THE SAVING GATEWAY

FROM PRINCIPLES TO PRACTICE

SONIA SODHA AND RUTH LISTER

ippr

The **Institute for Public Policy Research** (ippr) is the UK's leading progressive think tank and was established in 1988. Its role is to bridge the political divide between the social democratic and liberal traditions, the intellectual divide between academia and the policymaking establishment and the cultural divide between government and civil society. It is first and foremost a research institute, aiming to provide innovative and credible policy solutions. Its work, the questions its research poses and the methods it uses are driven by the belief that the journey to a good society is one that places social justice, democratic participation and economic and environmental sustainability at its core.

For further information you can contact ippr's external affairs department on info@ippr.org, you can view our website at www.ippr.org and you can buy our books from Central Books on 0845 458 9910 or email ippr@centralbooks.com.

Our trustees

CONTENTS

Acknowledgements

This report would not have been possible without input and assistance from a number of people. Both of us would like to thank Jim Bennett, Adam Clark, Sharon Collard, Richard Darlington, Paul Dornan, Carl Emmerson, Nigel Greenwood, Ian Kearns, Tracy Kornblatt, Steve Mather, Jane Midgely, Naomi Newman, Howard Reed, Alice Rogers, Karen Rowlingson and Matt Wakefield, who generously gave their time in discussion or to read and comment on earlier drafts of all or part of this report. Special thanks are also due to Irina Polonsky and Kayte Lawton at ippr for research support. However, the views expressed in this report are solely the views of the authors. We would also like to thank Georgina Kyriacou at ippr for typesetting and proofreading.

Sonia Sodha would like to thank Dominic Maxwell at ippr for his guidance and support in the early stages of this project, and all participants at an ippr seminar on the Saving Gateway held as part of this project in July 2006. Particular thanks are due to Emma Dawnay from the New Economics Foundation, Ed Balls MP and Ruth Lister, for speaking, and to colleagues at HM Treasury for hosting the seminar.

Finally, ippr would like to thank The Children's Mutual and HBOS for their generous support of ippr's Centre for Asset-Based Welfare, without which our independent research on assets would not be possible.

About the authors

Sonia Sodha is a Research Fellow in the Social Policy Team at the Institute for Public Policy Research (ippr). Her research interests are focused on asset-based welfare, and she has published previously on Child Trust Funds and housing wealth. Before joining ippr, Sonia worked for the Social Market Foundation and the Race Equality Unit at the Home Office. She has an MPhil in Politics and a BA (Hons) in Philosophy, Politics and Economics from the University of Oxford.

Ruth Lister CBE is Professor of Social Policy at Loughborough University. She is a former Director of the Child Poverty Action Group and served on the Commission on Social Justice, the Opsahl Commission into the Future of Northern Ireland, the Commission on Poverty, Participation and Power and the Fabian Commission on Life Chances and Child Poverty. Ruth was a founding Academician of the Academy for Learned Societies for the Social Sciences and a Trustee of the Community Development Foundation. She is currently Donald Dewar Visiting Professor of Social Justice at Glasgow University. She has published widely around poverty and social exclusion, welfare state reform, gender and citizenship. Her latest books are *Citizenship: Feminist Perspectives* (2nd ed. Palgrave/New York University Press, 2003) and *Poverty* (Polity Press, 2004).

Executive summary

These are exciting times for the asset-building agenda in the UK. In recent years, conceptions of the welfare state have undergone significant change. No longer is the welfare state simply about income assistance and public service delivery, but it is seen as an empowering force, enabling people to bring about change in their own lives and opening up opportunities. Asset-based welfare has an important role to play in realising this vision.

Asset-based welfare has represented a new policymaking frontier since 1997. It was back in 2000 that an ippr paper first recommended an asset-based approach for the UK. Since then, the Labour government has introduced a number of reforms designed to enable increasing numbers of people to benefit from asset ownership. It has established the Child Trust Fund, which gives all children born since 2002 the right to a modest asset at the age of 18, and piloted the Saving Gateway, a matched-saving scheme targeted at those on low incomes.

In these two policies, the foundations have been laid for a welfare state that recognises the contribution that assets make to wellbeing. But the biggest remaining policy challenge lies in developing the Saving Gateway from its pilot status to a sustainable, affordable national scheme. For too long, medium-term saving incentives have been regressive, using tax relief to reward higher income savers, who least need incentives to save. The Saving Gateway represents the opportunity to rebalance the short- to medium-term saving framework, offering progressive saving incentives to those for whom assets can have the greatest impact on financial security and opportunities.

This report revisits the case for progressive saving incentives, and considers how a national Saving Gateway scheme could deliver them.

In Chapter One, **Ruth Lister** considers the role of savings as a coping strategy in the 'vulnerability' context of poverty. She analyses the experience of poverty, using the 'livelihoods framework' first developed in the international development context. Those living in poverty tend to deploy sophisticated budgeting strategies in order to 'get by' in poverty. However, even with these strategies it is difficult to mitigate the negative impact of fluctuations in income and expenditure needs. Getting by carries significant costs: two-fifths of families in the lowest quintile of the income distribution report running out of money by the end of the month, and significant numbers report that they worry about money 'almost all the time'. Moreover, the very strain of getting by can reduce the ability to think or act strategically.

Lister outlines the vulnerability context of poverty. Those living on low incomes are more likely to face income dips or unexpected expenditure needs than the rest of the population. Unsurprisingly, those on low incomes find it hardest to cope with income drops. Debt is a common 'solution' to dealing with income shocks in the absence of savings to fall back on.

Lister goes on to consider the role of savings as a way of coping with poverty. She argues that evidence from the first Saving Gateway pilot gives some support to the hypothesis that the existence of savings creates a greater sense of material security among people on low incomes and, to a lesser extent, enhances their feeling of being in control over their lives, thereby strengthening their resilience and ability to cope in a difficult vulnerability context. Yet those living on low incomes and in poverty are least likely to have access to financial assets.

She concludes that savings can be an effective way of coping with the vulnerability context of poverty, and that government should therefore build upon the Saving Gateway pilots with policies to encourage those on lower incomes to save. However, she also cautions against expecting that people who struggle to get by day by day could or should sacrifice their immediate living standards in order to save. What is needed, therefore, is a strategy that combines policies to encourage and support savings among those living in poverty with other policies to combat the financial insecurity associated with poverty, including improving benefit levels, reform of the Social Fund and improved access to affordable credit and insurance

In Chapter Two, **Sonia Sodha** examines the current structure of short- and medium-term saving incentives, and concludes that it fails those who most need the incentives. She argues that a fair savings policy: should not penalise individuals for saving, should incentivise saving for those least likely to save but who stand to gain the most from it, and should be simple and transparent. The current savings framework fails on these last two criteria: it is regressive and complex.

Rolling out the Saving Gateway pilots on a national basis would go a long way to address this problem. Sodha sets out four priorities for a national scheme, building on lessons from the pilots and previous research on delivering financial products to those who are financially excluded:

- *Targeting*. In order to be as efficient and as affordable as possible, the Saving Gateway needs to remain closely targeted on the low-income groups who need it the most.
- *Local partnership delivery*. To maximise the reach of the scheme, accounts need to be delivered by trusted local intermediaries in the community, such as housing associations, citizens advice bureaux and credit unions. These should play a role in recruitment, assistance with account opening, and delivery of financial capability.

- *Working with the grain of how people think*. The scheme needs to make use of recent insights from behavioural economics on framing effects (the effect of framing options differently) and mental accounting (allowing consumers to attach labels to encourage saving towards set ends) in order to maximise its saving-boosting potential.
- *Financial capability*. The Saving Gateway offers a real opportunity to integrate financial capability education with an interactive, personalised element based around saving into the Saving Gateway account. Evidence on financial education suggests that this is the kind of approach that works.

These four priorities lead her to make the following recommendations for a national Saving Gateway scheme:

Eligibility

- Eligibility should be targeted on low-income households, who are least likely already to have savings, and who do not benefit from current tax-based incentives to save. A simple eligibility test would be for those who are of working age and either on benefits or eligible for Working Tax Credit. Under this definition around 5.52 million people would meet the eligibility criteria in any one year. A preferable (but more complex) eligibility test would extend to all adult members of households eligible for Working Tax Credit, or in which one adult is entitled to benefits, and to low-income working households in which the main earner is under 25 or works part time.

Match rate

- The match rate (the amount government contributes at the end of the account's term) should be as low as is consistent with kickstarting a saving habit, in order to minimise deadweight costs (the amount spent on the scheme that does not increase saving rates) and reduce the profitability of borrowing to save. No decision on match rate should be taken until we have evidence from the completed evaluation of the second pilots, but it could be in the region of 50p for every pound saved.
- The match rate should be doubled for the first two months of the account, in order to provide further encouragement to take part.

Saving into the account

- Saving Gateway accounts should allow savers to designate different proportions of their savings under different headings, for example a holiday, a Child Trust Fund and a pension, in order to take advantage of people's natural propensity for mental accounting.
- Savers should be able to access their account balances. The Government

should match the maximum account balance achieved during the account's term.
- The account should roll over into a savings account on maturity, with an easy option to transfer funds into a Child Trust Fund or pension.

Account length

- The account length should be two years. This is long enough to accommodate some of those who want to save for longer than the 18 months of the pilots. However, it should be made clear to those who want to save for shorter periods that they can withdraw their full account balance at any time as it is, their maximum, not end, balance that is matched at the end of the account.

Providers

- To maximise accessibility and consumer choice, the account should take the form of a product wrapper: in other words, legislation should set out generic terms and conditions for Saving Gateway accounts, within which credit unions, building societies and banks can offer accounts. National Savings and Investments should also supply accounts through the Post Office to ensure national coverage by a trusted provider.

Delivery model

- The account should be available to all who fulfil the national eligibility criteria. Government should contact everyone who is eligible, to eliminate the need for an income test.
- In each local authority area, local organisations such as housing associations, citizens advice bureaux and credit unions should be contracted to deliver a set number of accounts. They would be responsible for recruitment, assistance with account opening and, possibly, delivery of integrated financial advice.
- The accounts should be publicised in the workplace in partnership with employers.
- Information about the accounts should also be available through other networks such as Jobcentre Plus, Sure Start centres, doctors' surgeries and schools, and should be given to Social Fund borrowers when they have paid off their loans.
- Marketing of the account should be focused on areas with low levels of third sector activity.

Financial capability

- Saving Gateway accounts should be linked to tailored, interactive financial education based around the account, provided by local intermediaries involved in delivering the accounts. Savers should be involved in setting individually-tailored saving targets at account opening.

Assuming a total takeup rate of 30 per cent in the first year, with a third of these accounts delivered by local organisations, and a 50p match rate, costs in the first year would be in the region of £180 million, including the cost of delivery. This is just over 10 per cent of the £1.75 billion the Government currently spends each year on Individual Savings Account (ISA) and Personal Equity Plan (PEP) tax relief. One possible source of funding would be to abolish equity ISAs, on which the Government spent approximately £350 million in 2005/06. Such a change would affect only the wealthiest investors.

So a national Saving Gateway is affordable, and could be very effective in helping people to build up a financial buffer as part of a wider strategy to reduce the financial insecurities of poverty. Rebalancing saving incentives by rolling out the scheme on a national basis should therefore be a priority for the Government.

Introduction

Sonia Sodha

In recent years, conceptions of the welfare state have undergone significant change. The welfare state is no longer simply about income assistance and public service delivery, but it is seen as an empowering force, enabling people to bring about change in their own lives and opening up opportunities. Asset-based welfare has an important role to play in realising this vision, with the Labour Government suggesting that it could become a fourth pillar of welfare policy, alongside work and skills, income and public services (HM Treasury 2001a).

Perhaps unsurprisingly, then, asset-based welfare has represented a new policymaking frontier since 1997. It was back in 2000 that an ippr paper first recommended an asset-based approach for the UK (Kelly and Lissauer 2000). Since then, the Labour government has introduced a number of reforms designed to enable increasing numbers of people to share in the benefits of asset ownership. The boldest of these was the introduction of the Child Trust Fund. As a result, every child born since 2002 will have access to at least a modest asset at the age of 18. The Government has also piloted the Saving Gateway – a matched-saving scheme targeted at those on low incomes.

These are exciting times for the asset-building agenda in the UK. In these two policies, the foundations have been laid for a welfare state that recognises the contribution assets make to wellbeing. But given the freshness of the approach, the continual emergence of new evidence, and the fact that there are still many policy parameters left open, proactive policy development needs to continue.

In a previous report, ippr has considered the next steps for the Child Trust Fund (Maxwell and Sodha 2005). The greatest remaining policy challenge lies in developing the Saving Gateway from its pilot status to a sustainable, affordable national scheme. For too long, medium-term saving incentives have been regressive, using tax relief to reward higher income savers, who least need incentives to save. The Saving Gateway represents the opportunity to change radically the short- to medium-term saving framework, offering progressive saving incentives to those for whom assets can have the greatest impact on financial security and opportunities.

This report revisits the case for progressive saving incentives, and considers how a national Saving Gateway scheme could deliver them.

The ‘asset effect’

Why do assets have a role to play in welfare policy? Asset-based welfare is based on the idea that financial assets bring positive benefits above and beyond simply allowing people to put off spending today in order to consume in the future, or to earn interest on investments. By allowing for one-off upfront costs, it is thought that assets can act as a springboard, working not just to alleviate immediate poverty, but opening up opportunities, through a number of different effects (Paxton 2001).

First, owning an asset can provide *security* – a financial cushion for when things go wrong. For people without assets, especially those on lower incomes, the risk of unexpected events such as the breakdown of a car, or one-off 'lumpy' costs, such as a child starting school, can create uncertainty and insecurity, which bring stress and other psychological costs. Ruth Lister considers the financial insecurities associated with poverty in Chapter One.

By improving security, assets enable individuals to take *productive risks* – for example, starting their own business or undertaking training. In an analysis of the National Child Development Study, Blanchflower and Oswald (1998) show that people aged 23 who had received at least £5,000 of inheritance by 1981 (at 1981 prices), were approximately twice as likely to be self-employed in that year as someone who had received no inheritance, controlling for factors such as certain personality traits, regional employment levels, and father's occupation when the respondent was 14.

There may also be a link between assets and *long-term planning*: owning an asset makes it easier for individuals to plan ahead. Because assets improve security, they can reduce shorter-term budgeting problems, which enables individuals to lift their eyes from week-to-week, or even day-to-day budgeting, to the long term.

Assets are also thought to influence an individual's *self-efficacy* – the extent to which they believe they can change their future situation by their own actions. Sherraden (1991) argues that asset-holding can change the way people think, and several political philosophers have explored the idea that assets increase people's freedom from interferences and dependency on others (Ackerman and Alstott 1999, Dowding *et al* 2003). If one has the safety net that an asset can provide, it can be easier to escape situations such as abusive relationships at home or at work.

If these effects do indeed operate as has been proposed, we would expect to find that assets have an independent effect on positive outcomes, above and beyond the effects of a higher income. There is emerging evidence to suggest that this is the case. Bynner (2001) finds that among respondents in the National Child Development Study, owning a financial asset of between £300 and £600 (at 2001 prices) at age 23 is positively associated with a greater chance of employment and improved mental health outcomes at age 33, controlling for other factors.

This simple association requires further investigation to determine whether causality is involved – do assets cause these positive outcomes, or are people who are more likely to have assets also more likely to experience positive outcomes? Further analysis using this dataset is the subject of ongoing ippr work with the Centre for the Analysis of Social Exclusion at LSE.

But against this background of positive benefits, there is a widening gulf between those who have access to financial assets and those who do not. Wealth inequality is high in the UK: the Gini coefficient for wealth inequality is 0.7 – twice as high as that for income inequality (HM Revenue and Customs 2006)[1]. In 2003 the wealthiest one per cent owned almost a quarter of all the wealth in the country, while almost a third of the population owned less than £5,000 of marketable wealth (HM Revenue and Customs 2006). There is also evidence that wealth inequality is growing – the number of households without any assets doubled from five to ten per cent between 1979 and 1996 (Paxton 2002), and in the late 1990s, the top one per cent of the wealth distribution increased their share by around three percentage points (HM Revenue and Customs 2006).

Where are we now?

In light of these arguments, the Government has introduced two policies intended to increase asset-building, particularly among groups who are least likely to have access to a financial buffer.

The Child Trust Fund establishes a universal, but progressive, savings policy for children. It is universal because there is something for everyone, but at the same time it is progressive, because those with the greatest need receive more. So all children receive government deposits of £250 at birth and again at age seven, but children from the poorest families, with household incomes of less than around £14,000 per year[2], receive £500.

The Child Trust Fund will extend the opportunities that come from having access to an asset at age 18 to all young people, and therefore has an important role to play in tackling inequality. However, policy challenges remain: how to address the inequalities in maturing fund values that will accumulate as a result of some, but not all, parents making regular savings into the Fund, and how to encourage responsible use of the funds at age 18. These issues have been addressed in other ippr publications (Maxwell and Sodha 2005, Paxton and White 2006).

The most urgent priority for the asset-based agenda must be extending the progressive universal principle to the shorter-term savings framework.

1. The Gini coefficient is a measure of inequality of a distribution. It takes a value between 0, representing absolute equality where everyone owns the same, and 1, representing absolute inequality, where one person owns everything and the rest own nothing.
2. Children in families that receive the maximum level of Child Tax Credit get the highest level of payment from government. In 2005/06, all families whose household income was less than £13,910 per year received the maximum level of Child Tax Credit.

It is short-term liquid savings that are so important in providing a financial buffer in times of need, as Ruth Lister argues in the first chapter of this report. Yet as Sonia Sodha sets out in Chapter Two, the national short- and medium-term savings framework is currently based on regressive, tax-based saving incentives. Thus those who earn the most receive the most in government incentives, but people who have the most to gain from having a financial buffer – those living on low incomes – receive very little. This system is patently unjust.

The Saving Gateway, if rolled out nationally, could fill the gap and extend the progressive principle to savings. The Saving Gateway is a saving-incentive pilot scheme, targeted at those on lower incomes. Rather than being based on tax relief, saving incentives are structured along a matching basis: individuals save into a Saving Gateway account, and government matches their maximum account balance at the end of the scheme..

The Saving Gateway is currently in its second round of pilots. The first round was completed in November 2004 (see Box 1).

The structure of this report

This short report has two objectives. First, it revisits the case for progressive saving incentives. The literature on asset-based welfare has not extensively drawn upon insights gained from the study of poverty on the role that financial assets might have to play as a protective factor against material insecurity. We build on this link in the report. Second, the report considers the role of progressive saving incentives in asset-building, and how these might be delivered through a national Saving Gateway scheme.

In the first chapter, Ruth Lister looks at material insecurity and income vulnerability as a dimension of poverty, and the strategies used to cope with living on a low income. She considers whether financial assets and savings have a role to play in helping to mitigate the vulnerability context of poverty, and looks at broad implications for policy development.

Lister finds that individuals living on low incomes often employ sophisticated budgeting strategies in order to get by, but that even with these strategies they are often not able to mitigate the negative impact of fluctuations in income and expenditure needs. She argues that there is some support for the idea that financial assets increase levels of security from evidence from the first Saving Gateway pilots, and that savings can play a role in helping individuals to deal with the insecurities of poverty. But examining patterns of saving reveals that those who most need financial assets to cope with insecurity – those living on low incomes – are the least likely to have savings to fall back on.

