REPORT

Designing a Life-Course Savings Account

How to help low-to-middle income families save more

Tony Dolphin

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Contents

Executive summary

- Families in the UK, particularly low-to-middle income families – the median family income in 2008/09 was around £26,000 – find it hard to save, other than for short-term events such as Christmas and family birthdays. Among the reasons they give is a belief that the right savings vehicle does not exist for them.
- This paper reports the results of research designed to identify the features of a savings account that would appeal particularly to low-to-middle income families while also being viable for financial service providers. On its own, this kind of facility is unlikely to be enough to boost savings rates, but it could be an important element of the package of measures, including enhanced financial education, that needs to be put in place.
- Central to the research were four deliberative workshops, held with a total of 67 people on low-to-middle incomes, to gauge their attitudes to saving and to draw out the features that make savings products attractive to them. As part of the workshops, participants were asked to design their own life-course savings accounts.
- A number of financial service providers were also interviewed in the course of the research. These interviews were conducted to assess the attitudes of providers to the ideas raised in the workshops and to ensure that any recommendations put forward were viable from their point of view. Providers' views on wider issues relating to saving were also sought.
- In addition, an expert roundtable was held to establish the latest thinking on the design of savings products.
- Among the features considered in the research were: universality, the range of investment options, potential providers, the means and ease of making deposits and withdrawals, the possibility of auto-enrolment, incentives (including tax relief) and government backing for the account.
- Participants in the workshops and financial service providers agreed that the best option for a life-course savings account would be a deposit account, with a simple set of rules and conditions backed by the government, that paid some form of 'bonus' for saving. However, both groups were prepared to countenance a degree of complexity above this very basic model in order to provide features which may increase take-up.
- Participants in the workshops were strongly in favour of an account provided by supermarkets, for a mixture of reasons including convenience, trust, and their ability to offer incentives related to in-store spending.
- Our recommendation is that the government introduce a new life-course savings account, perhaps to be called the Lifetime Bonus Savings Account. This would be a universal deposit account, with a government 'kitemark' to show it complies with a set of basic conditions and carries a full government guarantee. The government should work with supermarkets in particular to encourage them to offer these accounts. Deposits would be made in a range of ways, including in branches, through direct debits and, perhaps, at supermarket tills, and the option of making direct deposits from income (including welfare income) should be explored. Auto-enrolment, however, would not be appropriate. In addition to any incentives offered by financial service providers, the government should pay a bonus into accounts on a sliding scale, dependent on the average balance held in the account over the preceding three years, up to a maximum of £183.33 per annum. Ideally, interest payments should be tax-free, though this would add to the cost to government and might not be acceptable in the present fiscal climate. Otherwise, the bonus would be instead of tax relief. Only four withdrawals a year would be allowed before this bonus is lost, in order to encourage people not only to save but also to retain savings in the account. Savings in this account should be exempt from asset testing for welfare benefits, including the proposed Universal Credit, although this will necessitate a cap on the size of the account, perhaps at £10,000.
- Unless the government is prepared to find additional funds to increase incentives to saving, this account would have to replace the cash ISA scheme, perhaps including existing cash ISAs. (In this case, only £10,000 would be transferable into the new account, with other savings held in ISAs going into other, non tax-advantaged accounts.) This would be unpopular with

middle and high earners, who use cash ISAs as a tax shelter for their savings, and with retired savers who have built up considerable assets in cash ISAs over time. However, ISAs are a poor way of promoting or increasing aggregate savings. Using bonuses to target more of the incentives at low-to-middle income families is likely to have a greater impact.

- Our research suggests an account along these lines would be an attractive product for families on low-to-middle incomes and viable from the point of view of financial service providers.
- This would not preclude a separate product to encourage investment in a wider range of assets, but this is unlikely to appeal to low-to-middle income families and should be branded differently.

1. Introduction

Families in the UK, particularly low-to-middle income families,[1] find it hard to save, other than for short-term events such as Christmas and family birthdays. Our previous research with this group discovered that many would like to put more money aside but feel unable to do so (Dolphin 2009). It identified low wages and high prices, particularly of essentials like food and energy, as key factors making it hard to save, together with the pro-consumption culture that has dominated UK society in recent years. But it also revealed that many families do not save because they do not feel that the right savings vehicle exists for them.[2]

The purpose of the research reported in this paper, therefore, is to design a savings vehicle that would be attractive to low-to-middle income families – the group in society that has great difficulty accumulating savings but, paradoxically, is most in need of a safety net in uncertain economic times – and would also be viable for financial service providers. This account would have to be available to meet the varying needs of people throughout their lives, and so could be designated generally as a 'life-course savings account'.

The primary aim of this account would be to encourage people to put aside in a formal way some money for emergencies, and it would be targeted at families with some capacity to save on a medium-term basis (that is, with a time horizon of at least two to three years). Hence, the focus is on those with low-to-middle incomes, rather than those on the very lowest incomes. However, the account could also appeal to people on low incomes looking for a way to save in the short term, such as for Christmas or the summer holidays. Often, these people have to rely on expensive debt – having some savings would help to reduce this dependency and so make a real difference to their lives.[3]

A new type of savings account is unlikely to be sufficient on its own to lift savings rates significantly. Efforts will also be needed to change attitudes to spending and saving, to improve engagement with savings options, and to reduce perceived barriers.

The idea of a life-course savings account is not a new one[4] and we hoped, when our research began, that we could stimulate an interest within government in the idea. In fact, the Coalition may already be thinking along similar lines – in a speech[5] made to the Consumer Financial Education Body Conference on 14 July 2010, Mark Hoban, the Financial Secretary to the Treasury, set out the government's vision for promoting a higher level of saving in the UK. He said families need access to straightforward products – ones that are easy to understand and that they trust – and he also suggested there was a need for a new range of simple products. But, he added, people would still have to be nudged towards healthy savings behaviour.

This paper sets out what a simple saving product should look like, and considers the type of 'nudges' that the government and financial service providers should put in place.

Chapter 2 describes the methodology used in the research.

Chapter 3 discusses the nature of saving and whether the UK does, in fact, have a problem of low saving.

Chapter 4 reports the results of new primary research on desirable features of savings accounts.

Chapter 5 describes the life-course savings account that we think the government should introduce and what financial service providers need to do to make it appeal to families on low-to-middle incomes.

1 There is no universally accepted definition of what constitutes a 'low-to-middle income family'. In this research generally, and in the deliberative workshops in particular, we have in mind families living on below-median incomes. The latest release of the Family Resources survey suggests the median weekly income in 2008/09 was £500 (£26,000 a year). It also showed 57 per cent of households with below-median income held less than £1,500 in savings (DWP 2010).

2 Kempson and Finney (2009) reach a similar conclusion.

3 See Ben-Galim and Lanning (2010)

4 See, for example, Altman (2003), Norman and Clark (2004)

5 Hoban (2010)

2. Methodology

The aim of the research reported here is to design a life-course savings account that would appeal particularly to families on low-to-middle incomes and would be viable for financial service providers. Central to the research, therefore, were efforts to gauge the views of these two groups.

We held four deliberative workshops – in London, Reading, Cardiff and Newcastle – with a total of 67 people on low-to-middle incomes, to get a real understanding of the type of savings account that would appeal to them. The workshops involved participants who were employed and earning less than £26,000 per annum, and who had tried to save in the previous two years.[6]

Participants were first asked to discuss some issues around saving, including their attitudes towards saving, possible reasons for saving, and the barriers they face when trying to put some money aside.

They then discussed a number of hypothetical savings accounts, each with different features that can be found in real products. This made the participants think in detail about what attracts them to a particular product and helped us to understand the features that do not appeal to them. Participants were also asked to rank each account from one to five.[7]

Thirdly, participants designed their own accounts by specifying a range of characteristics:[8]

- Name of the product
- Type of account – whether it would be in the form of a bond, have a stocks and shares element, be a deposit account and whether there would be any choices between these elements
- Provider or providers of the account
- Processes and rules around making deposits and accessing funds in the account
- Incentives and rewards for saving
- Complexity of the account

During the workshops, participants were split into groups for each session. When discussing attitudes towards saving, they were placed in two groups of mixed ages. For the feedback on existing saving products and account design they were split according to age, with one group made up of those from late teens to late-30s and another for those over 40. This was done to draw out differences in attitudes between the two broad age groups and to recognise the impact this may have on any recommended savings product.

The workshops unearthed a general dissatisfaction with the way accounts are currently designed and delivered, and provided plenty of evidence for the view that a new type of savings account, designed to reflect the views and needs of those living on low-to-middle incomes, is needed.

To ensure the life-course savings account that we recommend was viable from the point of view of financial service providers, we conducted a series of semi-structured interviews with a range of providers. In these interviews, we collected general views on savings accounts and, in particular, sought comments on the practicality of the ideas that came out of the deliberative workshops and other ideas around the design of savings accounts.[9]

In addition, we reviewed the literature on the benefits of saving, looked at the academic arguments for and against various potential features of savings accounts and studied savings products offered in other countries.

We also convened a roundtable discussion with 27 experts in the field of saving from academia, government and the financial industry, to ensure that we were aware of the latest thinking on the design of a life-course savings account and how to make it attractive to families on low-to-middle incomes.[10]

6 It would also be interesting to find out what might make those who have not tried to save, want to save. However, identifying people who have shown no interest in saving but are willing to participate actively in a discussion about savings products would be difficult.

7 The hypothetical accounts used in this exercise can be found in Appendix 1.

8 Details of these accounts are set out in Appendix 2.

9 The financial service providers are listed in Appendix 3. They were interviewed on the understanding that their views would not be personally attributed to them but could be fully reflected in this report.

10 The names of the participants in the discussion can be found in Appendix 4.

3. Context

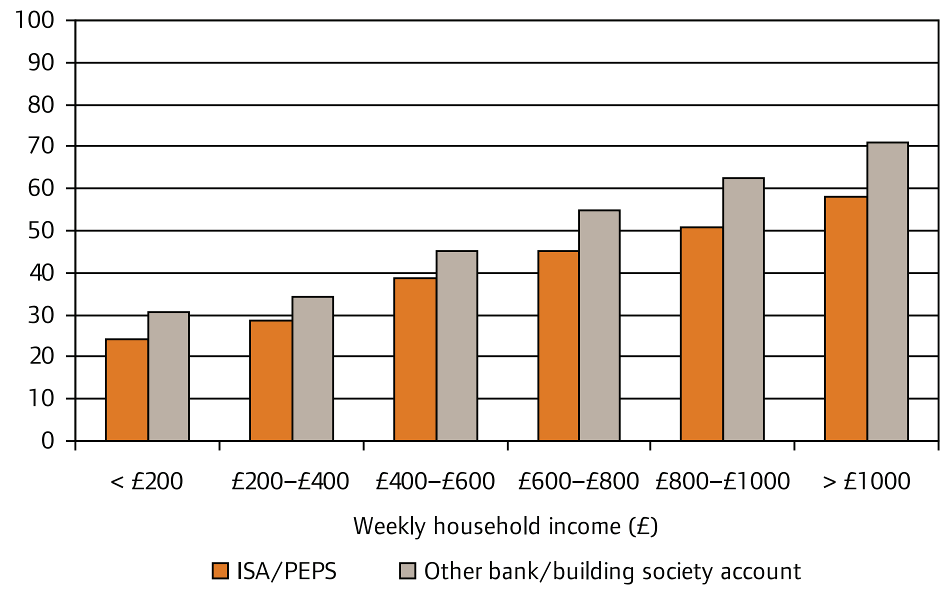
Saving is important but as a nation the UK is bad at it. Savings can help us deal with unexpected events, take advantage of opportunities and enjoy a better retirement; but the amount we currently save is insufficient for these purposes. The government already provides some incentives for saving, but these could be better targeted to increase saving. To understand why, this chapter examines levels of saving in the UK, sets out the benefits of saving, identifies four different types of saving behaviour, and discusses the reasons people give for not saving more (or at all).

3.1 Levels of saving in the UK

Many families in the UK do not save enough, and many low-to-middle income families have very little or no savings. This is particularly important because people living in these families are more likely to be in insecure jobs, in terms of employment, pay and hours worked, which creates a greater need for savings. They are also less able to access affordable credit.

Latest figures from the Family Resources Survey (FRS) show that, in 2008–09, only 31 per cent of families with a weekly income below £600 had an individual savings account (ISA) and only 37 per cent had any other bank or building society account (DWP 2010).[11] For families with a weekly income below £400, these figures drop to 27 and 33 per cent, and for those with a weekly income below £200 they are 24 and 31 per cent.

Figure 1
Households by type of savings and investments and total weekly household income, 2008/09 (%)

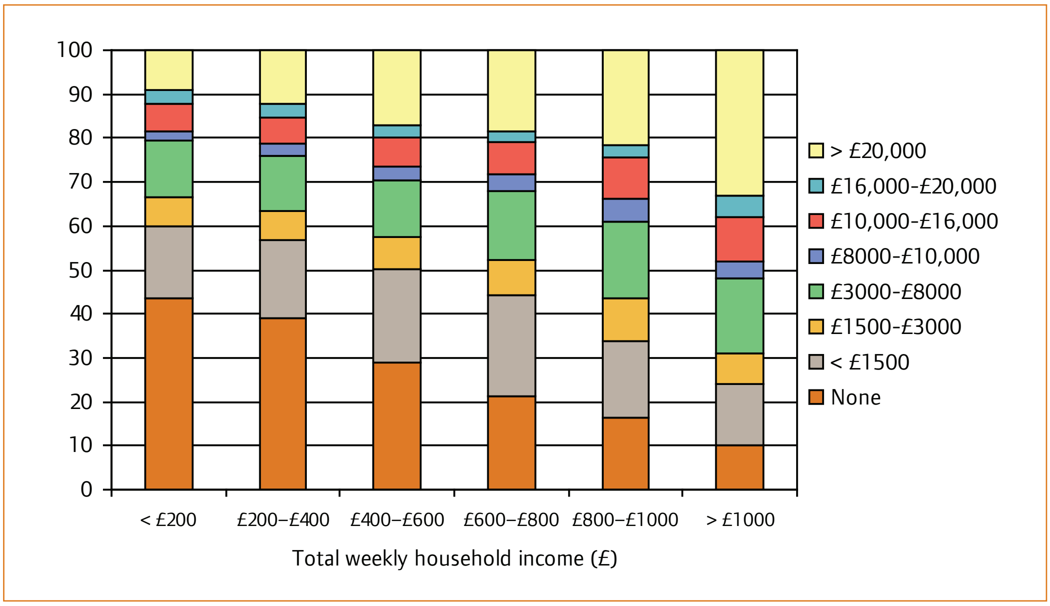


Source: DWP 2010: Table 4.8

The FRS also reveals that 44 per cent of families with a weekly income below £200 have no savings at all, while another 16 per cent have savings of less than £1,500. Comparable figures for those households with a weekly income of between £200 and £400 are 39 per cent and 18 per cent. In other words, two in five families with an annual income below £20,000 have no savings and another one in five have savings of less than £1,500.

