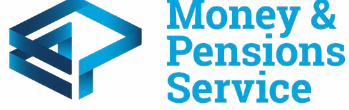
Supporting emergency saving

Briefing paper 1 – policy considerations and questions for future research

BlackRock.



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About Nest Insight

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The UK’s auto enrolment context

The UK introduced pensions auto enrolment in 2012.

Under the legislation, employees and employers make mandatory minimum contributions each pay period into a pension scheme based on their eligible earnings. Jobholders must be automatically enrolled if they make £10,000 or more a year, though they can also ask to be enrolled by their employer if they earn less. Larger employers were brought into the programme first, with employers of all sizes participating by February 2018.

The level of minimum mandatory contributions into defined contribution (DC) pension schemes was increased in phases, starting with 1% of band earnings for employees and 1% for employers, rising in April 2018 to 3% for employees and 2% for employers and rising again in April 2019 to 5% for employees and 3% for employers. Workers can receive tax relief from the government on their contributions, currently an equivalent of 1% of their 5%.

Employees can opt out of auto enrolment, or stop contributions later. Our research has found that, even after the most recent rise in minimum contributions, 90% continued to participate.

To learn more, see **Essentials of the UK retirement system**.

Research programme overview

The sidecar savings model is a hybrid saving tool that combines an accessible 'emergency' savings account with traditional defined contribution (DC) retirement saving.

The approach was developed based on ideas originally set out by a group of US researchers[1] to help people create a better balance of short- and long-term saving that fits more closely with their financial needs and preferences.

Building financial resilience

The savings tool is designed to help address two key challenges facing many DC pension savers:

1. **A lack of short-term emergency savings**

   According to research by the Money and Pensions Service (MaPS), only 44% of working-age adults in the UK have £500 or more in savings on hand and 26% have no savings at all. This means that an unexpected financial shock, such as a car repair bill, could leave many people with little choice but to seek money from elsewhere. This may include turning to friends and family, using existing credit cards or reducing spending wherever possible. But some people might have to cancel pension contributions to free up cash or resort to high-cost sources of borrowing which, if not managed carefully, could lead to debt spirals – the effects of which may be felt into retirement. Being stuck in debt can also cause excessive levels of stress for an individual, which in turn can have a knock-on effect on their health, productivity and earning capacity.

2. **A need to save more for retirement**

   For some workers, saving at the auto enrolment minimum contribution level is likely to provide a meaningful uplift in their quality of life in retirement. Others, however, may need to save more in order to fund the lifestyle they want in later life. Direct appeals to people to increase contributions can often be ineffective. But pre-commitment devices, where people commit now to saving more later, have had significant success[2]. The sidecar savings model uses the idea of a pre-commitment to save more for retirement once the more immediate pressure of saving for emergencies has been met.

1 See John Beshears, James J. Choi, Mark Iwry, David John, David Laibson and Brigitte C. Madrian, Building emergency savings through employer-sponsored rainy-day savings accounts (June 2020), **nber.org/chapters/c14346**

2 See Richard H. Thaler and Shlomo Benartzi, Save More Tomorrow: Using behavioral economics to increase employee saving (February 2004), **jstor.org/stable/pdf/10.1086/380085.pdf**

Trial partners and design

This two-year research trial is supported by BlackRock, the Money and Pensions Service (MaPS) and JPMorgan Chase. The research is being led by Nest Insight, working with academics Sarah Holmes Berk, John Beshears, James Choi, David Laibson and Brigitte Madrian as well as MaPS.

Salary Finance is the trial's technology partner, providing the savings tool which will be introduced in participating workplaces under the name 'Jars'. The emergency savings' accounts are provided by Yorkshire Building Society.

At the time of publication, participating employers who have gone live with the Jars savings tool trial include Timpson, the University of Glasgow, BT and StepChange.

Over the length of the trial, we'll be examining the impact of the savings tool and following workers on their savings journey to measure:

- Who signs up to use the savings tool? What levels of participation do we see? Does it attract new savers?
- How do people use the savings tool? How much do they save? How often and why do they withdraw money from their emergency savings account? And does it help them to save more for retirement?
- Does the savings tool have a positive impact on workers' financial resilience and wellbeing?

Figure 1

How does the savings tool work?

1

Sign up
The saver signs up at a dedicated Jars portal. This process takes 5–10 minutes.

Pick emergency savings target
The saver selects the amount to save from each pay packet and sets their savings target. Editable defaults are offered as a starting point.

Set up emergency savings account
The saver opens a new 'instant access' savings account. This will be their emergency savings jar, which sits alongside their existing pension pot.

Auto deposit into emergency jar
Their chosen amount is deducted from their salary each pay period. At first this money goes into the emergency savings jar.

Auto rollover to pension pot
Once their savings target is reached, the salary deduction is sent to the saver's pension pot, on top of their normal auto enrolment pension contributions.

Tap into emergency savings
The saver can take money out of their emergency savings jar as often as they want. Whenever the balance drops below their savings target, this salary deduction starts going into the emergency jar again.

About this series of briefing papers

Nest Insight is approaching the end of the first phase of its sidecar savings trial. From January 2021, all participating employers will have implemented the Jars tool and we'll start the clock on two years of steady-state data gathering which will form the basis of the final programme evaluation.