Lister concludes that government should build on the Saving Gateway pilots by introducing policies to incentivise saving for those on lower

Box 1: The Saving Gateway pilots

The first round of pilots – November 2002

- Five areas in England: East London, Cambridge, Cumbria, Manchester and Hull
- Eligibility: working age individuals, either in work and with household earnings of less than £11,000 per year (or £15,000 per year if they had children or a disability), or out of work and receiving Jobseeker's Allowance, Income Support, Incapacity Benefit or Severe Disablement Allowance.
- Account length: 18 months.
- Government match rate: £1 for every £1 saved. Individual contributions could be withdrawn at any time and government matched the maximum balance during the life of the account.
- Saving maximum: £25 per month and £375 over 18 months.
- Accounts provided by The Halifax Bank (now Halifax Bank of Scotland)
- In all areas except Hull, the Saving Gateway was run alongside the Community Finance and Learning Initiative (CFLI), a Department for Education and Skills pilot, which aimed to bring together financial literacy, micro-enterprise and adult learning services. Local organisations were involved in recruitment, assistance with account opening and financial education.
- In Hull, accounts were opened directly with the local Halifax branch. Participants were recruited by the Department for Work and Pensions (DWP) writing to all those eligible in the Hull area.

The second round of pilots – March 2005

- Six areas in England: East Yorkshire, South Yorkshire, Manchester, Cumbria, Cambridge and East London.
- Eligibility: working-age individuals, either in work with individual earnings of less than £25,000 and household earnings of less than £50,000, or out of work and in receipt of Jobseeker's Allowance, Income Support, Incapacity Benefit or Severe Disablement Allowance.
- Account length: 18 months.
- Government match rate: varied from 20p for every £1 saved to £1 for every £1 saved. Individual contributions could be withdrawn at any time and government matched the maximum balance during the life of the account.
- Saving maximum: varied from £25 to £125 per month, and from £375 to £2,000 over 18 months.
- Accounts provided by Halifax Bank of Scotland.
- Participants recruited through a range of methods: random telephone calling, random letters and letters to benefit claimants on DWP records.
- Free financial education available to all participants.

incomes. However, she also argues that saving policies need to form a component of a wider anti-poverty strategy, particularly given that it is not always appropriate for those on low incomes to save. The Saving Gateway therefore needs to be complemented with other policies targeted at the financial insecurities associated with living in poverty, including policies to improve weekly income levels, reform of the Social Fund and improved access to affordable credit and insurance

The second chapter, by Sonia Sodha, examines the current structure of short- and medium-term savings incentives, and concludes that it fails those who need them the most. The chapter sets out what we mean by a progressive saving policy and the criteria for an effective national matched-saving scheme. Sodha argues that a national Saving Gateway needs to be targeted on those who most need savings incentives and, as far as possible, it should be delivered through trusted, local intermediaries in order to appeal to its target group, many of whom will be experiencing financial exclusion. It should incorporate recent insights from behavioural economics into the way that people make decisions. Building on lessons from the pilots and from previous research on delivering financial products to those who may be experiencing financial exclusion, she sets out options for a national rollout of the Saving Gateway.

References

Note: web references correct at November 2006

Ackerman B and Alstott A (1999) *The Stakeholder Society* New Haven: Yale University Press

Blanchflower D and Oswald A (1998) 'What makes an entrepreneur?' *Journal of Labour Economics* vol 16: 26-30

Bynner J (2001) 'Effects of assets on life chances' in Bynner J and Paxton W (eds) *The Asset-effect* London: Institute for Public Policy Research

Dowding K, de Wispelaere J and White S (2003) *The Ethics of Stakeholding* Basingstoke: Palgrave

HM Revenue and Customs (2006) Table 13.5: Distribution Among the Adult Population of Marketable Wealth (series C). Available at www.hmrc.gov.uk/stats/personal_wealth/table13_5.pdf

HM Treasury (2001a) *Savings and Assets for All* London: HM Treasury

HM Treasury (2001b) *Delivering Savings and Assets* London: HM Treasury

Kelly G and Lissauer R (2000) *Ownership for All* London: Institute for Public Policy Research

Maxwell D and Sodha S (2005) *Top Tips for Top-Ups: Next Steps for the Child Trust Fund* London: Institute for Public Policy Research

Paxton W and White S (2006) 'Universal capital grants: the issue of responsible use' in Paxton W and White S with Maxwell D (eds) *The Citizen's Stake: Exploring the Future of Universal Asset Policies* Bristol: Policy Press

Paxton W (2002) *Wealth Distribution – The Evidence* London: Institute for Public Policy Research

Paxton W (2001) 'The asset-effect: an overview' in Bynner J and Paxton W *The Asset-effect* London: Institute for Public Policy Research

Sherraden M (1991) *Assets and the Poor* New York: M E Sharpe

1. Poverty, material insecurity and income vulnerability: the role of savings

Ruth Lister

> Being poor is first about money: it is about not having enough to make your week, never having enough to repair the washing machine that just broke, never having enough to buy school uniforms … Being poor is not about living, it is about surviving, always and only surviving. Worrying about when the next thing will come through and never having the spare money to solve the crisis. And then falling into debt because you didn't have enough to replace the broken fridge, and how having to pay this debt forever … Being poor is to dream that you will have one week when you don't have to worry about money, always dreaming… (ATD Fourth World 2005)

This first-hand quotation – from members of ATD Fourth World, an anti-poverty organisation that works to find solutions to eradicating extreme poverty – describes the state of *material insecurity* that marks the daily lives of people living in poverty. The state of material insecurity often translates into a psychological state of worry and anxiety. *Income vulnerability* occurs because, without any financial cushion, even a small mishap such as a broken washing machine or fridge can upset the precarious financial equilibrium of making ends meet on a low income. (See Spicker 2001 for a more theoretical discussion of the distinction between insecurity and vulnerability.)

The short-term answer is often to use credit, which can create its own longer-term problems, notably debt, and reduces further the ability to make ends meet. Material insecurity and income vulnerability are at the heart of the experience of poverty.

The first part of this chapter analyses the experience of poverty, using the livelihoods framework first developed in the international development context. It looks at the evidence on material insecurity, and the vulnerability it creates for people living in poverty when faced with minor or major expenditure 'shocks' and when coping with times of transition. The second part assesses the role that savings might play in promoting greater material security. Following a review of the evidence on patterns of saving among people on low incomes and attitudes towards saving, it considers the role of the Saving Gateway policy and raises some issues for the future development of the policy.

The chapter concludes that government policy should support saving by those on low incomes with saving incentives, but that this needs to be integrated into a broader anti-poverty approach that includes improving income and reducing income instability. Such a strategy would also need to embrace policies on credit and debt (see, for instance, Collard and Kempson 2005) and reform of the Social Fund (Legge *et al* 2006).

Poverty, material insecurity and income vulnerability

Poverty is both a material condition and a social relation. The former is the focus of this chapter. Nevertheless, any discussion of poverty and of policies to combat it must bear in mind that those who experience poverty often say that it is the non-material aspects which make it so difficult to bear: a process of 'othering', which is experienced as stigmatising, disrespectful, humiliating and an assault on dignity and self-esteem (Lister 2004).

As a material condition, poverty may have many manifestations – for instance, in terms of housing, environment, health and education – but its defining quality is a combination of insufficient money and poor living standards. No single method of measurement is sufficient, but low income should remain central to any official measure (Lister 2004). The Government has committed itself to developing a poverty measure that takes into account both income and material living standards (Willitts 2006). However, in 2004/05, the last year for which we have data, living in a household with an income below 60 per cent of the median income remained the official poverty measure. By this standard, in 2004/05 14 per cent of working age people lived below this line before housing costs, and 18 per cent after housing costs. For children, the figures are even higher: 19 per cent before housing costs, and 27 per cent after housing costs (DWP 2006).

Accounts of living in poverty often tend to focus on the immediate consequences of the daily grind of getting by, juggling to make ends meet and having to go without what others take for granted. Underlying these immediate preoccupations is the state of insecurity created when lack of money makes a person vulnerable to even minor mishaps that require additional spending. As Oxfam GB puts it, 'insecurity is a way of life for people living in poverty in the UK' (Oxfam u.d.: 2, see also www.oxfamgb.org/ukpp/secure/index.htm). 'The right to be secure' is thus a key principle underpinning its UK Poverty Programme.

The sustainable livelihoods framework

Oxfam has begun to apply the framework of 'sustainable livelihoods' to its work in the UK as a way of promoting material security (see Long *et al* 2002, Hocking 2003). The notion of sustainable livelihoods has been adopted in an international development context by the Department for International Development (DfID) and other development agencies (see www.livelihoods.org). It refers to 'a means of living which can maintain itself over time, and which can cope with and recover from minor crises or unexpected events' (Oxfam u.d.: 2).

A livelihood is typically defined as 'the capabilities, assets (stores, resources, claims and access) and activities required for a means of living' (Chambers and Conway 1992: 7). It is an approach that takes as its starting point the idea that 'the relative poverty or economic wellbeing of poor people should be understood from the point of view of the people themselves' (Lloyd-Jones 2002: xv). This is a good starting point for considering savings policy.

Three elements of the livelihoods framework are of particular relevance when thinking about the role of savings policy in promoting greater material security. The first is the *vulnerability context*, which DfID conceptualises as framing the environment in which people live. It:

> …refers to the shocks, trends and seasonality that affect people's livelihoods – often, but not always, negatively … Vulnerability or livelihood insecurity resulting from these factors is a constant reality for many poor people. (DfID 2001: 10)

The second element is the *agency* – how individuals respond to and make choices within the vulnerability context – involved in the process of deploying different kinds of resources to compose a livelihood (Bebbington 1999, cited in Beall 2002). One of these resources, and the third element, is *assets*, which although a wider category than financial assets alone, includes them. This will be discussed in the second part of this chapter on the effectiveness of savings as a way of coping with vulnerability for those living in poverty.

Although some aspects of the vulnerability context are not so relevant to the situation of people living in poverty in industrialised societies, as a concept it can be used to encapsulate the range of shocks against which they have little or no financial protection: from job loss or relationship breakdown, through burglary or theft to equipment breakdown.

Thus something like the 'vicious circle' described by DfID also operates in this context:

> The inherent fragility of poor people's livelihoods makes them unable to cope with stresses, whether predictable or not. It also makes them less able to manipulate or influence their environment to reduce those stresses; as a result they become increasingly vulnerable. And even when trends move in the right direction, the poorest are often unable to benefit because they lack assets and strong institutions working in their favour. (DfID 1999: 2.2)

The aim of the livelihoods approach is to help people in poverty build up their assets so as to increase their resilience to adverse changes in the vulnerability context. Resilience is here defined as the 'ability to mobilize assets to exploit opportunities and resist or recover from the negative effects of the changing environment' (Rakodi 2002: 14-15).

The attention paid to resilience underlines how the vicious circle is not quite as deterministic as the DfID quotation might imply. This is where *agency* comes in to the model.

The sustainable livelihoods framework pays due regard to the strategies adopted by people living in poverty in order to get by, commonly characterised as 'coping strategies'. As Carole Rakodi observes, 'the concept of "strategy" has the advantage of restoring agency to poor people, rather than regarding them merely as passive victims' (2002: 7). It is 'used as a shorthand for a series of choices constrained to a greater or lesser extent by macroeconomic circumstances, social context, cultural and ideological expectations and access to resources' (ibid: 8).

Much of the poverty literature in both the North and South describes everyday coping in terms of 'strategies' – both general 'survival strategies' and, in the North, also more specific 'budgeting strategies'. Typical adjectives attached are: 'complex', 'innovative', 'sophisticated' and 'creative'. Livelihoods are thus actively constructed or 'composed', using available resources (or assets) – personal and social as well as financial – within genuine constraints and the wider vulnerability context. Agency is thereby built into the framework.

Poverty and agency: getting by

Traditional poverty analysis has been criticised for too often losing sight of individual agency in its understandable preoccupation with the constraints within which people in poverty live their lives (Deacon and Mann 1999, Deacon 2002). Today, it is accepted that paying attention to agency as well as structure does not necessarily have to mean 'blaming the victim' (Alcock 2004, Deacon 2004). Indeed, acknowledging the agency of people living in poverty, rather than characterising them as passive victims somehow different from the rest of us, helps to counteract the process of othering.

I have elsewhere proposed a typology of forms of agency exercised by people living in poverty (Lister 2004). Of particular relevance in this context are the two forms of agency associated with personal livelihoods: 'getting by' (in poverty) and 'getting out' (of poverty), which represent respectively the 'everyday' and 'strategic' aspects of personal agency. While savings have a potential role to play in helping people get out of poverty, the main focus of this paper is their possible contribution to reducing income vulnerability among those struggling to get by in poverty.

At a very minimum, coping or getting by is an active process of tight money control, juggling, piecing together, highly focused shopping, going without or going into debt, and there is plenty of research evidence to this effect (for example Kempson *et al* 1994, Middleton 2002). McKendrick *et* *al* (2003), for instance, detail the variety of strategies deployed by low-income households to get by. They comment that:

> … while some of these strategies may be familiar to any household, the necessity to deploy them to meet basic needs, the need to deploy more of such strategies, and the importance of these strategies in the lives of low-income family households, creates a particularly intense experience, and poignant meaning, of these management strategies. (McKendrick *et al* 2003: 9)

Some of the strategies they describe are high risk, such as buying cheap second-hand electrical and white goods, which are more likely to break down, thereby worsening the vulnerability context. Others can involve additional expenditure as a means of protection against the vulnerability context, for instance, purchase of a tumble drier to guard against theft of washing on a line. For families with children, in particular, the demands of consumerism represent part of the vulnerability context. Without, for instance, fashionable brand-name clothing and footwear, children can suffer exclusion or bullying by their peers (Ridge 2002, Seaman *et al* 2005).

Another common strategy is parental sacrifice, especially by mothers, in order to protect children from the full impact of inadequate material resources (Middleton *et al* 1997, Goode *et al* 1998, Farrell and O'Connor 2003). Moreover, analysis of changes in expenditure patterns in response to improvements in benefits for children indicates that parents have spent the additional money disproportionately on their children (Vegeris and Perry 2003, Gregg *et al* 2005).

An overview of research into managing on a low income concludes that

> in general, poor people manage their finances with care, skill and resourcefulness. There is no evidence to suggest that there are two types of poor families – those who can cope and those who can't. (Vaitilingam 2002: 4)

Even in a study where a distinction was drawn between 'non-planners' who 'get by' on a day-by-day basis and 'planners' who 'make out' through longer-term strategies, it was emphasised that it is a very fine line between them and that it is not a matter of competence, for '"getting by" involves some intricate and highly competent routines' (McCrone 1994: 80, 70).

Indeed, a recent survey on financial capability published by the Financial Services Authority (FSA) shows that while respondents on higher incomes were, unsurprisingly, more likely to make ends meet than those on lower incomes, 'those on lower incomes scored more highly on keeping track of their money than respondents in the higher income groups' (Atkinson *et al* 2006: 57). It also found that 'people who were unemployed, or unable to work because of ill health or disability, took the most pains to monitor where their [limited] money was going' and that lone parents were among those doing best at keeping track of their money (ibid: 58). Nevertheless, people in these circumstances were least able to make ends meet.

This suggests that however resourceful those living in poverty are, it is not necessarily enough to enable them to keep within an inadequate budget. Despite the hard work of trying to make ends meet, and despite the improvements in benefits for children, the 2004 Families and Children Study found that two-fifths of couples without a full-time wage-earner and two-fifths of families in the lowest fifth of the income distribution reported running out of money by the end of the week or the month. The same was true for half of lone parents not in full-time work.

Significant minorities in each case stated that they were worried about money 'almost all the time' (Lyon *et al* 2006). Moreover, the very strain of getting by can reduce the ability to think or act strategically. One study found that people with experience of job or income insecurity felt they had little ability to plan ahead and that limited resources reduced their options for doing so (Rowlingson 2000, see Hills *et al* 2006).

Getting by can carry significant costs, particularly for women, who bear the main strain of eking out inadequate material resources. Two words are used over and over again in the poverty literature – in both South and North – to describe the *personal* resources that are drawn on in the struggle to survive: resilience and resourcefulness. But countless studies also point to the 'danger of painting too rosy a picture of women's resourcefulness that ignores the strain that it places on many of them' (Kempson 1996: 24). It is sometimes difficult to tap into (often depleted) personal resources when exhausted by the very struggle to get by and when overwhelmed by the feelings of demoralisation, hopelessness, powerlessness and lack of control that poverty can engender. This is particularly the case when poverty is associated with ill health, as it so often is.

Poverty and the vulnerability context

The delicate balance involved in getting by can be upset when faced with an 'expenditure shock' – an unexpected demand on income – or a drop in or disruption of income. Even quite minor changes in the vulnerability context, which people on adequate incomes with savings to cushion them can take in their stride, can create major problems for people living in poverty. As one family member told an ATD workshop poverty is being 'just one crisis away from collapsing – every day' (ATD Fourth World u.d.).

A diverse range of expenditure needs can cause problems for families living in poverty. A scoping exercise in Scotland for Oxfam GB on the livelihoods framework reported a number of shocks that created a situation of income vulnerability:

> the return of an abusive partner to the family home, the actual event of divorce or bereavement, sickness or ill health and the impact of [often] unscheduled expenditure, such as a large fuel bill, children needing new shoes and clothes, Christmas or having to repay a debt. (Long *et al* 2002: 39)

Additionally, economically inactive, lone parent and low-income households are at greatest risk of experiencing a domestic fire (ODPM 2006). And another significant element of the vulnerability environment for people living in poverty is crime. A recent ippr report underlined how:

> The harmful effects of crime are severely amplified by poverty and other forms of disadvantage – that is to say, poor people are not only much more likely to be subject to many sorts of crime and be more concerned about crime, but are also more poorly equipped to deal with these things. (Dixon *et al* 2006: 8)

The odds of being burgled are much higher for people living on low incomes or in deprived areas than for the rest of the population and burglary can be expensive. Lack of insurance or savings is one reason why 'the impact of crime can be "amplified" by disadvantage' (ibid: 28). The report found a clear relationship between the ability to find £100 at short notice and reactions to experience of crime: '[Forty-nine] per cent of those who say they would find it "impossible" to find £100 at short notice report being "very much" affected by experiencing burglary' (ibid: 29).

Not surprisingly, therefore, the Poverty and Social Exclusion Survey found that people who were experiencing poverty were more concerned about crime than others, with as many as seven out of ten worried about financial crime such as burglary. The survey found that fear of crime feeds into wider feelings of insecurity, which are heightened 'when poverty interacts with other dimensions of vulnerability (for example those associated with gender and age)'; 'people in poverty live in a perpetual state of concern about a whole range of issues' including, in particular, falling into debt (Pantazis 2006: 267, 272).

How do those living in poverty cope with expenditure shocks? McKendrick *et al* probed how people 'respond to unexpected expenses such as the breakdown of electrical goods or the irreparable damage of children's clothing' in their study of low-income families in Scotland (2003: 14). No reference was made to use of savings and only one woman referred to insurance. Instead, typical responses were to seek help from family or friends or from institutions such as the Social Fund or charitable providers of household goods. Alternatively, the answer would be not to meet another commitment and try and make it up the following week.

But as the authors observe, 'recovering from such uncertainties – paying double next week – is often an unrealistic proposition on a small budget that is already stretched to the limits' (ibid). They also report that dealing with the unexpected was a frequent problem. 'Once more, the experiences of people on a low income highlight how a common life experience [such as] running out of a good and having to replace it is challenging for low-income family households' (ibid).

The FSA financial capability survey found that the great majority of those who had faced an unexpected major expense had been able to find the money, either from their own resources or by borrowing. However, the conflating of 'finding from their own resources' and 'borrowing' could be understating the difficulties created for some people on low incomes if they were borrowing at high interest rates (see below). The authors classified 46 per cent of the sample as not having made any provision to meet a future major expense, with a further nine per cent having made some provision but expecting to have to raise more money or reduce outgoings in order to meet such an expense (Atkinson *et al* 2006).

