MONEY ADVICE TRUST

Consultation Response:

HM Treasury Help to Save Reform consultation

Response by the Money Advice Trust

Date: June 2023

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2022, our National Debtline and Business Debtline advisers provided help to 140,980 people by phone, webchat and our digital advice tool with 1.87 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2022 we delivered this free training to 2,780 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We very much value the Help to Save scheme and we are very pleased that the intention is to retain the scheme but to ensure that it works as well as it can do to encourage people to be motivated to develop a savings habit and to have a savings pot to use when required.

The key elements that make the scheme work should be retained, including that eligibility for the scheme is continued even if the account holder loses their entitlement to Universal Credit (UC) or Working Tax Credits (WTC) during the savings period, due to a change in circumstances.

From our experience working with people in financial difficulty, we know that providing schemes with instant and easy access is important. People on low incomes are cautious of using savings schemes that have restricted withdrawals, and are reluctant to lock away money they might need. Schemes also need to provide appropriate and simple information and should not set deadlines for matching contributions or withdrawing funds from those with very low savings as this is counter-productive to improving the long-term wellbeing of people experiencing poverty. An inadequate income, debt and poverty may well impede the ability of families on very low income to save regardless of the incentives put in place. This element should not be ignored when looking at savings ideas.

- ✓ We would like to see the Help to Save scheme eligibility criteria to be expanded to allow other people on low incomes to benefit from the scheme.
- ✓ We would like to see the scheme develop to have an element of auto-enrolment, with an opt out, so that people who are harder to reach can still benefit.
- ✓ Alternatively, there needs to be a wide-ranging advertising campaign to ensure people who are eligible to open an account, are aware of the scheme. There seems to be very limited knowledge of the scheme currently.
- ✓ The scheme should be simple, accessible and easy to understand, and ideally have an automatic setup.
- ✓ We think that the savings period could be a lot more flexible to allow extra payments to be made at any time, as long as this is within the broad parameters of the scheme. We would like to see the revised scheme become much more flexible and allow people to withdraw and reinvest money as freely as possible.

- ✓ We would suggest a move to a more frequent annual bonus would act as more of a clear and achievable goal for people to reach. It would make the bonus scheme easier to understand and we believe that it would create a bigger incentive for people to save.
- ✓ There could be further innovative thinking around how to develop Help to Save so that the account is not closed after four years, but rather that people can move seamlessly into another form of savings' account such as through a credit union or other innovative savings scheme.

Responses to individual 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.

We would like to see the Help to Save scheme eligibility criteria be expanded to allow other people on low incomes to benefit from the scheme. For example, those who are unable to work such hours due to sickness, disability or caring responsibilities should also be able to benefit from the scheme. Anyone with extra needs due to their household circumstances or condition is likely to need access to an emergency fund that can help build financial resilience.

At the very least, if the scheme must be concentrated on those in work, then the take-home pay minimum threshold eligibility criteria could be relaxed to allow those on lower pay and fewer hours to benefit. This enables more people to qualify for the scheme, who could then start to build their work hours up further to allow them to make greater savings.

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?

We cannot see why people who are still eligible should not be allowed to open a new account once their bonus has been paid, to enable them to develop a life-long savings habit. We appreciate that the scheme is generous, but the scheme should be looked at from the perspective of supporting the most vulnerable in society to save an emergency fund for household expenses. This assists our clients to avoid taking out high-cost credit they cannot afford to pay back or using illegal lending to help in emergency situations.

We believe that savers should be able to open another account if their account is closed at any time. One of the key problems identified in the initial stages of the scheme was that people might close their accounts by mistake or without understanding the implications of doing so. It would be much more supportive for the scheme to allow people to open another account whenever they like and not penalise those who closed their account inadvertently.

If this is not possible, then, at the very least, where an account has not matured and is closed, then people should be allowed to open a new account.

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.

The maximum savings of £50 a month creates artificial inflexibility into the rules for anyone who has an irregular income, the self-employed, people working on zero hours contracts or who have a change of circumstances. In some months, it might be possible to save well over the £50 limit, whilst in other months it might not be possible to save at all.

However, the current rules do not allow any missed contributions to be "banked" and used the next month. We think that the savings period could be a lot more flexible to allow extra payments to be made at any time, as long as this is within the broad parameters of the scheme (e.g. the maximum that can be paid in at the end of each savings period when the bonus is applied).

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.

We would support Help to Save serving to develop financial resilience that doesn't penalise people for taking out money from their savings pot.

The rigidity of the current scheme with regards to replacing savings that have been withdrawn is likely to act as a barrier for people to fully utilise the benefits of the scheme.

We would like to see the revised scheme become much more flexible and allow people to withdraw and reinvest money as freely as possible. We think the scheme would work better if missing contributions were allowed to be added back in over an entire year or other longer period.

The scheme should minimise any potential counterincentive on people not to take out money when they need it for a household emergency because of the fear of losing the bonus. The concept of a scheme that allows a longer-term savings pot and an emergency pot in the same account is interesting and merits further thought.