We have learnt a great deal in this first phase. This series of briefing papers, Supporting emergency saving, is intended to share these initial insights.

The briefing papers in turn set out emerging ideas for how sidecar savings might be implemented from the perspective of policymakers and the industry, explore the experience of employers providing Jars for their workforce and look at the experience of the employees to whom it has been offered.

This first briefing paper explores some of our emerging insights about how sidecar and sidecar-like savings approaches could be supported, and their impact maximised, in the future.

Section 1

Supporting greater adoption of sidecar savings through policy and product design

In 2018 Nest Insight officially announced its sidecar savings research programme looking at ways to support emergency saving alongside retirement saving. Our sidecar savings trial aims to test the effectiveness and impact of a hybrid workplace savings tool called Jars which combines short- and long-term savings goals.

Savings are made via payroll deduction, firstly into an emergency savings account and later, when a savings target is reached, into the individual's workplace pension on top of the regular contributions they're already making under the UK's pensions auto enrolment programme. This supports saving by allowing individuals to 'set and forget' what they're saving now for the short-term and in the future for retirement.

Because we are still enrolling employers into our sidecar savings trial, it is too early to draw conclusions about the efficacy of our trial tool, called Jars, in driving improvements in financial wellbeing. It is also too early to analyse in detail how, and at what scale, the sidecar savings accounts are being used.

However, the policy debate around approaches to support short-term emergency saving has come to the forefront because of the Covid-19 crisis. Insights from the early stages of our trial may also be relevant to considerations around the future level of minimum contributions under auto enrolment, and potentially to other areas of policy such as the development of succession plans for the Help to Save programme, which provides a government match to saving by people on benefits, when it expires in 2023. So while our trial is still in the early stages, we think it is important to share what we have already learned from the procurement, tool development and employer and employee set-up processes.

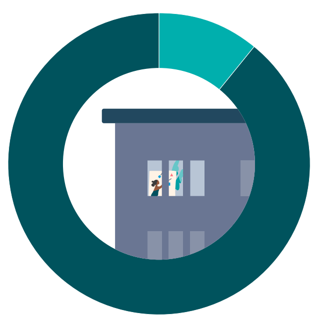
To this end, over the coming months we'll be publishing a series of briefing papers that review our preliminary findings about how sidecar savings can be implemented. This first paper looks at public policy and product development implications. The second paper will cover the experience of employers and our tool provider in rolling out Jars to employees, drawing on qualitative research with our participating employers to date. A third paper will focus on the experience of employees being offered the savings tool, drawing on qualitative and quantitative research with eligible employees, including those who have and have not signed up to use Jars.

Emergency saving during Covid-19

No project about financial behaviour in general, or emergency saving in particular, can discuss emerging insights in 2020 without referring to the unprecedented context of the pandemic. The pandemic has had a major impact on the world's economies and people's financial outlook. This has, of course, also impacted our sidecar savings research programme and the Jars trial.

Together with our participating employers, we've had to rethink whether and how to continue rolling out Jars to employees. While some of the challenges have been logistical, there are also bigger issues to consider. Many people's finances have been dramatically affected by the pandemic, in terms of both incomes and outgoings.

Financial standing in the first month of the pandemic



11%

of households were in serious financial difficulty

17%

of households were struggling to make ends meet

68%

of those in serious financial difficulty had no savings to draw on

Source: Standard Life Foundation, Coronavirus financial impact tracker (April 2020), **standardlifefoundation.org.uk/our-work/financial-tracker**

According to the debt charity StepChange, 4.2 million people had to borrow to help make ends meet. Most often they did this by using a credit card (1.7 million) or a bank overdraft (1.6 million). However, a large number (980,000) have turned to high-cost credit products to get by. And those who were less financially resilient before the pandemic are more likely to have been affected by its economic consequences. 45% of people with severe problem debt at the time of the outbreak saw a negative impact on their finances, compared to just 25% of those who were more financially resilient when the pandemic began[3].

The Covid-19 crisis puts a strong spotlight on the importance and benefits of having access to liquid savings in an emergency, reinforcing the case for interventions like our sidecar savings trial. The current situation also draws attention to considerations of whether a period of relative economic crisis is the right time to offer such a saving tool, or for an individual to take up the offer.

We've been encouraged by the fact that our participating employers continue to see the value in the sidecar savings trial. As the UK began to emerge from nationwide lockdown in summer 2020, we were able to work with these employers to promote awareness and take-up of the Jars tool in a way that is salient and sensitive to the new context their employees are living through.

3 StepChange, Coronavirus and personal debt: a financial recovery strategy for households (June 2020), **stepchange.org/Portals/0/assets/pdf/coronavirus-policy-briefing-stepchange.pdf**

Emerging insights

Three themes have emerged as we have developed the Jars savings tool and set up with the first participating employers:

1. In principle, both employers and employees are attracted to the idea of a payroll deduction emergency savings tool with a pension saving rollover feature.
2. Operationally, employers say the design and implementation of the Jars tool, as well as the employee sign-up journey, have worked well.
3. There appear to be significant barriers to employees voluntarily signing up to use the savings tool as currently designed, even when they say they are interested in doing so. As a result, take-up within the trial has been low. However, the rate is comparable to trials of savings models by others, suggesting that behavioural barriers are a factor.