Credit use is a common 'solution' to dealing with income or expenditure shocks in the absence of any savings to fall back on. As a recent Citizens Advice briefing observes, 'if people have savings they are less vulnerable to the income shocks, which can force them into debt' (Phipps and Hopwood-Road 2006: 7). Elaine Kempson (2002) found that meeting large, one-off expenditures or bills was among the main reasons given for borrowing among those on a low income. Although borrowing from an unlicensed 'loan shark' was seen as a last resort, other licensed providers in the alternative credit market, who frequently charged high interest rates, were often an attractive source of help when the mainstream credit market failed to meet their needs.

As Long *et al* point out, commonly 'only the forms of credit having higher interest rates are available to poorer people … Aggressive debt collection policies such as door stopping can lead to other immediate demands being sacrificed' (2002: 39). Borrowing money is a common strategy to get by, particularly when faced with unexpected expenses. The Poverty and Social Exclusion Survey found that just over two-fifths of those classified as 'poor' had been seriously behind with repaying bills or credit in the previous year and just over half were worried about having debts, compared with only four per cent and 16 per cent respectively of those 'not poor' (McKay and Collard, 2006). Debt and high interest rates emerged as a serious issue among people living in poverty who contributed to the National Action Plan on Social Inclusion (Get Heard! 2006).

Expenditure shocks can create a vicious cycle by further damaging people's resilience to future demands on income or income fluctuations. Not surprisingly, the evaluation study of the first Saving Gateway pilot project established that people found it most difficult to keep up their deposits into the scheme when they had an unexpected expense or an unusually large bill or had lumpy spending for Christmas or family birthdays (Kempson *et al* 2005).

Income volatility is another important element of the vulnerability context for people living in or on the margins of poverty. One aspect is the considerable movement in and out of poverty, although many of those advancing upwards do not move clear of the margins and are vulnerable to falling back into poverty (Jenkins 2000, Burgess and Propper 2002, DWP 2005).

There is also a high level of short-term, sometimes large, fluctuations in income among those living on low incomes. These fluctuations can come about as a result of instability in the labour market or benefit income. Labour market instability is more pronounced for those on lower incomes. As Long *et al* observe, 'the short-term nature of some forms of work, low levels of pay and general instability of employment clearly affect the ability to sustain livelihoods' (2002: 38). Benefit income instability can be caused, for example, by disruptions to benefit or tax credit payments because of maladministration.

A study of working parents (in receipt of Working Families Tax Credit at the time of sample selection) by Hills *et al* suggests that families often cope with such fluctuations through 'careful but short-term planning' but that 'problems occur when there are unexpected extra expenses, and there is no margin to cover them' (2006: 67). Less than a fifth of those interviewed had, in the previous six months, 'managed comfortably with enough left over for savings' (ibid). Other studies suggest that income instability and transitional periods between benefits and work (both ways) are associated with high levels of severe child poverty (Adelman *et al* 2003; Magadi and Middleton 2005).

The FSA found that all but three per cent of those who had recently suffered a large unexpected fall in income had coped. The other three per cent had fallen behind with bills or other commitments. Lone parents and people who were permanently incapacitated were those least likely to manage.

> Respondents talked of many ways of coping with financial shocks, from drawing on savings to borrowing money. However, of those who discussed the methods they had actually used to make ends meet after an unexpected fall in income, it was particularly common to report that they had cut back on spending (55 per cent had done so). Only 16 per cent had withdrawn money from savings accounts, and even smaller proportions had claimed on insurance (three per cent) or cashed in investments (three per cent). Around one in ten had claimed social security benefits (12 per cent). (Atkinson *et al* 2006: 65)

However, income drops are hardest to cope with for those on low incomes. A study of members of 50 employed households in the late 1990s by

Quilgars and Abbott (2000) found that income largely determined the ability to plan for the eventuality of losing their job. For the majority of those in socio-economic group D, neither saving nor insurance was an option. C1 and C2 households had more scope but even then it usually required two full-time incomes. Although we lack data on the extent to which people use existing savings to cope with losses of income, we do know that among families in arrears who have children, as many as a third attributed those arrears to a sudden loss of income, which suggests they did not have savings, or sufficient savings, to fall back on (McKay 2004).

Savings

A theme in the livelihoods literature is the importance of financial assets in helping people cope with the vicissitudes of the vulnerability context.

> Both the ability of households to weather stresses and shocks and their livelihood options are influenced by the ability to accumulate or access stocks of financial capital to smooth consumption, cushion shocks and invest in productive assets. (Rakodi 2002: 11-12)

Thus it is argued that 'mechanisms to facilitate saving can help in dealing with stresses and shocks and building up financial assets' (Meikle 2002: 46).

This section considers in turn the effectiveness of saving as a strategy to cope with vulnerability (within the limitations of the available data) and the patterns of and attitudes towards saving among low-income groups. It concludes by looking at the implications for government saving policy.

The effectiveness of saving as a coping strategy

The previous section pointed to how *lack* of savings leaves people on low incomes vulnerable to income and expenditure shocks. In the minority of cases in which people on low incomes have managed to save, we are short of evidence on how this may help protect against such shocks. The FSA financial capability survey suggests that, among the population as a whole, savings are more likely to be drawn on to deal with expenditure than income shocks (where cutting back on spending is a more frequent strategy) (Atkinson *et al* 2006). Otherwise, research into savings appears to have focused on how savings are (or are not) accumulated rather than on how they may help people cope with changes in the vulnerability context.

Evidence from the first Saving Gateway (SG1) pilot does, though, point to the potentially positive psychological impact of savings in helping people face such changes. It gives some support to the hypothesis that the existence of savings creates a greater sense of material security among people on low incomes and, to a lesser extent, enhances their feeling of being in control over their lives, thereby strengthening their resilience and ability to cope in a difficult vulnerability context.

Participants in the first pilot were asked about the personal impact of the Saving Gateway. Two out of five either tended to agree or strongly agreed that they felt 'more in control of my own life' and as many as three in five tended to agree or strongly agreed that they felt 'more financially secure'. A sense of greater security came across strongly in some of the quotes taken from the qualitative interviews:

> It made me feel more secure and I didn't feel so panicky. Before I would panic if I thought something was going wrong.
>
> It's made life a little more tolerable because I know I've got it, in the back of my mind now, I know I have got that little bit there if I desperately need it. Which I didn't have before … I would have been more worried about any unplanned expense before. That would have been in the back of my mind all the time … Well now I know that I've got a bit more money to cover it.
>
> We now realise the importance of saving for a rainy day or emergency. It's saving so you've got something to fall back on … It's definitely made a difference. Because we don't have so much stress you see.
>
> I would now feel insecure were I to have no savings of any kind. (Kempson *et al* 2005: 81, 69, 70, 71)

Participation in SG1 also appeared to have reduced a sense of inevitability about getting into debt. Over the lifetime of the SG1 account the proportion agreeing that debt was inevitable fell by 27 percentage points compared with a fall of only nine per cent in the reference group.[3]

The evidence suggests that many people living on a low income do put money aside for savings when they can, either formally or informally, and that 'they aspire to provide financial security for their family' (Kempson *et al* 2005: 10). It also supports the argument that precautionary or 'rainy day' savings can strengthen resilience against the vicissitudes of a difficult vulnerability context. Arguably in doing so, it enhances the agency of people living in poverty, as Howard Glennerster has contended.

> What distinguishes the fortunate middle class from the trapped working class is the absence of a cushion, the absence of any assets … While an adequate *current* income is a necessary condition for human welfare some minimum level of assets is also necessary for what

3. Members of the reference group lived in areas adjacent to the pilots. They were selected on the basis of potential eligibility for the SG and shared characteristics with SG account holders.

> Amartya Sen calls opportunity freedom – the capacity to make choices and to shape one's life plan over time. (Glennerster 2006: 27, emphasis in original, see also Glennerster and McKnight 2006)

Patterns of and attitudes towards saving among low-income groups

There are a number of sources of information on saving among those on low incomes. These include various studies conducted by the Personal Finance Research Centre (PFRC), the Government's Families and Children Survey, the Poverty and Social Exclusion Survey and analysis of the British Household Panel Survey (BHPS) by the Centre for Research in Social Policy. Not surprisingly, all show that the ability to save is closely associated with income level, although even among low-income groups there are some people with, usually limited, financial assets (Emmerson and Wakefield 2001).

It should, however, be noted that multivariate analysis of the data from the interim evaluation of the second Saving Gateway pilot suggests that levels of education and numeracy, together with employment status, were more important than income level as such in determining participation in the scheme (IFS and Ipsos MORI 2006). This points to the importance of non-material assets such as education in protecting people against the vulnerability context.

Kempson's PFRC study (2002) of access to financial services found that three in five people in households with net weekly incomes of below £150 had no formal savings, compared with only one in three of the population as a whole. Employment and life-stage factors were also important: unemployed and disabled people, young single people, young couples with children, lone parents and those who had experienced major life changes such as divorce were all less likely to have savings. Many of those on a low income simply could not afford to put money into formal saving accounts 'for a rainy day'. Any saving tended to be done informally, for a specific purpose.

Analysis by the PFRC of the BHPS found that, in 2000, just over half of those surveyed said that they or their partner were saving money, with about three in ten putting money aside regularly. The proportion rose steadily from 12 per cent of those in the lowest fifth of the income distribution to 47 per cent of those in the top fifth (although the multivariate analysis of the relative odds of saving regularly showed more of a clear gap between the bottom two quintiles on the one hand and the top two on the other, than a linear relationship). However, it was:

> …people's subjective assessment of their financial situation [which] had by far the greatest impact on regular saving (and also on long-term saving). So while 43 per cent of people who said that they were 'living comfortably' saved regularly, the proportion declined steeply

> with increasing financial stress so that only three per cent of those 'finding it very difficult' financially, regularly put money by. [In addition] people in work were by far the most likely to save regularly even when other obvious factors such as income and benefit receipt were controlled for. (McKay and Kempson 2003: 1)

The 2004 Families and Children Study found that two-fifths (42 per cent) of all families with children saved regularly, although this fell to only a quarter (23 per cent) of lone mothers. Families in the lowest fifth of the income distribution or with no full-time earner were least likely to save: only 13 per cent of lone parents and 16 per cent of couples without a full-time earner saved regularly. These were the groups who were also most likely to have borrowed money (other than through a mortgage), to be behind with bills and to have multiple debts (Lyon *et al* 2006). Earlier analysis of the survey found that an improvement in material wellbeing among low/moderate income families was accompanied by an increase in the proportion with savings accounts, including among those out of work (Vegeris and Parry 2003).

Similarly, a qualitative study for the DWP of the longer-term effects of paid work on families with children found that 'savings had increased in priority as households tried to lend stability to their financial situations' (Graham *et al* 2005: 76). However, 'saving remained an extravagance to those who had less stability of income and those who professed to be deficient in financial skill' and even among more regular savers 'the amount was rarely fixed and dependent on families having a "good" week or month' (ibid). Some saving was short term, earmarked for specific events or items; for others it was 'purely to cushion the otherwise deleterious effects of fluctuations, income or expenditure [sic] or to cover unexpected items of household expenditure' and thereby avoid debt (ibid: 77).

The Poverty and Social Exclusion Survey specifically asked whether people could afford to make regular savings of at least £10 per month 'for a rainy day' or towards retirement. Three-quarters of those classified as 'poor', compared with seven per cent of the 'non-poor', said that they were unable to do so. On a more subjective measure of poverty, the proportion unable to save was 78 per cent of those who said that they were poor 'all the time', 49 per cent of those who felt poor 'sometimes' and 12 per cent of those who considered themselves 'never' poor (McKay and Collard 2006).

Analysis of the BHPS specifically in relation to child poverty similarly shows:

> there is a strong relationship between ability to save and poverty status, especially persistent poverty. About two in three children in persistent poverty (severe or non-severe) had parents who were unable to save in any year, compared to about one in five children in no

> poverty. Correspondingly, parents in persistent poverty were hardly ever able to save, while 18 per cent of those in no poverty were always able to save. (Magadi and Middleton 2005: 74)

Nevertheless, over the period 1994-2002 just under one in three parents in persistent poverty had managed to save in one or two years. Among those who made savings, it seemed to be the persistence rather than the severity of the poverty which was most closely associated with the amount saved. Thus, average monthly savings (1994-2002) ranged from £48 among parents in persistent poverty, through just over £100 among those in short-tem poverty, to £116 among parents not in poverty.

Unsurprisingly, unemployment also affects the ability to save. Secondary analysis of the BHPS for 1991-2000 by McKay and Kempson (2003) found that unemployment was the life event most associated with stopping saving and that a drop in earnings of 10 per cent or more caused 40 per cent of those saving to stop.

The evaluation of the SG1 pilot (Kempson *et al* 2005) also throws some light on savings behaviour and attitudes. The scheme appears to have encouraged most participants to save regularly. Whereas only 17 per cent said that they had saved regularly previously, 39 per cent had regularly paid money into their SG account by standing order or direct debit and a further 38 per cent said they regularly paid cash or cheques into their account. Thus, in all, nearly four out of five had put money regularly into their SG account.

Three or more months after maturity, just over nine in ten participants still had a savings account of some kind (although the amounts in them varied widely) and four in ten were still saving regularly. The great majority had found the money to put into their SG account from their regular income.

Around four in ten felt that it was usually easy to find the money, while a similar proportion said that it was sometimes difficult, and one in ten usually found it difficult to put money into the account. Not surprisingly, the ease with which people found the money to save was linked to their financial situation. 'People who had difficulties were more likely to be lone parents, people living in households with no earned income or where there were only part-time earnings, and people with a household income of less than £500 per month' (Kempson *et al* 2005: 61).

The scheme also appears to have had some impact on participants' orientation towards savings. The proportion who said that they didn't really save at all dropped from 31 per cent at the point of opening the SG account to 18 per cent at the point of maturity.

Attitudes towards 'rainy day' or 'precautionary' savings are of particular relevance to the role of savings in reducing income vulnerability.[4] Among SG participants who originally described themselves as 'non-savers':

…three in ten had become 'rainy day' savers and nearly half 'saved to spend'. Among the people who had originally 'saved to spend', four in ten had started to save for a rainy day. (Kempson *et al* 2005: 70)

Only 17 per cent said that they still never saved anything. 'By contrast, among the reference group about twice the proportion (34 per cent) were still "non-savers" and far fewer (19 per cent) had started to save for a "rainy day"' (ibid: 71).

As the SG1 evaluation indicates, ethnicity and gender are also important dimensions of savings patterns among the low-income population. One of the SG1 pilots was in an ethnically very diverse area and seven out of ten participants were members of minority ethnic groups. Particularly striking was the high participation among members of the Asian communities, notably Bangladeshis. This contrasts with their very low levels of savings nationally, which is attributed both to their very low incomes and Islamic Sharia law, which prohibits the receipt of interest (Kempson *et al* 2005; see also Kempson 1998).

The Poverty and Social Exclusion Survey, for instance, found that minority ethnic groups were among those least able to save regularly (McKay and Collard 2006). The interim analysis for the second Saving Gateway (SG2) pilot found that 'individuals from black and Asian ethnic groups are less likely to hold any assets while those from other non-white ethnic groups are more likely to hold some assets than white individuals' (IFS and Ipsos MORI 2006: 47).

In the SG1 pilots women were 'greatly over-represented compared with the population potentially eligible' (Kempson *et al* 2005: 9). Around two-thirds of participants were female; just under a third were lone parents. Women and lone parents were also over-represented among those who were regular savers and informal savers prior to participation in the first pilot; they were somewhat under-represented among those who had been occasional savers. Men were over-represented among those who were previously not saving at all. Similarly, men were more likely than women to have no savings prior to the SG2 pilot according to the interim evaluation (IFS and Ipsos MORI 2006).

Earlier research, using both BHPS data and focus groups, throws more light on gendered patterns of saving. It finds that, nationally, 'women with the lowest personal incomes are more likely to save than equivalent men (18 per cent of men with a personal income under £400 [in 1999] saved compared to 28 per cent of women)' (Rake and Jayatilaka 2002: 31).

However, levels of savings were on average lower among female than

4. The term 'precautionary savings' is used in the OECD report on asset building (Cornell and Noya 2003).

male savers. Women in low-income households were less likely than better-off women to have independent access to savings; nevertheless 46 per cent of women in the lowest income group had savings in their own name compared with 35 per cent of men (in 1995).

In the focus groups, some of the women explained that they deliberately did not tell their partners about these savings as they were afraid they would want to spend the money.

> Even with their lower personal incomes overall, women clearly put a high value on savings both as a financial cushion in order to secure the family finances and as a form of economic autonomy. This finding is in line with previous research which found that women were especially prevalent among those who saved for a rainy day. (ibid: 34)

Savings policy and income vulnerability

The chapter turns now to consider some of the implications for savings policy in broad terms (see also Sodha in this volume for a fuller discussion). First, it looks at some of the general arguments for and against supporting people on low incomes to build up savings from the perspective of income vulnerability (the broader case for asset-based welfare as expounded in Paxton *et al* 2006, is not considered here). This leads into a brief review of a number of more specific issues concerning the design and presentation of savings policy.

As argued above, savings can be an effective way of coping with vulnerability for those living in poverty. However, as some of the literature on assets acknowledges, it does not follow that encouraging people on low incomes to save is appropriate in all instances or that support for savings should necessarily take priority over improving weekly income.

The OECD report on asset building and poverty, for instance, notes that asking people in poverty 'to depress already inadequate consumption, even with incentives, some would argue, may be not only infeasible but also unjust' (Cornell and Noya 2003: 41). It also cites Paxton and Regan, who concede that 'a progressive assets-based policy will only be successful with corresponding improvements in the adequacy of income levels' (2002).

Paxton and Regan's position goes some way to meeting the scepticism expressed by organisations such as the Child Poverty Action Group (CPAG) (2005, Barnes 2002) and the Institute for Fiscal Studies (Emmerson and Wakefield 2001). They question whether saving is necessarily the wisest strategy if income is too low to meet needs and if today is the very 'rainy day' against which savings are supposed to protect, for instance, an unemployed person (ibid: 23). CPAG (2005) warns that attempting to save out of inadequate incomes could have damaging effects on children's wellbeing.

Moreover, without 'corresponding improvements in the adequacy of income levels' the danger is that policies to promote savings among those in poverty will not reach those who are having the greatest difficulties in making ends meet. They are likely to be of more benefit to those in short-term poverty, close to the poverty line or on the margins of poverty than those living in severe and/or persistent poverty for whom, even with incentives, saving may be just too difficult.

Interestingly, the report of the Get Heard! consultation (see above) called for improvements to weekly benefits and low wages and policies to encourage and enable saving because 'saving on a low income is hard' (Get Heard! 2006: 29). So a saving policy for those on low incomes can never be an effective stand-alone anti-poverty strategy. It needs to form part of an integrated anti-poverty strategy that includes measures to increase income and reduce income instability.

CPAG has also warned of the dangers of aggravating feelings of inadequacy, powerlessness and helplessness among people in poverty who do not manage to save. This is more likely if policies such as the Saving Gateway are presented in public policy debate as promoting saving as a moral virtue that will lead to self-improvement and self-reliance among 'the poor', rather than as a means of supporting existing aspirations to build a cushion against income vulnerability, thereby helping to establish sustainable livelihoods. Similarly, contrasting 'active' savings with 'passive' weekly benefits is unhelpful.

Avoiding stigma should also be borne in mind when deciding on eligibility criteria for the national rollout of the Saving Gateway, as there are dangers that a separate savings scheme, confined to people living in poverty, could be stigmatised.