11 The FRS also shows 3 per cent of families had NS&I savings accounts and 6 per cent had 'basic bank accounts'. Families may have more than one type of account and it is impossible to say what percentage of families has an account of any type.

Figure 2
Households by amount of savings and investments and total weekly household income, 2008/09 (%)



Source: DWP 2010: Table 4.12

Financial advisers recommend households build up a store of readily-available savings equivalent to at least three months of income before they consider other forms of investment. On this basis, our analysis of the FRS data suggests over half of households in the UK have inadequate savings. And this is not a problem that diminishes as income increases, except for those in the highest income bracket (over £1,000 a week).

The latest Scottish Widows Savings and Investment Report (2010) reaches a similar conclusion. Its findings show 40 per cent of people say they think they are not saving enough. But, as the report notes, people underestimate the amount they need to save and the true percentage not saving enough is likely to be higher.

Participants in the workshops conducted as part of this project were asked what they felt would be an adequate amount of savings to meet emergency costs or unexpected losses in income. Amounts suggested ranged from £200 to 6 months worth of salary, with the majority of people saying between £2,000 and £3,000 would be enough for them to feel secure.

The Resolution Foundation conducts an annual audit of 'low-to-middle earners' – people of working age with below-median incomes who receive less than one-fifth of their gross household income in the form of means-tested benefits. The Foundation's analysis of its latest audit shows that this group have more savings than those 'reliant on benefits', but fewer savings than 'higher earners'. In particular, around two-thirds of low-to-middle earners have savings of less than £1,500, compared to one-third of higher earners.

Table 1
Value of savings/assets by income group, 2008/09 (percentage of all benefit units)

Savings/assets	Benefit-reliant	Low-to-middle earners	Higher earners	All benefit units
< £1,500	84	66	36	54
£1,500–£3,000	5	10	11	10
£3,000–£8,000	4	9	14	11
£8,000–£20,000	3	6	13	9
£20,000–£40,000	2	5	11	7
> £40,000	3	5	15	10

Source: Resolution Foundation (2010: 74)

52 per cent of low-to-middle earner families have savings equivalent to less than one month's gross income and a further 15 per cent have savings equivalent to between one and two months' gross income. Also, savings inadequacy diminishes with age: two-thirds of low-to-middle earners aged between 25 and 44 have savings equivalent to less than one month's earnings. This could reflect lifecycle effects and this younger group's savings may increase as they get older, or it could be that

this generation has a lower propensity to save than those aged 45 to 64 (Resolution Foundation 2010: 75). Most probably, it is some combination of the two. People in their 20s may still be living at home, or have some financial dependency on their parents and so feel no need for their own savings. However, the numbers in this position have increased in recent years and the triggers for financial independence – marriage, having children and buying a home – appear to be occurring later in life.

What is clear from all this analysis is that there is a savings catch-22. Those on low-to-middle incomes are most likely to need assets because they are at greater risk of unemployment and more vulnerable to shocks, but they are the least likely to be able to accumulate them.[12]

3.2 The benefits of saving

Saving is not just about insulation against shocks. There is now an established literature, going back to Sherraden (1991), that sets out the benefits of having a store of readily-accessible savings. These include the ability to cope with emergencies, but also the ability to plan future consumption more easily, the ability to take advantage of opportunities, and increased security.

Having funds to fall back on can help a family cope with an emergency or an unexpected shock, including the sudden loss of a large proportion of its income. If the main earner in a family loses their job, savings can be used to ensure that it is able to continue to meet its commitments, such as mortgage payments, at least in the short term, without having to cut back drastically on other spending or resort to expensive debt. Other shocks, less life-changing but still difficult for families on low-to-middle incomes to manage, may be more easily coped with. For instance, the failure of a boiler in winter can be a real emergency for a family with young children. Without savings, or other resources – such as an extended family – to fall back on, a family that needs money in a hurry may have to borrow at a high rate of interest, perhaps from door-step lenders.

Previous work by ippr has shown how the absence of savings can lead low-income families to fall into a cycle of expensive debt (Ben-Galim and Lanning 2010). Our study of the experiences of 58 low-income families revealed the problems that everyday occurrences such as a broken washing machine or an unexpectedly large bill can create for a family without savings. Families are forced to resort to expensive borrowing to fill the gap in their finances. The need to service and repay this debt then makes it even more difficult to save, so they are forced to rely on more borrowing when something else goes wrong.

A store of savings can also help families plan for future consumption. Most families save for events like Christmas, family birthdays and the summer holidays, and low-income families, who are often struggling to make ends meet from week to week, are generally very good at this type of saving (Dolphin 2009). But they are less good at saving for events that are further in the future (including for retirement) or for the unknown. The Financial Services Authority's study of financial capability found '70 per cent have made no personal provision to face a drop in income, and 55 per cent do not think they have sufficient provision to face an unexpected expense' (FSA 2006: 14).

Saving is not just about protection against the bad things in life. Savings can also be used to take advantage of opportunities that might present themselves. As a result of globalisation and technological change, people are more likely to have to switch jobs during their working lives. Savings can be used to acquire new skills through retraining in order to facilitate a change of career. For the more entrepreneurial, they can also be used to help start a new business. And tougher mortgage conditions mean that a larger deposit is now likely to be required by someone looking to buy a house.

Having a stock of savings also brings a sense of security to a family. When economic times are tough and the risk of job loss is high, it makes a great difference to a family's wellbeing to know that it has assets to fall back on. Savings can also help a family plan better for the future, and there is evidence that savings can bring real material benefits. Research in the United States has shown that high personal savings are associated with greater upward mobility of individuals in their own lifetimes and that children of high-saving parents are more likely to experience upward income mobility than other children (Cramer et al 2009).

12 Saving is likely to be the way that most people accumulate assets, so the two terms are often treated as identical. However, there are alternatives, such as the government giving every person a capital grant, although these have little popular political appeal. See Paxton et al (2006).

It has also been argued, particularly by Michael Sherraden, that there is a broader effect, whereby having a store of assets makes people feel that they have a greater stake in society and that this makes them better citizens.[13]

Experts at the roundtable meeting held as part of this project noted the range of reasons given in the literature for encouraging saving but emphasised that for most people what little saving they do is driven by fear – for example, of not being able to afford Christmas presents for their children – rather than aspiration. They felt that efforts to encourage people to save more should be accompanied by efforts to make clear the positive reasons for saving.

Participants in the deliberative workshops took a more practical view of why they might want to save. Reasons given ranged from longer term factors – such as having children, getting married, buying a house and retiring – to shorter-term ones, such as Christmas, holidays and the annual car service.

Some people in the workshops did, however, put forward more general reasons for saving, emphasising how a store of assets could increase their own personal feelings of security and their sense of being able to have a better quality of life.

> *To have enough money so you can sleep at night and not worry 'what if this happens' … it's just having that little cushion so that if something unforeseen happens … even if it is something nice, you can deal with it.*
>
> *Female, Cardiff*

People also talked about the importance of having savings 'for a rainy day', being able to easily meet unexpected costs, and having the freedom to take up opportunities when they arose. Having children was seen as an important trigger for changing attitudes to saving overall and making people plan financially.

3.3 Types of saving

Kempson and Finney (2009) divide savers into three typologies: 'non-savers', 'instrumental savers' and 'rainy day savers'. The Financial Inclusion Taskforce, for whom their report was written, refers to a continuum of savings patterns. This could be set out as follows, so that it can be correlated with the three typologies:

1. Putting aside
2. Overpayments
3. Advance payments
4. Paying in
5. Deferred spending
6. Saving up
7. Putting into savings
8. Longer-term saving

Non-savers are likely to engage only in 1. Instrumental savers may also do 1 in the short term, but may also use a combination of 2, 3, 4, 5 and 6. Rainy day savers may follow the same pattern, but will also engage in 7 and 8.

Our previous analysis of the benefits of saving, together with the research conducted for this project, suggests it is useful to distinguish four, rather than three, types of behaviour.

1. **Short-term saving for a purpose:** Often, this is simply about coping with uneven spending patterns throughout the year. Most households spend more at certain times of the year, especially Christmas and birthdays, and will try to budget for this. Saving schemes, such as Christmas clubs, have been set up to facilitate this type of saving but much of it is done informally. Such informal saving can be unsafe and the terms are often poor (generally there are no interest payments or other incentives). Participants in our workshops remembered that some savers with the companies that provide these schemes had lost their savings in the past as a result of the companies going out of business. Even so, experts at our roundtable thought there were some things to be learned from informal saving schemes

13 See Sherraden (1991)

– in particular, the fact that they are attractive because the money is collected, groups of people save together, and there is some lock-in. However, it is not easy to see how 'group saving' might be translated into a regulated financial product. Our previous research has shown that people making this type of saving tend to be reluctant to make early withdrawals and are prepared not to have early access to their money (Dolphin 2009). Some families are very good at this type of saving; others are less good and as a result find they have to resort to expensive credit.

2. **Saving for short-term precautionary reasons:** The primary aim of this type of saving is to ensure that some funds are available when extra spending is required. It is undertaken with no specific event in mind, but in the knowledge that there will be a rainy day at some point in the future. Washing machines and cars break down, children need new shoes, and so on. It is different from long-term asset-building because there is a degree of certainty that the money will be spent. But because the goals are ill-defined, people may find it harder to start this type of saving. And because this type of saving is done with no particular goal in mind, the temptation to dip into the savings may be harder to resist.

3. **Saving towards medium-term goals:** Once a family has put in place some rainy day money, it will be in a position to start saving in order to create future opportunities. This could include saving towards the deposit on a first home, or saving to give their children extra opportunities when they leave education. The evidence in Section 3.1 suggests that only around one in three families in the UK are undertaking this type of saving.

4. **Longer-term asset building:** The most common form of long-term saving is to build a pension for retirement, or as part of a life insurance policy that incorporates a payout when the policy matures.

From its name, it may seem that a life-course savings account should be aimed primarily at encouraging more long-term asset building and this has been the focus of previous proposals (see, particularly, Norman and Clark 2004). But the government is already planning to extend the number of people with pension savings through the introduction of the National Employment Savings Trust (NEST) in 2012.[14]

Meanwhile, more than half the households in the UK do not have an adequate store of rainy day money. The primary aim of a life-course savings account, therefore, should be to reduce the amount of informal saving that is occurring in the UK and to increase the amount of formal saving for precautionary reasons. Informal saving is often unrewarded, may in some instances be less secure than formal saving (and it will not be subject to any guarantee) and the temptation to dip into informal savings is greater than for formal savings. The account could also encourage a modest degree of saving for more positive medium-term goals. In terms of the continuum of savings patterns set out above, therefore, the aim is to encourage more of saving types 4, 5, 6 and 7.

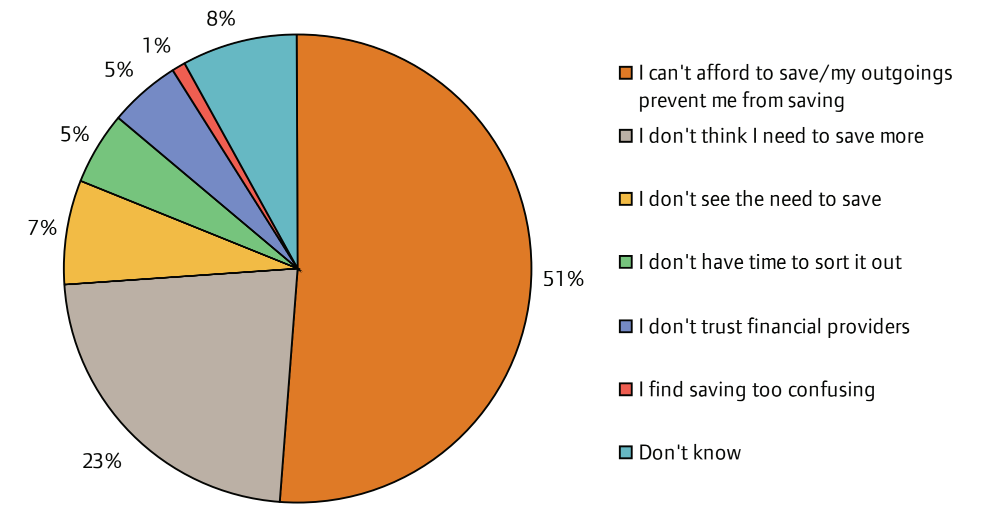
3.4 Reasons people give for not saving, or not saving more

A number of surveys have asked people in the UK why they are not saving more. Two related answers typically predominate. People say they do not have enough money to save, or that they have more immediate priorities.

For a number of years National Savings & Investments (NS&I) has conducted a savings survey which, until recently, included a question on attitudes to saving. It consistently found that just over half of all respondents said the main thing stopping them from saving more was: 'I can't afford to save; my outgoings prevent me from saving.' Unfortunately, this question has been dropped from NS&I's recent surveys but, given the stability of results over the years, it is unlikely that attitudes have changed much since the last published results, from summer 2009.

