StepChange response to HM Treasury consultation on reform of Help to Save

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Contact: adam.butler2@stepchange.org

StepChange Debt Charity London Office Floor 3,
27 Queen Anne’s Gate, London SW1H 9B

Introduction

StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2022 over half a million people contacted StepChange seeking debt advice or guidance with their problem debt, a 20% increase on 2021. 187,000 people completed full debt advice through our online and telephone service, a 9% increase on 2021.

StepChange research shows that problem debt carries significant social costs to individuals and society.[1] The most common cause of problem debt is a combination of life events that have a negative financial impact, such as unemployment, ill-health and relationship breakdown, and low financial resilience.[2]

Savings are central to building financial resilience that helps protect people against problem debt arising from disruptive life events. Our research has shown the likelihood of falling into problem debt is 44% lower if a family has £1,000 saved.[3] If every household could maintain a fund of at least £1,000, the number of households at risk of problem debt would be reduced by 500,000.

The level of savings among UK households is too low: in 2020, 17% to 22% of UK adults have less than £1,000 of savings.[4] One consequence of this is that many households have low financial resilience. The proportion of UK adults who meet the Financial Conduct Authority's (FCA's) definition of low financial resilience increased from 20% (or 10.7 million) in February 2020 to 24% (or 12.9 million) in May 2022.[5]

In a financial resilience context, savings meet multiple purposes, including:

- budgeting and cashflow management;
- coping with unexpected expenses such as repairs and replacements for household items; and
- coping with life events, such as unemployment, ill-health or disability and relationship breakdown.

There are also many reasons those with low- to middle-income want to work towards near-term savings goals that have benefits to themselves or their household, but their ability to do so is limited.

While there has been substantial support from the government to support household saving, with current expenditure of close to £7 billion annually, a relatively small proportion of that support is directed to low- to middle-income households with low financial resilience.[6]

Help to Save has its origins in long-running government interest in supporting savings. The Saving Gateway was proposed in 2001 and piloted twice before the then government committed to a scheme.[7]

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[1] StepChange Debt Charity (2016) *Cutting the cost of problem debt*; National Audit Office (2018) *Tackling problem debt*
[2] StepChange Debt Charity (2019) *Life happens: Understanding financial resilience in a world of uncertainty*
[3] StepChange Debt Charity (2017) *Becoming a nation of savers*
[4] Financial Conduct Authority (2022) *Financial Lives 2020 survey: the impact of coronavirus*, p. 53
[5] Financial Conduct Authority (2022) Financial Lives 2022 survey
[6] Resolution Foundation (2023) *ISA ISA Baby: Assessing the Government's policies to encourage household saving*
[7] HM Treasury and HMRC (2008) *The Saving Gateway: operating a national scheme*

That scheme was ultimately abandoned and later revived in an adapted form through the present Help to Save scheme.[8]

StepChange advocated for and welcomed the Help to Save scheme and participated in an advisory group to support the scheme's roll out. The scheme has been broadly successful for those who are able to access it. However, we note that take-up among the eligible group appears to have stalled and evaluation evidence suggests that the design of the scheme means that it is not accessible for the majority of the eligible group.

With these factors in mind, we believe the government should work to make the scheme more accessible, including:

