000 employees, to be active in offering payroll saving.
- The number of employees who now have access to a payroll savings scheme equates to eight percent of the total workforce of Scottish employers with more than 250 employees. We are careful not to overclaim for the initiative as we do not yet know how many employees have actually signed up to a scheme. Nevertheless, getting employers to sign up to Work and Save was the critical first step, and persuading 25 employers to do so through just two credit unions is quite an achievement.
- Work and Save has raised the profile of the credit union sector in Scotland as a provider of modern, relevant financial services on a not-for-profit basis.

- The biggest challenge initially was the sheer scale of the exercise in trying to contact hundreds of companies directly. The team revised its strategy and focused on larger employers using a stratified approach. This provided a 'bigger bang for the buck'.
- HR professionals in employer organisations were instrumental in the early successes. Many employers were new to the concept and others were worried about the additional bureaucracy involved. But the Work and Save team was able to explain the benefits and provide reassurance on the administrative effort needed. The fact that credit unions are not for profit and the involvement of the Scottish government strengthened the case.
- The main lesson from Work and Save Scotland is that, as with many good ideas, just because something is obvious to supporters it won't automatically succeed. It takes a sustained, well resourced effort to turn good ideas into action.

Recommendations

- Payroll savings schemes can make an important contribution towards the national policy goal of building financial resilience. In the future the government may build on the success of pensions auto-enrolment by offering an opt-out savings equivalent. But even if that comes to be adopted, it would take some years to implement.
- In the immediate future we need to: raise awareness of payroll schemes and the benefits for employees, employers, and credit unions; get buy in from employers and other influential organisations; make it as easy as possible for employers to set up schemes with credit unions and for workers to sign up and actively participate in a scheme; and create the right long term policy framework.

<u>Employers</u>

- As part of the induction process, employers should inform joiners about the benefits of payroll saving including access to affordable loans. Payroll saving should be an integral part of employee benefits packages.
- Employers should take advantage of engagement points provided by appraisals, promotions, pay rises and staff training to promote the benefits of payroll saving. Payroll champions should be recruited within workforces. Advocates should develop ideas such as incentives and prize draws to make savings interesting.
- Employers should consider the 'opt-in' payroll saving model – that is, inform joiners that they are being put into the payroll scheme but with the right to opt out.
- To provide reassurance to employers concerned about legal, regulatory and reputational risks, MaPS and credit unions should produce a payroll saving fact sheet or FAQs document for employers.

<u>Raising awareness, expanding take up</u>

- To raise awareness among employers, advocates should target: sector trade associations, specialist professional bodies and media for HR and payroll professional and corporate financial advisers.
- Payroll saving advocates should engage with MaPS, charities, and other public bodies involved in financial capability campaigns to ensure that any programmes include

information about payroll saving. Particularly important are campaigns relating to employee wellbeing and mental health.

- Debt advice charities should 'nudge' clients about to finish a debt management plan to start a savings plan with their local credit union (via their employer's payroll savings scheme if one is available).
- Specific measures are needed for workers in the 'gig economy' including creating ways to allow workers to make regular payments from fragmented earnings sources. Credit unions should collaborate with social fintech firms to develop technology to help gig economy workers use payroll saving.
- Specific measures are needed to make it as easy as possible for the self-employed to save regularly. For example, this could be facilitated through the annual self-assessment process. This would also allow tax incentives to be applied – see below.

Long term policy framework

- Government should consider allowing payroll saving contributions made by lower-medium income workers to be deducted from salaries gross of tax, and giving tax breaks to employers who provide matched funding to the payroll saving of lower-medium income employees.
- Central and local government should incorporate access to payroll saving into the social value framework used for awarding contracts.
- Government should consider reconfiguring the Help to Save programme and explicitly link it to payroll saving. Government should consider reconfiguring and redistributing the tax relief on ISAs to help low income households save. For example, it could limit ISA tax relief to basic rate income tax, and use the savings to the Exchequer to top up the Help the Save programme for low-medium income savers.
- Similarly, government should consider boosting the savings of the self-employed who opt into regular savings through the self-assessment process.

INTRODUCTION
Many people live on the knife-edge, never sure if they can survive even a minor financial setback. Only a small financial cushion is needed to transform their lives but such a cushion has proved hard to attain.

Delightfully there is strong evidence of hope from the Work and Save campaign in Scotland which is marking the end of its first phase.

Work and Save has been funded by the Scottish government through leading credit unions Capital and Scotwest. It is run by Action for Financial Inclusion CIC, a sister organisation to the Financial Inclusion Centre. I would like to thank my colleagues on the board - Marion Faichnie, Bob Barr, Graham Brough (the chief operator) and Mick McAteer, co-director of the Financial Inclusion Centre. Special thanks are due to the teams at Capital and Scotwest who worked with AfFI on Work and Save.

Thanks to the combined effort a total of 126,00 employees across a range of employers have access to a payroll savings scheme with credit unions. This is a remarkable achievement especially given the challenges presented by Covid. Of course, there is more to be done to get workers signed up and saving regularly. This is only a first step, for beyond financial resilience lies financial wellbeing which is now also within reach.

The next steps are to deepen the work within Scotland and to spread the experience throughout the rest of the UK. Covid, during which medicines were tested with good results long before proven, inspired AfFI to practise at pace findings from the Financial Inclusion Centre.

We would be remiss if this report stage did not lead to further and faster progress in improving millions of lives.

Malcolm Hurlston, CBE
Chairman, Action for Financial Inclusion (AfFI) CIC

ABOUT THIS REPORT
This report provides a narrative update on the Work and Save Scotland programme. The report summarises the aims of Work and Save, reminds readers of the scale of the challenge in helping households build financial resilience, summarises the benefits of payroll saving drawing on the available research, and the lessons learned from Work and Save programme.