The interim evaluation of SG2 noted that some of those who had participated in both SG1 and SG2 felt they received a better service in SG2. One account holder stated that:

> [On SG1] at first you were treated like a second class saver … it was 'sit over there and we'll come over and deal with you in a minute' … you didn't get the same sort of treatment as what the general public were getting … The second time, it's been OK. (IFS and Ipsos MORI 2006: 180)

The researchers speculate that this may reflect greater familiarity with the scheme among Halifax staff and the presence of SG champions in all participating branches. There is a possibility, though, that it might also reflect the fact that SG2 includes savers higher up the income scale, who are not perceived as 'second class savers'.

At this stage – before publication of the findings of the full evaluation of the second pilot, which used much wider income eligibility limits – it is difficult to point to any clear general conclusions about eligibility.

On the one hand, the wider the eligibility limits, the more likely it is that the additional resources provided through the SG will accrue to those who are already using formal savings institutions and are accruing reasonable levels of savings. Participants interviewed for the interim evaluation of SG2 were generally in favour of a more targeted approach, on the grounds that otherwise the scheme might not be sustainable on a national basis (IFS and Ipsos MORI 2006).

On the other hand, the narrower the limits, the greater the danger that the scheme is targeted on the very group least likely to be able to benefit from it because of the difficulties they face in stretching their income to meet current needs. The qualitative research conducted as part of the SG2 interim evaluation found that some of those who declined to participate, 'often those with children, simply feel that they do not have the money to save and they could not see any way of cutting back their expenditure in order to fund the account', 'literally no extra to mess around with' as one 'refuser' put it (IFS and Ipsos MORI 2006: 71). Also, given the evidence on income dynamics, there may be a case for including those living on the margins of poverty as well as below the poverty line on the grounds that they are vulnerable to falling into poverty.

Takeup among the most marginalised and deprived groups could also be depressed without the support of community organisations provided in four out of the five first round pilot areas. The Government has recognised the importance of the voluntary and community sector in delivering financial advice that is perceived as trustworthy by those who are experiencing financial exclusion (HM Treasury 2005), and this is reflected in the experience of the SG1 pilots. The ability to open an SG1 account through a local organisation had been important to nearly four out of five participants.

> All the pilot organisations offered a high degree of help and encouragement to the people who contacted them about the Savings Gateway. In fact it is doubtful whether some people would have opened an account without this help. (Kempson *et al* 2005: 35)

Earlier research suggests that this reflects disengagement from formal financial institutions, a feeling that they are 'not for people like them' (Collard *et al* 2001) and in some cases lack of physical accessibility. Community organisations do not have a formal role in the second round of pilots and Maxwell and Paxton have suggested that their involvement 'may be a necessary casualty' of the national roll-out (2005: 3). However, if the aim is to maximise the involvement of more deprived groups (who nevertheless have the necessary income margin to save), arguably resources would be better used in involving and supporting community organisations where they exist, rather than in widening eligibility significantly up the income scale.

Unfortunately, we lack information on why those potentially eligible to participate in the first Saving Gateway pilots did not do so. The interim evaluation of SG2 did, though, address this issue. The main reasons given by those who did not take up the offer of a Saving Gateway account (who represented the majority of those approached) were: lack of initial understanding of the scheme; no interest in savings; insufficient disposable income; and satisfaction with existing savings arrangements. At a minimum, the involvement of community organisations might increase understanding of the scheme among potential participants and thereby improve takeup.

Neither evaluation provides information on how within-household saving patterns broke down by gender in response to the SG. Another trade-off is between eligible income levels and whether they are applied on an individual or household basis.

Given women's primary responsibility for budgeting in low-income families, their greater propensity to save, and their particular vulnerability when resources are not shared fairly within families or on the breakdown of a relationship, there is a case for considering whether eligibility should be on an individual rather than a household basis (Rake and Jayatilaka 2002). At the very least, for those out of work and on benefit, eligibility should not be confined to the formal benefit 'claimant' (as it was in the second SG pilot), for this could depress participation and reinforce gender inequalities.

This may be less of an issue among the relatively small group of childless income-based jobseeker's allowance claimants, as members of this group are required to make a joint claim. However, even here the couple has to nominate a recipient and it is likely that this is usually the man.

Although we lack information on the factors behind non-participation in the SG1 pilots, which would have been helpful in designing the national scheme, as noted above, the interim evaluation of SG2 is more helpful here. Moreover, other findings from the evaluation of SG1 and also from earlier research by Collard *et al* (2003) using community select committees do offer some lessons.[5]

All findings confirmed the importance of the financial incentive of the pound for pound matching in encouraging participants to open an SG account, even if some people were initially deterred by the suspicion that it was 'too good to be true' (which may have put some others off applying altogether) (Kempson *et al* 2005). In the SG2 interim evaluation, which used a range of matching rates, the great majority of account holders were positive about the rate, regardless of which applied to their own account.

5. Community select committees are a form of community consultation based on evidence sessions of parliamentary select committees. In the study two such committees discussed a range of initiatives to encourage savings and asset accumulation.

However, more significantly from the perspective of takeup of the scheme, most said that 'the match rate was very important in their decision to open a SG2 account and, on average, it is more important to individuals in areas where the match is higher' (IFS and Ipsos MORI 2006: 3).

In Collard *et al*'s study, participants agreed unanimously that matched funding 'was the most effective way of encouraging people like them to save' (2003: 27). Not only was matching seen as more of an incentive than doubling existing interest rates, it also enabled Muslims, who cannot benefit from interest for religious reasons, to participate. As noted earlier, this contributed to high takeup among Bangladeshi people in one of the pilot areas. More information on the appropriate level of matching will be provided by the final evaluation of the SG2 pilot.

Given the difficulties people on low incomes face in saving and the importance of not endangering current wellbeing, the pilot's flexibility – in terms of the amounts and regularity of savings and methods used – is important and should be retained.[6] This flexibility was stressed in the original HM Treasury consultation paper (2001a) and it appealed to community select committee members in the earlier study by Collard *et al* (2003). (The evaluations provided information on the regularity of deposits into Saving Gateway accounts but a possible focus of future research on savings might be to track short-term fluctuations in savings, using weekly diaries.)

An issue raised in both evaluations was the period of savings required before matched funding was made available. The majority of those interviewed in depth in SG1 were in favour of a period longer than the 18 months adopted for the pilot. Three years appeared to be the most widely acceptable time limit. A minority, mainly rainy day savers, said they would still be attracted if the time limit were five years, as proposed in *Delivering Savings and Assets* (HM Treasury 2001). However, a similar number, disproportionately non-savers, said they would not be interested if the time limit were longer than 18 months.

Most commonly they said that it was a strain to save while living on Income Support or Jobseeker's Allowance and they would find it difficult to sustain for more than 18 months (although an equal number of people in receipt of these two benefits were in favour of a longer period of saving) (Kempson *et al* 2005: 41).

In SG2, the great majority of participants felt that the 18-month limit (used in all pilot areas) was appropriate. Of the minority who did not, individuals on low incomes were more likely to regard it as too long and those on high incomes as too short (IFS and Ipsos MORI 2006).

6. The SG2 interim evaluation found that those on low incomes and without prior savings were much more likely to make ad hoc cash deposits than better off participants, who were more likely to use standing orders or bank credits.

Members of the community select committees in Collard *et al*'s study were firmly opposed to a time limit of more than 18 months. They argued that only people who are 'comfortable' and not 'living day-by-day' could afford to wait longer than that (2003: 24). A similar point has been made by Adelman *et al* (2003) on the basis of the Centre for Research in Social Policy study of children in severe and persistent poverty. One solution suggested by the community select committee that was considered more appealing 'would be to allow access to matched funding a number of times across the lifetime of the account (for example, annually), or give people a choice of when to do so' (ibid). Committee members also thought that the limits on the amounts people could save were too low.

Although a sizeable minority of those in the SG1 pilot, interviewed in depth, did not object to restrictions on the use of the savings, the majority said they would be deterred by them. Certainly, if the goal is to help people build up precautionary savings so as to reduce income vulnerability – and, as HM Treasury (2001a) has acknowledged, this is the first priority recommended by independent financial advisers for those with no savings – then any such restrictions would be inappropriate.

In conclusion

This chapter is rooted in a conceptualisation of poverty that attempts to understand poverty from the perspective of those experiencing it and that places due emphasis on their agency. People experiencing poverty live in a 'vulnerability context', which makes it very difficult to cope with income shocks, despite the often complex strategies deployed to get by.

The chapter has provided evidence of the potential value of savings in strengthening people's capacity to deal with unexpected demands on or drops in income. Government should build on the Saving Gateway pilots with policy to encourage those on lower incomes to save. However, the chapter has also cautioned against expecting that people who struggle to get by day-to-day could or should sacrifice their immediate living standards in order to save. What is therefore needed is an anti-poverty strategy that combines policies to encourage and support savings among those living in poverty with improvements in weekly income, reform of the Social Fund and improved access to affordable credit and insurance.

References

Note: web references correct at November 2006

Adelman L, Sue M and Ashworth K (2003) *Britain's Poorest Children: Severe and Persistent Poverty and Social Exclusion* London: Save the Children

Alcock P (2004) 'The influence of dynamic perspectives on poverty analysis and anti-poverty policy in the UK' *Journal of Social Policy* vol 33.3: 395-416

ATD Fourth World (2005) *What are the Daily Realities of People Living in Poverty in the UK?* contribution to International Movement ATD Fourth World Seminar on 'The Poorest: Key Participants in the Fight against Poverty, and for Universal Access to Fundamental Rights' Pierrelaye (France), September 23-25

ATD Fourth World (u.d.) Excerpts taken from a workshop held at Frimhurst Family House, Surrey

Atkinson A, McKay S, Kempson E and Collard S (2006) *Levels of Financial Capability in the UK: Results of a Baseline Survey* prepared for the Financial Services Authority by the Personal Finance Research Centre, University of Bristol

Barnes M (2002) 'Reaching the socially excluded?' in Kober C and Paxton W (eds) *Asset-Based Welfare and Poverty* London: National Children's Bureau

Beall J (2002) 'Living in the present, investing in the future: household security among the poor' in Rakodi, C with Lloyd-Jones, T (eds) *Urban Livelihoods* London: Earthscan

Bebbington A (1999) 'Capitals and capabilities: a framework for analysing peasant viability, rural livelihoods and poverty' *World Development* vol 27.12: 2021-2044

Burgess S and Propper C (2002) 'The dynamics of poverty in Britain' in Hills J, Le Grand J and Piachaud D (eds) *Understanding Social Exclusion* Oxford: Oxford University Press

Chambers R and Conway G (1992) *Sustainable Rural Livelihoods. IDS Discussion Paper 296* Brighton: Institute of Development Studies

Child Poverty Action Group (2005) Submission to the Treasury Sub-Committee evidence session: Child Trust Funds

Collard S and Kempson E (2005) *Affordable Credit: The Way Forward* Bristol: Policy Press

Collard S, Kempson E and Dominy N (2003) *Promoting Financial Inclusion: An Assessment of Initiatives Using a Community Select Committee Approach* Bristol: Policy Press

Collard S, Kempson E and Whyley C (2001) *Tackling Financial Exclusion: An Area-based Approach* Bristol: Policy Press

Cornell R and Noya A (2003) *Asset Building and the Escape from Poverty: A New*

Welfare Policy Debate Paris: OECD

Deacon A (2002) *Perspectives on Welfare* Buckingham/Philadelphia: Open University Press

Deacon A (2004) 'Different interpretations of agency within welfare debates' *Social Policy and Society* vol 3.4: 447-455

Deacon A and Mann K (1999) 'Agency, modernity and social policy' *Journal of Social Policy* vol 28.3: 413-435

Department for International Development (DfID) (1999) *Sustainable Livelihoods Guidance Sheets* London: Department for International Development

DfID (2001) 'Glossary' to *Sustainable Livelihoods Guidance Sheets* (1999) London: Department for International Development

Dixon M, Reed H, Rogers B and Stone L (2006) *CrimeShare: The unequal impact of crime* London: Institute for Public Policy Research

Department for Work and Pensions (DWP) (2005) *Low-income Dynamics 1991-2003* London: National Statistics/Department for Work and Pensions

DWP (2006) *Low-income Indicators (Great Britain)* Available at www.dwp.gov.uk/ofa/indicators/annex1-1.asp

Emmerson C and Wakefield M (2001) *The Saving Gateway and the Child Trust Fund: Is Asset-based Welfare 'Well Fair'?* London: Institute for Fiscal Studies

Farrell C and O'Connor W (2003) *Low-income Families and Household Spending* Leeds: DWP/Corporate Document Services

Get Heard! (2006) *People Experiencing Poverty Speak Out on Social Exclusion* London: Get Heard!

Glennerster H (2006) 'Capital poor' *Benefits* vol 14.1: 27-31

Glennerster H and McKnight A (2006) 'A capital start: but how far do we go?' in Paxton W and White S with Maxwell D (eds) *The Citizen's Stake* Bristol: Policy Press

Goode J, Callender, C and Lister R (1998) *Purse or Wallet?* London: Policy Studies Institute

Graham J, Tennant R, Huxley M and O'Connor W (2005) *The Role of Work in Low-income Families with Children: A Longitudinal Qualitative Study* Department for Work and Pensions Research Report No 245, Leeds: Corporate Document Services

Gregg P, Waldfogel J and Washbrook E (2005) 'That's the way the money goes: expenditure patterns as real incomes rise for the poorest families with children' in Hills J and Stewart K (eds) *A More Equal Society?* Bristol: Policy Press

Hills J, Smithies R and McKnight A (2006) *Tracking Income: How Working Families Incomes Vary Through the Year* CASE report 32, London: Centre for Analysis of

Social Exclusion

HM Treasury (2001a) *Saving and Assets for All* London: HM Treasury

HM Treasury (2001b) *Delivering Savings and Assets* London: HM Treasury

HM Treasury (2005) *Exploring the Role of the Third Sector in Public Service Delivery and Reform: A Discussion Paper* London: The Stationery Office

IFS and Ipsos MORI (2006) *Interim Evaluation of Saving Gateway 2* London: Institute for Fiscal Studies/Ipsos MORI Research Institute and HM Treasury

Jenkins SP (2000) 'Dynamics of household income' in Berthoud R and Gershuny J (eds) *Seven Years in the Lives of British Families* Bristol: Policy Press

Hocking G (2003) 'Oxfam, Great Britain and sustainable livelihoods in the UK' *Community Development Journal* vol 38.3: 181-184

Kempson E (1996) *Life on a Low Income* York: Joseph Rowntree Foundation

Kempson E (1998) *Savings and Minority Ethnic Households* London: Personal Investment Authority

Kempson E (2002) 'Life on a low income: an overview of research on budgeting, credit and debt among the financially excluded' in ESRC (ed.) *How People on Low Incomes Manage their Finances* Swindon: Economic and Social Research Council

Kempson E, Bryson A and Rowlingson K (1994) *Hard Times? How Poor Families Make Ends Meet* London: Policy Studies Institute

Kempson E, McKay S and Collard S (2005) *Incentives to Save: Encouraging Saving Among Low-income Households: Final Report on the Saving Gateway Pilot Project* Bristol: Personal Finance Research Centre, University of Bristol

Legge K, Hartfree Y, Stafford B, Magadi M, Beckhelling J, Predelli LN and Middleton S (2006) *The Social Fund: Current Role and Future Direction* York: Joseph Rowntree Foundation

Lister R (2004) *Poverty* Cambridge: Polity Press

Lloyd-Jones T (2002) 'Preface: The sustainable livelihoods approach and the Department for International Development' in Rakodi C with Lloyd-Jones T (eds) *Urban Livelihoods* London: Earthscan

Long G, Phillips K and Reynolds B (2002) *The Sustainable Livelihoods Framework: A Scoping Exercise in Scotland* Glasgow: Active Learning Centre/Oxfam

Lyon N, Barnes M and Sweiry D (2006) *Families with Children in Britain: Findings from the 2004 Families and Children Study Department for Work and Pensions Research Report No 340* Leeds: Corporate Document Services

Magadi M and Middleton S (2005) *Britain's Poorest Children Revisited: Evidence from the BHPS (1994-2002)* Loughborough: Centre for Research in Social Policy, Loughborough University

Maxwell D and Paxton W (2005) *ADD: Lessons from the UK* London: Institute for Public Policy Research

McCrone D (1994) 'Getting by and making out in Kirkcaldy' in Anderson M, Bechhofer F and Gershuny J (eds) *The Social and Political Economy of the Household* Oxford: Oxford University Press

McKay S (2004) 'Rising levels of household debt: How concerned should we be?' *Benefits* vol 12.3: 199-201

McKay S and Collard S (2006) 'Debt and financial exclusion' in Pantazis C, Gordon D and Levitas R (eds) *Poverty and Social Exclusion in Britain* Bristol: Policy Press

McKay S and Kempson E (2003) *Savings and Life Events Department for Work and Pensions Research Report No. 194* Leeds: Corporate Document Services

McKendrick J, Cunningham-Burley S and Backett-Milburn K (2003) *Life in Low-income Families in Scotland: Research Report* Edinburgh: Scottish Executive Social Research

Meikle S (2002) 'The urban context and poor people' in Rakodi C with Lloyd-Jones T (eds) *Urban Livelihoods* London: Earthscan

Middleton S (2002) 'Coping for the children: low-income families and financial management' in ESRC (ed.) *How People on Low Incomes Manage their Finances* Swindon: Economic and Social Research Council

Middleton S, Ashworth K and Braithwaite I (1997) *Small Fortunes. Spending on Children, Childhood Poverty and Parental Sacrifice* York: Joseph Rowntree Foundation

Office of the Deputy Prime Minister (2006) *Fires in the Home: Findings from the 2004/05 Survey of English Housing* London: Office of the Deputy Prime Minister

Oxfam (u.d.) *Oxfam's UK Poverty Programme* Oxford: Oxfam GB

Pantazis C (2006) 'Crime, "disorder", insecurity and social exclusion' in Pantazis C, Gordon D and Levitas R (eds) *Poverty and Social Exclusion in Britain* Bristol: Policy Press

Paxton W and Regan S (2002) *The Future of Asset-based Policy in the UK* Available at www.policylibrary.com/Essays/IPPRassets/assetsippr5.htm

Paxton W and White S with Maxwell D (eds) (2006) *The Citizen's Stake* Bristol: Policy Press

Phipps J and Hopwood-Road F (2006) *Deeper in Debt. The Profile of CAB Debt Clients, CAB Briefing* London: Citizens Advice

Quilgars D and Abbott D (2000) 'Working in the risk society: families' perceptions of, and responses to, flexible labour markets and the restructuring of welfare' *Community, Work and Welfare* vol 3.1: 15-36

Rake K and Jayatilaka G (2002) *Home Truths. An Analysis of Financial Decision-*

making within the Home London: Fawcett Society

Rakodi C (2002) 'A livelihoods approach: conceptual issues and definitions' in Rakodi C with Lloyd-Jones T (eds) *Urban Livelihoods* London: Earthscan

Ridge T (2002) *Childhood Poverty and Social Exclusion* Bristol: Policy Press

Rowlingson K (2000) *Fate, Hope and Insecurity: Future Orientation and Forward Planning* London: Policy Studies Institute/Joseph Rowntree Foundation

Seaman P, Turner K, Hill M, Stafford A and Walker M (2005) *Parenting and Children's Resilience in Disadvantaged Communities* London: National Children's Bureau/Joseph Rowntree Foundation

Spicker P (2001) 'Social insecurity and social protection' in Edwards R and Glover J (eds) *Risk and Citizenship* London and New York: Routledge

Vaitilingam R (2002) 'Executive summary' in ESRC (ed.) *How People Low Incomes Manage their Finances* Swindon: Economic and Social Research Council

Vegeris S and Perry J (2003) *Families and Children 2001: Living Standards and the Children* Leeds: Department for Work and Pensions/Corporate Document Services

Willitts M (2006) *Measuring Child Poverty Using Material Deprivation: Possible approaches* Department for Work and Pensions Working Paper No 28, Leeds: Department for Work and Pensions

2. A national Saving Gateway: from principles to practice

Sonia Sodha

In the cold light of neoclassical economics, financial assets are simply considered to be a store of future consumption or investment potential. There is no reason to save today, beyond a desire to consume tomorrow or earn interest on investments. But this view of savings neglects the protective role they can play in the vulnerability context of poverty, helping people to cope with future unexpected consumption needs and income drops, as Ruth Lister has outlined in Chapter One of this report.