14 See http://www.nestpensions.org.uk/

Figure 3
What stops people from saving more?



Source: NS&I (2009: 3)

Scottish Widows annual Savings and Investment Report also asks about major barriers to saving. The latest report, for 2010, says: 'Overwhelmingly the barrier most commonly considered to be 'major' was a lack of money available (67%)' (2010: 7). The next highest response was 'lack of trust in financial service providers' at just over 25 per cent (respondents were allowed to choose more than one answer).

The Office for National Statistics' new Wealth and Asset Survey (WAS) asks a more specific question to find out why people are not saving into a pension, but comes up with very similar answers to the NS&I and Scottish Widows reports. It found that two-thirds of individuals aged under 60 who were not paying into or receiving a pension said that they could not afford to do so.

Table 2
Reason for not saving into a pension, 2006–08

	Percentage
Can't afford to contribute/low income/not working	65
Not interested/thought about it/got around to it	11
Prefer alternative forms of saving	9
Too many debts/bills/financial commitments	7
Don't know enough about pensions	6
Too early to start a pension	6
Don't trust pension companies/schemes	6
Other	12

Source: ONS (2010: 16)
Note: Some respondents gave more than one answer

Participants in our deliberative workshops highlighted similar barriers preventing them or discouraging them from saving. These fell into four categories: income and expenditure, culture and attitudes, unattractive saving accounts, and short-term time horizons.

i. Income and expenditure

By far the most common response when people were asked about reasons for not saving was affordability.[15] People mentioned low income and high living costs combining to leave them with insufficient funds left over at the end of each month to save. Specifically, the cost of food and petrol were put forward as items that drove down their spare income, as well as unexpected bills and other costs. Falls in income during periods of unemployment or sickness were also mentioned as barriers to saving regularly, as well as having children and struggling to afford childcare. Servicing

15 Similar qualitative research conducted at the same time as our own, but focused more on pension savings, found the same result (Wells 2011).

debt was suggested as a significant barrier to saving by some, with people saying that they had to prioritise monthly interest payments and efforts to pay off debt on store cards or credit cards, rather than making savings.

> *It's hard for some people to save; it's not that they don't want to, it's just the barriers are there. If they buy anything they get the worst deal going and pay the highest interest on the credit they take out.*
>
> *Female, London*

ii. Culture and attitudes

Participants talked about the lack of a 'savings culture' in the UK. Expensive lifestyles were seen to be a core barrier to saving and were blamed on the consumerist society which sends out the message to 'spend now and pay later'.

> *I make sure I get my holiday every year, I have to have my holiday.*
>
> *Female, London*

In particular, the older participants were keen to outline the tendency of younger people to ignore the importance of saving and instead spend what they receive.

> *In my 20s, I don't really think about saving.*
>
> *Female, Newcastle*

> *'In our day and age people want the best things straight away whether it's on credit or whatever … it's psychological: we want it now and we want the best.'*
>
> *Male, Reading*

Family culture was also put forward as a barrier to saving, with poor saving habits reinforced among the next generation.[16] Parents highlighted the consequences of a 'soft' approach to children, making it easy for them by paying for what they want and allowing them to live cheaply in the family home after they have left school.

> *'My parents' mum and dad probably said [to them] 'you've got to save'. But my mum and dad were tough; I [had it] so strict. So I am going to let my children have whatever they want and I'll go on my bones to make sure they have what they want.'*
>
> *Female, Cardiff*

Concerns that having savings would penalise people was something mentioned at each workshop. In particular, participants were worried that having access to savings would be counted against them either in the amount of benefits they would receive or in getting benefits at all. The rules on receiving care in later life, when individuals are expected to pay for their own care if they hold savings or assets valued over a certain amount, were also cited as a disincentive to saving.

> *'They punish you if you've got savings over a certain amount: you're not allowed to draw unemployment benefit or any other benefits … They're saying 'you've got money, so you're not entitled to anything' which is wrong. I think the government have got it the wrong way round, because it encourages debt.'*
>
> *Female, Reading*

The financial crisis and subsequent recession were also frequently mentioned as having tarnished people's trust in the banks, with the crisis at Northern Rock mentioned on a number of occasions as an event that made people question the safety of their money.

16 Other research has identified some individuals as starting to save in order to avoid the experiences of older generations in having to depend on state pensions (Wells 2011).

iii. Unattractive savings accounts

A poor choice of accounts and a perceived lack of rewards were mentioned by many people as a barrier to saving. In particular, the low interest rates banks are currently offering were not seen as a good enough incentive.

> *'There are just no incentives at all.'*
>
> *Male, Newcastle*

Low interest rates, inflation – which devalues the amount saved over time – and the fact that tax is paid on any interest received meant people did not feel able to take savings accounts seriously. Some people also feared being unable to access their funds in an emergency, with long notice periods and penalties for withdrawing money early making people cautious about locking their money away.

> *'Whenever I have saved, I have never done the saving where I can't get the money, like an ISA where they lock it away.[17] I am reluctant to do that because I always think something might arise and I might need to use it … I'm scared because you never know what's coming.'*
>
> *Female, London*

Banks were seen as making saving too complicated, using a range of financial 'jargon' when explaining the features of accounts and requiring a lot of information before an account could be opened, which discouraged people from opening them.

> *'They don't make it easy to save, because you have to provide so much information.'*
>
> *Female, Reading*

iv. Short-term time horizons

Participants stressed that it was far easier to save for shorter-term and more positive goals, such as a holiday or a new outfit, than for longer-term or less exciting goals, such as buying a house or fixing a boiler that might break down. Specific objects or goals were seen as more tangible and easier to save for than unknown events in the future.

> *'The more specific the goal, the easier it is to achieve.'*
>
> *Female, London*

Many of the reasons given for preferring short-term savings were similar in nature to the barriers given to saving in general. Short-term saving was seen as having fewer associated risks. Accounts designed for long-term savings often required a minimum deposit, which prevented people from benefiting from their rewards. Participants also mentioned the need to see an immediate benefit from their money and the desire not to miss out on a good lifestyle in the present.

> *'I do everything short term. I just think I'm going to enjoy what I've got now and what happens, happens – up until about 50, and then I'll probably think about it.'*
>
> *Female, Newcastle*

Despite it being seen as easier, a short-term approach to saving was recognised as not ideal. Concern about old age and a desire to save for the longer term under the right conditions were expressed, suggesting that given the right incentives people might be more likely to save for the future.

> *'I think it's a good idea [to have longer-term savings] but in practical terms it's not achievable.'*
>
> *Female, Reading*

17 This is a misconception: ISAs without a lock-in are readily available.

Something that emerged from every workshop was the large number of barriers, both real and perceived, that exist to saving for the longer term. These barriers reflect not only a lack of resources and the high cost of living but also an underlying culture of short-term thinking in the way people manage their money.

> *'I try to save but there is always some obstacle.'*
>
> *Female, London*

Unsurprisingly, perhaps, most of the financial service providers we talked to did not believe their products were the problem (although they did acknowledge that the financial crisis had dealt a blow to their reputation). They were keen to point out that there are numerous simple, instant-access savings accounts on the market, into which people can save small amounts. This is true, although the rates of interest they pay are very low at present. They also highlighted monthly savings accounts, savings bonds and fixed-rate deposit accounts – these, they argued, would meet the needs of the vast majority of families.

While the financial service providers accepted that UK households are not saving enough, they believe the problem is with the people rather than the products. One said the main barriers are a 'knowledge gap' and an 'engagement gap'. Families do not know about the benefits of saving and are unwilling to make the effort to engage with the notion of saving. Another emphasised the need for greater financial literacy, to remove perceived psychological barriers to saving.

The financial service providers were also sceptical of the view that people lack the money to save. They believe people choose to spend rather than to save, and that people see saving as optional, a residual activity that might be done if there is any money left over at the end of the week or month.

Most of the experts at our roundtable meeting agreed. While they accepted that there are some families, on the very lowest incomes, for whom saving will be impossible, they argued that many families are able to find money for debt repayments and should, therefore, be able to find money to save, once debt has been repaid. They noted that credit unions often successfully encourage people to transition from debt repayment to saving.

3.5 Government incentives for saving

Traditionally, economists have argued that people are rational individuals and that their behaviour reveals their preferences. So, if savings levels are low, it is because people have a 'revealed preference' for spending over saving. As such, any incentives that are provided by the government to encourage saving, to the extent that they are effective, will distort people's choices and lead to a less-than-optimal outcome.

More recently, behavioural economists have challenged the assumption that people are so rational. They argue that financial behaviour can be influenced by a number of common human characteristics, such as: 'lack of self-control, limited cognitive abilities, inertia, the tendency to interpret default options as "advice", and the tendency to use mental accounting techniques' (Beverly et al 2008: ES-1). If this is the case, it follows that there can be a role for incentives to save.

The government's principal means of encouraging saving in the UK is through tax relief. In 2009/10, an estimated £22 billion of tax relief was given to households to encourage them to save, mostly in the form of relief for registered pension schemes. Other schemes that attracted tax relief included ISAs and Save As You Earn (SAYE) schemes. The latter also attract relief from National Insurance contributions, as do employers' contributions to their employees' pension schemes, which adds a further £8.5 billion to the cost of incentives for saving.

Table 3
Estimated costs of the principal tax expenditure and structural reliefs, 2009/10

Relief	£ million
Income tax	
Registered pension schemes	19,700
Share Incentive Plan	100
Save As You Earn	110
Individual Savings Accounts	1,600
National Savings Certificates	150
Premium Bond Prizes	110
National Insurance	
Share Incentive Plan	70
Save As You Earn	75
Registered pension schemes	8,300

Source: HM Treasury 2009

Low-to-middle income households receive very little of this tax relief. The progressive nature of the UK income tax system means that any tax relief will tend to benefit high earners the most, on average.[18] One estimate, dating back to 2005, is that about 60 per cent of tax relief for savings goes to higher-rate taxpayers.[19]

However, it seems that tax relief as it is currently structured does little to increase net saving. Attanasio et al (2005) discovered that new investments into TESSAs[20] jumped when additional contributions could be made at the start of a new year and that the average contribution tended to be close to the maximum permitted. This is consistent with people switching savings from other accounts, rather than making additional savings out of current income.[21] Similarly, they found that: 'while the take-up of ISAs was quite high, there is no strong evidence that this had much effect on overall ownership of non-pension assets or on levels of saving among those with such assets' (ibid: 166). Kempson and Finney (2009) found that tax relief was the least attractive financial incentive for people on low incomes. Wells (2011) found that even higher-rate taxpayers are only vaguely aware of the tax benefits of ISAs.

At a time when additional government funds to encourage saving are unlikely to be available, this creates an opportunity, albeit one that is not likely to be politically palatable. If the current tax relief given to higher income families could be withdrawn (or cut) without reducing their propensity to save, the funds might be used in some other way that does effectively increase saving by low-to-middle income families. As a result, aggregate saving could be increased at no extra cost to the government. This would be hugely unpopular with the high earners who are sheltering their savings in cash ISAs. More worrying for the government, perhaps, is that it would also be unpopular with retired people who have built up substantial savings in ISAs over the years. Ending the tax relief on cash ISAs would cut the income of many pensioners at a time when it has already been hit by low interest rates.

18 Higher-rate taxpayers might argue that this is reasonable because they are paying more tax in the first place. But if tax relief is granted to encourage saving, the question is whether higher-rate taxpayers need to given a greater incentive than basic rate taxpayers, or whether giving a larger incentive to those on low-to-middle incomes would have a greater effect.

19 This will change somewhat from 2012 when the amount of tax-free income that can be put into a pension will be cut from £255,000 to £50,000 and the lifetime pension saving allowance is reduced from £1.8 million to £1.5 million. Together these measures are expected to save the government £4 billion in tax relief. But it will remain the case that incentives to save for low-to-middle income families are limited.

20 'Tax-exempt special savings accounts' – precursors to cash ISAs, and similar in nature.

21 Sandler (2002) came to the same conclusion.

4. Primary research: What makes a good savings account?

Although there are many savings products on the market, offering a wide range of features, levels of saving in the UK remain low, particularly among low-to-middle income families. This chapter considers the features that could be incorporated into a life-course savings account (LCSA) to encourage increased saving.

4.1 Universality

An LCSA could be made available to all, or it could be limited only to those with low incomes. It could be a variant on, or replace, ISAs, or it could be more like the proposed Saving Gateway account,[22] which was cancelled by the Coalition government just before its launch.

There is a strong case for universality. It is likely to be true for any benefit or service provided by the government that universality increases general acceptance and avoids a feeling among one part of the population that it is paying, through its taxes, for benefits enjoyed exclusively or more greatly by another part.

In the case of an LCSA, there are also specific reasons to opt for universality. It is not just low income families that find it difficult to save. Those on average or even above average incomes are failing to put aside even the rainy day money, equivalent to three months' income, that financial advisers recommend. Savings policy also needs to take a long-term perspective. There is no guarantee that someone on a relatively high level of income now still will be in five years' time. Furthermore, if the aims of an LCSA include making it easier for people to access training and education, buy a house or have a better retirement, there is no good justification for limiting it's availability to a portion of the population. Similarly, an account which might help people cope with shocks, such as the loss of a job, or might provide the psychological benefit of knowing that funds are available to fall back on, should not be denied to people on middle incomes.

Universality does, however, come with a price. Any government incentive to save that is part of an LCSA will be much more expensive if it might be paid to the whole population rather than only to a proportion of it. There would also be higher deadweight costs created by wealthier families, who were already saving, shifting money into the LCSA to benefit from the incentives (a 'problem' that already applies to ISAs).[23] Universality could mean wealthy families, who can generally afford to save more, would receive the bulk of any incentives to save in an LCSA.

These problems could be circumvented – at the cost of complexity – by making LCSAs available to all but offering incentives to people on low incomes only. The Child Trust Fund, before it was abolished, established a progressive principle in savings policy. It provided £250 at birth, with a further £250 promised at age seven, to every child born from September 2002 onwards. But children in families with an income below £18,500 – roughly one-third of the total – received double these amounts.