At a later stage, once enough new employees have signed up for payroll savings with the participating credit unions, we intend to conduct a study to assess the impact of joining the scheme on their financial wellbeing.

ABOUT ACTION FOR FINANCIAL INCLUSION (AfFI) CIC

AfFI is a Community Interest Company set up to turn policy ideas for promoting financial inclusion and resilience into action. For more details see: [Action for Financial Inclusion (affi.org.uk)](https://affi.org.uk)

AfFI works on the basis that we need to move beyond research. There is much good research available on financial exclusion and vulnerability. We already have a good understanding of the scale of exclusion and vulnerability, which groups are particularly affected, and the root causes of financial exclusion and vulnerability. There have certainly been plenty of good ideas developed.

But not enough is being done to ensure that these solutions actually reach the underserved or hard-to-reach communities who would stand to gain most. Too many good ideas are being left on the shelf.

We all need to learn lessons from the national failure to build financial resilience after 2008. We must not only find solutions that work, we must put more effort into taking those solutions to market. Solutions that stay as concepts do not help households. Of course, research and data is still important. But, it is best deployed in targeting and delivering solutions to where those solutions are most needed.

Helping people build up savings or insure against financial shocks is a priority. It would help end the vicious cycle of people borrowing to make ends meet, failing to build up saving and then borrowing all over again.

For the times when borrowing is the right option we need to expand access to fair, affordable and sustainable credit for groups which are underserved and hard to reach. Another clear priority is promoting long term financial security and decent retirement provision, and providing access to the right financial information and advice to support decision making.

For now, AfFI is focusing on the savings challenge, starting in Scotland with the Work and Save payroll savings programme. The scale of the savings challenge ahead is set out below. As the report shows, credit union payroll saving not only helps people build savings, it enables access to affordable loans when borrowing is needed. Payroll savings schemes build a bridge to essential credit and wider financial inclusion.

ABOUT WORK AND SAVE SCOTLAND AND THE ROLE OF CREDIT UNIONS

Work and Save Scotland is an initiative to raise awareness and promote take up of payroll saving among Scottish employers and workers. [Work and Save Home — Action for Financial Inclusion (affi.org.uk)]

It is part of a range of initiatives designed to help people build financial resilience. Work and Save Scotland makes it easy for employees to save more. It supports responsible employers who want to help their workforce build financial resilience and suffer less stress.

The programme is supported by funding received through the Scottish Government's Scottish Community Lenders Fund, managed by Social Investment Scotland (SIS). Thanks to this funding, the new charitable community interest company Action for Financial Inclusion (AfFI) has partnered with two of Scotland's leading credit unions, Capital in Edinburgh and Scotwest in the west of Scotland, to provide a free service to employers and their workers.

These two established credit unions have successfully operated payroll saving for some years in Scotland, providing payroll saving to over 100 organisations across the central belt, and are among the most successful in the UK. Work and Save Scotland has begun including other Scottish credit unions in the payroll saving scheme, providing employers and employees greater choice.

The credit unions operating the payroll savings schemes can provide expert on-site help to communicate the benefits of workplace savings to employees and a free service in getting workers connected to the right payroll saving arrangements. Evidence proves the free on-site assistance works so well that staff see it as a workplace benefit. It is particularly effective with new recruits.

The employer's only contribution is the minimal administration needed. It is no more difficult than deducting pension contributions. Everything else is handled by the Work and Save Scotland payroll saving providers.

All employees have to do once their employer has signed up is to select the credit union they want their savings to go to and a savings amount. The HR or finance team deducts the amount they've chosen to save and forwards it to the credit union they've selected each payday. Importantly for employees, who may be concerned about privacy, employers are not privy to the details or the contents of their savings account, they only process the deduction automatically every payday. Employees can change the amount they want to save at any time. Credit unions don't charge for changes or amendments.

Credit unions offer additional benefits such as free life savings protection, that match employee savings if they die. Capital and Scotwest each have unique members' benefits like community awards to local projects that members can nominate, a members' lottery and a pledge to plant a tree if members later take out a green loan for solar panels through the Trees for Life conservation scheme.

Credit unions are not for profit. Their surpluses help keep products low cost and they can pay a dividend on savings. Payroll saving helps credit unions to work on a larger scale. The larger they are, the more they can lend to members in a time of need.

SCALE OF THE CHALLENGE – WHY PAYROLL SAVING IS NEEDED

Much has already been written about the scale of the savings crisis facing the UK. The nation failed to help millions of households build financial resilience post the 2008 financial crisis. As a result, these households had no real financial cushion against economic and financial shocks when the Covid economic and cost of living crises hit.

Recent research by the Money and Pensions Service (MaPS) found that more than 16 million adults (one in three) have missed payments on vital bills already this year – over two million did so for the first time.[2] Yet, fourteen million adults (one adult in four) don't even have £100 at hand to cope with financial shocks.[3] Lack of savings can leave people vulnerable to financial shocks. StepChange analysis found that four in ten people struggling to save experience an income shock, like a broken boiler or car repairs, at least every six months. Sixty percent of those facing an income shock turn to borrowing, and one third cut back on essentials, like food, to cover the costs.[4]

Research carried out by Nest Insight as part of its workplace savings 'sidecar' programme found that around 29 percent of UK employees included in its research said they had less than £50 in savings. Thirty five percent said they had less than £250. Only around one half (54%) of respondents said they could pay an unexpected expense of £300 from current income or savings. The remainder said they would need to cut back on essentials, use credit, borrow from friends or family or sell items to cope with an unexpected cost – or they would just not be able to pay it.[5]

The most recent Financial Conduct Authority (FCA) Financial Lives survey, conducted in May 2022, found that nearly 13 million (12.9 million) UK adults (one in four adults) had low financial resilience. Low financial resilience here is defined as people who are in financial difficulty, or who could quickly find themselves in difficulty if they suffer a financial shock, because, for example, they have little to no savings or are heavily burdened by their domestic bills or credit commitments.