By providing security, it has been also been suggested that assets can have a knock-on effect on the way people think in the long term: enabling them to raise their eyes from the week-to-week, or even day-to-day budgeting that living on a low income necessitates, and allowing them to pay for one-off lumpy expenditures that may have long-term payoffs, such as education and training (Sherraden 1991).

Given the importance of financial assets as a coping strategy for dealing with the financial insecurities of poverty, this chapter considers the current short- and medium-term saving framework. How does it serve those who, arguably, stand to gain the most from having liquid financial savings? It finds that because saving incentives are structured along the principle of tax relief, which is regressive and difficult to understand, the system is failing those who need it the most.

This failure urgently needs addressing, and the best way of doing so would be to restructure saving incentives for this group around the matching principle of the Saving Gateway pilots, currently underway. This chapter considers the criteria for an effective and cost-efficient national Saving Gateway scheme. How do we move from the pilots to a national scheme? What lessons can be learned from the pilots?

The chapter argues that there should be four priorities for a successful national rollout: minimising deadweight costs by targeting the scheme on those who need it the most; delivering it through local, trusted intermediaries as far as possible in order to maximise its appeal to the target group; incorporating recent insights into the way that people make decisions from behavioural economics; and linking the scheme to interactive, personalised financial capability education.

It goes on to set out three potential models for national roll-out: one based on a system of national entitlement for those fulfilling the eligibility criteria, one based on a local partnership delivery, and a third model that represents a hybrid of the first two. It argues that the third model best achieves our criteria on effectiveness and cost.

The current savings framework

A fair savings policy should fulfil three criteria:

- Individuals should not be penalised for saving for the future.
- It should be progressive; in other words, it should particularly encourage saving among those who are least likely to save or have access to financial assets.
- It should be as simple to understand as possible.

These criteria are expanded upon below. An examination of the current savings framework reveals that it is much better at achieving the first criterion than the second or third.

Not penalising future saving

Any saving framework should not penalise individuals for saving for tomorrow rather than consuming today. This means that savings should only be taxed once:

- either income should be taxed before it is put into a savings products, and individuals should be allowed to withdraw money from that savings product tax-free, *or*
- income that is put into a savings product should not be taxed, but when an individual withdraws money from that savings product, it should be taxed as income.

This is the justification for tax relief on the income that people save into their pension schemes. However, when they receive their pension, it is subject to income tax, so in effect individuals are allowed to defer income tax payments. This makes financial sense for most people because they are more likely to fall into a higher tax band in their working life than in retirement.

A higher rate taxpayer will almost always be better off saving into a pension scheme tax-free, and then paying tax on their pension in retirement, rather than vice versa. If tax relief on income paid into pensions were to be abolished, income tax on the income withdrawn on pension payments would also need to be abolished, to avoid a situation in which individuals would actually be better off consuming today or saving into other products, rather than saving into pensions for retirement.

Progressivity

Economists have traditionally argued that not only should the savings framework not penalise people for saving for the future, it also should not reward them for doing so. In other words, the savings framework should be neutral, both between whether people choose to consume today or save for tomorrow, and over which saving products people choose.

However, this principle, that government intervention should not distort individual behaviour, only holds when there are no independent arguments for influencing behaviour in a certain way. For example, there is consensus that driving a car rather than using public transport has a detrimental impact on the environment, a societal cost that many individuals do not take into account when they are making decisions about by what means to travel. In order to promote the use of public transport, driving a car is taxed more heavily.

As outlined in the introduction of this report, assets can deliver benefits above and beyond their role as a store of consumption. These benefits may not always be taken into account when individuals make their decisions about whether to consume today or save for tomorrow. Moreover, some individuals may prefer to consume today rather than save for some point in the future, but when they reach that point, may regret their decision not to save. This is a common justification for government incentives to save for retirement.

So there are arguments in favour of government providing positive incentives to save, rather than a system that is entirely neutral between consumption and saving. In reflection of this, creating a regular savings habit is an explicit objective of this government's saving policy (HM Treasury 2001a).

A *progressive* savings policy needs to incentivise saving for those who stand to gain the most from it but who are least likely to own a financial asset. As highlighted by Ruth Lister in Chapter One, financial assets can help those living on low incomes – in poverty and just above the poverty threshold – to cope with the vulnerability context, including income drops and expenditure shocks. Yet, unsurprisingly, those on low incomes are least likely to be able to save or to own some level of financial asset. In the 2004/05 Family Resources Survey, 44 per cent of households with annual income of less than £10,400 had no savings, compared with only nine per cent of households with annual income of more than £52,000 (DWP and National Statistics 2006).

Simplicity

This is a relatively uncontroversial criterion. For savings incentives to work, people need to be able to understand them. If they do not, they are much less likely to take the incentives into account when deciding whether to save.

The current savings framework: regressive and opaque

How does the current savings framework measure up against these criteria? As we shall see, it is much better at not penalising individuals for saving than it is at providing progressive saving incentives in a simple, transparent framework.

Figure 2.1: Households without savings by income level

Source: DWP and National Statistics (2006)

It is beyond the scope of this report to consider the UK savings framework in its entirety. Given our interest in liquid financial assets as a buffer to help those on lower incomes cope with the vulnerability context, we here limit our focus to the short- and medium-term savings framework, which we define as non-pension savings.

That said, it is worth mentioning two issues with respect to pensions before we move on. First, the non-penalising criterion requires that people should either be taxed on income going into their pension funds, or on income they take out from them, but not both. The UK pensions system is based on the latter model: saving into pensions is tax-free, but income from a pension fund is taxed. This system is more beneficial to higher rate taxpayers than those who pay income tax at the basic rate, as higher rate taxpayers are most likely to gain from deferring taxation until retirement[7].

It could be worth considering whether it would be more effective in the long term to divert savings that would be made from switching to the former model, in which income is taxed before it is saved into pensions, but can be withdrawn tax-free in retirement, into a flat-rate saving incentive that operates on top of the pension tax relief framework.

Second, there is a provision that allows people to withdraw up to 25 per cent of their pension fund tax-free on retirement (Financial Services Authority 2006a). This goes beyond the requirement that the savings

7. Although it should be noted that this is not true across the whole income distribution. An anomaly of the current UK framework is that the interaction between Working Tax Credit (WTC) and pension tax relief means that the effective rate of tax relief on pension contributions is significantly higher than the basic rate for those in receipt of WTC. See Figure 6.22 in Pensions Commission (2004) for more details.

framework should not penalise the decision to save, and represents a regressive saving incentive, disproportionately benefiting those who will have the highest incomes in retirement.

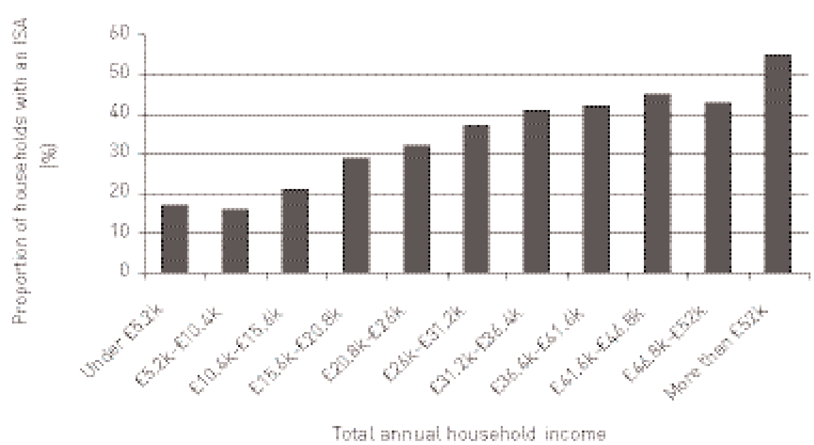
The main form of non-retirement financial saving incentive in the UK is tax relief on interest earned on savings. The Conservative government introduced Personal Equity Plans (PEPs) in 1987 and Tax-Exempt Special Saving Accounts (TESSAs) in 1990. Both offered tax relief on interest as a saving incentive: individuals were exempt from paying any income tax on the income earned by their savings held in TESSAs or PEPs.

The main difference between the two was that funds in PEPs had to be held in equities, but funds in TESSAs were held in designated bank or building society accounts. Saving into a TESSA therefore did not involve the stock market risk associated with investing in PEPs. Funds could be withdrawn from PEPs at any time, but in order to attract tax relief funds in TESSAs had to remain untouched for five years.

In 1999, the Labour government replaced PEPs and TESSAs with Individual Savings Accounts (ISAs). ISAs can be used to hold cash deposits, or stocks and shares, or both. Importantly, ISAs are completely accessible: funds do not have to be held in accounts for a minimum time in order to attract tax relief on interest. The Government's objective in introducing these schemes was to open up tax-privileged saving to a wider group of people. For the first time, savers could get interest tax relief on savings without either sacrificing accessibility or bearing stock market risk. Individuals can save up to £7,000 per year in an ISA, of which up to £3,000 can be in cash.

These saving incentives do not come cheaply. In 2005/06, total government spending on PEP and ISA tax relief amounted to £1.75 billion, or 0.14

Figure 2.2: Rate of ISA ownership by household income level



Source: DWP and National Statistics (2006) per cent of GDP, with £1.3 billion on ISA tax relief alone (HM Treasury 2006, Table A3.1). Spending per individual ISA-holder is significant, at around £80 per year[8].

It is difficult to justify saving incentives in the form of tax relief on interest, for a number of reasons (Altmann 2003). First, such incentives are regressive. Higher rate taxpayers stand to gain more from saving into a tax-privileged saving vehicle such as an ISA than basic rate taxpayers, or those who do not earn enough to pay any tax at all. This is reflected in the socio-economic makeup of ISA-holders. In the 2004/05 Family Resources Survey, 16 per cent of households with total income of less than £10,400 per year owned an ISA, compared with 55 per cent of those with total income of more than £52,000 (see Figure 2.2).

Second, for saving incentives to work, they need to be understood by those at whom they are targeted, as argued above. But, as recognised in the Sandler review of medium- and long-term savings (Sandler 2002), incentives based on tax relief are opaque and poorly understood. Forty-four per cent of those surveyed in the Investment Management Association's Financial Awareness and Consumer Education Tracking Study in July 2000 did not understand that ISAs are tax-free investments. In the ABI Pensions and Savings Survey, only 17 per cent of basic rate taxpayers were able to correctly state the rate of tax relief they receive on pension savings. Most did not know, or thought it was lower than actual levels (Association of British Insurers 2003).

Qualitative work suggests that this poor understanding is particularly widespread among people on lower incomes. One focus group study found that lower to middle income consumers tend to think that tax breaks are irrelevant to them, as they do not save enough for tax issues to affect them (Kempson and Whiley 2000, cited in Sandler 2002). Many of the participants who were interviewed in depth in the evaluation of the first Saving Gateway pilot did not understand the concept of tax relief, and only two in ten said they would save more if the interest on their savings was tax-free (Kempson *et al* 2005). Some research suggests that the term 'tax relief' even has negative associations among less-informed consumers (Sandler 2002).

Third, saving incentives based on tax relief are inflexible (Altmann 2003). The amount of the incentive is determined by current tax rates, rather than by the level of incentive required to encourage people to save.

Moreover, the evidence suggests that ISAs have not been effective in encouraging new saving. Attanasio *et al* (2004) show that although the introduction of ISAs was associated with an across-the-board increase in ownership rates of tax-privileged saving accounts, evidence from the Family Resources Survey suggests that many people simply reallocated assets from

8. In 2006, there were around 16 million people with an ISA (HM Treasury 2006).

other accounts into ISAs, rather than depositing new savings into an ISA. They also look at the impact of ISAs on rates of monthly saving using the British Household Panel Survey, and conclude that there is little evidence of growth in average monthly saving as a result of their introduction.

Targeted matching: a progressive and simple alternative

The Government is piloting a more progressive approach in the Saving Gateway, its matched-saving scheme targeted at those on low incomes (see Box 1 in the Introduction for details). There have been two rounds of pilots: the first set was completed in November 2004, and the second is currently underway.

Matching operates as a flat rate saving bonus: rather than relating the incentive to the income tax an individual would be required to pay on interest earned on their savings, individuals earn a flat rate incentive for every pound they save. In the first pilot, the Government matched funds pound for pound; in the second, the match rate varies across the different areas from 20p to £1.

Matching is progressive because it relates medium-term saving incentives to income negatively rather than positively. The Saving Gateway matches are targeted at those on low to modest incomes, in comparison to tax relief, which disproportionately benefits higher earners. Moreover, it is relatively simple and easy to understand.

Matching also allows those who cannot benefit from interest tax relief for religious reasons, such as some Muslims, to benefit from government saving incentives.

The objective of the Saving Gateway is to provide large saving incentives for a finite period – both in order to help individuals accumulate a small, but decent, financial asset, and to kick-start a long-term savings habit that lasts beyond the length of the scheme.

The concept of matching has not gone without some criticism, however (Emmerson and Wakefield 2001, 2003). Criticisms fall into two categories. First, it has been argued that finite matching may not, in fact, change saving patterns in the long term, and that other interventions, such as financial education, could have a greater impact on saving. The second set of criticisms relate to high deadweight costs – the amount spent on the scheme that does not result in new saving. Emmerson and Wakefield (2001) argue that, depending on design, matched-saving schemes might not result in new saving because:

- Individuals may *borrow to save* in order to take advantage of high match rates[9].

9. We have included borrowing to save as a deadweight cost because if individuals take on debt in order to make deposits into their Saving Gateway account, their net savings will be zero (excluding the government match), or less than zero taking into account interest repayments.

- Individuals may simply *transfer existing assets* in order to take advantage of high match rates.
- The accounts might attract those who would have saved equivalent monthly amounts even without the government match.

However, evidence from the first pilots shows that matching can indeed be successful in encouraging new saving. The average amount of monthly saving by participants almost doubled from £8.85 to £16.14, and average balances by the end of the scheme before government match were £282 – just over three quarters of the possible maximum of £375 (Kempson *et al* 2005). Eight out of ten described themselves as saving regularly at the end of the scheme, compared with only 17 per cent at the start (ibid).

Moreover, there was no evidence of a 'cream-skimming' effect, with the most affluent or highest-saving individuals from the eligible group disproportionately taking part. In fact, Saving Gateway participants had lower incomes than the eligible population as a whole, with three in ten living on incomes of less than £100 per week, compared with two in ten of the reference population. Compared with the eligible population, larger proportions of women, lone parents, minority ethnic groups and social housing tenants, and a smaller proportion of homeowners, opened accounts (ibid).

This is reflected in past levels of saving reported by participants. While half of participants or their partners said they already had a savings or credit union account before they opened their Saving Gateway account, 32 per cent said they only saved informally, with no such account, and 18 per cent said they had no money put by at all.

With respect to levels of past saving, 56 per cent of participants said they had no money in a savings account before opening their Saving Gateway account, 13 per cent had less than £200, 14 per cent between £200 and £500, and 17 per cent £500 or more (see Figure 2.3).

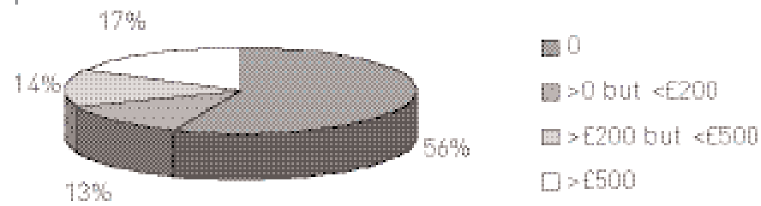
These breakdowns are very similar to those for a reference control group, suggesting that the first pilot did not disproportionately attract those with higher previous levels of saving or account-holding.

However, Saving Gateway participants were 70 per cent more likely than the reference control group to describe themselves as rainy day savers – perhaps suggesting that the scheme attracted a disproportionate number of those who wanted to save, but who had not actually been doing so (Kempson *et al* 2005).

Significantly, very few participants borrowed in order to save into their accounts: only five per cent transferred money from another savings account, only three per cent borrowed from friends or family and less than 0.5 per cent borrowed commercially. In contrast, 94 per cent of account holders saved from their regular income.

In the depth interviews held with 30 participants shortly after account-

Figure 2.3: Previous savings of first Saving Gateway pilot participants



Source: Kempson *et al* (2005)

opening, about a third said they were cutting back on expenditure in order to save, just under a third that they would have saved some (but not as much) each month as they did into the Saving Gateway, and a slightly smaller group said that although they had not saved previously, they were saving from regular income without too much trouble. Just two participants said that they had borrowed to save (ibid).

So evidence from the first pilot suggests that the Saving Gateway was very successful in encouraging saving that would not have occurred without the scheme.

The design of the scheme is likely to have had an important role in keeping deadweight costs down. It was closely targeted on those on low incomes, who were least likely to have financial savings they could transfer into a Saving Gateway account. These people are also least likely to have access to affordable credit from commercial sources or friends and family that might make borrowing to save worthwhile. Moreover, the monthly saving maximum made borrowing to save less practical than if there had just been one maximum for the length of the account's term.

It remains to be seen how high deadweight costs will be in the second pilot, which has a much wider eligibility range. The evaluation of the second pilot is comparing the effect of the Saving Gateway on those *offered* accounts, rather than those who actually opened them, compared with a reference control group.

Interim findings have been published, but need to be treated with caution, as they are based on accounts that had only been open for four months (IFS and Ipsos MORI 2006). However, they suggest that for those offered a Saving Gateway account, there has been an increase in saving into cash deposit accounts, compared with levels of saving by a control group not offered the accounts.

The evidence is less clear when total asset holdings are analysed, which may reflect the fact that accounts are available to those with much higher household incomes than in the first pilot, and so participants may be more likely to transfer existing assets into Saving Gateway accounts early on.

Given this, the observed effects on saving, particularly on total asset holdings, could increase after a further 14 months.

The other criticism relates to the long-term impact of the scheme on saving. We have more limited evidence on this, as the evaluation of the first pilot only ran for three months after the accounts were wrapped up. Given the limited evidence, the Government would be well advised to extend the evaluation of the second pilot to examine its long-term impacts.

However, the evidence that we do have is positive. Three months after account maturity in the first pilot, 91 per cent of participants still had a savings account of some kind, and 41 per cent were still saving fairly regularly. The scheme seemed to be successful in changing attitudes towards saving. Of the 18 per cent who said that they did not really save at all at account opening, two-thirds said they saved by the end of the scheme, a shift that did not happen to the same extent in the control group. The depth interviews also suggest a fundamental shift in attitudes among some participants:

> It's changed my financial habits so I'm not spending as much, I've got saving in mind … it's changed my personal habit of saving.
>
> We now realise the importance of saving for a rainy day or an emergency … it's definitely made a difference. Because we don't have so much stress you see.
>
> Participants in the first Saving Gateway pilot (Kempson *et al* 2005)

The success of matched saving schemes in the US, 'Individual Development Accounts' (IDAs), also suggests that matching may be an effective way of encouraging saving. These schemes operate along slightly different principles to the Saving Gateway. The match rate is usually higher than 1:1, and the expenditure of funds in maturing accounts is restricted to certain uses such as home purchase, education, microenterprise and retirement. In the most rigorously evaluated scheme, in Tulsa, the match rate was 2:1 for house purchase, and 1:1 for education, microenterprise and retirement, with a saving maximum of US$750 per year for three years. The scheme was found to increase rates of home ownership, and to increase retirement savings for certain groups, using a control group of non-participants as a reference (Mills *et al* 2004).