- Extending eligibility criteria to ensure support reaches more low- to middle- income households with low financial resilience by:
    - introducing personal and household income criteria (alongside the present means-tested benefit criteria), building on the Savings Gateway model; and
    - removing the in-work requirement, which is currently tenuous (because eligibility based on work status is assessed at only one point) and excludes many of the households whose financial resilience is most likely to be improved by the scheme. We also note the single take-home pay requirement in UC appears to disadvantage single people and single parents (because the requirement is the same flat-rate amount for couples and single people, so single people must earn proportionately more.)
- Increasing the monthly savings limit, at minimum to respond to inflation. We would also encourage the government to consider making a more significant increase in the monthly limit alongside a new cap on the total bonus amount for the assessment period. This would provide more flexibility for users to make 'catch-up' payments if they are not able to make a full payment in some months while not unduly increasing the public cost of the scheme.
- Increasing incentives to participate in the scheme by reducing the frequency of the bonus assessment period—we suggest to a year—and resetting the assessed balance at the end of each period.
- Allowing eligible people to access the scheme more than once: given even two periods of eligibility would inherently be long-term, we suggest Help to Save should be given a permanent structure in which users continue to be eligible for bonus payments so long as the account holder meets the scheme eligibility criteria. While increasing long-term costs to government, this approach would bring the level public funding to support savings among households with low-incomes in line with existing support for those with higher incomes, and boost the financial resilience of households with low- to middle-incomes with significant wider social benefits.

More generally, we note promising early results from Nest Insight's pilot of an opt-out workplace savings scheme (alongside positive results using an opt-in model).[9] This suggests a route in which the government ensures a legal framework that supports employers to operate payroll savings schemes that

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[8] HM Treasury (2016) [Help to Save: consultation on implementation]()

[9] Nest Insight (2023) *Workplace sidecar saving in action*

could, for eligible people, be linked to Help to Save accounts. This would help to increase take-up and support continued regular saving.

We also note that while the current Help to Save scheme has strengths in terms of the relative simplicity and attractiveness of the bonus in comparison to commercial savings products, it is not portable with other savings accounts. This may constrain the impact of the scheme on encouraging long-term saving for those who are no longer eligible (because a Help to Save account cannot be transferred to an ISA or other savings account). A portable savings account in which users can access the Help to Save bonus alongside the incentives offered by commercial providers could be a potentially powerful vehicle to integrate Help to Save users into other long-term savings products and support long-term regular saving among UK households.

Finally, we would encourage HM Treasury to work, as part of the government's financial inclusion agenda, with the Department for Work and Pensions to continue to build and update the evidence base on the budgeting and savings needs of households with low- to middle-incomes, alongside continuing test and learn evaluation of Help to Save, and use this insight to develop the government's savings offer for that group.

Response to consultation questions

Question 1 Considering the focus on working people with low incomes, what changes, if any, would you recommend making to the eligibility criteria to reach the target group? How could that be implemented? Please provide details.

Take-up of the Help to Save has been too low, falling short both of the total number of eligible people and the government's estimates of likely take-up. This means that the scheme is not yet meeting its intended aim of supporting regular saving at sufficient scale to make a strategic impact.

The evaluation of the scheme commissioned by HMRC strongly indicates who of the eligible group is able to take-up the scheme and who is not, with the majority (92%) of users making the maximum monthly payment into the scheme.[10] We note later in this response suggestions to increase take-up by making the scheme more attractive for those who cannot consistently pay the full monthly maximum amount into the scheme. However, the manner in which take-up has been constrained also shows how the present relatively narrow approach to eligibility will limit the strategic impact of the scheme on savings and financial resilience among low- to middle-income households.

Alongside design changes to the operation of the scheme, the government should widen eligibility. We note the Resolution Foundation's suggestions of potential approaches to widen eligibility, by updating (uprating) criteria matching those of the Savings Gateway (those in receipt of an out-of-work benefit and individuals aged 16-64 with individual earnings up to £25,000 and household earnings below £50,000). This appears to us a broadly sensible approach. While assessing eligibility would become more complicated, it does not appear to be more so than other government-administered support schemes such as the tax-free childcare scheme.

[10] HMRC (2021) *Help to Save Customer Experience Research: Quantitative and qualitative findings from research with Help to Save customers*

Question 2 Do you think savers should be able to open another account after their first Help to Save account matures or is closed? Should there be any restrictions to doing so? What are your reasons?

The timed structure of Help to Save accounts alongside the present 'one time only' model could be a disincentive to open an account (because those eligible are uncertain they will benefit to the full extent possible through the scheme). This may lead people to put off entering the scheme.