This was, however, relatively simple to administer, requiring only two snapshots of the family income. An LCSA that incorporated annual (or more frequent) incentive payments based on income would be administratively expensive to operate. It might also be less attractive to low income families, being more complex and bearing the stigma of means testing.

The financial service providers that we spoke to as part of this research were unanimous in their view that the LCSA should be universal. In part, this was a point of principle; in part, it reflected concerns about the costs of running accounts for people on low-to-middle incomes that might hold only small balances and be subject to frequent deposits and withdrawals.

The discussions in the deliberative workshops revealed contrasting views. Some participants felt the LCSA would provide a good opportunity to offer an account restricted to meeting the needs of those who are working yet still struggling to make ends meet. Others felt it should have a role in assisting those who are unemployed or vulnerable in some way. But, in most cases, people felt the account should be open to everyone, including those on higher incomes, because saving was seen as difficult for most people and to exclude anyone in particular would be unfair.

22 See http://webarchive.nationalarchives.gov.uk/+/www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG_10010450

23 See Sandler (2002) and Attanasio et al (2005)

The experts at our roundtable thought an LCSA that did not bring the lowest income families into saving would be a lost opportunity and that this should be its primary aim. However, they also said that, while the focus should be on encouraging people with low incomes to save, universality would be necessary to achieving public support. There was more fuss over the ending of the Child Trust Fund – a universal scheme – than over the cancelation of Saving Gateway accounts, which were aimed only at those on low incomes.

If the universal option were chosen, accounts could be opened automatically for every person in the country, either at birth or when they first received a National Insurance number. Indeed, to prevent people opening more than one account, the account number could even match their National Insurance number. The people in low-to-middle income families that we spoke to did not object to such identity verification in principle, though they were generally against complex rules and regulations, so this might be something of a deterrent. Providers of financial services said that they dislike such rules, which add to their costs, but accept they are necessary if there is to be any government incentive payment into accounts.

A clear preference for a universal account emerged from our research. This was backed by the experts and financial service providers that we consulted and by participants in our workshops. Of course, a universal account can still be targeted more particularly at one part of the population through other features.

4.2 Investment options and types of account

The LCSA could be a basic savings account, rather like a cash ISA, but with better incentives to encourage people on low-to-middle incomes to save. If the only aim is to help people to build up a store of rainy day assets, this would seem to be the appropriate approach.

However, an account that also aims to encourage people to save for key events in their lives – including a change of career, buying a house and retirement – might also offer a range of investment options more suited to long-term saving. The ISA, with its cash and stocks and shares elements, does this. Of the 14.9 million ISA accounts opened in 2009/10, 3.0 million were stocks and shares ISAs and 11.9 million were cash ISAs. An alternative would be to follow the Child Trust Fund model and offer an 'either/or' approach: a cash investment or a 'stakeholder' (in equities and other investments) account. The Singapore Central Provident Fund, although it is not an LCSA as such, is divided into four types of account, including one that can be used to save towards a deposit on a property and one that is exclusively for pension savings.

Ros Altman (2003) proposed an account with three sections: a short-term cash account, a medium-term investment account and a 'locked-in' retirement account. She envisaged government incentives, in the form of partial matching, to encourage people to move savings from the short-term to the medium-term account and from the medium-term to the locked-in account. Any other incentives would also be highest in the locked-in account and lowest in the cash account. This is a neat solution, though it is likely to mean that the bulk of the incentives on offer go to those wealthy enough to save the most into the account and able to keep their money locked in.

At the expert roundtable meeting for this project, a number of people made the point that there needs to be clarity about what the LCSA is for. Is it to encourage cash saving for a rainy day or longer-term asset building, or both? One possibility raised was a hierarchy of accounts that would fulfil more than one purpose.

There are, however, dangers with multi-layered accounts. First, they are not simple to understand and this alone would put some people off. Second, even the mention of investing in shares may deter those on low-to-middle incomes who may be more uncomfortable with the greater risk, real or perceived, of equities.

Some participants in the workshops voiced the desire to have an account with multiple layers that met their needs for short-term saving but provided more rewarding long-term saving options.

> *'We like the idea of short-term savings and like the idea of long-term savings, so [we would like] an account that can offer you both within one account.'*
>
> *Older group, Reading*

However, the great majority of workshop group members felt stock market investment represented too high a risk, and so they tended to opt for deposit accounts (and would rule out accounts that only had a stock market option available).[24] Some also expressed a view that such an account would be seen as having been designed for higher earners and so they would feel excluded from it. However, when the participants designed their own accounts, three of the eight groups chose to have the option of including shares, though this might be restricted to the shares of the provider of the account,[25] potentially as part of the rewards received for saving.

Common threads across the workshops were the fear of losing money following the financial crisis and a general mistrust of banks. These worries influenced many of the decisions around whether a long-term savings account should include an option to invest in shares and whether they should be provided by high street banks.

> *'We've seen the economic climate go up and down, whereas [it would be better] if you knew that if you paid in £100 you'd get this amount of money at the end – but you don't ever know what you'll have at the end.'*
>
> *Female, Reading*

One of the financial service providers we spoke to said that introducing both cash and equity ISAs was a huge mistake because the very association with equities put off many people, who did not get as far as finding out that they could have a cash-only version. He felt that the two products should have had different names.

More generally, providers also had doubts about the idea of a multi-level product offering increased rewards if savings are locked away for longer. They believe that the same result can be achieved through some combination of a basic savings account, a monthly savings account, a savings bond or a fixed rate deposit account, and a pension. Overall, they argued that a new type of account would have to be dramatically different from what is currently on offer to make a difference to overall savings rates.

Having a hierarchy of accounts might make selling the concept of an LCSA more problematic because it would, in effect, be targeting two different audiences with two different products: a cash account for those on low-to-middle incomes who need to build up some rainy day savings and a stakeholder account for those on higher incomes who are looking to make longer-term investments.

A related question is whether the LCSA should be a 'wrapper' or a 'product'. At one extreme, the account could be, say, an NS&I product – a new type of account offered exclusively through NS&I. This, however, would not appeal to participants in our workshops, who wanted more flexibility around providers. At the other extreme, it could be a wrapper that encompasses a range of products, offered by various financial service providers, each conforming to certain core elements of the account but also able to offer additional features to distinguish them from their competitors. However, this would add to administrative costs.

Some of the older participants in the workshops felt a passbook was a secure and straightforward way to manage the account, whereas the younger people saw this as less convenient and somewhat outdated.

Financial service providers made it clear to us that in-branch banking is the most expensive option for them and many offer inducements to limit face-to-face transactions. Telephone banking is less expensive; internet banking is cheaper still (although it can still involve extra costs to providers, such as when people call in because they have forgotten their password). Providers did worry, though, that low-to-middle income families without access to the internet in their homes would not want to conduct their financial affairs in public (for example, by using a computer in their local library).

Providers noted that costs can be cut by reducing the number of telephone calls coming in. One way this can be done is by offering customers a regular update on their balance. NatWest already

24 Of course, there are other types of risk, including inflation risk, that might be better managed by stock market, rather than cash, investments.

25 That is, if the account was provided by a supermarket, the option would be to hold shares in that supermarket. This would create other risks for depositors.

do this through their 'bank on your mobile' initiative[26] – other providers said they thought a weekly or monthly text message to notify people of their balances would be a relatively easy thing to do and would be welcome by at least some of their customers (although one did say that texting too frequently – say weekly – could, by providing a reminder that funds are there, lead to more withdrawals).

To attract families on low-to-middle incomes, the LCSA should be a deposit account (and any account allowing broader investment options should be branded differently). It should be intrinsically simple, and be accessible via a range of formats – passbook, telephone and internet.

4.3 Providers

Our experts argued that getting people on low incomes to interact with the financial system is a significant hurdle. There is still a good deal of distrust of financial institutions, and people need to be convinced that saving is a safe thing to do. Accounts offered through the Post Office and supermarkets are likely to be more attractive than accounts offered through banks.

There is evidence from the Saving Gateway pilot schemes that low-income families like the convenience of being able to operate accounts locally (HM Treasury and DES 2007). More than 4 million people receive their benefits and pensions through the Post Office Card Account – a basic account that simply allows money to be paid in and taken out. Consumer Focus recently reported findings, based on quantitative and qualitative research, showing that low-income consumers have a considerable appetite for a basic current account operated through the Post Office (Bates et al 2010).

Some people in the workshops expressed support for having the Post Office provide a savings account because it is seen as a familiar and trustworthy organisation, but this view was generally confined to the older groups. The younger groups voiced concerns that the Post Office could decline over time,[27] putting savings at risk, and were less enthusiastic about having the Post Office as the account provider. The fact that people would be restricted to managing their account during Post Office opening hours was seen as a negative by many.

When designing their own accounts, seven out of the eight groups chose a supermarket as their preferred provider.

> *'Everyone needs to go to the supermarket, it's convenient.'*
>
> *Female, London*

> *'There are places where there are two or three supermarkets, whereas there may only be one Post Office so it's really difficult for people to access – in my opinion, you should go for the supermarket.'*
>
> *Male, London*

> *'People know more about what Asda does, they know what Tesco does [compared to a high street bank] and that's where their money goes.'*
>
> *Male, Cardiff*

This was a strong and consistent theme throughout the workshops. This is partly due to mistrust of banks, but it also reflected a general view that supermarkets are convenient, regularly visited and have the potential to introduce more interesting benefits to the account than a bank could, such as bonus points (on loyalty cards) for saving or the option to buy discounted shares in the supermarket provider itself.

> *'I think the supermarket [would be the best provider] – you could then tie in incentives like bonus points to your account.'*
>
> *Female, Cardiff*

26 It is possible, with any NatWest account that has a debit card, to sign up to receive weekly balance statements and limit alerts, whenever the balance goes through an upper or lower limit. It is also possible to request mini-statements. All these services are free of charge (other than those charges made by the mobile phone company).

27 The government announced in November 2010 that it had decided not to set up a state-backed Post Office Bank, mainly it seems due to a lack of money. So perhaps these fears were not totally misplaced.

Supermarkets, given that they are often located on the edges of towns and cities, will not be the best solution for many low-income families, who are less likely to own a car. A number of studies have looked at the growth of supermarkets in the context of 'food deserts' – the idea that people living in some inner city areas have to travel a long way to buy fresh food – but when the Competition Commission looked at this concept over a decade ago, it was sceptical about their existence.[28] The growth of convenience stores in more accessible locations will also have increased access to supermarket branches.

Among the financial services providers we interviewed, those from supermarkets said they have to trade off the advantages of providing banking services to their customers against the costs involved. They were sceptical about the idea that banking branches would be set up within their stores because they suspect the costs would be prohibitive (though there are pilot schemes in place). This means that any financial product they offer must be kept simple, because the staff dealing with customers would not be specially trained in financial matters and transactions would have to take place through the till.

In the workshops, broadly negative feedback was given when a bank was suggested as a provider, with a lack of trust being common among participants alongside a belief that banks are increasingly inconvenient.

> *'In this day and age I don't think high street banks have much to offer: they're crowded at lunch time, they're close at 5 o'clock or whatever, and a lot of them aren't open on Saturdays, so you've actually got to take time off work if you need to arrange something or do something.'*
>
> *Female, London*

The possibility of credit unions as providers was raised in the expert group as one way of increasing the LCSA's attractiveness to those on low-to-middle incomes. However, most said that credit unions' coverage was insufficient for them to be anything other than minority providers. One possibility might be for credit unions to offer the account, with transactions taking place through Post Office branches. Credit unions were not raised spontaneously at any of the workshops and attracted little support from those groups when put forward as potential providers.

For families on low-to-middle incomes, there is a very strong preference for the LCSA to be provided by supermarkets. The representatives of supermarkets that we spoke to were interested in taking up this idea, though they warned against expecting full-scale banking in their stores.

4.4 Auto-enrolment

The purpose of an LCSA would be to encourage greater saving. Behavioural economists argue that one of the most powerful ways of increasing saving is through auto-enrolment – in effect, making people opt out of saving if they wish, rather than opt in.[29]

Automatic enrolment could be a feature of an LCSA. For example, a set percentage of income or a set amount of money could be transferred into a savings account for anyone paying National Insurance contributions. This could be done out of the existing pool of contributions[30] or it could be covered by an increase in employee contributions.

However, there are arguments against auto-enrolment. First, although the process of auto-enrolment might be administered through the National Insurance system, there would be additional costs associated with it. Second, people not in employment would be excluded (though they may also be less likely to be in a position to save). Third, it would generate a huge number of transactions for financial service providers to deal with, adding to their costs. Our interviews with providers suggest that this would make them much less likely to want to offer accounts. It would also create a major inconvenience for those who have had money placed into an account and then have to go to the trouble involved in withdrawing it.

28 See Competition Commission (2000)

29 See, for example, Benartzi and Thaler (2004) and Thaler and Sunstein (2008). Auto-enrolment will be a feature of the UK's new pension scheme, the National Employment Savings Trust (NEST).

30 Though in the current financial climate the government would want to replace the lost revenues.

Participants in our workshops did not welcome the idea of auto-enrolment, feeling that 'forced saving' was only appropriate for pensions. They were, however, open to the alternative suggestion that there could be an option to have an employer directly deposit a certain percentage of the employee's salary into a savings account, especially if this was done before income tax. The general consensus was that somewhere between 3 and 15 per cent would be a good amount to contribute from salary, but it was stressed that this should be at the discretion of the employee. Some people were concerned that this method of saving would leave out those that were unemployed or in less-formal employment, so it was emphasised that this should be only one option among several for putting money into the account.

Auto-enrolment and workplace saving schemes, such as corporate ISAs, were discussed in our expert roundtable and are clearly regarded as a good way to increase the rate of saving, although some concerns were expressed that they might be seen (incorrectly) as an alternative to proper pension provision. The alternative of making direct contributions out of income possible but not compulsory was judged to be unattractive, because of the potential complexity and high administrative costs.