So the evidence thus far is very positive. In the first Saving Gateway pilot, matching appeared to encourage significant amounts of new saving. Does a high match rate for a finite period kickstart a regular saving habit in the long term? Does supporting medium-term savings increase savings into pensions in the long term? Although we lack evidence on these long-term effects, they could be examined in the evaluation of the second round of pilots.

Particularly given the evidence that suggests ISAs have had a limited effect on increasing saving, the Government should make rolling out the Saving Gateway on a national basis a priority.

A national Saving Gateway: the criteria for success

Getting the policy parameters right will be crucial to the success of a national Saving Gateway. A national scheme needs to build on lessons from the first and second pilots, but also make use of other insights. This section outlines the criteria for success, and their implications for policy.

Cost

In order to be cost effective, any national scheme would need to:

- maximise efficiency by minimising the deadweight costs of using matches as saving incentives.
- be *affordable* overall.

Effectiveness

In order to be effective, any national scheme would need to:

- successfully *reach* out to the target group. This has three elements:
  - *depth:* recruitment of the target group
  - *spread:* coverage of the target group
  - *appeal:* the account design needs to appeal to the target group.
- work with the *grain of how people think*, making use of new insights from behavioural economics on how people make financial decisions.
- link in with *financial capability*, in order that people are properly equipped to use their accounts effectively.

Simplicity

- Within the constraints of the cost and effectiveness criteria, the scheme should be as simple as possible.

Minimising deadweight costs

As discussed above, one of critics' fears about matched-saving schemes was that they would be associated with high deadweight costs, through individuals borrowing commercially or from friends and family to save, or transferring funds from other assets, or through the policy attracting people who would have saved anyway. Because the Saving Gateway involves fairly high match rates, these concerns need to be addressed through the design of the scheme.

These efficiency concerns are important for two reasons. First, if members of the public perceive the scheme to have high deadweight costs, for example through people borrowing to save or simply transferring existing assets into the Saving Gateway, it may quickly become discredited. Second, if saving matches are not actually achieving new saving, it may be fairer to divert this spending to raising levels of income support for all those living on low incomes, by increasing tax credit and benefit levels. To justify expenditure on saving matches, we need to be sure the scheme is in fact encouraging new saving.

Deadweight costs can be minimised in two ways – by targeting eligibility for the scheme on those at whom it is aimed, and by making it more onerous for individuals to take advantage of the match by borrowing to save, or simply transferring existing assets.

Targeting

The objective of the Saving Gateway is to encourage a saving habit among those who have previously held little or no savings, and for whom current tax-based saving incentives do not apply.

One targeting approach would therefore be to limit eligibility to those who have no or very low levels of financial assets, through an asset test. However, applying an asset test would encourage people not to save independently, or even to deplete their own savings, in order to qualify for scheme. The Saving Gateway might therefore *discourage* saving at the same time as seeking to reward it through saving incentives. Moreover, an intrusive asset test may discourage people from taking up accounts. Using previous levels of asset-holding as an eligibility test is therefore undesirable.

The first pilots used income as a proxy for asset-holding. Those on lower incomes are the least likely to hold assets, with 44 per cent of households with annual income of less than £10,400 in the Family Resources Survey 2004/05 having no savings, compared with only nine per cent of households with annual income of more than £52,000 (DWP and National Statistics 2006). So using income as a proxy, while not perfect, is a good way of targeting those with no savings. It also has the advantage of automatically identifying those for whom tax-based saving incentives offer very little, because they do not earn enough to qualify.

It is worth noting that those on lower incomes are least likely to have access to low-interest credit, which would make borrowing commercially in order to save into the Saving Gateway worthwhile, although this may change as the Government, quite rightly, seeks to make affordable credit more widely available to these groups (HM Treasury 2004).

Nevertheless, as Ruth Lister argues in Chapter One, saving may not always be appropriate for those living on low incomes, for example where income is too low to meet current needs. This is why it is important that the Saving Gateway is combined with other policies that would reduce the financial insecurity associated with living in poverty, including improving benefit levels, reform of the Social Fund and improved access to affordable credit and insurance.

The eligibility criteria for the first pilots excluded people above state retirement age or in full-time education. This is sensible, as it makes most financial sense for pensioners to be consuming resources they have saved during their working lifetimes, and for students to take on debt in anticipation of higher incomes once they graduate. If the Saving Gateway were to be extended to these groups, it is likely that only better-off pensioners and students would be able to take advantage of it.

Students also receive loans at considerable subsidy from government, so there would be a large deadweight cost involved if they took out loans in order to take advantage of high match rates. Rather than extend the scheme to these groups, it would be preferable to see equivalent funding diverted to alleviating pensioner poverty by lifting levels of Pension Credit and increasing government support for students from low-income backgrounds.

It has also been suggested that those out of work should be excluded, on the basis that they should not be saving in anticipation of getting a job (Emmerson and Wakefield 2001). But as Ruth Lister highlights in her chapter, those on low incomes are most likely to suffer consumption shocks, as a result of events such as crime and fire, and unstable incomes – even those who are unemployed can face future income dips, for example because of benefit or tax credit maladministration. So those who are long-term unemployed or who do not anticipate getting a job for a few months, stand to gain as much, if not more, from having a small asset buffer, as those in work.

Similarly, although it has been proposed that homeowners might be excluded because they already own part of a significant physical asset, they are just as likely to need a financial asset buffer as tenants. They tend to be committed to higher monthly outgoings because of their mortgage repayments. Even if their mortgages allow more flexible repayment, they may face larger fluctuations in their expenditure requirements because of the costs of maintaining their home. So low-income homeowners are likely to face just as much, if not more, financial insecurity than low-income tenants, and are a significant group – they make up half of those living in poverty (Burrows and Wilcox 2000).

In contrast to the first pilots, the second pilots significantly widened the income distribution eligibility criteria, to those of working age earning under £25,000 per year, and living in households with total household income of less than £50,000 per year. This is a significant expansion: in 2005, UK median individual earnings were £19,000, and earnings at the sixth decile were £22,400 (National Statistics 2006, Table 1.7a).

A resulting danger is that deadweight costs are likely to be much higher, because this section of the income distribution is more likely to own financial assets, to be saving already, and to have greater access to the affordable credit that would allow them to borrow commercially in order to save into Saving Gateway accounts. Thus the eligibility criteria of the first round of

Box 2.1: Working Tax Credit

Working Tax Credit (WTC) is an in-work income top-up for low income working households. It is available to people who are employed or self-employed, who:

- usually work 16 or more hours per week, and
- are aged 16 or over and responsible for at least once child, or
- are aged 16 or over and disabled, or
- are aged 25 or over and usually work at least 30 hours per week.

WTC is paid to the person in a couple who is working 16 or more hours per week. If both members of a couple work 16 or more hours per week, one will need to elect to receive WTC for the couple.

pilots are much more appropriate for a national scheme.

However, if the scheme were to be rolled out on a national basis, a 'passport' eligibility criterion would be much simpler to administer than an arbitrary income level. The income criteria in the first pilot were more complex to administer, and required community organisations to use a local eligibility test. A passport eligibility criterion would allow all those in receipt of a certain state benefit or tax credit to qualify for the Saving Gateway automatically. One disadvantage, however, is that people who are entitled to benefits or tax credits but do not claim them would not necessarily qualify for an account.

We suggest that a suitable set of passport eligibility criteria would be:

- being of working age, and not in full-time education, *and*
- either out of work and in receipt of benefits (Jobseeker's Allowance, Income Support, Incapacity Benefit or Severe Disablement Allowance), *or*
- in work and in a household eligible for Working Tax Credit (WTC), with one account available for each eligible household, but with either partner able to make the claim (see Box 2.1).

These criteria have the advantage of being very simple to administer, and targeting those on low incomes. In 2005/06, for a couple working 30 hours a week between them, with one working at least 16 hours a week, WTC is paid until household income reaches £15,990.

If these criteria – working age benefit or WTC eligibility – were used, around 5.52 million individuals would have been eligible for the Saving Gateway in 2004/05[10].

10. In 2004/05, 6.6 million individuals received WTC, and/or Incapacity Benefit, and/or Jobseeker's Allowance, and/or Income Support (DWP 2006a, Table 5.3). The largest area of overlap between eligibility for these benefits will be those entitled to both Incapacity Benefit and Income Support. There were 1.08 million individuals entitled to both benefits in 2004 (Prime Minister's Strategy Unit 2005). Therefore, approximately 5.52 million individuals will be in receipt of at least one of WTC, Incapacity Benefit, Jobseeker's Allowance and Income Support.

However, there are two extensions to these basic eligibility criteria that merit serious consideration. First, as Ruth Lister has argued in Chapter One, the Government should consider extending eligibility so that any adult member of a qualifying household can open an account, given that the primary responsibility for budgeting in low income families often lies with the female adult, and that they tend to have higher propensities to save. So in a benefit-based eligibility household, both the benefit claimant and their partner would be eligible to open an account. In a WTC-based eligibility household, both adults in the WTC-qualifying couple would be eligible to open an account.

Second, a disadvantage of using WTC as the eligibility criterion for low-income working households is that it excludes low-income working households in which the main earner is younger than 25 or works part time and does not have children or a disability. However, it would be desirable to extend eligibility to these groups, particularly because the period before having children can be a very important time for future parents to save. Extending eligibility would require a separate income-related criterion for these groups.

Making borrowing to save/transferring other assets less worthwhile

The way the account is designed can also minimise deadweight costs by making it less worthwhile to borrow in order to save or to transfer assets from other sources.

In both rounds of pilots, accounts had monthly saving maximums in addition to the overall maximum, in order to encourage a steady savings habit rather than one lump-sum deposit. Individuals seeking to take out a commercial loan in order to benefit from the government match would need to dribble such a loan into the account month by month. They would not receive the benefits of the match until the account matured 18 months later, but would need to start loan repayments before this date.

If the Saving Gateway is rolled out nationally, government would need to monitor the market for loan products to ensure that specialist 'drip-feed' loans, designed to allow lenders to appropriate some of the match, do not develop.

In the first pilot, the monthly saving maximum was £25. In the second pilot, it varies – in three areas it is £25 with per-pound match rates varying from 50p to £1, in two areas it is £50 with match rates varying from 20p to 50p, and in on area the monthly maximum is £125, and the match rate 20p. Given that the target of the Saving Gateway is low-income households with little or no financial assets, it seems that a monthly maximum of £25 to £50 would be most appropriate; monthly saving of £125 is not only high for this group, but also more expensive given a certain level of government matching.

The match rate should be as low as is consistent with kick-starting a saving habit, in order to minimise deadweight costs. There is some evidence from the first pilot that the pound for pound match rate may have been higher than necessary. Eight out of ten participants in the first pilot said they would have saved just as much had the match rate been 50p for every £1 saved (Kempson *et al* 2005).The second pilot, in which match rates vary from 20p to £1 for every pound saved, will provide more evidence on appropriate match rates for a national scheme.

It is worth noting that the interim evaluation reported that the vast majority of account holders were positive about the match rate, regardless of its value, although knowledge of the match rate value is significantly higher in areas with a 1:1 match, and, on average, the match rate was more important to individuals in their decision to open an account in areas where it was higher (IFS and Ipsos MORI 2006). If a lower match rate, say 20p or 50p, is just as, or almost as, effective in kick-starting a saving habit as the pound for pound rate, it would be preferable, as it would minimise deadweight costs, as well as improving overall affordability.

It might be argued that, on the other hand, a higher match rate could be used to increase the rate at which individuals accumulate assets. While this is true, it is also true that this extra subsidy, which would operate over and above the rate needed to encourage people to save, would only benefit those who could afford to save in the first place.

It would therefore be fairer to spend this subsidy in ways that would benefit the asset accumulation of everyone: either by increasing benefit or tax credit levels to enable those who previously could not afford it to save, or by increasing spending on universal asset policies that are not contingent on saving, such as the Child Trust Fund.

We therefore need to await the final evaluation of the second pilot before reaching a decision on a match rate. Factors that will need to be taken into account will include the level at which the match is most effective, weighed up against cost considerations and the profitability of borrowing in order to save. When the scheme is costed below, two match rates are used – 20p and 50p. However, we should bear in mind that the second evaluation could, on balance, point to the need for a higher rate.

Reach: the importance of trusted intermediaries and providers

A national Saving Gateway needs to be designed to appeal to its target audience of low-income households with low levels of saving. Many of them will be experiencing financial exclusion, with no or very limited previous contact with financial institutions: four in five of those without bank accounts (2.24 million people) have annual incomes of less than £9,900, and half of those without bank accounts (1.4 million people) have been on benefits for longer than five years (National Consumer Council 2005).

People experiencing financial exclusion tend to have very low levels of trust in financial institutions, which can be a significant barrier in overcoming financial exclusion (Collard *et al* 2001). There may also be distrust of government. Local community-based organisations can help to overcome these barriers because they tend to be more trusted and familiar, be not-for-profit and have a value-based commitment to reach out to all people in their communities, have greater links with and knowledge of their local communities which they can use to help and engage people, and often have a physical presence in even the most disadvantaged communities (Regan and Paxton 2003).

Perhaps unsurprisingly, the community partnership element of the first pilot was very important in ensuring its success, as Ruth Lister highlights in Chapter One. The most effective recruitment methods were local – through word of mouth and local newspaper articles. The personal contact the housing associations involved in the first pilot already had with their tenants was particularly significant in recruiting individuals with social problems and those marginalised from financial services (Kempson *et al* 2005).

Three out of four participants said it was important to be able to open an account through a local organisation, and some would not have opened an account without such assistance. Four out of ten liked the fact that they did not have to deal directly with a bank or building society (ibid.).

This evidence is reinforced by that from other initiatives aimed at those experiencing financial exclusion. In a recent Citizens Advice pilot to deliver financial capability education ('Financial Skills for Life'), recruitment was most effective when carried out through partnership working with local, trusted organisations, with which potential beneficiaries already had a relationship (ECOTEC 2006).

The first pilot also disproportionately recruited more marginalised groups: those on lower incomes, lone parents, social housing tenants and those from minority ethnic communities – but this was largely accounted for by the four areas with community-based partnerships. In Hull, the only area without community-based delivery, those who were recruited were more similar to the eligible population. However, the other four areas did find it more difficult to recruit those in low-income work.

In the second pilot, which lacks a community partnership delivery approach, cream-skimming has been more of a problem, and it has been more difficult to recruit hard-to-reach groups. Recruitment has tended to be more successful among groups with higher levels of education and financial literacy, and is significantly associated with already holding an investment, or being a homeowner. It is also higher for better-off participants: 24 per cent of those in the highest family income quintile who were offered an account opened one, compared with 9 per cent of those in the lowest family income quintile. However, it appears that this effect is accounted for by the higher education and financial literacy levels in the highest quintile (IFS and Ipsos MORI 2006).

So it is important that, as far as possible, Saving Gateway accounts are delivered in the community by local, trusted intermediaries. These could include third sector organisations such as housing associations, credit unions and citizens advice bureaux, and organisations such as Services Against Financial Exclusion (SAFE), an initiative of Toynbee Hall in East London.

Many of these organisations are already heavily involved in financial inclusion initiatives. For example, SAFE has helped individuals open bank accounts and access affordable credit and advice on debt management since 2002. Citizens Advice ran its 'Financial Skills for Life' pilot in nine of its bureaux, delivering preventative financial capability education to more than 6,000 clients (ECOTEC 2006). It will be expanding its financial capability work over the next few years, and in April 2006 was awarded £33 million from the Government's Financial Inclusion Fund to deliver face-to-face debt advice.

Delivery through local intermediaries would fit well with broader agendas. The Government is keen to support the increasingly important role played by third sector organisations in society, and to this end recently created the Office of the Third Sector in the Cabinet Office (Miliband 2006). It has also recognised the importance of the voluntary and community sector in delivering financial advice (HM Treasury 2005). The Government's Financial Inclusion Taskforce has itself launched a Facilitating Access Initiative, focusing on involving in its initiatives trusted intermediary organisations that have established contacts with those experiencing financial exclusion.

The Saving Gateway would be ideally suited to a co-production model, in which Government provides a national infrastructure and funding, and local organisations are contracted to deliver the public service in the community. Qualitative work with those on low to modest incomes has shown that they prefer to deal with locally-based organisations in the area of financial provision, because of easier access and greater trust, but that at the same time, they want financial products and services to be delivered by established providers with well-trained staff (Collard *et al* 2003).

The Government could also consider sharing information about who has and who has not opened a Saving Gateway account with the third sector organisations contracted to provide accounts, in order to improve their effectiveness at targeting hard-to-reach groups.

It has already expressed an intention to produce new legislation on information sharing between public sector organisations in order to deliver the best possible support to people in need (Department for Constitutional Affairs 2006). A provision to allow this kind of information saving could be included in such legislation. However, if such information sharing does exist, it would be particularly important that third sector organisations do not put undue pressure on individuals to save if it is not appropriate to their circumstances.

The problem with relying solely on local organisations to deliver Saving Gateway accounts in the community is one of limited coverage. We do not currently have a national overview of local capacity. Third sector activity needs to be nurtured and encouraged in areas where there are low levels of activity, and this should be a priority for the new Office of the Third Sector. There must be some mechanism for delivering accounts in areas of low third sector activity, and marketing would need to be concentrated in these areas to compensate. This is expanded on below, where possible delivery models are considered.

As noted above, the local organisations in the first pilot also found it more difficult to recruit people in work. This suggests the importance of a twin recruitment strategy: through third sector organisations, but also through the workplace. The Financial Services Authority is already providing employees with financial education and information at work in its initiative 'Make the Most of Your Money'. As part of this initiative, trained presenters deliver seminars and materials on financial capability. The Saving Gateway should be fully integrated into workplace financial education.

Lastly, the account should also be promoted through other networks – such as Sure Start centres, extended schools, doctors' surgeries and particularly Jobcentre Plus, as an appropriate time to start a new saving habit may be when entering the labour market after a spell of unemployment.

Another area of government policy that could be dovetailed into the Saving Gateway is the Social Fund. Although these policies might at first appear very different, they in fact share an important goal: to help those living on low incomes cope with income drops and consumption needs that cannot be budgeted for within regular income.

There are widely held concerns about the current effectiveness of the Social Fund, which are beyond the scope of this report (see, for example, Legge *et al* 2006). However, one feature is that it employs a palliative approach, with the emphasis on short-term, rather than long-term solutions. While effective short-term solutions are very important to those living in poverty experiencing financial crisis, it might be possible to link the Social Fund with the Saving Gateway as a complement to these. For example, Social Fund borrowers could be given information on the Saving Gateway once they had repaid their loan.

Trusted providers are just as important as trusted intermediaries. In both rounds of pilots, all accounts were provided and operated by Halifax Bank of Scotland. If the scheme were to be rolled out nationally, the accounts should be offered by a variety of providers in order to maximise accessibility and consumer choice.

To achieve this, the Saving Gateway should function as a 'product wrapper', with legislation setting out generic terms and conditions, within which FSA-authorised providers could supply Saving Gateway accounts – similar to the current system of provision for Child Trust Funds and ISAs. In this way, any bank, building society or credit union wishing to offer accounts could do so.

The Saving Gateway's restricted eligibility means that there are limited opportunities for cross-selling other current accounts and saving products that may carry higher profit margins. In the first pilot the most common additional products sold to participants were basic bank accounts (Kempson *et al* 2005). It is possible, therefore, that only the most socially-responsible providers may want to offer Saving Gateway accounts.