This briefing paper takes the third of these conclusions as a jumping-off point to review how existing public policy, regulatory and product design frameworks could be employed or evolved to encourage workplace emergency saving if the case for the wider use of these tools were to be made in the future.

Our aim is to share what our experience so far tells us about how sidecar-like savings tools could be maximised, rather than to advocate for any specific change. We continue to believe that further insights from our trial and other research are needed to evidence the case for the expanded use of workplace emergency savings tools.

Supporting implementation at scale

Our Jars pilot has been built within current policy and regulatory frameworks in the UK. This means the trial tool has to provide an emergency savings account that is separate to the worker's pension pot. It has to be funded solely by contributions from the employee. It has to manage different tax treatments for contributions going into emergency savings versus those going into retirement savings. And it can only be offered on an opt-in basis.

We think it is important to review the benefits and limitations of the current policy and regulatory frameworks as we consider possible programmes to enable workplace emergency saving going forward. In this paper we look at:

- using an automatic enrolment mechanism to encourage take-up
- building emergency saving into pensions auto enrolment policy
- providing financial incentives to save for emergencies
- boosting supply capacity to support adoption
- optimising the hybrid savings tool design

More research is needed on the practical implementation of the sidecar savings model. As we begin to have more data on employer and employee use of the Jars tool, we'll be in a position to evaluate whether this form of behavioural intervention can help improve people's short-term financial resilience.

In the meantime, we hope this paper will contribute to thinking among policymakers and the pensions and employee benefits industry about how to ensure sidecar savings and sidecar-like models can have maximum possible impact.

Section 2

Using an automatic enrolment mechanism to encourage take-up

Auto enrolment in pensions has proved highly successful in the UK[4]. Can a similar approach be used to enrol workers into a sidecar savings model?

There is clear evidence that the move from an opt-in to an opt-out model has dramatically increased participation in workplace pension saving[5]. There are good reasons to expect that this would also be true for workplace emergency savings tools. However, at present it is unclear to what extent a version of auto enrolment for emergency savings is possible under current regulations.

Workplace pension accounts created through auto enrolment are set up with a pension provider by an employer on behalf of their employees. This is possible in part because workplace pensions in the UK aren't subject at the point of set-up to the same degree of 'know your customer' (KYC) checks on a person's identity and financial condition[6] which apply to most regulated banking and other financial products. Identification and verification checks for workplace pension accounts primarily happen when a person chooses to withdraw funds from, or close, their pension pot. In addition, the UK's auto enrolment regulations specifically prohibit any action being required of the employee to set up a workplace pension pot. For both these reasons, new data security processes and checks may need to be established to allow employees to be enrolled in a sidecar savings tool like Jars.

4 Vanguard and Nest Insight, How the UK saves: Essentials of the UK retirement system (October 2019), **nestinsight.org.uk/wp-content/uploads/2019/10/How-the-UK-saves-Essentials-of-the-UK-Pension-System.pdf**

5 DWP, Automatic enrolment evaluation report 2019, **gov.uk/government/publications/automatic-enrolment-evaluation-report-2019**

6 Financial Conduct Authority, Know your customer (March 2006), **handbook.fca.org.uk/handbook/COB/5/2.html?date=2006-03-01**

To start, the employer and partnering financial institution would need to establish a process for setting up employees' emergency savings accounts which they were confident met the relevant KYC standards without requiring direct input from the individual. The right safeguards would also need to be in place to ensure that an individual wasn't precluded from accessing their emergency savings because of data entry errors in the set-up process. Separate to this, there may also be issues with European regulations around direct marketing and unfair commercial practices, which generally preclude 'inertia selling'[7] into financial products.

Since supporting people in building emergency savings seems to be an uncontroversial goal, and one that is a growing focus of governments in the UK and elsewhere, it seems reasonable to assume that a suitable regulatory framework might be achievable to enable auto enrolment. More work is needed, however, to establish not just what regulatory changes might be needed but also what is already possible.

More research is also needed to establish whether auto enrolment is as effective in driving take-up of emergency savings tools as it has been in increasing pensions saving. We need to study whether an auto enrolment tool for emergency savings accounts would be as welcomed by people in the UK as auto enrolment into pensions saving has been.

To this end, Nest Insight has recently been accepted into the sixth cohort of the Financial Conduct Authority's regulatory sandbox programme[8], which allows organisations to test innovative propositions with real consumers in a controlled environment. Within this programme we will be developing a trial of auto enrolment into Jars or a similar savings tool, testing both the parameters of what's possible within current regulatory constraints and the efficacy of auto enrolment mechanisms for this kind of saving. We plan to publish our findings from this sandbox programme in late 2021.

7 Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013, **legislation.gov.uk/uksi/2013/3134/pdfs/uksi_20133134_en.pdf**

8 **fca.org.uk/firms/innovation/regulatory-sandbox**

Section 3

Building emergency saving into pensions auto enrolment policy

Given the success of the UK's auto enrolment programme in increasing retirement saving, could the scope of that programme be expanded to include an element of emergency saving?

The previous section deals with the case where an employer might wish to offer an opt-out emergency savings tool like Jars as part of their employee benefits package. This would be on a voluntary basis, similar to how pension saving worked prior to the introduction of auto enrolment. Another option would be to consider whether emergency saving could or should be built into the UK's existing framework for mandatory auto enrolment of eligible employees into pension saving.