Evidence of the frequency of disruptive life events among low- to middle-income households means that many people will experience multiple periods in their life when they have low financial resilience and stand to benefit particularly from the Help to Save scheme.

There is also a good case for supporting savings among low- to middle-income households with low disposable income on a rolling basis because savings among this group will often be directed to cashflow management, unexpected expenses and emergencies. The savings challenge for this group is not only to build a rainy day savings pot, but to sustain it through fluctuating budgeting pressures. This is not solely a matter of building a savings habit, but of the means to save – the scheme will therefore have ongoing relevance for this group.

With these factors in mind, we support allowing those eligible to enter the scheme more than once. We would also like to see the government give consideration to making the scheme permanent (with the bonus paid while a user continues to meet the eligibility criteria and the account remaining open until a saver decides to close it). This model could be combined with portability so that savers can, if they wish to do so, move the account to an alternative commercial savings account such as an ISA once they are no longer eligible for Help to Save.

Question 3 To what extent does the limit on monthly savings act as a barrier to maximising the benefits and or objectives of the scheme? Without making the scheme substantially more costly to taxpayers, how could this be overcome? Please provide details.

It is unlikely those who save outside the Help to Save scheme always do so perfectly consistently due to the need or desire to redirect disposable income towards alternative purposes for short periods, such as unexpected costs and discretionary expenditure such as summer activities for children and holidays. It is therefore too rigid and likely to some degree counter-productive to expect the same of users of Help to Save to get the maximum benefit of the scheme. We agree that encouraging regular monthly savings makes sense in most circumstances, but the current scheme does not offer the right balance between that aim and the flexibility to accommodate normal budgeting pressures among the target group.

In addition to increasing the monthly limit to reflect inflation, we would encourage the government to explore ways to make the scheme more flexible so that it is more attractive and practical, and more users are able to access the maximum bonus amount.

To achieve this, the monthly limit could be increased alongside the introduction of a cap on the total bonus payment during an eligibility period. This approach would introduce more flexibility to vary payments to some degree and make 'catch-up' payments without unrealistically increasing the cost per user of the scheme.

Question 4 To what extent does the restriction on replacing savings that have been withdrawn act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details.

The design of the scheme should balance worthwhile objectives like supporting regular saving with the reality of the budgeting pressures that affect the households with low incomes at which the scheme is targeted. The restriction on replacing savings that have been withdrawn is at odds with commercial savings products and seems unlikely to have a significant behavioural impact on users, which means its main impact may simply be to penalise those who experience unexpected budgeting pressures.

We note that among those who use the scheme, the restriction does not appear to cause problems for most users. However, there is nevertheless a case for addressing this issue as it may negatively affect some users, and as part of a wider effort to make the scheme as appealing and practical as possible to its potential users.

Increasing the monthly payment limit could help address this problem (because it will make it easier for users to 'catch-up' with the amount needed to benefit fully from the bonus) but we would also suggest simply removing the restriction on replacing withdrawn savings.

Question 5 Do you think the current limitations on ways to pay money into a Help to Save account presents a barrier for savers? If so, how could this be overcome? Please provide details.

Evidence shows that a significant minority of households with low incomes continue to bank and manage their budget through basic banking services and/or using cash.[11] There are a range of reasons for this, but the most common are using cash to manage a low income (and avoid over-spending) and the reliance of some over-50s on non-digital services and payments. While we do not have evidence of the extent to which these factors affect the group eligible for Help to Save, it seems very likely that of those who are eligible and do not use the scheme, lack of access through their usual route of banking and/or digital literacy is a factor for at least some people.

We note HMRC's Help to Save customer experience research focused on those who already use accounts.[12] We would suggest that to inform consideration of additional ways to manage and pay money into accounts, HM Treasury/HMRC should commission research to understand how the budgeting preferences of households with low incomes affect access to, and use of, the scheme.