Table 1: Households without a savings cushion

If you lost your main source of household income, how long could your household continue to cover living expenses, without having to borrow any money or ask for help from friends or family?		Selected regions			Socio-economic characteristics								
	UK	Scotland	NE	NI	Male	Female	Employed	£15-30k household income	£30-50k household income	Minority Ethnic	Not minority ethnic	Most deprived areas	Least deprived areas
	%	%	%	%	%	%	%	%	%	%	%	%	%
Less than 1 week	8	9	12	8	6	10	7	11	5	9	8	19	3
1 week to less than 1 month	13	15	16	15	12	15	15	17	14	15	13	33	7
1 month to less than 3 months	18	18	16	17	17	18	23	18	22	21	17	17	12
Net < 3months	39	41	44	40	35	43	45	47	42	45	38	58	22

Source: Financial Lives Financial Lives Tables fls-2022-early-selected-data-tables-vulnerability-financial-resilience.xlsx (live.com), Fig 9, Table 16

[2] One in three people have missed payments on vital bills already this year | Money and Pensions Service (maps.org.uk)
[3] Nine million people in the UK have no savings and a further five million have less than £100. One in six UK adults have no savings | Money and Pensions Service (maps.org.uk)
[4] Keeping families out of debt, a discussion paper: StepChange Debt Charity
[5] Workplace sidecar saving in action (nestinsight.org.uk)

The situation appears to be deteriorating. The same survey published in February 2020 reported that one million fewer, 11.9 million, adults had low financial resilience.[6]

Twenty one percent of UK adults said that if their household lost their main source of income, they could cover their living expenses for less than one month before having to borrow.

Experts say that as a rule of thumb people should have enough savings as a cushion to cover three months expenditure.[7] Yet 39 percent of respondents to the FCA's survey said they could last less than three months before borrowing or asking for help.[8]

There were noticeable differences between various groups. Scottish respondents were more likely than UK respondents generally to say they could not last without borrowing. Twenty four percent said they could last for less than one month, with 41 percent saying they could last less than three months without borrowing or asking for help. Northern Ireland households were more likely to be financially vulnerable than their GB counterparts. The position in the North East of England appears to be a particular problem with 44 percent saying they could last less than three months without borrowing or asking for help.

Women were more likely to have low levels of savings. Twenty five percent of women who responded could last less than one month compared to 18 percent of men. Forty three percent of women did not have this three month savings cushion compared to 35 percent of men.

The focus of Work and Save is obviously people who are in employment. The FCA found that 22 percent of those employed could last less than one month, with 45 percent saying they could last less than three months without borrowing or asking family and friends (six percentage points higher than the figure for all households).

Households on lower-medium incomes (the focus of research we conducted into payroll savings) were more likely to be financially vulnerable. Forty seven percent of respondents with annual household incomes of £15,000-£30,000 and 42 percent of those with incomes of £30,000-£50,000 said they could last less than three months. This compares to 39 percent for all households.

Minority ethnic households were much more likely (45%) to say they could last for less than three months than non-minority ethnic households (38%). Perhaps not surprisingly, households living in the most deprived areas were much more likely to be financially vulnerable. Fifty eight percent of households in the most deprived areas of the UK said they could last three months without having to borrow or ask friends and family compared to 22 percent of those in the least deprived areas.

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[6] Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living | FCA

[7] How much to save for an emergency | MoneyHelper

[8] Financial Lives Tables fls-2022-early-selected-data-tables-vulnerability-financial-resilience.xlsx (live.com), Fig 9, Table 16

The household savings ratio in Scotland in 2021 was 11.3 percent compared to 12.4 percent in the UK. According to the past two years of quarterly data (up to the third quarter of 2022) the Scottish savings ratio has on average been around one percent lower than the UK ratio.[9]

Other research suggests Scottish households are struggling more than counterparts in the rest of the UK. Research published by Abrdn Financial Fairness Trust found that 48 percent of working age Scottish households said they were in serious financial difficulties or struggling compared to 42 percent of working age UK households. Only 19 percent of working age Scottish households said they were financially secure compared to 23 percent of working age UK households.[10]

Building up savings has tangible and intangible benefits. Having a savings cushion can ease feelings of financial anxiety and help avoid the need for expensive borrowing. Analysis by StepChange concluded that 500,000 families could be prevented from falling into debt if they had savings of £1,000.[11]

The cost of getting into debt can exacerbate the financial difficulty facing vulnerable households. Nest Insight estimated that if a person needed to borrow using a payday loan to meet an unexpected bill of £300, this could cost them up to £250 depending on their credit score.[12] Of course, the cost (and not just in financial terms) can be even greater if people do not have access to regulated forms of credit and turn to illegal lenders.[13]

As well as direct financial costs, there are the less obvious costs a lack of financial resilience can impose on households. The link between overindebtedness and worries about paying bills and mental health problems is well documented.[14] A recent report found that money worries are the most common cause of anxiety.[15]

Research from the US suggests that even small amounts of savings are associated with higher levels of financial resilience.[16] Of course, the higher the amount of savings built up, the longer financial resilience can be sustained.[17] But, the key point is that building up some accessible savings, even if it is small, is helpful in providing at least a degree of protection against financial shocks and stopping people getting into a worse financial position.