Minimum contribution levels under auto enrolment are 8%, comprising 3% of band earnings contributed by employers and 5% contributed by employees, the latter including 1% in tax relief. These levels were intended to strike a balance between a range of considerations stemming from the Pensions Commission's analysis and recommendations. On the one side were questions around how far the state should encourage, versus merely enable, people to save towards a particular level of income replacement in retirement. On the other side were issues of what employees and employers might deem to be affordable and acceptable.

We do not believe there is a good case for allowing people to access their defined contribution (DC) retirement savings early, as is allowed in some other countries. Nor do we believe that savers should be able to divert any portion of the current 8% minimum contribution to an emergency savings account. This is because the commonly held view within the pensions policy and provider community is that the 8% contribution will not prove sufficient to fund an appropriate level of income replacement for most people through their retirement years.

But it is also important to recognise that people face competing calls on their income, including the money they have available for saving. These calls might include servicing student debt, servicing other debt and saving for a deposit on rented accommodation or home ownership. All are relevant to a person's financial wellbeing, and it won't always be clear for a given individual at a given time whether they should tip the balance further in favour of saving for retirement.

Currently, the policy framework around auto enrolment is binary. An individual who is unwilling or unable to contribute to their pension pot at the mandatory minimum level for individuals (5%) also loses their entitlement to the employer contribution (3%).

Our previous research suggests that the rise in 2019 from a combined minimum contribution level of 5%[9] to 8% was already biting at the margin for a small number of individuals[10]. Further contribution increases, either directly or through the proposed abolition of the lower qualifying earnings limit[11], could therefore make more people feel that pension saving was unaffordable if this binary element is retained. Indeed this is a risk that government highlighted in the 2017 review, suggesting that they would wish to explore ways to ensure any future increases were affordable.

9 2% contributed by employers and 3% contributed by employees, the latter including 0.6% in tax relief.

10 Vanguard and Nest Insight, How the UK saves: the effects of the second savings rate increase (June 2020), **nestinsight.org.uk/wp-content/uploads/2020/06/How-the-UK-Saves-the-effects-of-the-second-savings-rate-increase.pdf**

11 DWP, Automatic enrolment: review of the earnings trigger and qualifying earnings band for 2020/21 (February 2020), **gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-202021**

This suggests that, if a consensus can be built around further increasing minimum contributions, it could be worthwhile to consider some sort of safety valve to reduce the potential that individuals will opt out of auto enrolment due to perceived affordability.

One approach might be to allow some of any future rise in individual contributions to be channelled first into an accessible emergency savings account. There could then be a rollover to the pension pot after a certain level has been reached. This is similar to the design of our Jars tool. This sort of safety valve would support improved financial wellbeing in the near term alongside increased retirement saving in the medium term.

Were both employee and employer contributions scheduled to rise again, a hybrid approach might be effective. In this model the next tranche of individual contributions would flow into an accessible account while employer contributions continue to go into the employee's pension pot, as long as the employee remains enrolled in the pension scheme. This would mimic an approach which, at least pre-Covid, had been gaining attention in the US. In this model, employer matching contributions into a retirement account can serve a range of purposes in addition to supporting retirement savings. One example is the Freedom 2 Save programme offered by Abbott Laboratories[12], where employees servicing student debt have their loan payments matched with employer pension contributions.

12 **abbott.mediaroom.com/2018-06-26-Abbott-Announces-Freedom-2-Save-Program-for-Employees-to-Address-Student-Debt**

Section 4

Providing financial incentives to save for emergencies

Financial incentives were built into auto enrolment for pension saving. Could similar incentives be created for emergency saving?

Saving for retirement has significant financial incentives under the UK's auto enrolment programme. These include mandatory employer contributions and publicly funded tax relief on employee contributions. Together, these make saving at the current minimum contributions level for auto enrolment a financially attractive proposition for people relative to other forms of saving.

As is discussed in the next chapter and made clear in work elsewhere on this topic, an important feature of true 'emergency' saving is that it should be fully accessible, and that access should be encouraged not disincentivised[13].

As it stands, there are relatively few financial incentives for true emergency savings. Investment growth in Individual Savings Accounts (ISAs) is tax-free. But for emergency saving, cash ISAs are more suitable as they provide the easiest access to a stable level of money. Savings in these types of ISAs currently see very limited growth due to the prevailing low-interest environment limiting the benefit of tax relief gained on the interest earned. Stocks and shares ISAs may currently offer more potential for growth, but as they are also more volatile they are less suitable for short-term or emergency savings goals. In both cases, the incentives available are much less than for retirement saving, which also attracts relief on contributions.

Two government programmes offer a more direct match for non-pension savings contributions in the UK – Help to Save[14] and Lifetime ISAs[15]. The Help to Save programme is limited to those receiving particular state benefits. The government provides a match on savings, but this is based on the highest balance reached, meaning withdrawals early on can significantly reduce the eventual match. So again, the goal of this account differs from 'true' emergency savings. Lifetime ISAs are targeted at larger-scale medium- to long-term saving goals such as home purchase and retirement income.