The Government therefore needs to ensure that there is an account option available in areas where credit unions, building societies and banks do not fill the market. To fill this gap, a Saving Gateway account should be offered through National Savings and Investments (NS&I). NS&I accounts are ideal for the Saving Gateway's target group. Because Government guarantees them, they represent a very safe investment. Accounts can be opened, and deposits and withdrawals made, in person at the Post Office.

Previous research with low-income and financially excluded consumers shows that the Post Office enjoys much higher levels of trust than commercial banks – consumers like the fact that they are more accessible and approachable (National Consumer Council 2003, Collard *et al* 2001). There are currently 14,000 post office branches – more than the top 10 banks and building societies combined – and 94 per cent of people live within one mile of a post office (Department of Trade and Industry 2006). Moreover, NS&I has started to offer accounts through national supermarket chains such as Tesco, widening their appeal and accessibility.

Making the Saving Gateway available through NS&I would also represent a further argument in favour of maintaining the UK's post office network in the face of pressures to close local branches.

There would also need to be some regulation of banks and building societies in order to prevent unscrupulous cross-selling of credit cards and other high-interest debt products to low-income Saving Gateway consumers, who may be building up their credit rating through the Saving Gateway.

The Saving Gateway should, like basic bank accounts[11], current accounts, ISAs, Child Trust Funds, loans and overdrafts, be covered by the voluntary Banking Code. The Code should include a commitment by

11. Basic bank accounts are similar to current accounts but do not offer a chequebook or overdraft facility. They are designed to improve access to banking services for people with a poor credit history and for those on low incomes who do not want to become overdrawn.

financial institutions offering Saving Gateway accounts to provide information on them when asked about them, and to train staff on how these accounts work. They should also commit to not cross-selling credit cards and other loan offers to low-income Saving Gateway consumers for at least a year after their account has terminated. The use of different types of credit should also be included in financial education integrated into the scheme (see below).

Reach: scheme design

The account also needs to be designed in such a way that it appeals to those at whom it is targeted. This has implications for access to account balances during the scheme, account length and eligibility tests.

As Ruth Lister argued in Chapter One, the flexibility of the Saving Gateway in allowing for different amounts to be saved each month, different methods of saving into the account (cheque, cash or direct debit) and access to savings in the account during the scheme is very important, given the difficulties people on a low income may face in saving.

Both pilots have had flexible access to savings: savers can withdraw their own contributions from the account at any time. This recognises that those on lower incomes may need to fall back on savings in the account if they face a drop in their regular income or a large one-off expenditure. An account with no or restricted access during its term would therefore be inappropriate.

In both pilots the Government matches the *highest balance during the account term*, rather than the final account balance, when the account matures. This means that if someone saved the maximum monthly amount for six months, but then had to withdraw all their savings and were unable to make any further savings, the Government would, at maturity, match the total they had saved during the first six months. This also means, however, that once someone has saved and made a withdrawal, their marginal incentive to save further is zero until they reach their previous highest balance.

The first pilot also allowed for three months without saving, by making the 18-month saving maximum 15, rather than 18, times larger than the monthly saving maximum. In this way, individuals could take one month in six as a saving holiday in months with higher outgoings, without any penalty. (The second pilot allows for two, rather than three, months without saving.)

The above features should be maintained in a national Saving Gateway scheme. Evidence from both pilots shows that making account balances accessible is unlikely to have a negative impact on saving. Account withdrawal rates in the two pilots have been very low, suggesting that the zero marginal incentives to save that exist for a while once a withdrawal has been made should not be an overriding concern.

In the first pilot less than one per cent of savers made withdrawals each month on average (Kempson *et al* 2005). This reflects the intention of almost all participants (97 per cent) at the start of the scheme to leave the money they saved in the account. Savers who did make withdrawals tended to do so because of financial difficulties. The depth interviews with participants reveal that account holders tended to be reluctant to break the savings habit that they had developed (ibid). In the first four months of the second pilot, only 1.2 per cent of accounts, on average, have seen a withdrawal (IFS and Ipsos MORI 2006).

The account length also needs to appeal to the target group. Evidence suggests that there is no one length that suits everyone (see Chapter One). Some participants in the first pilot would have preferred an account length longer than 18 months, such as three years, others said that a longer account length would be a disincentive.

However, the provision that there should be flexible access to savings, with the *maximum*, rather than the *final* account balance being the amount that is matched, makes account length less of a concern, so long as savers understand the terms of the account. Because of this provision, savers can save for as long as they wish or are able, withdraw their savings after this period, but still receive the match on their maximum balance when their account matures. This said, if the duration is too long low-income savers might be put off finding out more information about the account.

An appropriate account length would therefore be two years. This is long enough to accommodate those who would prefer to save for longer, but could also accommodate those who would rather save for a year or 18 months. The latter group could withdraw their savings after their preferred time, and receive the match they are entitled to when the account matures after two years.

Eligibility tests can also affect recruitment. Workers from local organisations involved in delivering the first round of pilots said they thought that those in low-waged work may have been deterred by having to undergo an income test, administered by the local organisation (Kempson *et al* 2005). It should be noted that in Hull, the area with no local organisation involvement, there was no opportunity for these problems to arise, as the Government wrote directly to all eligible people. A national Saving Gateway should minimise the need for an eligibility test by utilising the Hull model, so that individuals are automatically informed of their eligibility.

The stigma attached to an account targeted solely at those on low incomes may also affect recruitment (see Chapter One). It may also contribute to poor customer service from providers, which has been a problem with the provision of basic bank accounts (Brown and Thomas 2005).

This raises the question of how the Saving Gateway fits into the broader short- and medium-term saving framework. This is also in need of reform

– the fact that tax relief is regressive and opaque merits a broader look at the savings framework. If saving incentives were based on a principle of progressive universalism, as enshrined in other government policies such as the Child Trust Fund, stigma may be reduced. One option might be to replace ISAs with a Universal Savings Account, with a flat-rate, rather than tax-linked, saving bonus for all. Such an account could link seamlessly with other saving products, such as the Child Trust Fund and personal pension accounts. Saving Gateway matches could act as a boost on top of this account for those on low incomes.

Such wide-scale reform is beyond the scope of this report, but will form the focus of future ippr work in this area.

Working with the grain of how people think[12]

Standard economics tends to assume that humans are rational – in other words, they make decisions only with their self-interest in mind, weighing up the measured pros and cons of a certain course of action in all areas of their lives – and have costless access to all the relevant information. However, the rational decision-making assumption often does not hold, and this also relates to some areas of financial decision making. We can observe people making decisions that do not appear to be in their best interests – they seem to be influenced by factors other than the rational decision-making calculus. Moreover, people often do not have free access to the necessary information in order to make a fully-informed decision.

Behavioural economics, a relatively new branch of economics, has incorporated lessons from psychology to produce new insights into the way that people make decisions (see, for example, Kahneman and Tversky 1979, Kahneman 2002). This approach provides some important lessons for a scheme designed to change people's saving habits, such as the Saving Gateway.

First, the way in which choices are framed can have an important effect on people's decisions. People tend be guided in their decision making by 'anchors' – arbitrary focal points. This may often be the status quo. For example, in experiments individuals are often reluctant to trade in their existing bundle of goods for another bundle of goods even if, when they do not own either, they would choose the other bundle (Bateman *et al* 1997). People's tendency to stick with the current, or default, option is often referred to as inertia. In other cases, the anchor may be an externally-fixed target. Experiments have shown that people tend to adjust their behaviour towards an announced target, even if there may be little rational reason to do so (Epley and Gilovich 2001).

12. This section draws on a presentation made by Dr Emma Dawnay, from the New Economics Foundation, at an ippr seminar on the Saving Gateway on 18 July 2006.

Second, how people choose to use their money may also be affected by where it comes from and the purpose they attach to it, a phenomenon known as *mental accounting* (Thaler 1999). This theory posits that people tend to attach psychological labels to different pots of money, just as different headings are attached to various sources of income/expenditure in business accounting.

So people might have different 'mental accounts' for different purposes – such as food, rent and entertainment. For example, there is evidence that child benefit income in the Netherlands is less likely than income from wages to be spent on adults' clothing (Kooreman 2000). Qualitative research in the UK has suggested that parents who receive child benefit tend to regard it for meeting children's specific needs (Bennett and Dornan 2006).

Third, people tend to be more highly motivated in changing behaviour if they have higher levels of *self-efficacy*: if they feel in control and are able to make an impact (Dawnay and Shah 2005). But, at the same time, too much choice can be off-putting and demotivating because it makes people feel overwhelmed (Schwartz 2004).

These lessons have important implications for public policy that aims to change people's behaviour in the long term. When policymakers integrate these insights into the design of public policy, the effects can be powerful.

For example, retirement saving programmes in the US that make provisions for inertia through auto-enrolment have seen participation rates increase dramatically. In these plans, employees are automatically enrolled into their company's pension plan, and are given the chance to opt out, rather than vice versa. In one such plan, participation rates for newly eligible workers increased from 49 per cent to 86 per cent (Madrian and Shea 1999). It should be noted, however, that some of these workers may have chosen to stick with a default saving rate lower than the rate they may have chosen had they made an active choice to save (Choi *et al* 2003).

In order to mitigate this effect, the 'Save More Tomorrow' programme in the US takes advantage of people's greater willingness to save from future income (Thaler and Benartzi 2004). In this programme, which operated in a mid-sized manufacturing company, all workers with relatively low pension contribution rates were interviewed by a financial adviser, and offered the chance to raise their contribution rates. Those who refused were given the option of saving an increasing proportion of *future* pay rises into their pensions.

People are happier to save from future income than today's income. This is reflected in the figures: the average contribution rate of employees who chose the Save More Tomorrow option increased from 3.5 per cent to 13.6 per cent of income over four years – higher than levels that had been originally rejected (ibid).

In the UK, the Pensions Commission has recognised the importance of incorporating insights from behavioural economics in its review of the pensions system (Pensions Commission 2004). It recommended that auto-enrolment should be a central feature of a new National Pension Savings Scheme as a way of overcoming inertia (Pensions Commission 2005). The Government has since incorporated this recommendation into its pensions white paper (DWP 2006b).

What are the implications for the Saving Gateway? The following insights could be incorporated into the design of the scheme:

- *Inertia (1): easy deposit methods*. While it would be inappropriate to use auto-enrolment for the Saving Gateway, as it may not always be appropriate for those living on a low income to save (Lister, Chapter One), the saving options for the Saving Gateway should be made as easy and hassle-free as possible. If participants already hold bank accounts, they should be able to opt into saving by direct debit, or directly from their paycheques or benefit payments.
- *Inertia (2): rollover into other saving vehicles.* In the pilots, Saving Gateway accounts are automatically rolled over into Halifax Liquid Gold Saving accounts rather than being paid out as cash or a cheque. This is to encourage people to keep their savings for a rainy day, and to keep on saving.

  In a national scheme all providers should be obliged to roll Saving Gateway accounts into an ISA, or their equivalent highest-interest saving account on maturity. This provision should be written into the Banking Code. Any direct debits set up should also roll over with the account. Moreover, when the account matures, savers should always be given the option of transferring their Saving Gateway funds into other saving vehicles, such as the Child Trust Fund or pension account, by simply ticking a box and supplying account details.

  Any funds rolling over into a pension account should attract an additional government match of 25p for every pound rolled over, just as the pensions white paper suggests that contributions from wages into personal pension accounts will be matched at a rate of one per cent of salary for each four per cent that employees contribute (DWP 2006)[13].
- *Inertia (3): initial saving bonus.* Another way of combating people's inertia would be to award their first two months' saving with a higher (say double) match rate. So, for example, if the match rate were 50p, an initial match rate of 1:1 might therefore be appropriate. As outlined above,

13. Although the government contribution can be represented as a 25p 'match' for employee saving into pensions, it should be noted that this match is not open-ended: it only extends to a maximum of one per cent of salary.

the way in which choices are framed is very important. It would therefore be most effective to contact those eligible for the account, making them aware that money is available in an account for them, but that they can only access the amount they can save in two months.

For example, in a Saving Gateway with a 50p match rate and a £25 per month saving maximum, the initial two-month match rate would be 1:1, with an extra £25 available to those who save the maximum £25 per month over the first two months. A variant of this design feature is being used in one area in the second Saving Gateway pilots, so the final evaluation will provide evidence on its potential effectiveness.

- *Anchoring: personalised saving targets.* In the pilots, the maximum that could be saved every month (£25) clearly operated as a target for some people. Each month, the two most common amounts saved were £25 and nothing (Kempson *et al* 2005). Most participants interviewed in depth said they considered £25 to be a reasonable monthly saving limit. That said, the maximum may be too high a target for some people, and there is a danger that if targets are set too high, the effect may be counterproductive, with individuals in poverty feeling more inadequate, powerless and helpless as a result of not meeting perceived expectations (see Lister, Chapter One).

  One possible solution would be to have personalised saving targets in addition to the monthly saving maximum. If accounts were delivered through local intermediaries, individuals could be empowered to set their own targets in an account-opening interview, based on their own income and outgoings.
- *Mental accounting: allowing consumers to attach labels to encourage saving towards set ends.* Savers can be encouraged to save up for their own personal goals by allowing them to save into different pots within the same account. For example, an individual could have a 'Child Trust Fund pot', a 'pension pot', a 'holiday pot' and a 'rainy day' pot, and designate a certain proportion of their savings to be allocated to each pot. When their fund matures, they would not be obliged to spend each pot on a particular use: the aim of the scheme would be rather to *empower* individuals to save towards their own desired ends. When the account rolls over into a savings account, these 'pots' should also transfer across. If the Saving Gateway is delivered through local intermediaries, savers could also be encouraged to think about personal saving goals and ends in an account-opening interview.

Incorporating these suggestions into a national scheme would add complexity. However, they could help improve the effectiveness of the scheme.

Links with financial capability

Improving financial capability could have a significant impact on people's wellbeing, the economy and future prosperity (Dixon 2006). But achieving this remains a significant challenge. A financial capability baseline survey commissioned by the Financial Services Authority revealed that many people are failing to plan ahead, either for unexpected drops in income or expenditure needs, or for retirement: 39 per cent of people said that they 'live for today and let tomorrow take care of itself' (Financial Services Authority 2006b).

It is important to stress that financial capability needs to be improved across the whole population, not just for those at whom the Saving Gateway is targeted. People on higher incomes are only very slightly better at planning ahead (ibid). And those who have difficulty in making ends meet are better than average at keeping track of their finances (ibid) – reflecting that those living on lower incomes often develop sophisticated budgeting strategies in order to cope (see Lister, Chapter One).

However, the Saving Gateway represents an excellent chance to link a practical saving scheme with financial capability education and/or advice, so long as it forms part of a wider, universal strategy to improve financial capability across the whole income distribution.

Making better-informed saving decisions requires a certain level of financial capability – financial education can give people the tools they need to make the most of saving products such as the Saving Gateway, and support saving incentive schemes in encouraging greater levels of saving.

In the 14 IDA matched-saving schemes in the US that formed the American Dream Demonstration, participation in up to 12 hours of financial education was associated with higher levels average monthly deposits, controlling for other factors (Clancy *et al* 2001). Those who had no financial education deposited on average US$8 per month, those who had one to six hours of education, US$20 per month, and those who had six to twelve hours education, US$33 per month. It should be noted, however, that some of this effect may reflect that people who are intrinsically more likely to save might be more likely to attend financial education courses, given the opportunity.

Similar evidence exists for retirement saving programmes in the US: Bernheim and Garrett (1996) found that when employer-provided financial education is available, both participation rates and total contributions to retirement saving plans in the US were higher.

Previous work on financial capability has shown that successful financial education initiatives need to be:

- targeted to the specific needs of different groups of people (England and Chatterjee 2005, ECOTEC 2006). This often means delivering financial capability in small groups of less than 10, with shared needs and

interests (ECOTEC 2006).
- made relevant to individuals (England and Chatterjee 2005, ECOTEC 2006). The most effective financial capability courses make use of practical examples, with day-to-day and local relevance (ECOTEC 2006).
- linked to key life events (England and Chatterjee 2005).
- delivered accessibly, in partnership with trusted organisations (ibid).

A locally-delivered Saving Gateway would offer the opportunity to link tailored financial education to the scheme, delivered through local, trusted organisations – using the account as an interactive, practical element in courses. Conversations with those from third sector organisations involved in delivering the first pilot accounts suggest that financial capability needs to be integrated into the Saving Gateway when accounts are first opened, and that it should include financial planning, how the account is run, and if possible saving targets, as discussed above. Financial education should also cover the use of different types of credit in order to minimise the risk of savers getting into unsustainable levels of debt once they have built up their credit rating through the Saving Gateway.

Three delivery models

This section outlines and costs three models through which a national Saving Gateway might be delivered:
- A model based on *national entitlement*.
- A model based on *local partnership delivery*.
- A hybrid model, combining features from the above two.

It then discusses which model comes closest to meeting our criteria on cost and effectiveness, and concludes that the hybrid model represents the best way to deliver a national scheme.

The national entitlement model

This delivery model is based on a principle of national entitlement: every individual who meets the national eligibility criteria would be entitled to one Saving Gateway account in their lifetime, while eligible, which they could choose to open when they wished. Features would include:

- Government would contact all eligible individuals, inviting them to open an account.
- Eligible individuals could open accounts directly with Saving Gateway providers.
- There would be no locally-delivered element.

The approximate first-year costs of this model, excluding set-up costs, are

Table 2.1: First-year costs of the national entitlement model

Takeup as a percentage of eligible population	20p match (40p in first two months)	50p match (£1 in first two months)
10%	£26m	£55m
20%	£45m	£104m
30%	£65m	£152m
40%	£84m	£201m
50%	£104m	£249m
100%	£201m	£492m

presented in Table 2.1, assuming different match rates and takeup rates. For simplicity, the 'passport' eligibility condition, of working age and benefit or WTC eligibility, under which around 5.52 million people would be eligible, is used. The figures below also assume that recruitment costs, most of which will come from the cost of writing to all eligible individuals, are £1 per eligible individual upfront. The match rate is doubled in the first two months, in line with the recommendation under 'Inertia (3)' (page 59).

The costings also assume that individuals save, on average, £16 each month (the mean amount saved per month in the first round of pilots), and that they take one month in six as a savings holiday, as envisaged in the design of the pilot accounts.

These assumptions generate a per-account cost of £38.40 in the first year for the 20p per pound match rate (which would fall to £32 in the second year in which there is no initial bonus), and £96 in the first year for a 50p per pound match rate (£80 in year two). These figures compare well with the average annual cost of ISA tax relief per ISA-holder, of £80.

As can be seen in the table, the first-year costs vary widely, depending on takeup. In the first pilot in Hull, where the scheme operated very similarly to the model proposed here, takeup was 7.5 per cent (Kempson *et al* 2005). In a national scheme, with a higher profile, this is likely to be higher – perhaps in the region of 20 per cent in the first year.

The costs in following years will depend on an even wider range of factors, including initial takeup: because the accounts are offered on a once-in-a-lifetime basis, higher takeup in the first year will lead to lower costs in the second year, and vice versa.

The amount of movement in and out of the eligible group will also affect long-term costs. There is a considerable amount of churn at the bottom of the income distribution; for example, up to eight per cent of those not living in poverty in one year will enter poverty in the next year (Cappelleri and Jenkins 2002). However, some of these will have been in poverty before. This means that the account will be open to a group, over their lifetimes, that is bigger than the group eligible at any one time.

How effective would this delivery model be? It has two main advantages: national coverage, with all individuals meeting the eligibility criteria entitled to an account, and the lack of an eligibility test – instead, government contacts all eligible individuals, informing them of their eligibility.