Some experts also raised the possibility of allowing deposits into an LCSA to be made directly by deducting contributions from welfare benefits and/or through the tax credit system, so that those without a job would be in the same position as those in employment. They pointed out that some credit unions already accept money in this way. Others thought the take-up would be very low and might not justify the administrative expense of setting up the systems to make this work.

There was also a suggestion to investigate ways of linking loan products with the LCSA. Some Community Finance Development Institutions (CDFIs) already offer loans through which repayments can be converted into savings deposits as the loan is paid off. The financial service providers we spoke to were not keen on the idea, but felt credit unions and CFDIs might want to pursue it.

Several of the financial service providers who we interviewed said they are strong supporters of auto-enrolment in theory, but they believed it was more appropriate for pension and other longer-term savings and not for an LCSA that was designed to encourage people on low-to-middle incomes to build some precautionary 'rainy day' savings. They did accept that allowing people to make frequent deposits encourages saving and, unlike frequent withdrawals, these do not pose a problem for them on cost grounds. One suggested that the government should offer the option to divert a proportion of state benefit payments into a savings product.

The LCSA should not feature auto-enrolment because people on low-to-middle incomes and financial service providers are against the idea. It could, however, feature the option of voluntary payments in from salaries and benefits.

4.5 Deposits

The LCSA might, therefore, simply operate like any other savings account, with people making deposits as and when they choose. The flexibility of depositing any amount at any time, as well as access to 24-hour banking, appealed strongly to the majority of people in our workshops. Options that would enable people to deposit savings while shopping, in the same way that people currently get cash back while making purchases, were favoured as an easy way to make regular savings, perhaps because many of the participants in the workshops already had the supermarket in mind.,

Some of the financial service providers we talked to pointed out that they already allow limited banking 'at the till'. Sainsbury's Bank, for instance, allows its customers to make deposits in all its main stores with a debit card. Its SaveBack scheme allows shoppers to deposit any amount from £1 upwards into a Sainsbury's Bank Instant Access Saver account.[31] Asda allows its customers to make cash deposits into a range of savings schemes, including its Christmas Savings Card account. These providers believed these ideas could be developed as part of an LCSA.

If there are to be government incentives to save into an LCSA (see Sections 4.9 and 4.10 below), there might have to be a limit on contributions. Otherwise, the potential cost of such incentives is open-ended. Most savings schemes with incentives, such as ISAs, place a limit on contributions.

31 Withdrawals have to be made through an ATM, by telephone or online.

However, limits to deposits were seen as a drawback by some workshop participants. When we put forward a hypothetical product with a cap of £10,000, this limit was criticised as being too low. The proposed Saving Gateway account placed a strict limit on deposits, and had a life of only two years. These aspects of the account were unpopular. Some criticism was made of the value of the savings after two years, which at £900 (including the bonus) was not seen as significant. It was suggested that greater flexibility around the amount that could be deposited would make the account more attractive. The other criticism of Saving Gateway was the risk that becoming unemployed might mean that a person would have to stop making the deposits and so lose the benefits of the account. The option to freeze the account under such circumstances was suggested as a possible solution.

Financial service providers were also against the idea of a cap. Profit margins on basic bank accounts are very thin, so cost is a key consideration for them. This is largely dependent on level of use – the number of times that money is paid into an account, the number of withdrawals in a particular period, the number of balance enquiries that are made and so on – and the amount of money in the account. One provider said that a balance of more than £5,000 was optimal.

The LCSA should allow a range of ways to make deposits. A cap on deposits would not be popular, but might be necessary to contain costs to government.

4.6 Access to funds

The need for savings accounts to be accessible came across strongly at every stage of all four deliberative workshops. Although some people believed restrictions on withdrawals might help them to retain their savings, most saw accounts that 'lock away' money as a barrier to saving in the first place. This was reflected in the negative feedback on those hypothetical accounts that had inflexible features, and in the features chosen by our participants when they designed their own account. In particular, participants were reluctant to place a notice period on the accounts they designed. This desire to have immediate access to funds in case of emergency probably reflects a general sense of insecurity among the participants (perhaps enhanced by the current financial climate). It is also reflected in a preference for deposit accounts as opposed to longer-term reward accounts that might invest in stocks and bonds.

Participants in our workshops even gave negative feedback on the Christmas Club account because it could only be accessed in December. They liked the flexibility of a basic bank account that had no limits on the frequency, amount or timing of withdrawals.

Responses to the idea of having to provide one month's notice if interest is not to be lost were mixed. Some felt that this was a good way to encourage longer-term savings, while others felt they should be entitled to access their money at any time without losing benefits. Such people were eager to know they could access their money in an emergency.

> *'One month's notice isn't too long but it's enough to plan and think about how you're going to spend it.'*
>
> *Male, Newcastle*

However, participants did recognise the difference between a current account and a savings account. Cash card access was generally unpopular, as this was considered to make accessing funds too easy. Other ideas put forward included limiting the number of withdrawals allowed each year, preventing online transfers from the savings account into a current account, or limiting access to the online facility.

> *'If you really do want to save then easily accessible accounts aren't a good thing.'*
>
> *Female, Newcastle*

Generally, participants wanted to be given a range of options as to how money is withdrawn. When discussing access options, they consistently stressed the importance of minimising forms and bureaucratic processes.

The question is not just one of 'access or no access': it is about whether withdrawals should be discouraged, and if so how. For example, withdrawals might lead to a loss of any incentives (or, equivalently, incentives might only be paid on funds held in an account for an extended period of time). Within this framework, there could be exemptions, so that funds could be withdrawn without loss of incentive for certain purposes, such as education or training, or when a person loses their job.

On this issue, participants seemed to want to have their cake and eat it too. They wanted to be able to access their money readily and without penalties, but also to receive some inducement to retain savings.

Limiting withdrawals also helps financial service providers to reduce costs, something they were very keen to emphasise in the interviews we conducted. The most expensive accounts for providers to service are those with low average balances and that are continually being topped up and dipped into. Providers would strongly prefer an account that places an absolute limit on the number of withdrawals permitted within a certain timeframe (say, four a year) or accounts that impose a penalty for frequent withdrawals. In the words of one provider: 'It should be hard for people to get their money out of the account, but not too hard.'

One provider mentioned the possibility of a return to the 'old seven-day notice account', which allowed money to be withdrawn as frequently as desired but only after giving a week's notice. He believed this would discourage people from dipping into the account, for example to pay for a good night out, and so would lead to fewer withdrawals.

This is clearly a difficult area. It seems from our research that discouraging withdrawals through the use of penalties or notice periods would help people to retain their savings, and would make financial service providers keener to offer an LCSA. However, it might also make it less likely that low-to-middle income families would make the savings in the first place.

4.7 Borrowing from the account

If the LCSA is seen mainly as a long-term asset-building vehicle, rather than a repository of rainy day money, and is to be used primarily for retirement savings, people might be more encouraged to save into it if they knew they could borrow funds in certain circumstances. Redwood and Wolfson (2007) proposed such an account, which would include a borrowing facility for property purchase and for training. The money borrowed would, in effect, be the borrower's own and there would, therefore, be no interest charge (although interest on savings would be foregone). It would have to be paid back over a fixed period of time, although Redwood and Wolfson do not make it clear what penalties would be applied if this does not happen. They also raised the possibility of using savings in the fund as security for commercial borrowing.

This feature appears to be aimed more at middle and higher income families, and in reality would apply only to an account with severe limitations on withdrawals. The people on low-to-middle incomes who participated in our workshops made it clear that they had no interest in this idea. Nor did the financial service providers we interviewed.

4.8 Restrictions on the use of funds

Research into the popularity of the Child Trust Fund (CTF) found that a significant proportion of the public did not like the fact that there are no restrictions on the use of the funds (Prabhakar 2007). Although young people are not able to access the money in their fund until they reach their 18th birthday, thereafter they are free to do anything with the money that they choose. Although they will have the option of rolling the money into an ISA, many people believe there is a risk that the money will be spent immediately (which they equate with it being wasted). Prabhakar thought this might be because people see 18-year-olds as more likely to waste money and did not think that it reflected a general view that there should be restrictions on the use to which incentivised savings – or, in the case of CTFs, money the government has given to people – should be put.

In the United States, there is a much greater readiness to consider limitations on the use of savings that attract incentives. The Individual Development Account (IDA) programme is a range of accounts that have encouraged low-to-middle income families to save, mainly through the use of incentives, such as a savings match, while also requiring them to receive financial education. Generally, the incentives are only available when funds are withdrawn and put to one of an approved set of uses: post-school education or training, purchasing a house, setting up a new business, or retirement. Although the programme has had some success, concerns have been expressed that restrictions on how funds can be spent discourages many people from participating (Aratini and Chau 2010).

Implementing restrictions of the type typically applied to IDAs would mean that an LCSA would only meet some of the savings needs of low-income families. It could provide funds for their aspirational needs, such as training, but not for their emergency needs, such as fixing a boiler. More generally, restrictions are more suitable for an account that is designed to encourage long-term asset building and less suitable for one that is designed to encourage people to build up a store of rainy day money.

Experts at our roundtable discussion felt that restrictions on the use of funds in the account might appeal to the current government but that they would also be a significant disincentive to saving, particularly for low-income families. There would also be significant problems policing any restrictions. Instead, disincentives to withdraw money – in the form of increasing rewards for longer-term saving – were thought to be a stronger proposition.

The financial service providers we spoke to were largely agnostic, other than to warn that the product would be less attractive to them if they were expected to bear the costs of monitoring the uses to which funds were put.

It was recognised by some participants in the workshops that having an approved purpose for withdrawing money could be very beneficial to people who find it difficult to save for longer-term goals. However, most people felt very strongly that this was too restrictive, and were concerned that if their circumstances changed then the list of approved reasons may no longer be relevant to them.

Given an overall lack of enthusiasm, the LCSA should not place restrictions on the use of withdrawn funds.

4.9 Incentives

Much discussion in our workshops focused on the type of incentives offered by providers. In particular, participants stressed high interest rates or rewards as core motivators for saving. Assistance by the government to save was also put forward as a potential incentive. Some also said that if they had help from their employer to save then this might encourage them to do so.

Generally, participants felt that some form of incentive was imperative. They did not like the Christmas Club accounts we proposed to them because they paid no interest or reward.

> *'You may as well just put 20 quid under the mattress every week because that's what you're doing.'*
>
> *Female, London*

Similarly, a basic bank account was not seen as a viable option for longer-term savings, providing only a low rate of interest and no bonus for maintaining a good savings record.

> *'You get the low interest rate and you're taxed on it so it's little better than a current account really.'*
>
> *Male, Newcastle*

On the other hand, an account that offered a bonus element and tax-free interest was considered attractive.

> *'Whatever you save you shouldn't be taxed. You're paying tax twice, so I feel whatever you save you shouldn't be taxed on.'*
>
> *Female, Newcastle*

When designing their own accounts, the majority of groups decided on a supermarket as their provider and suggested that incentives should include loyalty rewards for regular saving, much like those received when shopping in a store. They also suggested the possibility of being rewarded with the option to purchase shares in the provider at a discounted rate, or with free shares.

Unsurprisingly, the supermarket-based financial services providers that we spoke to were very open to the idea of products that relate to the 'shopping experience', either by requiring savings to be spent in store or, more widely, by providing rewards in a form that could be spent in store.

Other, non-supermarket financial service providers felt that any innovations with regard to rewards for saving would have to come from the government and that they would not envisage paying anything other than interest in the normal way.

Cash matching – whereby the government makes a payment into an account to match[32] the contributions made by the account-holder – has long been recognised as a powerful incentive to save. Norman and Clark, writing from the Policy Unit of the Conservative Party in 2004, reported the results of surveys conducted by the Association of British Insurers which showed that more than half of those surveyed would be 'very likely' to save more if they were offered 50p for every £1 they saved (2004: 25). Norman and Clark included one-for-one matching (or, as they put it, 'save one, get one free') as a key feature of their proposed Lifetime Savings Account.[33]

Pilot studies for the Saving Gateway scheme also showed that matching people's saving efforts could be successful in encouraging people to save and, importantly, to keep on saving after the incentive has expired (HM Treasury and DES 2007). If the Saving Gateway scheme had gone ahead, savers would have been offered 50p for every £1 saved up to a limit of £600 in savings over two years.

The expert roundtable also believed that low-to-middle income families are more likely to save if they are provided with some form of incentive, over and above the 'normal' interest rate, and that matching has been shown to be the best incentive. This is not just because it can be generous but also because it is easy to understand.

Of course, receiving £1, or even 50p, for every £1 saved is a powerful incentive, and represents an 'interest rate' far higher than any available commercially, so it is not surprising that it should prove popular in surveys and pilot schemes. It was also popular with participants in our workshops.

> *'It's a big reward; you're not going to get that anywhere else.'*
>
> *Male, Cardiff*

It was also clear from the workshops that people prefer a payment specified in cash terms, rather than as a percentage – people understand cash payments in a way that they do not understand percentages. This was also the conclusion of a recent research report from Aegon, which recommended that the government should 'position tax relief on pension saving as 'matching' – a free contribution from the government topping up your savings' (Aegon 2011). Some bank cheque accounts now pay a monthly fixed amount (usually only if a certain set of conditions are met) rather than interest.

The disadvantage of matched payments is the cost to the government. In their paper, Norman and Clark envisaged payments of up to £20 a month into their Lifetime Savings Account – one-for-one matching would, therefore, cost the government up to £240 per year per account. According to HM Revenue and Customs, 14.9 million ISAs were subscribed to in 2009/10 (2010), so if the same number of Lifetime Savings Accounts were opened, matching payments would cost almost £3.6 billion per annum.[34] Moreover, if this greater incentive led to even more accounts being opened, as seems likely, then the cost would be even higher. By comparison, tax relief on ISAs cost the government just £1.6 billion in lost revenues in 2009/10.[35] However, costs can be reduced with smaller 'matches', and Saving Gateway pilots found that even a match of 20p for £1 had a positive effect on saving (HM Treasury and DES 2007).