We believe some consideration could be given to how to create a more compelling set of financial incentives to save using sidecar savings and sidecar-like tools.

Part of the answer may lie in employer contributions – an employer match for emergency saving as part of an employee benefits package would already technically be possible. This does not appear to be emerging organically, however. One barrier to this is clearly affordability – not all employers will be willing or able to meet the cost of an additional financial contribution alongside what is already required under the UK's auto enrolment rules. However, we do know that some employers offer additional matching of pension contributions that is not taken up and may, to some extent, have budget available for matching of this kind.

From speaking to employers about our sidecar savings research programme, we believe that part of the reluctance to offer a direct match of this kind towards emergency savings may come down to these savings accounts being viewed as 'too liquid'. Some employers see an employer match directly into an employee emergency savings account as essentially a relatively frictionless pay rise for their workers, which given the possible payroll complexities can be more easily achieved through more conventional approaches.

13 Aspen Institute. The Cycle of Saving: What We Gain When We Understand Saving As A Dynamic Process. **aspeninstitute.org/publications/the-cycle-of-savings/**

14 **gov.uk/get-help-savings-low-income**

15 **gov.uk/lifetime-isa**

This may make Abbott Labs' Freedom 2 Save programme an attractive model for forward-thinking employers wishing to incentivise their employees to take up a sidecar savings tool. Following this model, employers could 'match' employee contributions to an emergency savings account by making contributions into the individual's workplace pension. Because these employer contributions would be made to the worker's pension pot, the employer would benefit from existing financial relief on contributions to their pension, creating a further incentive for them to consider this approach. There are no legal barriers to employers adopting this model today, but the industry, benefits consultants and government could perhaps do more to encourage the approach among employers considering implementing payroll-deduction emergency savings.

It is not the purpose of this research to advocate for specific policy interventions or changes. But if increasing workplace emergency saving were to become a goal of government in the future, consideration could also be given to whether some part of the existing framework of government-funded savings incentives, including pensions tax relief and matched contributions to Help to Save and the Lifetime ISA, might sensibly be repurposed to support this goal. This would likely have a significant impact on participation as well as on the pace at which people were able to build a bank of emergency assets.

Section 5

Boosting supply of emergency savings products

The Jars savings tool essentially takes a 'two pot' approach, where a short-term savings account and pension savings account are provided separately with some integration between the two to enable contributions to roll over.

This is conceptually simple but there are significant practical considerations to address in order to achieve this simplicity in reality.

Our sidecar savings trial is delivered in partnership with Salary Finance, a regulated financial wellbeing benefits provider that offers a range of debt and salary-advance products in the workplace. We chose to partner with Salary Finance following an extensive procurement exercise. Salary Finance already offered a payroll savings product alongside its other products and was able to fulfil our requirements for developing the Jars savings tool.

Salary Finance has been an outstanding partner, whose expertise and capability have contributed to the successful launch of the Jars tool to our participating employers. At the same time, our experience procuring and developing Jars with the company, as well as our ongoing review of the financial products market and sidecar savings trials in other countries, have highlighted challenges in the supply of emergency savings tools.

We have observed that:

- The market for providing payroll-deduction savings is still developing. Fully open-market providers are still relatively few in number. While credit unions in particular are active in this space, many are relatively small. This limits capacity for offering sidecar saving tools at scale to the broader population of mass-market savers and their employers. The lack of a developed market may also play a role in the limited appetite among employers for this kind of workplace benefit.
- The commercial proposition of providing low-balance, accessible savings accounts is likely to work only as part of a portfolio of financial products with a level of cross-subsidy between them. This will be a barrier where employers are less interested in offering other financial products in addition to an emergency savings tool to their employees.
- Traditional banks have the combination of scale, diversified product base and core savings account capability that would seem to make them prime candidates to offer a sidecar savings tool. However, these institutions generally lack either employee benefits expertise or payroll integration services and, in at least some cases, do not support account set-up without an in-branch interaction.

Supply is an evolving landscape. There is a broader range of providers now than when we kicked off this project in late 2018. We're aware, for example, of the Building Society Association's pledge to create 1 million new workplace savers by 2025. However, we believe there is scope for exploring alternatives to the two-pot approach.