Our focus here is on workplace savings. There is compelling evidence that money worries can affect productivity in the workplace.[18]

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[9] Seasonally adjusted figures. The official savings ratio includes an adjustment for pension holdings. Stripping out this adjustment, the savings ratio for the UK was 8.8 percent and 7.4 percent for Scotland. AfFI analysis of Scottish Government GDP Quarterly National Accounts - Supplementary Tables, Table 15: Household Sector Allocation and Distribution of Income Accounts and ONS Quarterly Sector Accounts 2022 Q3 Worksheet HH_3: Households sector (S.14): Use of disposable income account (II.4.1): Based on the measure excluding pension adjustments. Seasonally adjusted Work and Save Home — Action for Financial Inclusion (affi.org.uk)

[10] [187666]-[CD]-The financial wellbeing of Scottish households - Navigat.pdf
[11] Keeping families out of debt, a discussion paper: StepChange Debt Charity
[12] Workplace sidecar saving in action (nestinsight.org.uk)
[13] As-one-door-closes_WFF_V3_FINAL1.pdf (fair4allfinance.org.uk)
[14] Money and mental health facts and statistics
[15] Financial strain is driving the UK's anxiety | Mental Health Foundation
[16] Maintaining Over $100 in Savings Linked to Increased Likelihood of Financial Stability in Lower Income Households | FINRA.org
[17] Does Short-Term Emergency Savings Translate into Longer-Term Financial Wellness? - AARP Research Report
[18] See for example Workplace-emergency-saving-a-landscape-review-of-existing-evidence.pdf (nestinsight.org.uk), p11

SUMMARY OF THE BENEFITS OF PAYROLL SAVING

The crisis of undersaving undermines efforts to build financial resilience in the UK. Can we learn the lessons from post 2008? We need to expand take up of solutions that work. We have put forward compelling research which provides confidence that payroll saving can play a major role in helping households build that financial resilience.

Payroll saving contributes to financial resilience and inclusion in two ways. It helps people build a savings cushion and enables access to fair and affordable loans for times when borrowing makes sense.

The theory of change on payroll saving

Summarised below, the available research shows that payroll saving is effective at helping build financial resilience. To understand why this might be the case, it is helpful to consider the theory of change underpinning payroll savings.

The theory of change behind using payroll deduction is:

1. Existing research finds that money worries contribute to personal and workplace anxiety.

2. Low levels of savings undermine financial resilience and heighten financial worries.

3. Building up a savings cushion, and being able to access affordable loans when needed, is an important feature of financial resilience.

4. But, a number of demand and supply side barriers exist to saving and financial resilience:

> a. People face a number of barriers to saving including lack of awareness of the benefits of saving, lack of opportunities to save, and behavioural barriers such as inertia and weak propensity to save; and
>
> b. On the supply side, credit unions can face barriers reaching and providing services to individuals (the unit costs of marketing to, and administering savings and loans accounts for, households who can save and borrow relatively low amounts are comparatively high). Furthermore, employers need to see the benefit of payroll deduction and be willing to offer it to their workforce.

5. Payroll saving can address these barriers by making it easier for employers and credit unions to engage with people. It overcomes behavioural barriers to savings (automated payroll savings benefits from some of the same advantages seen with pensions automatic enrolment)[19], and ultimately helps employees build financial resilience. Moreover, payroll saving generates economies of scale because signing up employers, particularly larger employers, reaches large numbers of individuals. There is further benefit from the 'trusted intermediary' status of employers.

This last point is critical and is core to AfFI's 'ideas into action' philosophy and the Work and Save approach. Good solutions need to reach the people they are designed to support.

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[19] The work Nest Insights is doing with opt-out payroll savings takes this a step further and is even closer in practice to pensions autoenrollment than the payroll savings schemes covered in this report. Number of UK workers saving soars with powerful and popular opt-out payroll savings - NEST Insight Unit

Persuading large employers to offer payroll savings is an effective way to reach large numbers of potential savers compared to trying to reach and persuade numerous individual households.

RESEARCH ON THE BENEFITS OF PAYROLL SAVINGS

Two major research reports produced by The Financial Inclusion Centre funded by the Money and Pensions Service (MaPS) and Fair4All Finance demonstrate the benefits of payroll savings.

The first report, *Getting Workforces Savings-Payroll Savings with Credit Unions*,[20] 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. It also concluded that, importantly, payroll saving is a relatively simple concept which could be scaled up given the right support and effort and that 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.

Key findings from that report included:

- Being a member of a credit union makes employees much more likely to save regularly. Two-thirds (66%) of employees who are members of a credit union said they saved every single month, compared to 52 percent of employees who were not members. The difference is even greater for those credit union members on the payroll deduction scheme with 70 percent reporting that they saved every month. Moreover, among longer standing members that had been with the credit union for more than 12 months, 72 percent stated that they saved every month.
- Encouragingly, saving via payroll also leads to higher levels of persistency – 67 percent of payroll scheme members stated that they saved roughly the same each month compared to 50 percent of non-payroll scheme members.
- Payroll saving appears to help lower income employees. In the £17,500 - £24,999 income band, 69 percent of payroll savings scheme members reported saving every month compared to 44 percent of employees who are not members of the credit union. In this income band, 74 percent of payroll savings scheme members saved roughly the same every month, compared to 43 percent of their workmates not in the credit union.
- Credit union members tend to report lower levels of financial satisfaction and higher anxiety and financial vulnerability than the general population. This is not surprising given that credit union members are usually on lower incomes – 53 percent of staff who were not part of a credit union strongly agreed or agreed that thinking about their financial situation made them anxious, compared to 63 percent 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.