To control costs, matching could be means-tested, but this would add administrative cost and complexity. An alternative way to encourage saving by low-to-middle income families in particular, would be to taper matching payments, so that the first £100 saved in any one year would receive

32 The word 'match' is used loosely in the context of incentives for saving and does not always mean one-for-one matching.

33 Norman and Clark's proposal was for a universal account, with matching payments that would be dependent on account-holders retaining their savings in the account. Cash, fixed income and equity accounts were envisaged. It might have stood a chance of being implemented if the Conservatives had won the 2005 general election. We do not know if it is still being actively considered in Conservative circles.

34 This assumes that there would only be one matching payment for every deposit made, rather than a match paid every year. As a cumulative process, paying a match every year would eventually be prohibitively expensive.

35 Because interest rates were at historically low levels, this is an underestimate of the medium-term cost of ISAs. In 2008/09, the estimated cost of tax relief on ISAs was £2.2 billion (HM Treasury 2009: 14).

a higher match than the second £100, and so on. For example, a variant of the Norman and Clark proposal, with contributions limited to £300 a year, that paid a £1 for £1 match for the first £100 saved, 50p for every £1 for the next £100 and 25p for every £1 for the third £100, would cost £2.6 billion per annum (assuming 15 million fully-subscribed accounts), a slightly higher cost than tax relief for ISAs in 2008/09.

Matched funding was the most popular incentive included in the accounts designed in the workshops, although the rules and amounts proposed varied from group to group. Half of the groups wanted to stagger the amount of matching according to how long the savings were left in the account. One suggestion was that between 20p and £1 would be given per £1 saved depending on how long the money was kept in (meaning therefore that there could be some considerable delay before the reward is received). Participants were aware that there would be a limited amount of money available for matching and that incentivised deposits would have to be capped in order to be realistic. £25 per month was seen as a fair and realistic amount to achieve this balance.

Although this did not appeal to participants in the workshops, generous incentives, even on relatively modest levels of saving, might have to be accompanied by some limitations on – or penalties for – withdrawals, to avoid incentivising people to save only for long enough to trigger the government's matching payment.

The popularity of the National Lottery led one person to suggest the government should make regular large bonus payments into randomly drawn LCSAs. Others, though, pointed out that this is what happens with premium bonds and their popularity has not increased since the lottery was launched. It is unclear whether this is due to the higher profile of the Lottery (drawn on national television every week) or for some other reason, and therefore what the parallel with an LCSA might be.

It is clear that the incentive structure of any LCSA will be central to its success. Discussion in our workshops suggest supermarkets, as providers, could make a difference by offering incentives linked to loyalty cards and in-store shopping, and our interviews with them suggest they would be interested in doing so. However, any major incentives would have to come from the government and should be in the form of matching.

4.10 The tax treatment of savings

Savings can be taxed – and tax relief can be given to encourage saving – in a variety of ways. One option is to allow savings to be made out of pre-tax income (as is the case with pensions but not ISAs). A second is to allow any interest payments, other incentives and/or capital gains to be free from tax (which is true of pension savings and ISAs). A third is to allow savings to be free of tax when they are 'cashed in' (true of ISAs but not the case with pensions).[36]

Allowing contributions to an LCSA to be made out of pre-tax income has some attractions. Participants in our workshops felt this would encourage more people on low-to-middle incomes to use the accounts and that it could be linked with some element of auto-enrolment, or with voluntary saving direct from a person's pay. But, because the income tax system is progressive, most of the tax relief would benefit those on higher earnings (as tax relief on pension contributions does now), while those not paying income tax would not benefit at all. Furthermore, other research has shown that people do not see this as a benefit and struggle to understand how it works in the favour (Wells 2011).

An alternative would be to have contributions made out of post-tax income but to provide matching payments equivalent to basic rate tax relief (that is, £25 for every £100 saved, based on the current basic rate of income tax of 20 per cent) to all savers, whatever their income tax status – although there would have to be a strict limit on the total amount available to keep cost under control, particularly for a universal account.

Allowing contributions out of pre-tax income would probably require restrictions to be placed on withdrawals. Pension savings are allowable out of pre-tax income (subject to overall limits) but can only be accessed on retirement. If savings into an LCSA were made out of pre-tax income, some means would have to be found to stop people using them as a tax avoidance vehicle, putting funds in one month and withdrawing them the next. Otherwise, any success of the LCSA might be at the expense of pension savings.

36 In the jargon, pensions are EET - deposits are exempt (E), rewards are exempt (E) and proceeds are taxed (T). ISAs are TEE.

There was disagreement in the expert roundtable over whether tax relief for pension contributions should be reduced in order to provide funds to support saving by low-to-middle income families. Some thought relief could be restricted to the basic rate of tax for all taxpayers. Others argued that tax relief to higher-rate taxpayers was not regressive, once tax paid on pension payouts was taken into account, and that the structure of the pension industry would be undermined if higher-rate taxpayers saved less into their pensions. There was more sympathy for the idea of using the tax relief on ISAs, but some experts expressed concern that tax relief for pensions and ISAs might actually be taken away and not used to incentivise other forms of saving at all.

Workshop participants were generally in favour of tax-free interest payments into the LCSA. It was mentioned by most groups who designed accounts, not just as a way of boosting returns but also to make it less complicated to work out what the incentives on the account actually amount to. However, conducted for Aegon led them to conclude that 'the phrase "tax relief" has little or no meaning for people, and the word "tax" evokes a negative reaction' (Aegon 2011: 7). There is also evidence to suggest that tax relief has little impact on overall levels of saving (see Section 3.5).

Financial service providers from the high street banks did not seem to mind one way or the other about tax relief. It would, however, make it easier for supermarkets to offer more innovative incentives if they do not have to worry about charging tax on those incentives.

At no point during our research was it suggested that the proceeds of savings should be taxed.

The general consensus was that deposits into the LCSA should be made from post-tax income but that the proceeds of savings in the account should be tax-free. The case for rewards in the account being tax-free is less clear cut, particularly given the wider fiscal constraints, and is more about transparency and ease of operation than about increasing the value of rewards for saving. The government bonuses would be tax-free.

4.11 Relationship to asset tests for benefits

Qualification for many welfare benefits in the UK is dependent on an asset test. Income Support, Employment and Support Allowance and Income-based Jobseekers' Allowance, for example, are only available to people with savings of less than £16,000. According to the latest Family Resources Survey, only 22 per cent of households in the UK have savings above this threshold (DWP 2010). But there appears to be a widespread belief – as shown in our workshops – that accumulating savings can lead to a loss of benefits (particularly with respect to pension savings).

People on low incomes should probably have few worries about breaching a savings threshold of £16,000, but this belief suggests either that they do not know what level the threshold is set at, or they fear that it might be lowered in future, or perhaps, particularly in the case of pensions, that the necessary calculations to work out whether saving is worthwhile or not are too complicated.

It is clear from the discussions in our workshops that one way to encourage more people to use an LCSA would be to make any savings in it exempt from calculations relating to eligibility for welfare payments. Some of the experts at our roundtable confirmed that their own research suggested the same. There would be a cost to the Exchequer in terms of increased benefit payments to those who would be ruled ineligible if they were not able to use the LCSA to bring their other savings down below £16,000. This cost is difficult to quantify, though, because people in this position might not now be claiming benefits due to their ineligibility.[37]

There is a strong case for making savings in the LCSA exempt when it comes to asset tests for benefit claimants, particularly if the aim is to encourage low-to-middle income families to save more.

4.12 Financial education and literacy

Improving financial literacy would be a desirable adjunct to the development of an LCSA. The problem is cost, and it could be a prohibitively expensive feature of a universal account.

37 The cost would depend on any limit on the maximum size of an LCSA. If there was no limit, anyone could avoid falling foul of the asset test by putting all their savings into an LCSA. Alternatively, if the account was capped at £10,000 then the effective asset limit for benefit recipients would be increased from £16,000 to £26,000 (£10,000 in the LCSA and £16,000 of other savings). The cost to the Exchequer would, therefore, depend on the number of potential claimants with savings between these two levels.

An alternative would be to accompany the roll-out of the LCSA with a government-led campaign emphasising the need to save and the establishment of an independent source of basic advice on savings.

Some people at the expert roundtable thought that the account should be accompanied by a campaign of financial education about the benefits of saving – or the costs of not saving. Others were more sceptical about the impact of financial education, and felt that any new initiative should seek to harness existing attitudes and behaviours rather than try to change them. All agreed that any education campaign would have to be general in nature, on cost grounds.

A couple of the financial service providers we spoke to also mentioned financial education. They felt the launch of a new account would be a good opportunity for a government-led campaign to emphasise the benefits of saving. One argued that saving was habit-forming, so such a campaign could reap long-term rewards.

4.13 Naming the account

Surprisingly, the principle behind the name of the account proved very contentious in our research.

Experts at the roundtable split into two groups. The first group thought the account should be named after its purpose: if it is for emergency savings, it could be called a 'rainy day account'. This group argued that such transparency could only help to make the account understandable, and attractive to those on low-to-middle incomes, and so encourage them to save. The second group thought this was a terrible idea: they regarded it as gimmicky and off-putting and favoured names that emphasised the simplicity of the account.

In our workshops, a range of names were put forward for the accounts developed by the participants, the majority of which reflected the account's ease of use and simplicity, rather than its purpose. Names put forward by the younger groups were the Simple Saver Account (SSA), Savings Account Via Employment (SAVE), Ultra Savings Account, and Coolac. The older groups suggested the Community Savings Account, Flexible Bonus Saver Account (FSBA), Selective Personal Savings Account (SSPA), and Pipe Dream.

The financial service providers we spoke to – who obviously have immense experience in coming up with names for accounts – favoured names that emphasised positive, rather than negative, reasons for saving (so they preferred a 'holiday' account to a 'rainy day account'). They suggested that savings made for a positive purpose are more likely to be retained. 'If I dip into my savings now, I will not be able to afford a holiday' is a bigger disincentive to withdrawing money than 'if I dip into my savings now and then the boiler breaks down, I am unsure how I will pay for its repair' because it is always possible to convince oneself that the boiler will not break down. However, rather than positive or negative names, they felt a name that emphasised the simplicity of the account and any special incentive would be most likely to attract low-to-middle income families.

This is an area that would merit further specialist research.

4.14 Simplicity

When considering the different features that an LCSA could offer, it is important not to lose sight of the fact that a simple account is likely to be more attractive than a complicated one.[38] Endless variations might appear to make an account more like to appeal to a greater number of people, but this will only be the case if people are prepared to take the time to work out whether the product is suitable for their particular circumstances. The evidence suggests that people, particularly those on low-to-middle incomes, are not prepared to put this level of effort into their financial affairs.

Our workshops also revealed a strong desire for savings products to be communicated and delivered in simple terms. Numerous rules, small print, and hard-to-understand incentives were seen as a barrier to saving. The accounts drawn up by the workshop participants stressed the need for straightforwardness, with clear rules and clear outcomes. For example, match funding was seen as a

38 HM Treasury is currently consulting on the principles that should underpin a range of simple financial products. Their consultation document sets out evidence suggesting that perceived complexity is an important reason for lack of engagement with the financial system. See http://www.hm-treasury.gov.uk/d/simple_financial_products_consultation.pdf

far simpler way of paying incentives. Many of the names put forward by the groups for the accounts that they designed themselves also stressed the simple nature of the account.

The majority of people in our workshops liked the basic bank account we offered them (see Appendix 1) for its simplicity and lack of complicated rules or processes (though they had other reasons for disliking it). Indeed, a core theme throughout the discussions was that the account should be easy to use and clearly explained.

> *'It has to be straightforward with simple explanations.'*
>
> *Female, Newcastle*

One common opinion was that the account should not require burdensome eligibility tests or form-filling, to ensure that it does not put people off applying.

However, the groups were not afraid to suggest quite specific rules that introduced greater complexity to the account in order to make the incentives fairer and realistic. For example, the tapering of matched funding, so that matching per £1 saved was reduced for higher levels of saving, was something that many participants came up with, who also acknowledged the importance of rewards that reflect increases in inflation.

The financial service providers we spoke to also recognised the desire for simplicity, and accepted that this is not always how their products are perceived. They acknowledged the attraction of an 'off-the-shelf' product that will appeal to people who find it difficult to save and might reduce some of these barriers, particularly for low-income families. An account's costs are positively correlated with complexity, giving providers another reason to suggest that any LCSA should be simple, with few clauses and little small print.

However, they also pointed out that simplicity, if it means a standard account, reduces their ability to differentiate themselves from their competitors. Prohibiting or standardising rules on introductory bonuses, stepped interest rates, and penalties for early or too-frequent withdrawal would be welcome by potential savers, and so likely to lead to an increase in saving. But they make it harder for firms to compete for business.

Providers are less keen on some types of flexibility, also for cost reasons. Cash ISAs are more expensive than basic bank accounts because providers have to report their details annually to HM Revenue and Customs (so that HMRC can check that annual allowances are not being abused) and are obliged to allow people to change provider whenever they want. If the LCSA had the same features, it too would be relatively expensive, although the financial service providers that we spoke to did not think it would be prohibitively so.

Two of the providers mentioned the Saving Gateway as typifying the sort of account they wished to avoid. They said it would have created a large administrative burden because it was such a different type of account and so would have required new systems. Accounts would have been open for only two years, would have seen frequent transactions and, before the government bonus, would not have contained more than £600. However, the LCSA would avoid these two problems. By definition, it would have no finite time-span and it is envisaged that any maximum limit would be around £10,000, well above the level providers told us would be attractive for them.

Clearly, when designing an LCSA with low-to-middle income families in mind, it is important to start off with a very simple model and to ensure that any complexities are only introduced if they have a good chance of increasing take-up.