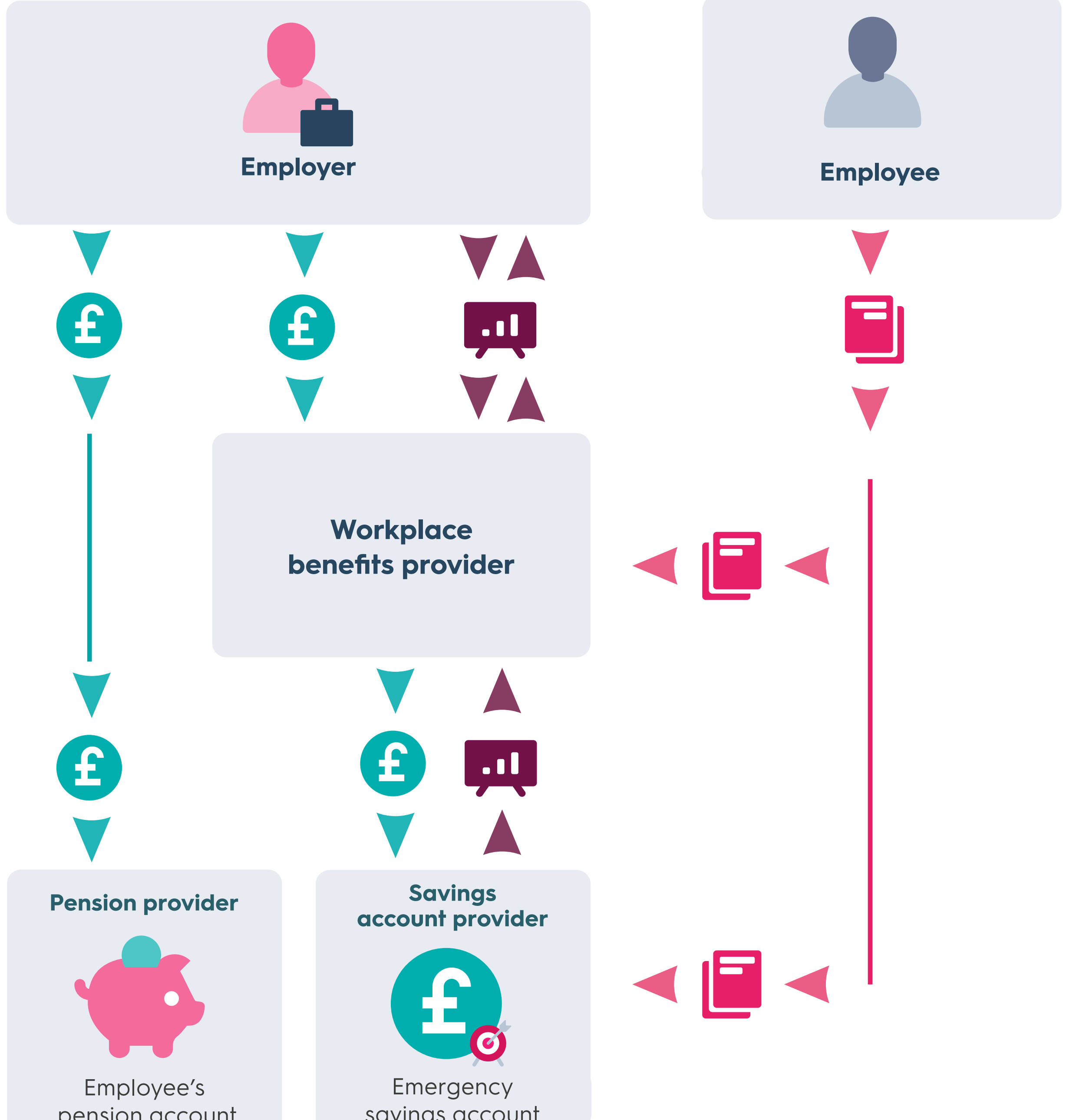
In the US, where our partner BlackRock is funding the Emergency Savings Initiative (ESI)[15] with a focus on low- to moderate-income households, an alternative model is being explored. The ESI is evaluating the effectiveness of 'in plan' products, which are offered by some recordkeepers within the legal and administrative wrapper of the employer's retirement savings plan. Figure 2, on the next page, compares the Jars' approach with the in-plan model.

15 savingsproject.org

Figure 2

Two-account model

- The employee signs up to save with the workplace benefits provider and opens an account with the savings account provider. Employee eligibility is validated by the benefits provider with the employer.
- The benefits provider instructs the employer to make contributions on behalf of the employee into the employee's emergency savings account and/or to the employee's pension account, taking account balance information from the savings account provider to establish whether the emergency savings target has been reached.
- The employee currently manages the two accounts separately, although there is integration of information via APIs.