[20] Getting Workforces Savings-Payroll Savings with Credit Unions | The Financial Inclusion Centre

- Compellingly, being part of the payroll deduction scheme appears to mitigate this effect, particularly if the employee is a longer standing member of a scheme. 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 percent 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 percent 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.
- Longer standing payroll scheme members appear to have greater financial resilience – 55 percent of newer payroll scheme members said they could cover living expenses for just a month compared to 34 percent 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.

The second report, Deduction Lending: does it add it for low income borrowers, [21] assessed whether deduction based lending (from payroll or benefits)[22] is effective at providing access to fair and affordable loans for low income borrowers. Again, the results were positive.

- Deduction lending generated a positive financial impact and improvements in financial wellbeing. Encouragingly, 70 percent of payroll loan borrowers either strongly agreed or agreed that they felt more confident about managing money. Under three percent disagreed.
- In addition, more than two thirds of respondents said they were more satisfied with their overall financial circumstances since taking out their payroll loan. Again, only a small minority, under four percent, disagreed. Low levels of financial resilience can have an impact on both mental and physical health. The research shows that borrowing with the credit union seems to make respondents feel less stressed, anxious, or depressed with 60 percent of payroll loan users either strongly agreeing or agreeing that it had helped.
- There was overwhelming satisfaction with deduction lending. Eighty seven percent of payroll loan borrowers felt that their loan had helped them a lot. Similarly, satisfaction levels were extremely high with 95 percent of payroll loan users saying that they were very satisfied or satisfied with their loan.
- Only seven percent of payroll loan borrowers strongly agreed or agreed that they had struggled to keep up with household finances since part of their wage had been transferred directly to the credit union to cover their loan repayments.
- Just two percent of payroll loan borrowers said they had actually missed a loan payment, markedly lower than the 15 percent of borrowers that stated they had missed a payment with a standard loan. This would indicate that those repaying via

[21] New research shows deduction lending adds up for low income borrowers and lenders | The Financial Inclusion Centre with the Swoboda Research Centre

[22] This research looked at loans repaid from benefits. The results for benefit loans were even more encouraging than those for payroll loans. However, this report focuses on payroll savings based loans.

deduction repayments are less likely to miss at least one payment compared to those using repayment methods such as standing order, direct debit and payments made at branch.

- The research found a positive impact on savings behaviour amongst deduction lending users. Before borrowing with the credit union, 54 percent of payroll loan users said they rarely or never saved. However, despite the relatively low saving levels before taking their loan, it appears that the automated mechanism of deduction lending fosters higher levels of regular saving. Seventy two percent of those repaying by payroll deduction agreed that the loan had helped them save more regularly. This compares to 66 percent amongst standard loan users.
- Employees' relationships with their employer is not negatively impacted by payroll lending. One of the concerns raised about expanding access to payroll loans was that employees would be afraid to make use of schemes as it might affect their relationship with their employer, or they would not want employers to know about their finances. The survey responses would not appear to support those concerns. On the specific point about borrowers being concerned that their employer would know too much about their finances, only 14 percent (or one in seven) strongly agreed or agreed. Forty five percent were neutral on the question, while 41 percent strongly disagreed or disagreed. Equally, having a payroll loan does not appear to be broadly perceived as a barrier to employees' ability to change jobs. Eighteen percent strongly agreed or agreed that since taking out their loan they felt unable to change employers until it is repaid. Nearly 40 percent (39%) were neutral and 43 percent strongly disagreed or disagreed.
- As outlined throughout the report, low levels of financial resilience can have an impact on both mental and physical health. The research found that borrowing with the credit union seemed to make respondents feel less stressed, anxious or depressed after taking out their loan, with 60 percent of payroll loan users either strongly agreeing or agreeing that it had helped.

The effect on credit unions

The research found that deduction lending like payroll savings loans had benefits for credit unions.

- Fewer loan applications were rejected with deduction lending. Analysis of one credit union's lending data suggests that applications for deduction lending tend to have much higher approval rates compared to those for standard loans using direct debit, standing orders or cash payments. Over the last three years, 55 percent of all applications for standard loans were shown to be rejected, compared to 40 percent of payroll loans.
- Deduction lending appears to perform better. Importantly, payroll lending was shown to have markedly better performance than standard lending products with much lower levels of arrears (both for arrears of 3-12 months and more than 12 months) and write offs.

Payroll saving opt out/ autoenrolment
The work Nest Insight is undertaking on payroll savings opt out takes payroll savings down a different path.[23] Nest Insight has been trialling an opt-out payroll saving model, where employees are automatically signed up to a savings account through regular payroll contributions unless they choose to opt out. This takes away the onus on employees to sign up to payroll savings. The approach preserves individual choice to the extent that employees can opt out of the scheme.

The findings from the trials have been positive. In both trials, the number of people saving increased by around 50 percentage points. People who start saving through an opt-out approach build meaningful savings buffers over time. They also actively use their accounts by withdrawing money when they need it. Most employees feel positively about opt-out workplace savings, whether or not they themselves choose to save. Based on the current data from these trials, there appears to be no crowding out of pension saving, which was a concern, as a result of introducing opt-out payroll savings being deposited directly to instant-access savings pots.

As the theory of change above explains, inertia can be a powerful barrier to saving. Payroll saving, once people are signed up to a scheme, is an effective way of getting people into the savings habit. Of course, they still have to be persuaded to sign up to a scheme. With opt-out, this barrier is overcome through adopting an approach similar to that used for pensions autoenrolment.