4.15 Government-backing

Experts at our roundtable noted the importance of cross-party support for any new account. Moves such as changing PEPs and TESSAs to ISAs[39] and ending CTFs and the Saving Gateway scheme create uncertainty about products and discourage saving. But the alternative – developing a product independent of government financial support – would require the backing of financial institutions that have traditionally been less keen to deal with people on low incomes, who save only small amounts.

39 Personal Equity Plans and Tax Exempt Special Savings Accounts, replaced by the ISA from 1997.

Participants in our workshops were strongly in favour of government backing for an LCSA, though they did not agree precisely what this would mean. For some, it could simply be kitemarking a product. But others liked the idea of an explicit 100 per cent government guarantee that their money was safe, in contrast to the deposit insurance protection that is now available.[40]

At a minimum, the government should provide some official support for an LCSA.

40 Although this was not explored in detail, it seems the word 'insurance' is associated with small print and a reluctance to make payments.

5. Recommended life-course savings accounts

The government should introduce two new savings accounts, one of which should have an incentive structure designed to encourage low-to-middle income families – those that find it hardest to put money aside – to save more. These accounts could be called:[41]

1. The Lifetime Bonus Savings Account
2. The Long-term Investment Account

The Lifetime Bonus Savings Account would be a cash-only savings vehicle; the Long-term Investment Account could be invested in a wider range of instruments. Our research suggests it is important to distinguish the two. For the most part, the people on low-to-middle incomes who we spoke to do not want what they perceive to be 'risky' investments. Likewise, some of the financial service providers that we interviewed felt that some people are put off ISAs because they understood them to be equity-like investments.

A wide range of financial service providers, including supermarkets in particular, should be encouraged to offer these accounts and to design them and provide additional incentives that make them attractive to families on low-to-middle incomes.

5.1 The Lifetime Bonus Savings Account

The Lifetime Bonus Savings Account (LBSA) would replace the cash ISA.[42] Its key features would be those identified by participants in our workshops as particularly attractive to low-to-middle income families and accepted as viable by the providers of financial services that we interviewed. It would serve as an account for people to formalise their savings and build a store of money that could be available in emergencies.

The LBSA would be a **universal** account: every person in the country aged 16 and over would be eligible to open one, and only one at any time. There was strong support among all the groups that we consulted with – financial service providers, experts in the field of savings behaviour and people on low-to-middle incomes – for any life-course savings account to be available to everyone. They believed universality would increase acceptance of the new account, and there is a sense that inadequate saving is a problem that affects a large portion of the population, so that any government incentives should be available to all. Eligibility – and ensuring that no-one opens more than one account – could be checked through National Insurance numbers, as is currently the case with ISAs. If a way could be found to ensure that no child had more than one account, the LBSA could also be made available to children.[43]

A wide range of financial service **providers** should be encouraged to offer LBSAs, and our interviews with a number of potential providers suggest that they would, indeed, offer this type of account. Participants in our deliberative workshops would be particularly attracted to accounts offered by supermarkets and, to a lesser extent, by the Post Office. This was mostly for reasons of convenience, although some people also suggested that supermarkets could offer certain incentives that would make the accounts more appealing. The representatives of the financial arms of supermarkets that we interviewed were very open to this idea, although they emphasised that full banking services were unlikely to be made available in-store in the foreseeable future. The Post Office would be more likely to act as a transaction point for the account than to provide it itself.

LBSAs should be **transferable** between providers, in the same way that ISAs are now. Although this would impose costs on providers, who would have to pass over records of the balance held in the fund over the previous three years (to enable the calculation of the government bonus – see below) – and they already dislike the costs involved in the transfer of ISAs, it is a feature that is desired by the potential savers we spoke to. However, because no individual could have more than one LBSA, whereas people can currently open a new ISA every year, there would be fewer accounts to transfer around and so the new account should be cheaper to manage in this respect.

41 As noted in Section 4.13, more research is needed to determine attractive names for these accounts. These names simply reflect what the accounts are for.

42 What happens to existing cash ISAs would depend on whether the government was prepared to increase its support for savings. Scrapping them would be unpopular with middle and high earners. Retaining them would require finding additional funds to pay the bonuses in the new accounts.

43 There would then be no need for the Government to pursue the idea of 'junior ISAs'.

Ideally, accounts would be developed by financial service providers that offered a range of **access options** for deposits, withdrawals and balance checks. Our research found that younger people on low-to-middle incomes would be happy to manage their account through the internet or by telephone and to receive regular notices of their balance by text message. Older people are more likely to prefer passbooks and face-to-face contact with representatives of their financial service provider, whether in a bank branch or a supermarket. The financial service providers themselves prefer internet and telephone banking because branch banking is significantly more expensive, but say that they would be likely to offer branch banking too, unless they felt the accounts would be 'transaction heavy'.

The LBSA would accept **deposits** of any size and at any time (subject to the working hours of the provider). There was general agreement among all the groups we consulted that not doing so would present a barrier to saving. There would be no auto-enrolment, as experts feel that approach is better suited to long-term savings accounts (such as pensions). Our workshop participants believed that saving should be on a voluntary basis and that there would be a risk of confusion between the LBSA and the government's plans for auto-enrolment to NEST (see Section 3.3). However, some of the participants made it clear that they would like the option of being able to save a portion of their income automatically into a life-course savings account and that it would be a welcome development if providers and employers were able to make this option available (and perhaps extend it to welfare payments too).

There would be a **limit on the number of withdrawals** in any 12-month period. The exact number would be for further discussion, but allowing four withdrawals a year would emphasise that money in the LBSA is intended mainly to be used in emergencies or as a means of formal saving for infrequent spending, such as at Christmas. Anyone making more than four withdrawals would lose that year's bonus (see below). This number also came up in discussions with financial service providers, who said they would be more likely to offer the account if this restriction was in place, because it limits their operational costs. However, our workshops suggest that limiting withdrawals might put off some low-to-middle income families, and some of our experts agreed. There is clearly a difficult trade-off to be made here.

There would be no restrictions on the use of funds withdrawn from an LBSA.

Funds in the LBSA should be **exempt from asset testing for state benefit payments**, including the proposed Universal Credit. It is clear from our workshops that one of the disincentives to saving for people on low-to-middle incomes is a worry that it will lead to a loss of benefits. As a result, the government might think it necessary to impose a **limit on the maximum size** of an LBSA: if so, we would suggest this is set at £10,000.[44] This would allow most families, and certainly low-to-middle income families, to accumulate the three months' post-tax income that financial advisers recommend should be kept for emergencies in the account. It would also alleviate the concerns of financial service providers about life-course savings accounts having very low average balances.

The LBSA would, like any other savings account, pay an **interest** rate or another type of **reward**, as determined by the provider. Our workshops suggest that people on low-to-middle incomes would be more attracted by cash payments or supermarket accounts that offered rewards in the form of vouchers to spent in-store and/or additional points on store loyalty cards, rather than interest payments, which they find hard to understand. The supermarket financial service providers we spoke to appeared to be very open to this idea. Providers would want to compete with each other on the grounds of the incentives they offered, but some restrictions should probably be placed on this to rule out ideas that might confuse or discourage would-be savers.

Research shows that **tax relief** is a poor incentive to save,[45] so incentives could be liable for income tax at a person's normal marginal rate (unlike an ISA). However, if it can be shown that supermarkets would be more likely to offer innovative rewards for saving if they were tax-free – and that these would encourage a higher level of saving – then tax relief could be offered on all interest payments and rewards given under the LBSA.[46]

44 For simplicity, the value of savings in the account might be allowed to rise above £10,000 as a result of interest or bonus payments, but not as the result of additional deposits.

45 See for example Aegon (2011)

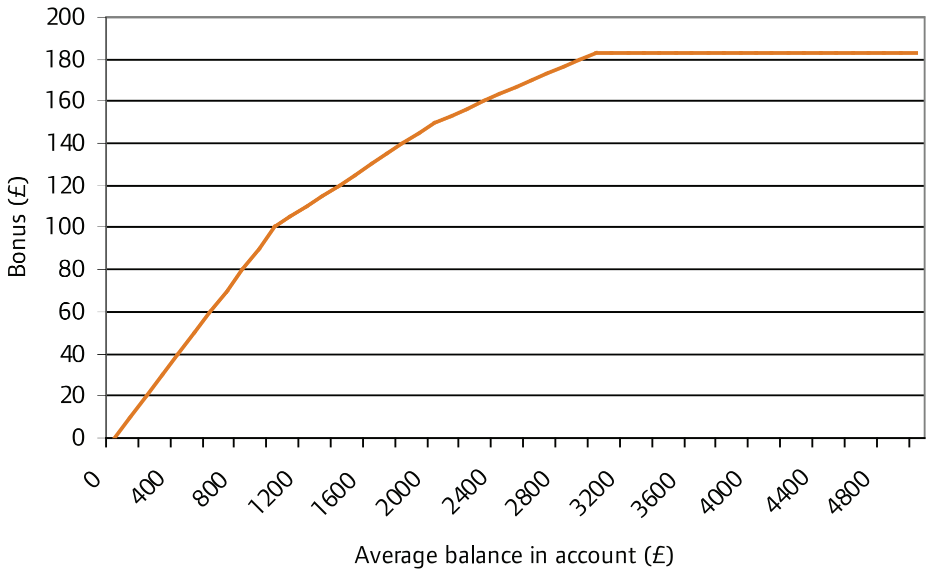
46 There would, however, be cost implications for the government. If there were 15 million accounts with an average balance of £5,000, paying an interest rate of 4% per cent (in more normal economic times), this would cost around £750 million a year.

The government would incentivise saving by paying a '**bonus**' into the LBSA every year. The level of this bonus would depend on the average balance held in the account over the preceding three years.[47] This bonus would be tax-free and would be paid at the following rates:

On the first £1,000:	£1 for every £10 (therefore, to a maximum of £100)
On the second £1,000:	£1 for every £20 (a maximum of £50)
On the third £1,000:	£1 for every £30 (a maximum of £33.33)
Amounts above £3,000:	Nil

Thus, an account with an average balance of £3,000 (or more) would receive a bonus of £183.33.[48]

Figure 4
Bonus payments in the LBSA



In order to control the overall cost of the LBSA, a trade-off would have to be made between the size of the bonuses and the level of savings to which they were applied. Larger bonuses would be more likely to attract new savings, but could only be paid on relatively small amounts, whereas the aim of the LBSA is to encourage every person to build up a reasonable store of money which they can fall back on in emergencies. A minimum savings target of £3,000 seems reasonable – although it would fall short of the three months' income savings target recommended for a family on the median income – and the bonus structure above has been tailored accordingly, but other combinations are possible.

This bonus structure should not prove particularly difficult to understand. Some participants in our workshops came up with similar ideas when designing their own accounts.

The bonus is progressive – rewarding the first £1,000 the most generously. This should ensure that people on low-to-middle incomes receive a greater share of the incentives available for saving compared to the existing system of tax relief.[49] The experts we consulted believed this would be effective in increasing saving by this group and there is some evidence from the pilot study for the Saving Gateway account to support this view (see HM Treasury and DES 2007). To the extent that incentives currently go to those who would have saved anyway, this should, therefore, lead to a higher overall level of saving.

47 There could be interim arrangements for the first two years after an account is first opened, so that people do not have to wait three years before receiving any bonus.

48 In our workshops, participants felt that £2,000 to £3,000 would be an adequate level of savings, so the bonus covers this amount.

49 However, people on higher incomes are still likely to save more, so there is no guarantee that this bonus system would be progressive in the sense of giving proportionately more money overall to those on low-to-middle incomes. That would depend on relative savings rates.

If 15 million people open an LBSA (roughly the number of people opening ISAs at present) and they each maintain a balance of £3,000 or more, the total cost to the government would be about £2.75 billion.[50, 51]

Although bonus payments would be made annually, the size of the payment would be based on the average balance in the account over the preceding three years. Bonuses would, therefore, depend on the account-holder saving money and retaining those savings for a period of time. Unlike a scheme that paid a bonus based on the amount deposited over a particular period, the LBSA would provide a disincentive to withdraw money immediately after a bonus is paid.

In addition, the government should explore the use of lottery incentives to encourage saving in the LBSA. It could pay lower bonuses than those set out above and offer lottery cash prizes in lieu, with savers' chances of winning related in some way to the size of their accounts.

Our research shows that people on low-to-middle incomes want **simple** savings accounts with few terms and conditions, little in the way of small print and an easily understandable system of rewards. The proposed LBSA would be relatively simple, in terms of deposits, withdrawals and transferability. The bonus structure appears complicated at first sight, but it would be easier to understand to many people than interest payments are, and some complexity is necessary to make it progressive and to encourage people to retain their savings. However, the simplicity of the accounts will also depend on providers: if they offer accounts with complex or confusing features, such as short-lived bonus rates of interest, the risk is that they will be shunned. The government could help by limiting the providers' ability to offer some of these features.

Savings in the LBSA would be fully covered by a **government guarantee** in the event of a financial service provider failing. Apart from this, all running costs would be met by financial service providers. Accounts would also need to have a **government 'kitemark'**, which would only be awarded if they met certain conditions, pertaining mainly to simplicity. Our workshops suggest that government backing in these two simple forms would be powerful incentives for people on low-to-middle incomes. The first eases their concerns about losing their money; the second furnishes them with an excuse not to have to worry about the terms and conditions.

The LBSA is not the 'dramatically different' account called for by one of the financial service providers that we interviewed. Our deliberative workshops suggested something less radical could have an effect in encouraging savings by low-to-middle income families. It can be seen as a universal version of the Saving Gateway scheme, though with less generous bonuses (based on average balance rather than the level of contributions), no two-year limit and some restriction on the number of withdrawals.

50 When short-term interest rates return to 'normal' levels – ie to 4–5% – tax relief on cash ISAs will cost the government around £2.25 billion.

51 The measurable fiscal cost could be offset to some extent if higher savings delivered economic benefits, for example by helping people get back into work more quickly by funding their own retraining.