However, this model loses many of the features outlined in the section above that require a local partnership approach to delivery. Most significantly, cream-skimming could be an issue. Trust is very likely to be a problem in a delivery model in which the main points of contact are with government and financial providers. It will therefore be difficult to recruit those who are experiencing financial exclusion, who most need support in saving in formal institutions, and to provide them with assistance in opening accounts. In this model, it is possible that most takeup would be by those who are likely to save anyway.

Additionally, the personalised elements that can be delivered through a local partnership approach, such as personalised target-setting and an interactive, tailored financial capability element, cannot be delivered.

The local partnership model

The local partnership model is based on the principle of delivery in partnership with local intermediaries. Given the limited capacity of the sector, eligibility is limited. Features would include:

- Each local area would be allocated, on a local authority basis, a fixed number of Saving Gateway accounts, based on some fixed proportion of the local population that meet the eligibility criteria.
- Local organisations, such as housing organisations, citizens advice bureaux and credit unions, bid for central government funds to deliver the account. This contracting process could be administered by government at central, regional or local level – for example, through an expanded Office of the Third Sector, Government Offices of the Regions, or local authorities themselves.
- The successful organisations would be responsible for recruitment, assistance with account opening, and delivery of tailored financial capability linked to the Saving Gateway.

Table 2.2 shows the costs associated with different match rates and numbers of accounts available. In addition to the assumptions made for the national entitlement model above, it is assumed that it costs each local organisation £100 to deliver each account, spread over two years[14]. Also, there are no direct recruitment costs for central government.

The per-account costs of this model are higher than those associated with the national entitlement model, reflecting the higher cost of local delivery.

14. It has cost citizens advice bureaux a similar amount to deliver financial capability in its ‘Financial Skills for Life’ pilots – an average of £105 per participant (ECOTEC 2006).

Table 2.2: First-year costs of the local partnership model

Number of accounts available	20p match (40p in first two months)	50p match (£1 in first two months)
552,000 (10% of national eligibility of 5.52m)	£47m	£76m
110,400 (20% of national eligibility of 5.52m)	£94m	£152m

The local partnership model has the disadvantage of restricted coverage of the eligible group, and of necessitating a locally administered eligibility test, which may act as a disincentive for some people, and would require government auditing of local organisations. Moreover, in areas with low levels of third sector activity, there may not be sufficient third sector capacity for organisations to act as intermediaries.

However, because the account is delivered by local intermediaries, this model is much more likely to engender higher levels of trust, and therefore to recruit those at whom the Saving Gateway is really targeted – the hard-to-reach with low levels of saving, who may have had little experience of formal financial institutions. It can deliver personalised elements of the account – such as personalised target setting and assistance with account opening. It can also be tied more closely with practical, interactive financial education based around the Saving Gateway, by contracting the same local intermediaries that deliver this account to provide linked financial education.

The hybrid model

The last model considered here is a hybrid of the two models outlined above:

- The national entitlement model operates as a baseline. Government contacts all individuals fulfilling the eligibility criteria, inviting them to open an account with a Saving Gateway provider.
- On top of this baseline, there is a local delivery 'boost', with a set number of accounts to be delivered through the local partnership model. These could either be distributed evenly throughout the country, or targeted on areas with the lowest levels of saving and highest levels of financial exclusion.

In Table 2.3 the approximate first-year costs, including delivery costs, of the hybrid model for different takeup rates and match rates are presented, assuming that the total number of local partnership accounts is set at 10 per cent of national eligibility (552,000 accounts). Recruitment costs are assumed to be £1 per eligible individual upfront, plus £100 per local partnership account spread over two years.

The hybrid model represents the best of both worlds. It has the spread

Table 2.3: First-year costs of the hybrid model

Takeup	20p match (40p in first two months)	50p match (£1 in first two months)
10% national takeup plus 10% local partnership boost	£73m	£131m
20% national takeup plus 10% local partnership boost	£92m	£180m
30% national takeup plus 10% local partnership boost	£112m	£229m

of the national entitlement model with respect to coverage – everyone meeting the eligibility criteria is entitled to the account – and the advantage of no eligibility test.

At the same time, it avoids cream-skimming – the local partnership boost means that the account should attract those who have low levels of trust in financial institutions and government. The local partnership accounts can also be delivered with personalised features such as target setting and interactive financial capability.

Which model?

The hybrid model would clearly be the most effective. It is also likely to be the most expensive. This is partly a reflection of the fact that some accounts attract the local delivery premium. But it also reflects that the model is likely to be more effective at recruitment than the national entitlement model, in which entitlement is also unrestricted within the eligibility criteria.

However, in the wider context of total government spending on medium-term saving incentives – £1.75 billion on ISA and PEP tax relief in 2005/06 – the hybrid model is affordable. Even with the fairly optimistic assumption of 30 per cent total takeup in the first year (20 per cent at the national level, with a 10 per cent local partnership boost), and a 50p match rate, the hybrid model will cost in the region of £180 million – just over 10 per cent of what government currently spends on regressive tax-based short- and medium-term saving incentives.

A potential source of funding may, in fact, be to divert some spending on tax-based incentives towards the Saving Gateway, by lowering the annual contribution limits on ISAs. Currently, individuals can save up to £3,000 each year in cash and up to £4,000 each year in stocks and shares. Only the wealthiest individuals, who can afford to save £7,000 each year, would be affected by a reduction in contribution limits. Contribution limits could be reduced, either by abolishing the stocks and shares option (Paxton 2003), or by allowing individuals to invest up to £3,000 each year in an ISA, in cash and/or stocks and shares.

HM Treasury has estimated that £350 million was spent in 2005/06 on tax relief on equity ISAs. It does warn, however, that these figures are subject to a wide margin of error because of the way in which they are calculated. Abolishing equity ISAs would therefore be very likely to provide sufficient funds for a Saving Gateway as envisaged here[15].

Conclusions and summary of recommendations

The short- to medium-term saving framework is failing those who need it most: those on lower incomes and people experiencing financial exclusion. These are the groups who are most likely to need a financial buffer, but who are least likely to have savings. They do not benefit from the regressive tax-based saving incentives on which the current system is based. Redressing this balance is a matter of social justice, and should be a government priority.

To its credit, the Government has made positive progress since 1997, with the introduction of ISAs and the establishment of the Saving Gateway pilots. But this only takes us so far towards a progressive savings framework. Momentum must not be lost: the pace of reform needs to be stepped up. The matched-saving principle needs to be extended on a national basis by rolling out the Saving Gateway from its pilot status to a national scheme. In the longer term, government should consider extending the progressive universal principle to the broader short- and medium-term saving framework. This will be the subject of future ippr work.

This chapter has shown that a national Saving Gateway can be delivered effectively at an affordable price, building on lessons from the pilots, evidence about what works in delivering financial products and capability to those who may be experiencing financial exclusion, and insights from other areas, such as behavioural economics. However, as Ruth Lister has argued, it may not be appropriate for everyone living on a low income to sacrifice their immediate living standards in order to save. The Saving Gateway therefore needs to be combined with other policies that would reduce the financial insecurity associated with living in poverty, including improving benefit levels, reform of the Social Fund and improved access to affordable credit and insurance.

There are four priorities in rolling out the Saving Gateway:

- *Targeting.* In order to be as efficient and as affordable as possible, the Saving Gateway needs to remain closely targeted on the low-income groups who need it the most.
- *Local partnership delivery.* To maximise the reach of the scheme, accounts

15. However, abolishing equity ISAs will not save exactly £350 million each year. This is because the annual cost of tax relief varies according to the number of people who hold equity ISAs, how much they invest each year and the performance of the shares they invest in. If equity ISAs are abolished, some investors who do not use their full cash allowance might divert some of their investment from equities to cash.

need to be delivered by trusted local intermediaries in the community, such as housing associations, citizens advice bureaux and credit unions. These should play a role in recruitment, assistance with account opening and delivery of financial capability.

- *Working with the grain of how people think.* The scheme needs to make use of recent insights from behavioural economics on framing effects and mental accounting in order to maximise its saving-boosting potential.
- *Financial capability.* The Saving Gateway offers a real opportunity to integrate financial capability education with an interactive, personalised element based around saving into the Saving Gateway account. Evidence on financial education suggests that this is the kind of approach that works.

These priorities lead us to make the following recommendations for a national Saving Gateway:

Eligibility

- Eligibility should be targeted on low-income households, who are least likely to have savings already, and who do not benefit from current tax-based incentives to save. A simple eligibility test would be for those who are of working age, and either on benefits or eligible for WTC. Under this definition around 5.52 million people would meet the eligibility criteria in any one year. A preferable (but more complex) eligibility test would extend to all adult members of households eligible for WTC, or in which one adult is entitled to benefits, and to childless low-income working households in which the main earner is under 25 or works part time.

Saving maximums

- The monthly saving maximum should be fairly low, in the region of £25 to £50.
- The total account saving maximum should allow for one saving holiday month every six months.

Match rate

- The match rate (the amount government contributes at the end of the account's term) should be as low as is consistent with kickstarting a saving habit, in order to minimise deadweight costs (the amount spent on the scheme that does not increase saving rates) and reduce the profitability of borrowing to save. No decision on match rate should be taken until we have evidence from the completed evaluation of the second pilots, but it could be in the region of 50p for every pound saved.
- The match rate should be doubled for the first two months of the

account, in order to provide further encouragement to take part.

Saving into the account

- Savers should be able to save by direct debit, and directly from their pay-cheque or benefit payments.
- Savers should be able to access their account balances. The government should match the maximum account balance achieved during the account's term.
- The account should roll over into a savings account on maturity, with an easy option to transfer funds into a Child Trust Fund or pension account.
- Saving Gateway accounts should allow savers to designate different proportions of their savings under different headings, for example a holiday, a Child Trust Fund and a pension, in order to take advantage of people's natural propensity for mental accounting.

Account length

- The account length should be two years. This is long enough to accommodate some of those who want to save for longer than the 18 months of the pilots. However, it should be made clear to those who want to save for shorter periods that they can save for the period they wish up to a maximum of two years, by withdrawing their full account balance at any time, as it is their maximum balance that is matched at the end of the account.

Providers

- To maximise accessibility and consumer choice, the account should take the form of a product wrapper: legislation should set out generic terms and conditions for Saving Gateway accounts, within which credit unions, building societies and banks can offer accounts. National Savings and Investments should also supply accounts through the Post Office to ensure national coverage by a trusted provider.

Delivery model

- The account should be available to all who fulfil the national eligibility criteria. Government should contact all of those who are eligible, informing them of their eligibility, to eliminate the need for an income test.
- In each local authority area, local organisations such as housing associations, citizens advice bureaux and credit unions should be contracted to deliver a set number of accounts. They would be responsible for recruitment, assistance with account opening and, possibly, delivery of integrated financial advice.

- The accounts should be publicised in the workplace in partnership with employers.
- Information about the accounts should also be available through other networks such as Jobcentre Plus, Sure Start centres, doctors' surgeries and schools, and should be given to Social Fund borrowers when they have paid off their loans.
- Marketing of the account should be focused in areas with low levels of third sector activity.

Financial capability

- Saving Gateway accounts should be linked to tailored, interactive financial education based around the account, provided by local intermediaries involved in delivering the accounts. Savers should be involved in setting individually-tailored saving targets at account opening.

Costs

It has been estimated here that, assuming a total takeup rate of 30 per cent in the first year, with a third of these accounts delivered by local organisations, and a 50p match rate, costs in the first year would be in the region of £180 million, including the costs of delivery. This is just over 10 per cent of the £1.75 billion the Government currently spends each year on ISA and PEP tax relief. One possible source of funding would be to abolish equity ISAs, on which the Government spent approximately £350 million in 2005/06. Such a change would affect only the wealthiest investors.

References

Note: web references correct at November 2006

Altmann R (2003) 'Beyond tax relief – a new saving incentives framework' in Paxton W (ed.) *Equal Shares? Building a Progressive a Coherent Asset-based Welfare Policy* London: Institute for Public Policy Research

Association of British Insurers (2003) *ABI Pensions and Savings Survey* London: Association of British Insurers

Attanasio O, Banks J and Wakefield M (2004) *Effectiveness of tax incentives to boost (retirement) saving: theoretical motivation and empirical evidence* IFS Working Papers W04/33 London: Institute for Fiscal Studies

Bateman I, Munro A, Rhodes B, Starmer C and Sugden R (1997) 'A test of the theory of reference dependent preferences' *Quarterly Journal of Economics* vol 112.2: 479-505

Bennett F and Dornan P (2006) *Child Benefit: Fit for the Future* London: Child Poverty Action Group

Bernheim B and Garrett D (1996) *The Determinants and Consequences of Financial Education in the Workplace: Evidence from a Survey of Households* Stanford Economics Working Paper 96-007. Available at www-econ.stanford.edu/faculty/workp/swp96007.pdf

Brown J and Thomas W (2005) *Basic Bank Accounts: The Case for a Universal Service Obligation* London: New Economics Foundation

Burrows R and Wilcox S (2000) *Half the Poor: Home Owners with Low Incomes* London: Council of Mortgage Lenders

Cappelleri L and Jenkins S (2002) *Modelling low-income transitions* Working Papers of the Institute for Social and Economic Research paper 2002-08, Colchester: University of Essex

Choi J, Laibson D, Madrian B and Metrick A (2003) 'For better or for worse: default effects and 401(k) savings behaviour' in Wise D (ed.) *Perspectives on the Economics of Ageing* Chicago: University of Chicago Press

Clancy M, Grinstein-Weiss M and Schreiner M (2001) *Financial Education and Savings Outcomes in Individual Development Accounts* Washington University in St Louis Working Paper. Available at http://129.3.20.41/eps/hew/papers/0108/0108001.pdf

Collard S, Kempson E and Whyley C (2001) *Tackling Financial Exclusion: An Area-based Approach* Bristol: The Policy Press

Collard S, Kempson E and Dominy N (2003) *Promoting Financial Inclusion: An Assessment of Initiatives Using a Community Select Committee Approach* Bristol: Policy Press

Dawnay E and Shah H (2005) *Behavioural Economics: Seven Principles for Policy-Makers* London: New Economics Foundation

Department for Constitutional Affairs (2006) *Information Sharing Vision Statement* London: Department for Constitutional Affairs

Department for Trade and Industry (2006) *The Postal Network* webpage. Available at: www.dti.gov.uk/sectors/postalservices/UK%20Policy/page28842.html

Department for Work and Pensions and National Statistics (2006) *Family Resources Survey 2004-05* London: The Stationery Office

Department for Work and Pensions (2006a) *Households Below Average Income 2004-05* London: The Stationery Office

Department for Work and Pensions (2006b) *Security in Retirement* London: The Stationery Office

ECOTEC (2006) *Evaluation of the Citizens Advice National Financial Capability Project* Birmingham: ECOTEC. Available at www.citizensadvice.org.uk/index/publications/financial_capability_publications.htm

Emmerson C and Wakefield M (2001) *The Saving Gateway and Child Trust Fund: Is Asset-Based Welfare 'Well Fair'?* London: Institute for Fiscal Studies

Emmerson C and Wakefield M (2003) 'Increasing support for those on lower incomes: is the Saving Gateway the best policy response?' *Fiscal Studies* vol 24.2: 167-195

England J and Chatterjee P (2005) *Financial Education: A Review of Existing Provision in the UK* Department for Work and Pensions Research Report No 275, London: The Stationery Office

Epley N and Gilovich T (2001) 'Putting adjustment back in the anchoring and adjustment heuristic: differential processing of self-generated and experimenter-provided anchors' *Psychological Science* vol XII: 391-396

Financial Services Authority (2006a) *FSA Factsheet: Income Withdrawal: A Retirement Option for You?* London: Financial Services Authority

Financial Services Authority (2006b) *Financial Capability in the UK: Establishing a Baseline* London: Financial Services Authority

HM Treasury (2001a) *Savings and Assets for All* London: The Stationery Office

HM Treasury (2001b) *Delivering Savings and Assets* London: The Stationery Office

HM Treasury (2004) *Promoting Financial Inclusion* London: The Stationery Office

HM Treasury (2005) *Exploring the Role of the Third Sector in Public Service Delivery and Reform: A Discussion Paper* London: The Stationery Office

HM Treasury (2006) *Budget 2006: A Strong and Strengthening Economy: Investing in Britain's Future* London: HMSO

Institute for Fiscal Studies (IFS) and Ipsos MORI (2006) *Interim Evaluation of Saving Gateway 2* London: Institute for Fiscal Studies

Kahneman D (2002) *Map of Bounded Rationality: A Perspective on Intuitive Judgement and Choice* Nobel Prize Lecture, 8 December. Available at http://nobelprize.org/nobel_prizes/economics/laureates/2002/kahneman-lecture.html

Kahneman D and Tversky A (1979) 'Prospect theory: an analysis of decision under risk' *Econometrica* vol XVLII: 263-291

Kempson E and Whiley C (2000) *Understanding small savers II* Pearl Welfare Study Programme, Peterborough: Pearl Assurance

Kempson E, McKay S and Collard S (2005) *Incentives to Save: Encouraging Saving Among Low-income Households* Bristol: Personal Finance Research Centre, University of Bristol

Kooreman P (2000) 'The labelling effect of a child benefit system' *American Economic Review* vol 90: 571-83

Legge K, Hartfree Y, Stafford B, Magadi M, Beckhelling J, Predelli N and Middleton S (2006) *The Social Fund: Current Role and Future Direction* York: Joseph Rowntree Foundation

Madrian B and Shea D (1999) *The Power of Suggestion: An Analysis of 401(k) Participation and Saving Behaviour, Working Paper* Chicago: University of Chicago

Mills G, Patterson R, Orr L and DeMarco D (2004) *Evaluation of the American Dream Demonstration: Final Evaluation Report* Cambridge, MA: Abt Associates

Miliband E (2006) Speech at Third Sector Review Launch Event, 15 May. Available at www.cabinetoffice.gov.uk/about_the_cabinet_office/speeches/emiliband/pdf/third_sector_review.pdf

National Consumer Council (2003) *Everyday Essentials: Meeting Basic Financial Needs* London: National Consumer Council. Available at www.ncc.org.uk/moneymatters/basic_financial_needs.pdf

National Consumer Council (2005) *Basic Banking: Getting the First Step Right* London: National Consumer Council

National Statistics (2006) Annual Survey of Hours and Earnings 2005 London: ONS. Available at www.statistics.gov.uk/downloads/theme_labour/ASHE_2005/Table1_7a.xls

Paxton W (2003) *Tax-Efficient Saving: The Effectiveness of ISAs* London: Institute for Public Policy Research

Pensions Commission (2004) *Pensions: Challenges and Choices* London: The Stationery Office

Pensions Commission (2005) *A New Pension Settlement for the Twenty-First Century* London: The Stationery Office

Prime Minister's Strategy Unit, with the Department for Work and Pensions, Department for Health, Department for Education and Skills and Office of the Deputy Prime Minister (2005) *Improving the Life Chances of Disabled People* London: HMSO

Regan S and Paxton W (2003) *Beyond Bank Accounts: Full Financial Inclusion* London: Institute for Public Policy Research

Sandler R (2002) *Review of Medium and Long-term Retail Savings in the UK* London: The Stationery Office

Schwartz B (2004) *The Paradox of Choice: Why More is Less* New York: Harper Collins

Sherraden M (1991) *Assets and the Poor* New York: ME Sharpe, Inc

Thaler R (1999) 'Mental accounting matters' *Journal of Behavioural Decision Making* vol 12: 183-286

Thaler R and Benartzi S (2004) 'Save more tomorrow: using behavioural economics to increase employee saving' *Journal of Political Economy* vol 112.1: 164-187