This is a more interventionist approach than the Work and Save model covered in this report. There are efforts to persuade government to apply the pensions autoenrollment model, which has been successful in widening pension coverage in the UK, to emergency, accessible savings.

But, if it is ever adopted by government, it may well be some time before opt-out payroll savings is implemented. It makes sense to maximise efforts to expand take up of payroll savings in the meantime.

TAKE UP OF PAYROLL SAVINGS
The workplace is now seen as a prime arena for the delivery of financial services as well as financial guidance and support, offering the opportunity to reach an accessible audience both at scale and with efficiency. Reaching people through the workplace creates opportunities for economies of scale which can reduce the unit costs involved in distributing products and services.

At the same time, there is growing recognition of the benefits of improving the financial wellbeing of staff amongst both policy makers and employers of all sizes. Using payroll as a mechanism for workers to put aside savings is not a new concept. Credit unions have been offering such facilities for decades with a large number of these not-for-profit mutuals specifically operating to just serve either individual employers or specific employment sectors.

[23] Number of UK workers saving soars with powerful and popular opt-out payroll savings - NEST Insight Unit

There would seem to be support for payroll savings amongst employees and employers. A recent survey found that 72 percent of employees asked want access to workplace saving alongside their pension, 92 percent of employers surveyed would implement workplace scheme.[24]

But, as ever, positive intentions expressed in surveys do not necessarily translate into action. The potential to harness automated payroll deduction schemes to develop regular savings is only just being fully recognised.

From the limited data we have, it appears that approximately 200,000 employees in Great Britain currently save and/or borrow by payroll deduction with their credit union.[25] Put in context, this represents around 15 percent of the 1.37 million adults currently members of credit unions in Great Britain (England, 917,930; Scotland, 385,856; and Wales, 65,821).[26]

There would appear to be around 850 employers in England, Wales, and Scotland listed as having an existing payroll deduction scheme with credit unions.[27] 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.

It is hard to say how accurate the 850 figure is. One the one hand, it is likely to be 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. On the other hand, many schemes may now be more or less dormant and not actively promoted by employers. However, overall the data supports the view that relatively few employers have adopted this facility.

To put this number into context it is worth looking at the data on the number of businesses in the UK. Even small businesses could offer payroll savings. But, we assume that medium-larger businesses are more likely to be willing to offer payroll as they are likely to have more resources to set up schemes and targeting larger businesses is likely to yield better results in terms of take up.

[24] Payroll-deducted saving schemes | Money and Pensions Service (maps.org.uk)

[25] For data on payroll savings numbers see S50 and 249 Section 1.2 Getting Workforces Savings-Payroll Savings with Credit Unions | The Financial Inclusion Centre

[26] Credit union quarterly statistics - 2023 Q1 | Bank of England

[27] Data from Find your Credit Union website, exercise undertaken for the Getting Workforces Saving report-see above

Table 2: numbers of medium-larger employers in UK, 2022

	Number of employers	Number of employees
200-249	2,565	574,000
250-499	5,030	1,743,000
500+	5,520	15,160,000

Source: Business population estimates for the UK and regions 2022: statistical release (HTML) - GOV.UK (www.gov.uk), Table 2 (whole economy)

There are over 13,000 employers with more than 200 employees in the UK. So, if the 850 figure is accurate, it suggests that those offering payroll savings represent about one in 15 of that total, and approximately one in seven of the largest employers. Looking at the number of employees, the 200,000 who are currently signed up to payroll savings represents just over one percent (1.3%) of the total number of employees in firms with more than 500 workers.

So, there would seem to be plenty of scope for greater penetration of payroll saving. This is why the partners set up Work and Save Scotland: to promote awareness and take up of payroll savings schemes amongst employers and, in turn, employees.

We now turn to the lessons learned from the programme.

LESSONS LEARNED FROM WORK AND SAVE SCOTLAND

As demonstrated in the recent Nest Insight report, many employers find payroll deduction attractive particularly those that already have an embedded benefits strategy in place.

Yet others are more sceptical. A previous study undertaken in Scotland demonstrated how difficult it can be to persuade employers to take up payroll deduction schemes. The report concluded that 'some employers appeared to be overwhelmed by other payroll initiatives such as automatic enrolment in pensions' and that some 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 nonfinancial resource.'[28]

That is why two key goals of Work and Save Scotland have been first, to demonstrate to employers the potential of payroll deduction as an effective way of promoting savings and financial resilience and secondly providing reassurance about the modest amount of administration involved in setting up and running schemes.

At the outset, the Work and Save team faced high barriers when trying to sign up employers, not least working in the face of Covid. But they persuaded 25 major employers (22 signed up with three pending) with a total number of 126,000 employees to be active in offering payroll saving. For such a small team with just two credit unions to be able to persuade that number feels like quite an achievement.

To put 126,000 employees in context, it is helpful to consider the data on Scottish employers.

Table 3: Total public and private sector businesses in Scotland, registered and unregistered

Employee number band	0-49		50-249		250+		Total	
	No of businesses	No of employees	No of businesses	No of employees	No of businesses	No of employees	No of businesses	No of employees
Registered	172,490	704,670	3,875	270,710	2,520	1,515,140	178,885	2,490,530
Unregistered	165,835	197,900	-	-	-	-	165,835	197,900
Total	338,325	902,570	3,875	270,710	2,520	1,515,140	344,720	2,688,430

Source: Businesses in Scotland: 2021 - gov.scot (www.gov.scot) Table A: Number of businesses (registered and unregistered, including public sector) in Scotland and their total Scottish employment and turnover, 2021

The data shows there are 2,520 Scottish employers in the public and private sectors with more than 250 employees, a total of 1,515,140 employees. This suggests that around eight percent of the total workforce of Scottish employers with more than 250 employees now has access to payroll savings through Work and Save.