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.

We would always support allowing people to make payments into their account in as many ways as possible. There should be as many channels as possible to promote inclusion. We think it is important that people can make payments in a flexible way that works for them.

Many people on low incomes may have a preference for making payments using cash which is not possible under the current scheme. Where people only have basic bank accounts, these may also not offer wide banking facilities and might restrict services such as bank transfers.

It is also worth exploring how payment mechanisms have developed in the years since the Help to Save scheme was set up. This might allow the new scheme to be more flexible and to take advantage of any new technology in payment systems that could make it easier for people to make payments into their account.

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

We would like to see the scheme continue to run for four years but we are concerned that the length of time that people have to wait for their bonuses to be paid could act as a disincentive for them to keep saving.

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

We would suggest that the scheme should be looked at more holistically rather than as a single four-year scheme that ends. After the four years, the account should be rolled over automatically into a new longer-term scheme with a new bonus or interest structure, to ensure that the benefits to developing a long-term savings habit are not lost. This could be a form of starter ISA, or a credit union type account or similar.

This would allow the Help to Save scheme to act as a gateway into other beneficial financial products. People should, of course, be able to opt out at this point, but the default position would be to continue to save.

If this is made as seamless as possible, rather than having to open new accounts separately, set up payments and so on, then this will be much easier for people to engage with.

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.

We would agree with the HMRC customer research that found people did not understand how the four-year bonus scheme worked in practice. When we were part of the working party developing the original scheme, it was very difficult to explain this in any sort of easy-to-understand simple language.

We would agree that this is likely to be a barrier to maximising the benefits of the scheme. Restructuring the scheme so that the bonuses are paid more frequently could be an opportunity to simplify the bonus structure. Expressing the bonus as a 25% return on what is paid in every year might also help. This would potentially be a greater motivation for users in practice.

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.

The calculation method is currently very complicated. The bonus structure would benefit from replacement with a simple annual bonus that works with a more flexible system for allowing people to make payments into their account rather than rigid monthly payments as set out above.

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.

We would suggest a move to a more frequent annual bonus would act as more of a clear and achievable goal for people to reach. It would make the bonus scheme easier to understand and we believe that it would create a bigger incentive for people to save.

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.

We would suggest that the bonus should be paid back into the Help to Save account to add to the savings pot. This would allow the pot to build further in plain sight, rather than the bonus payment being sent to a separate bank account. This would help to foster a sense of achievement and provide a visible reward to incentivise continued participation. At the very least, it is more convenient to see your savings progress in one place.

We are also very much aware that not everyone has easy access to an alternative bank or building society account that they can use as their designated account. This is bound to create a barrier for people on low incomes in the target group to take advantage of the scheme.

We think this requirement should be removed from the scheme.

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

We would like to see further attention paid to developing work savings schemes where employers and employees are incentivised to enable monthly savings via payroll deductions. It is important that such schemes allow flexibility in allowing access to smaller sums which may make it easier for those on low incomes to save.

It is also important to look at how payroll savings schemes could join up for people in low-income work who are eligible for Help to Save or have moved on from Help to Save schemes.

There could be further innovative thinking around how to develop Help to Save so that the account is not closed after four years, but people can move seamlessly into another form of savings' account. This could be through a credit union or other innovative savings scheme, where there would be additional access to other services such as affordable loans, as well as different savings pots to keep rainy day savings and bonus savings in. The results of the no interest loans pilot will be of relevance here in looking at how schemes should work together.[1]

The lessons of the Nest side car savings pilot should also be taken into account when planning future innovative savings models.[2]

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.

When considering the original design of the scheme, we thought it was very important to have a single provider of Help to Save accounts. We still think that the scheme would be more complex and confusing if it was to be run by several competing providers. This would particularly be the case if local and national providers could run schemes.

We do not see that multiple providers will help to promote choice of product, as this is a simple product that should not vary substantially across providers. Indeed, the more providers, the more chance of scams and fraud coming into play and the more confusing it is for consumers.

Branch access is a difficult issue, as NS&I clearly do not operate through branches and would only have internet and telephone support available. We would suggest that making branch access available through the Post Office network would help with this problem. This not only solves the accessibility issue for people without internet access and who prefer to make transactions face-to-face, but would also provide a further boost to Post Office services.

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[1] Learning from our No Interest Loan Scheme proof of concept - Fair4All Finance

[2] Sidecar savings tools could address two of the biggest financial challenges facing UK households, says Nest Insight - NEST Insight Unit

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?

We understand that savings held under a Help to Save account will count towards your maximum savings limit for Universal Credit and other benefits. We would suggest that government conducts research into whether Help to Save has affected eligibility for Universal Credit and other benefits. We would be concerned that this would be an unintended consequence of the scheme. If this is the case, we would suggest some mitigation in how money in a Help to Save account is treated for savings limit purposes in Universal Credit and other benefits such as Housing Benefit.

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