We would also encourage the government to examine the potential utility of enabling eligible households to pay into an account directly from Universal Credit (UC). There is an existing infrastructure for third-party deductions from UC administered by DWP and this could potentially be an avenue to set up a tool to set up a regular monthly transfer to a Help to Save account. While this would not work for everyone at every stage of the lifetime of a Help to Save account (due to factors such as people moving in and out of eligibility for UC and fluctuating UC payments), it would offer an additional simple, low-friction way to manage payments into an account.

Question 6 Do you think running the scheme for 4 years provides the best value for money for the taxpayer?

The value for money of the Help to Save scheme should be put in the context of the benefit of the scheme for financial resilience (and the impact this has on public spending through higher employment and lower health and other social costs) and total government spending on savings incentives, which is estimated to

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[11] Savanta: ComRes & the Financial Conduct Authority (2021) *Understanding cash reliance – qualitative research*; Citizens Advice (2020) *Banking on it: How well are post offices delivering cash and banking services?*

[12] HMRC (2021) *Help to Save Customer Experience Research: Quantitative and qualitative findings from research with Help to Save customers*

be approaching £7 billion.[13] We also note that take-up of Help to Save is currently one-tenth of the eligible population; while the government had not assumed all eligible people would take up the scheme, this nevertheless means spending on the scheme has been, and remains, significantly less than anticipated. We therefore think there is a strong case to increase spending on the scheme to meet important cross-government public policy goals such as increasing financial resilience and financial inclusion, and supporting positive life outcomes across health, relationships and employment.[14]

In particular, as we have noted, we support steps to improve take-up among the existing eligibility group and to extend eligibility to a wider group. We also support reducing the length of the bonus calculation period while extending the lifetime of the scheme.

Question 7 Could incentivising a regular, long-term savings habit be better achieved over a different time period? Please provide details.

The precarity of low- to middle-income household finances alongside the regulatory of financially disruptive life events such households face mean that supporting rainy day savings requires continuing ongoing support. In light of ongoing budgeting pressure, the requirement to lock up money for a significant period is also likely be an obstacle to the type of rainy day saving the scheme aims to support. As a result, we think the best model for the scheme is one in which an account is permanent (as long as a user wishes the account to remain open) and bonus payments are linked to a shorter assessment period than the present two-/four-year structure. One year appears most likely to provide a simple and easy to understand but still 'long-term' structure.

Question 8 To what extent does the bonus structure or calculation method for savers act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details.

HMRC's evaluation shows that the current bonus structure discourages people who have withdrawn money from a Help to Save account during the first two years of opening the account from contributing in years three and four (because they have less prospect of 'earning' a bonus). To address this problem, the government should shorten the calculation period so that entitlement to a bonus is reset and those eligible for the scheme have an incentive to continue saving as long as the account is open.

Question 9 Without making the scheme substantially more costly to taxpayers, what changes, if any, would you suggest to the bonus structure or calculation method to improve customer understanding and uptake? Please provide details.

We advocate in this response for:

- Increasing the monthly payment limit, at minimum in line with inflation. We also suggest increasing the monthly limit more significantly but introducing a cap on the total bonus. This would provide some flexibility for users to vary payments from month to month, in line with the budgeting practicalities faced by many in the target group (and many commercial savings products) while controlling the public cost of the scheme.

[13] Resolution Foundation (2023) *ISA ISA Baby: Assessing the Government's policies to encourage household saving*
[14] HM Treasury (2022) *Financial Inclusion Report 2021/22*

- An annual rather than bi-annual bonus alongside a reset of the maximum (assessed) balance each time the bonus is paid.

- Moving away from the current one-time access approach to an open-ended structure for those who continue to meet the eligibility criteria for the scheme.

Question 10 Do you think a change in bonus frequency would make it simpler to understand and/or create a bigger incentive for the target group to save? Please provide details.