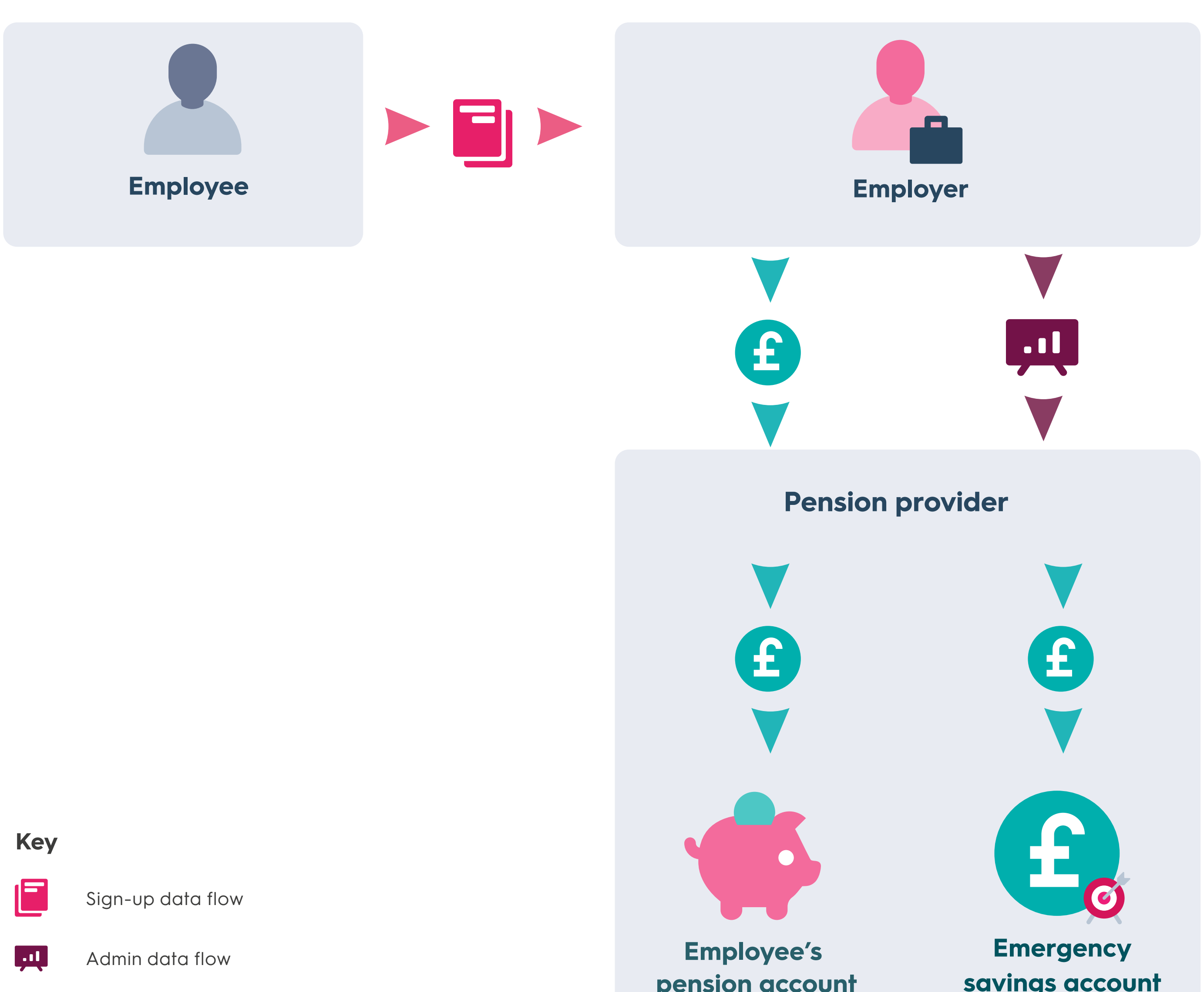


In-plan model

- The employee signs up to save with their employer.
- The employer pays over the total amount that needs to be contributed for each employee to the pension provider.

The pension provider splits the contribution between the emergency and pension accounts, or sends it all to the pension account if the emergency savings target has been reached.

- The user can manage both accounts through one interface.



There are a great many differences between retirement savings in the US and the UK in terms of whether the in-plan model could translate. In the US, retirement savings can be accessed early by paying a penalty. There are also provisions for accessing savings without a penalty in some situations. For example, 401(k) plans for pre-tax retirement saving in the US offer some degree of penalty-free access to savings, particularly in the case of qualified medical expenses which can sometimes lead to short-term financial distress. There is also a channel for post-tax retirement saving, known as the Roth individual retirement account (IRA), which allows individuals to access their savings for certain expenses, such as education and home ownership, before retirement without penalty. Of course, the regulatory frameworks are also different in the two countries.

On the face of it, however, the in-plan model has attractions when viewed through a UK lens. The large pensions master trusts in the UK already operate effective payroll integration and account administration services for thousands of employers. Offering a separate emergency savings 'wallet' within these schemes would leverage much existing technology. Further, as established businesses with a clear primary purpose and product, and with many operating as 'profit for member' schemes, any emergency savings tool would only ever need to cover its own costs rather than serve as a strategic driver of profit. Schemes would also be well placed to manage any rollover component between accounts.

An in-plan model could also broaden access to sidecar savings to employers offering workplace pensions that operate through salary sacrifice or 'net pay' schemes, in which pension contributions are made from gross pay. Currently the two-pot model we are trialling is compatible only with 'relief at source schemes' which take contributions from net pay, so that both emergency savings and pension savings can be treated in the same way by payroll. And, in general, the user experience of managing both of these workplace savings products in a single interface would be relatively easier than under the two-pot model.

We believe consideration would need to be given to the operational, governance and regulatory elements of having master trusts offer emergency savings tools alongside pensions. However, the idea of master trusts being able to provide very simple, deposit-and-withdrawal-only savings accounts has instinctive appeal given the constrained market for these products. It could help to quickly expand capacity in the payroll-deduction emergency savings space.

Section 6

Designing hybrid savings tools

The Jars trial raises a number of questions about how the sidecar savings model might be expanded beyond the current trial design to consider a wider range of short-term savings needs.

The two types of saving brought together in the Jars tool are emergency saving and retirement saving. The importance of having liquid savings for the short term is well documented. We also believe that long-term financial wellbeing depends on having enough put aside to handle unexpected costs. Put simply, people may only be able to save enough for their retirement if they are financially secure today, and their retirement saving will go further if they reach retirement with less debt or free from debt.

People clearly need support to build more emergency savings. Research by MaPS conducted before the Covid-19 crisis revealed that only 44% of the UK working population had £500 or more available for emergencies, and 26% had nothing. And the impacts of the pandemic have naturally increased people's awareness of the need to protect against financial shocks.