We do not yet know how many workers have actually started saving through Work and Save. We are being careful not to overclaim for the initiative. It is not enough to persuade employers to offer payroll savings, employees have to sign up. As the data above suggests, around one in seven large employers across the UK offer payroll savings, but just over one percent of UK employees appear to be members of schemes.

[28] breakfast Briefing Revised Paper V6 SUII.pdf (scottishinsight.ac.uk)

The first step has been to ensure that employers are offering payroll savings and raising awareness of the opportunities. If enough employees sign up through Work and Save Scotland, we will undertake a financial wellbeing assessment to provide further insights.

The take up was achieved using just two credit unions. Not only is there plenty of scope for growing payroll saving through Work and Save itself, but the potential could be even greater if more credit unions and other savings institutions were actively involved in attaining the goal.

Work and Save Scotland has raised the profile of the credit union sector in Scotland as a provider of modern, relevant financial services on a local not-for-profit basis. The enthusiasm, co-operation, professionalism and modern financial offers of Capital and Scotwest has been invaluable in the journey and they are to be applauded for their foresight and strategic thinking.

In terms of challenges, perhaps the first and foremost has been the sheer scale of the exercise in trying to contact hundreds of companies directly, identifying decision makers and tracking them down. Mass mailouts proved largely ineffective and pinpointing stakeholders in HR departments consumes both time and resource.

During the programme, the project team developed its strategy and began to focus on larger employers using a stratified approach. This proved to be more effective. Once dialogue began, some 40 employers expressed positive interest, of which more than half have joined already. At the time of writing, others are still in the process of joining, or are still actively considering joining Work and Save Scotland. As such the momentum continues and the word spreads.

Only one employer has decided against, for internal constitutional reasons, out of the hundreds contacted. Many more remain undecided and appear to be waiting to see what other PR or HR colleagues do. Meanwhile other credit unions are now keen to join the Work and Save Scotland campaign as its reputation grows as a cold call conversation starter with employers with obvious marketing advantages.

The Work and Save Scotland strategy was given a significant boost by the press coverage generated by Shona Robison MSP in two separate waves which raised awareness among HR professionals. The Scottish local press provided favourable coverage.

HR professionals have proved to be key enthusiastic and effective components in the early successes of Work and Save. HR professionals passing the word to colleagues in other firms proved beneficial to Work and Save and it prompted cold calls to the team from some big employers. Scottish Water now uses payroll saving for staff retention and recruitment purposes among its 4000 staff. The word continues to spread, particularly in the public sector, through organisations such as Scottish Enterprise and the Scottish Parliament.

Many employers were totally new to concept of payroll saving, but when the Work and Save team explained the benefits, together with the involvement of not-for-profit credit unions and the Scottish government, this provided a real boost. The team presented payroll savings as the ‘potential little sister of pension auto-enrolment which would produce a nest egg and peace of mind’.

There was a perception of additional bureaucracy amongst some employers. Others thought that the minimal administration actually involved in setting up and running payroll saving was too good to be true. But, again, they were reassured when the team explained how it worked.

Some employers had heard of similar ideas from for-profit Salary Finance and had considered it, but only acted when they heard from the Work and Save team that the Scottish government and credit unions were involved. The fact that credit unions are not for profit helped. Some employers were unaware they already had a few staff on credit union payroll saving and decided they wanted to extend this to more workers as a company policy using the Work and Save campaign momentum with its Government backing.

University, third sector and public sector employers were quick to see the wider welfare angle. Employers in the corporate sector saw the benefits for recruitment and staff retention. Retention was also a positive aspect for smaller employers.

The focus on larger employers produces a ‘bigger bang for the buck’, because it provides access to a bigger pool of employees. But smaller employers (and their employees) should not be neglected, so a parallel strategy is needed.

The main lesson from Work and Save Scotland is that, as with many good ideas, just because something seems obvious to supporters this will not make it an automatic success. It takes a sustained effort from a dedicated team both to persuade employers to sign up and to overcome perceptions of ‘red tape’.

CONCLUSIONS AND RECOMMENDATIONS[29]

Ultimately, the objectives are to see levels of savings and financial resilience grow, and to enable access to affordable credit – with an emphasis on low-medium income workers.

Longer term interventions such as the opt-out payroll savings model based on pensions auto-enrolment have been proposed. Given the success of pensions auto-enrolment, and the encouraging preliminary results from the opt-out trials conducted by NEST Insight, it would certainly seem there is merit in actively exploring such interventions.

It is difficult to say at this stage whether or not a national opt-out savings model would be adopted by government. If this does happen, it will be some time before this is implemented. In the meantime, we should clearly do as much as we can to expand take up of the current payroll saving model.

To expand payroll saving, we need to:

- Create a favourable environment for payroll saving
- Raise overall awareness of payroll schemes and the benefits for employees, employers and credit unions
- Persuade organisations and opinion formers to advocate and generate support for payroll saving, get buy in from trades unions, regulators, public bodies and other civil society organisations
- Get buy in from employers (particularly at senior level management and decision maker level which is critical for successful partnerships) - ideally, all employers, large or small, public or private should be actively considering setting up a payroll saving scheme for their employees
- Reassure employers that payroll saving does not involve significant additional bureaucracy, important at a time when employers are dealing with other priorities such as pensions auto-enrolment
- Make it as easy as possible for employers to provide access to schemes
- Make it as easy as possible for employees to sign up to schemes and provide the right support so they actively participate in a scheme and manage their finances
- Create the right long term policy framework for payroll saving

The recommendations set out here are aimed at the important stakeholders who can support the expansion of payroll saving including: government (central and local), regulators and other bodies such as the Money and Pensions Service (MaPS); employers and trade bodies; trades unions; credit unions and other savings institutions.