Table 4
Comparing the LBSA and Cash ISAs

	LBSA	Cash ISA
Availability	Anyone aged 16 and over	Anyone aged 16 and over
Maximum size	£10,000 in total	£5,100 each year
Deposits	Any time, any amount (subject to a maximum account size)	Any time; annual limit, some accounts have minimum amounts
Withdrawals	Limited to four a year, or the bonus for that year is lost	Varies from instant access to limited access with potential loss of interest
Restrictions on use of funds	None	None
Interest rates, rewards	Variable according to provider	Variable according to provider
Income tax relief	No relief on deposits, which are made out of post-tax income Interest would be paid net of basic rate income tax, unless the account-holder has registered to receive interest gross[52] No income tax or capital gains tax is payable on the proceeds of the account	No relief on deposits, which are made out of post-tax income Interest is free from income tax No income tax or capital gains tax is payable on the proceeds of the account
Government incentive	Annual bonus payments up to £183.33 tax-free, paid on a tapering scale, so that the first £1,000 receives a higher bonus than the second, the second £1,000 a higher bonus than the third and no bonus is paid on savings above £3,000	None
Transferability	On request	On request
Asset tests for benefit payments	Funds are exempt	Funds are taken into account

5.2 The Long-term Investment Account

The stocks and shares ISA could be retained in its present form should the cash ISA be replaced by a LBSA. Alternatively, the government could introduce a Long-term Investment Account (LIA) that would provide the repository for additional savings for those people who consider they have sufficient funds in their LBSA.

Our research suggests that this account would not be attractive to low-to-middle income families, who struggle to save enough to cover potential emergencies and are generally wary of investing in stocks and shares. However, it could complement the LBSA for those on middle-to-higher incomes, particularly if it offered the same sort of bonuses as the LBSA.[53]

The main difference from the stocks and shares ISA would be that each person would only be able to have one LIA (with eligibility again checked through the National Insurance system).

52 Unless it can be shown that making rewards tax-free would lead to innovative reward schemes that would increase take-up among low-to-middle income families.

53 This would, however, add to government spending, which is unlikely to appeal in the present fiscal climate.

The LIA would operate as a 'wrapper' and providers would be encouraged to offer a range of investment options, from cash deposit accounts through stakeholder accounts (which invest in a range of assets) to equity-only accounts. Those who want total security would be able to opt for a cash-only LIA – those who are in a position to put their savings at risk could opt for an equity-heavy account.

The LIA would pay the same annual bonuses as the LBSA, based on average balances over the preceding three years. In addition, all interest and capital gains would be tax-free. As with ISAs, much of the tax relief would go to those earning higher incomes, but the bonus structure would add an element of progressivity to the overall incentive scheme.

There would be no maximum limit on the value of an LIA, but there should be an annual limit of £5,000 on new deposits. This is lower than the limit currently placed on stocks and shares ISAs in order to control the overall cost of tax relief and to better focus the incentives. Anyone who can save more than £5,000 a year may do so anyway, so providing incentives above this level does very little to boost aggregate savings.[54]

As with the LBSA, only four withdrawals a year would be allowed, otherwise bonus payments would be forfeited.

Funds held in an LIA would not be exempt from calculations of eligibility for state benefits.

LIAs would be transferable between providers, in the same way that ISAs are currently.

54 £5,000 represents around 20 per cent of national average earnings and so should be more than sufficient for the majority of savers.

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Appendix 1: Accounts discussed in the workshops

These are the hypothetical accounts (based heavily on, but not necessarily identical to, real products) offered to participants in the deliberative workshops to elicit their comments, both on the overall products and their specific features. They are listed in order of the participants' preference, from least to most preferred.

Christmas Club

- Regular payments agreed in advance and paid in over 12 months
- No interest payment or reward for saving – you get back what you put in
- Run by a family member or neighbour
- No early access to money – have to wait until December to get it
- Intended for spending on Christmas, but in practice no restrictions on use.

Basic Savings Account

- Money can be deposited and withdrawn at any time, any amount
- Passbook account, run by the Post Office – access only when Post Office is open
- No frills, no extra incentives
- Pays a relatively low interest rate and tax payable on interest payments
- Fully covered by deposit insurance (along the lines of the Financial Services Compensation Scheme), so no risk of losing any money.

Personal Development Account

- Money can be deposited at any time, to a limit of £10,000
- No limits on withdrawal of money
- Option to invest in deposit account or stock market account
- Government-backed[55] but run by high street banks
- 50p 'reward' for every £1 saved into the account when it is withdrawn if it is used for an 'approved purpose' – for example to pay for education, training or the deposit on a first home – but no reward if withdrawn for other purposes.

Individual Savings Account

- Money can be deposited at any time and with no limit
- Withdrawals are only allowed with one month's notice, or immediately but with loss of interest payments
- Run by high street bank, telephone and internet banking possible to give 24-hour access
- Market-based interest rate, no tax payable on interest
- Bonus payment available for regular saving and/or for limiting withdrawals to four a year
- Covered by deposit insurance up to £50,000.

Saving Gateway

- Deposits limited to £25 per month over a two-year period
- Passbook account
- Government-backed but run by major supermarket chains
- 50p 'reward' for every £1 saved into and remaining in account at the end of two-year period
- No restrictions on use to which money is put.

55 This was deliberately vague but was interpreted by participants as meaning that the government would provide full compensation in the case of a financial provider failing.

Appendix 2: Accounts designed by the workshop participants

Cardiff

Older Group

Name: Selective Personal Savings Account (SPSA)

Type: Cash, with an option to accept shares as a bonus

Provider: Supermarket – but any government-backed guaranteed scheme would be ok

Incentives:

- Savings-related bonus – cash or option for guaranteed shares in the supermarket provider based on what you have saved. It is important to have the option not to take shares and that any shares issued have a guaranteed minimum value at which they can always be redeemed
- No penalties on four withdrawals per year, but penalities for any more than that.

Deposits and access:

- Card, passbook or online access
- Direct debit option for deposits
- Payments direct from employment income with your approval – would be good to show any payments on your payslip
- Would also be able to put in money when doing shopping, in the same way you get cash back.

Other:

- Also to be available for those that do not work
- Flexible account ownership where one family member can pass on ownership to another or have multiple names on the account where a family wants to combine its savings
- Possibly an option to have family access to account (ie joint account).

Younger Group

Name: Simple Saver Account (SSA) or Simple and Very Effective (SAVE)

Type: Risk-free savings account

Provider: Supermarket, or partnership between a gas/electricity provider and a bank

Incentives:

- Advice prior to account opening to be provided free of charge to establish how much you can afford to put in monthly
- Matching for savings – between 20p-per-£1 to £1-per-£1 depending on how long you keep it in for.

Deposits and access:

- Instant access through internet, telephone and face to face
- A minimum and maximum deposit range could be given to make it affordable to the providers
- With a gas or electricity provider you could pay when paying your bills, or through direct debit payments
- Flexible, so that you can amend the amount you put in if circumstances change.

Newcastle

Older Group

Name: Pipe Dream

Type: Savings account with option of shares; aimed at lower-income households; liked the idea of 'community shares'; low risk

Provider: Supermarket

Incentives:

- Option to take shares in the supermarket
- No tax on deposit but tax on bonuses
- Incentive for long-term savings – 50p for every £1 saved
- Can deposit up to £5,000
- Long-term emphasis – if you take money out it reduces the reward but still some interest given.

Deposits and access:

- No card
- Online and passbook for withdrawals
- Lots of options for depositing money – online, telephone and in the supermarket
- Can freeze payments in emergency circumstances.

Other:

- More than one person in each household could open an account.

Younger Group

Name: Savings Account Via Employment (SAVE)

Type: Savings account with rewards and good incentives aimed at employed people; investing in cash because stocks and shares are too risky – safety is the main thing; jargon-free

Provider:

- Government-backed but provided through supermarkets
- Second choice would be Post Office
- Third choice: any provider so long as it is backed by government and with enough branches to maximise accessibility.

Incentives:

- Reward for longer-term investment – but no punishment if money is taken out early
- Reward of 30p for each £1 saved after one year, rising to 50p per £1 after two years
- Simple explanations – no interest rates
- Tax-free.

Deposits and Access:

- Choice over access is important – phone, internet, passbook
- No expensive phone calls
- No transfers via the internet, to discourage easy spending
- Option to extend the investment period beyond two years
- Option to invest more each month – between £50 and £75

- Could have two accounts per household
- If made unemployed, can freeze terms and conditions until back in employment
- Auto-enrolment – between 3 and 15 per cent taken from pre-tax income.

Reading

Older Group

Name: Flexible Bonus Saver Account (FBSA)

Type: Savings account

Provider: Supermarket

Incentives:

- £50 when account opened if cash
- Additional bonus of £50 or high interest if you agree to pay by direct debit
- High interest rate – 10% for first year then to market interest rates
- Supermarket reward points also available
- Tax-free.

Deposits and access:

- In-store area where you can access account plus internet and telephone access
- No limits on deposits
- Limited to two withdrawals in any calendar year
- After two years, option given to lock away a proportion of savings plus interest for a longer period, so earning an additional cash incentive.

Other:

- Offers you ability to save for long term or short term – a long-term account with short-term benefits
- Covered by the investors compensation scheme.

Younger Group

Name: Coolac

Type: Savings account, available to all

Provider: Co-operative bank or any supermarket, government-backed

Incentives:

- Reward of 50p per £1 saved to limit of £25 per month – plus interest payment in line with inflation according to the consumer price index, so you don't lose anything
- Options to change the incentive at any time
- Points or vouchers as an alternative, with a range of choices including reward card – interest can also be earned in the form of points
- Bonus for regular savers eg keep it in for five years and get a bonus.

Deposits and access:

- Card, passbook or internet – the option is yours depending on what works for you
- Low minimum deposit level

- 18-month get-out clause; staggered charge on money withdrawn depending on how long it has been left in
- If you take money out early you lose the incentives.

Other:

- Choice of options to make it affordable
- Open to all incomes
- Insured up to £100,000
- Some wanted a stock market element, but most found it too complex.

London

Older Group

Name: Community Savings Account

Type: Savings account

Provider: National bank, ethically run, and government-backed, preferably with late opening times – such a bank was seen as a safe place to save compared with smaller organisations

Incentives:

- Match funding: 50p for every £1 saved, staggered according to when money is taken out – far clearer way to outline an incentive when compared with interest (some suspicion that there would be a catch to getting 50p for every £1)
- No deduction for tax on incentives
- Should be targeted at lower-income people but the means testing should not be too onerous.

Deposits and access:

- Passbook and internet – there should be various choices
- Deposits could go straight into the account from pre-tax salary
- Should be able to make withdrawals at any time, but a staggered percentage of reward is taken away depending on how long you leave your money in
- Should never lose any of the money you've put in – withdrawing money with less than a month's notice would mean losing benefits
- It should be up to the individual how much they put into the account.

Other:

- Would be good if it was affiliated with other organisations to be able to access money from anywhere
- Should be open to people with lower incomes but without having to jump through hoops to get it
- Auto-enrolment through employment but also available to those not able to do it through work. Support should be available to smaller employers wishing to set up the scheme
- Should also be available for lower-income earners, those in informal work or smaller employers
- There should be minimal paperwork and simplicity in the way it's operated.

Younger Group

Name: Ultra Savings Account aka USA

Type: Savings plus

Provider: Supermarket, government-backed – because it is easy to access and high street banks are seen as difficult to access

Incentives:

- Loyalty points ie connections to loyalty card scheme – maybe one pound in savings earns one point
- Share options in supermarket as a reward for loyalty – do not have to take up
- Tax-free interest – really important to incentivising savings
- Progressive return: first year, 20p for each £1 – after three years, it goes up to 50p per £1

Deposits and access:

- Card (ATM) access, online and telephone
- Staff available at customer service points in store
- Auto–enrolment, taking a certain percentage of wages with option to add more so no limit to what you put in the account
- Limited to four withdrawals a year – if you withdraw more than four then you need to pay it back within three months to retain the full interest payment.

Other:

- Ethical banking

Appendix 3: Participating financial providers

The following financial providers were interviewed as part of this research. We are very grateful for their time and input.

Kirsty Ward	Head of Financial Services	Asda
Amanda Farrell	Marketing Manager, Financial Services	Asda
Katie Whalley	Product Manager, Savings	Asda
Mark Ramsden	Public Affairs Manager	Asda
Lee Chizwell	Head of Savings	Barclays Bank
James Hillon	Function Leader – Home and Long Term Savings	Co-operative Bank
Hayley Lowell	Business Manager – Long Term Savings	Co-operative Bank
Richard Davies	Cash ISA Strategy Manager	Lloyds Bank
Kevin Sellar	Head of Government Services	Post Office Ltd
Mike Granville	Head of Regulatory Services	Post Office Ltd
Adrian Baker	Head of Strategy	Post Office Ltd
Helen Cook	Head of Savings and Mortgages	Sainsbury's Bank

Appendix 4: Roundtable participants

The following experts on saving attended the roundtable discussion on the life-course savings account. We are very grateful for their time and input.

Peter Buchanan	Saving from Poverty
Victoria Burr	HM Treasury
Marie Burton	Consumer Focus
Anna Davies	DWP
Tony Dolphin	ippr
Andrea Finney	University of Bristol
Sandra Gruescu	ResPublica
Chris Hobson	Transact
Omar Khan	Runnymede Trust
Matthew Little	HM Treasury
James Lloyd	Social Market Foundation
Brian Morris	Building Societies Association
Toby Nutley	DWP
Ritu Patwari	Barnardos
Brian Pomeroy	Financial Inclusion Taskforce
Rajiv Prabhakar	London School of Economics
Paul Riseborough	Lloyds TSB
Adam Schoenborn	ResPublica
Karamjit Singh CBE	Social Fund
Sarah Smith	Consumer Financial Education Body
Kate Stanley	ippr
Joe Surtees	Consumer Credit Counselling Service
Gemma Tetlow	Institute for Fiscal Studies
Andrew Thompson	Friends Provident Foundation
Tony Vine-Lott	Tax Incentivised Savings Association
David White	The Children's Mutual
Matthew Whittaker	Resolution Foundation