There are, however, a variety of purposes and forms when it comes to short-term savings accounts.

In considering the direction of future product design and engagement strategies it is important to acknowledge that the purpose of emergency savings as understood within our trial is different to that of other short-term savings that are more goal-driven. Such goal-based saving might include saving for a flat or house deposit, an upcoming event like the arrival of a new child or the purchase of a 'big ticket' item like a car or holiday. The purpose of the savings in our trial is also not precautionary saving, for example saving to cover the possibility of a sustained loss of income, where the 'three months of salary' rule of thumb is often used. For goal-based saving a notice period to access savings might be appropriate, as might incentives based on a limited number of withdrawals.

In our Jars tool, we designed the emergency savings element to have an instant-access online account for a reason: so the saver can get to their money straight away if they need it, for example when their car or boiler breaks down. In our previous research we have seen that having an emergency buffer in place brings peace of mind. This emotional benefit can be more valuable than the marginal difference in interest rate that might be achievable from a less accessible savings account option.

Motivations for saving will also be different. For goal-based saving, the individual may often be motivated by knowing what they are saving towards. They can focus on building to that outcome. Product design and communications can therefore reward progress towards the target and discourage withdrawals.

In contrast, for emergency saving, there is no known expense in mind. Savers need to feel they can and should withdraw their money if they need it. Having money in the account, and using it in case of an emergency, should be seen as success rather than as a failure to progress towards their saving target. This is why we designed Jars so that savings contributions only flow into the person's pension pot when the value of the emergency account is at least at the level of the individual's emergency savings buffer target. Any time money is withdrawn from the emergency account and the account value falls below this threshold, contributions again start flowing into the emergency savings jar.

Both types of short-term saving – emergency and goal-based – serve important personal finance needs. While the first iteration of hybrid saving we are trialling currently is a two-pot structure, it could be possible in the future to build a more sophisticated three or more pot structure to encourage saving. The group of academics we are working with on this trial have already considered a three-pot model[16] comprising a completely liquid account, a completely illiquid account and an account with an early withdrawal penalty of around 10% to optimise economic efficiency and behavioural preferences.

Future research and tool innovations could focus on expanding the number of saving pots and explore how best to combine them. It should ask whether saving should always be sequenced or split concurrently between the different pots. It might also explore how the design could be made to flex automatically to individual priorities and circumstances, allowing the saver to set goals and have their money distribute itself accordingly. It would also be useful to consider joined-up models for paying off debt in combination with saving.

One group for whom accessibility of savings is particularly important is self-employed people. In the UK, this population fails to benefit from auto enrolment into retirement savings. In our research looking at how to support self-employed people to save we have learned that the often variable and uncertain nature of income from self-employment acts as a barrier to pension saving[17]. We hope to be able to trial a form of sidecar saving with self-employed people in the near future.

However a hybrid savings tool is structured – across two or more pots, and with either parallel or sequential approaches to moving the flow of contributions between them – it is vital that the overall amounts being saved are sufficient to meet the different goals people have. And in any structure beyond the two-account model we're already trialling, additional financial matches and incentives to participate are likely to play an important role.

16 John Beshears, James J. Choi, Christopher Clayton, Christopher Harris, David Laibson and Brigitte Madrian, Optimal illiquidity (July 2020), **nber.org/papers/w27459.pdf**

17 **nestinsight.org.uk/research-projects/self-employed-pension-saving**

Section 7

Conclusions and next steps

There is a growing consensus that the sidecar savings model can be effective in helping to improve people's overall financial resilience.

The model features prominently in MaPS' financial wellbeing strategy[18], and is finding favour among organisations such as the Pensions and Lifetime Savings Association (PLSA) and the Association of Independent Professionals and the Self-Employed (IPSE)[19].

The evidence base for the long-term benefits of the model still needs to be built, but its attractions are obvious. This has never been truer than in the current crisis, when so many people are suffering from a lack of short-term accessible savings.

However, if sidecar savings programmes are to become a common feature of the workplace benefits landscape, employers, government and the financial industry need to develop ways to ensure the model operates effectively. Key to this will be ensuring programmes can be implemented at scale. We believe addressing the areas discussed in this briefing paper would help to support this.

On the face of it, based on the roll-out of our Jars savings tool with the first set of participating employers, the following appear to be promising avenues:

- allowing, and more clearly encouraging, employer adoption of auto enrolment into sidecar-like tools
- building sidecar elements into future evolutions of the UK's mandatory auto enrolment policy
- considering employer- and government-funded models for financial incentives to support take-up and ongoing savings
- exploring a role for pension providers, especially master trusts, in supply
- considering alternative design approaches to sidecar savings tools to incorporate other savings goals or to better fit the specific needs of subgroups of workers such as self-employed people

We expect to publish more detailed thinking on these avenues over the coming year as evidence emerges from our savings tool trial. In the meantime, we hope this and future briefing papers will generate discussion around these approaches, and prompt further research and analysis of the sidecar savings model.

18 MaPS, UK strategy for financial wellbeing 2020–2030, **moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing**

19 IPSE, How to solve the self-employed pensions crisis (June 2018), **ipse.co.uk/ipse-news/news-listing/how-to-solve-the-self-employed-pensions-crisis.html**

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