Yes, we believe increasing the bonus frequency would support long-term savings more effectively than the present model – we would suggest an annual bonus payment assessment period but would welcome work by government to examine the impact of potential options. The prospect of a bonus payment within a more reasonable (but still 'long-term') period is likely to encourage more people to use the scheme, would fit better with the disruption many people with low- to middle-incomes naturally experience to their ability to save consistently, and would help address the problem of many users not getting the full benefit of the bonus payments available while maintaining a strong incentive to save regularly.

Question 11 Are any complexities or barriers caused by paying the bonus to the saver outside of the Help to Save account? What changes would you suggest to the way the bonus is paid to the saver? Please provide details.

The current structure of Help to Save accounts, with bonus payments made outside the account, has advantages (such as allowing users to use the bonus to meet future savings payments), but could undermine incentives to maintain savings (because the bonus payments become part of the budgeting churn of a current account) and also undermines the potential for portability of the scheme and the likelihood of users continuing to save through an alternative savings account. As part of the long-term development of the scheme, we would encourage the government to consider ways to make the account closer to a standard savings product and portable so that the balance, including bonus payments, can be transferred to another savings account like an ISA.

Question 12 Are there alternative options to encourage and make it easy to continue the savings habit?

The Nest Insight pilots show the promise of workplace sidecar savings schemes and seem to suggest that an opt-out model is most effective in supporting saving.[15] (This means that, similarly to a pensions contribution, an employee has a small amount automatically deducted from their paycheck and transferred to a savings account.) A promising future direction to support saving at a national level is for the government to facilitate the legal change necessary to enable employee-based auto-enrolment sidecar savings schemes. In a Help to Save context, employees might have routes to pay directly into a Help to Save account through a sidecar savings account operated by employers. A government-backed scheme to encourage employees to save with limited costs/overheads for employers would particularly help ensure employers are not discouraged from being part of the scheme.

Question 13 Are any complexities or barriers caused by there being one provider of Help to Save accounts? How could this be overcome? Please provide details.

[15] Nest Insight (2023) *Workplace sidecar saving in action*

We note in this response that we see potential benefits to reforming Help to Save accounts so that they are portable. Simplicity helps make the Help to Save scheme attractive and we think it is important the scheme does not evolve in future in a way that makes it less clear to those who are eligible how they can access the scheme. This noted, ISAs show how a simple incentive design can support diverse market responses that could better meet user's needs. Moreover, portability could facilitate new ways to pay into accounts (such as the employer sidecar savings model we note) and make it easier for users to continue to save and get a benefit from doing so, once they are no longer eligible for the scheme. If take-up of Help to Save can be boosted, it seems likely banks would have some interest in operating Help to Save accounts, with the potential benefits of providers contributing additional incentives and features to compete for customers.

Question 14 Are there any other areas of complexity, barriers or any changes you would suggest for Help to Save that have not been covered in this consultation?

Currently, Help to Save is hard to integrate effectively into free debt advice. StepChange cannot advise those with negative budgets to make payments into a Help to Save account, and the limited assets thresholds (broadly, £2,000) for a Debt Relief Order (or Minimal Asset Process in Scotland) means that advice clients who use Help to Save would not be able to access those solutions, and their only option would be bankruptcy, which is not an attractive option for many due to its more serious impacts through a public register and other features. This seems unfair and inconsistent with the government's public policy aims of supporting recovery from problem debt, particularly where savings are not enough to repay a significant amount of debt and the client has a limited budget surplus (which is likely for those affected by this situation and eligible for Help to Save).

To address this problem, savings eligibility criteria for these debt relief schemes should be relaxed and a budget allowance introduced for contingency savings in insolvency solutions when assessing a client's monthly surplus in line with the current Single Financial Statement principles (10% of a client's budget surplus up to £25). This would make relatively little impact on how much creditors receive while supporting a group with particularly low financial resilience to build a savings pot to help cope with unexpected expenses.

policy@stepchange.org

www.stepchange.org

@stepchange

0800 138 1111