As well as creating the right supportive environment, there are a number of practical measures employers and others who share these goals can adopt to enhance take up. Active employer engagement is critical to success. Employers are gatekeepers to staff, and without their commitment to ongoing promotion, take-up will always be low. Multiple points of

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[29] Many thanks to all those attending the Work and Save event in Edinburgh hosted by Capital Credit Union for providing very helpful recommendations on how to expand payroll savings.

contact involving a variety of staff roles are needed to help manage and implement the relationship.

Specific recommendations

For employers

- As part of the induction process, employers should inform workers joining the organisation about the benefits of payroll saving including the ability to access affordable loans if needed. Payroll saving should be an integral part of employee benefits packages.
- Employers should take advantage of engagement points provided by appraisals, promotions, pay rises, and staff training to promote the benefits of payroll saving to employees.
- Employers should ensure that workplace HR sites include information about payroll saving to encourage take up. Internal communication channels – emails, newsletters, staff intranet, pay slip adverts and staff social media – are effective options. Alternative options are needed to reach 'offline' staff.
- Subject to clarification on legal and regulatory issues,[30] employers could adopt the 'opt-in' payroll saving model – that is, inform new joiners that they are being put into the payroll scheme but that they have the right to opt out
- To provide reassurance to employers concerned about legal, regulatory, and reputational risks, MaPS and credit unions should produce a fact sheet or FAQs document for employers. This should set out clearly what employers can and cannot do with regards to setting up and promoting payroll saving models, and the boundaries of responsibility between employers, credit unions and employees for choices made by employees.

Raising awareness and expanding coverage

- To promote payroll savings to a large audience, renewed efforts are needed to reach decision makers within employers and, specifically, within HR and payroll departments. To do this, greater use should be made of the trade associations for various sectors of the economy, specialist professional bodies for corporate HR and payroll professionals and corporate financial advisers. Payroll bureaux which run outsourced payroll services for employers are another potential channel to reach large numbers of employers.
- Payroll saving advocates should actively engage trades unions to communicate the benefits of payroll savings for employees, and obtain the support of unions.
- The link with financial vulnerability and anxiety is well documented. Payroll saving advocates should seek out organisations running campaigns about mental wellbeing in the workplace and ask them to incorporate information on payroll saving in their campaigns.

[30] It is our understanding that employers could opt-in new employees. But, it is understandable that employers would have concern about legislative, regulatory, and reputational risks. This needs clarification from regulators.

- Payroll saving advocates should engage with MaPS, charities and other public bodies involved in financial capability campaigns to ensure that any programmes or materials include information about payroll saving.
- Payroll saving advocates should target and work with other bodies that have influence over employers such as the NHS Providers, Local Government Association, Institute of Directors, CBI, Federation of Small Businesses, Chambers of Commerce, and accountancy bodies such as the ICAEW and ACCA.
- Payroll saving advocates should actively target specialist media read by corporate financial advisers, HR and payroll professionals.
- Payroll champions should be recruited within workforces to 'normalise' payroll savings and inform colleagues about the role of credit unions. 'Word of mouth' via trusted friends and colleagues will always be an effective form of promotion.
- Advocates should develop ideas to make savings interesting. Incentives have proved effective, so employers and credit unions should explore prize draws, refer a friend programmes or matched saving schemes – either within a single employer or across all payroll partnerships.
- Debt advice charities should 'nudge' clients about to finish a debt management plan to start a savings plan with their local credit union (via their employer's payroll saving scheme if one is available).
- Specific measures are needed for workers in the 'gig economy' including creating ways to allow workers to make regular payments from fragmented earnings sources. Organisations such as Uber and Deliveroo could promote and enable automated savings through platforms.
- Credit unions should collaborate with social fintech firms on developing technology which allows gig economy workers to nominate a single payroll savings account where they can deposit contributions from several sources.
- The payroll saving 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.
- As well as developing measures for gig economy workers, specific measures are needed to make it as easy as possible for the self-employed to save regularly. For example, this could be facilitated through the annual self-assessment process. This would also allow tax incentives to be applied – see below.

Credit unions

- Credit unions should 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.
- There is compelling evidence that payroll savings benefits credit unions. They should invest to achieve payroll growth. Attracting new payroll partners and maximising take-up among existing providers requires significant planning and dedicated resourcing to be successful.

Long term policy framework

- Government should consider allowing payroll savings contributions made by lower-medium income workers to be deducted from salaries gross of tax.
- Government should consider giving tax breaks to employers who provide matched funding to payroll saving of lower-medium income employees.
- Central and local government should incorporate whether firms provide access to payroll saving as part of the social value framework used for awarding contracts.
- Government should consider reconfiguring the Help to Save programme and explicitly link it to payroll saving.
- People with high levels of savings (generally those with higher incomes) disproportionately gain from the tax benefits available through Individual Savings Accounts (ISAs)[31]. Government should consider reconfiguring and redistributing the tax relief on ISAs to help low income households save. For example, it could limit ISA tax relief to basic rate income tax, and use the savings to the Exchequer to top up the Help the Save programme for low-medium income savers.
- Similarly, government should consider boosting the savings of the self-employed who opt into regular savings through the self-assessment process.

AfFI
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[31] interest income and gains from capital growth is tax free