REVEALING REALITY

Hybrid Savings Account Research
Revealing Reality
Final Report

CLIENT

Money Advice Service and NEST Insight

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Executive Summary

BACKGROUND

Auto-enrolment has created a new generation of savers across the UK. Millions of people are now building their retirement savings, often for the first time. However, many still have little or no money on hand to protect themselves from the effects of unexpected, short-term financial shocks.[1] This is a concern. Especially as nearly three-quarters of households receive an unexpected bill every year and 44% of working-age adults have less than £100 in a formal savings account.[2] In partnership with NEST, the Money Advice Service (MAS) wanted to explore whether the success of the auto-enrolment model in pensions could be applied to help address the lack of short-term, emergency savings.

One possible solution is a new concept, a hybrid savings product, called a pensions sidecar account. This is a liquid, capped savings account which sits alongside a workplace pension, topped up by additional contributions.

The high-level principles for a large-scale field trial of the pensions sidecar account have been proposed. But MAS and NEST wanted to test specific features. Specifically, they needed to examine the most appropriate threshold and contribution levels, how best to frame the sidecar proposition, and how best to deliver it.

To meet these objectives, this research developed over two phases:

Phase	Actions
Set up and scoping	■ A literature review/knowledge audit ■ Four interviews with experts from the financial services, marketing and communication industries
Investigating and testing	■ Ten focus-groups around the UK with 4–6 employees of large organisations. All earning £10,000–35,000 per year (gross), in MAS's Struggling or Squeezed segments, and with savings below £500 ■ A single-day workplace visit to observe the employer context, as well as run organised focus groups and ad hoc in-depth interviews with employees

The findings of this research will inform a large-scale field trial of the concept in 2018. This will involve selected employers offering the pensions sidecar account to their employees.

[1] NEST Insight (2017) 'Liquidity and sidecar savings'. Available at: http://www.nestinsight.org.uk/wp-content/uploads/2017/09/Liquidity-and-sidecar-savings.pdf

[2] Money Advice Service (2016) 'Closing the Savings Gap' and event slides. Available at: https://www.moneyadviceservice.org.uk/en/corporate/research

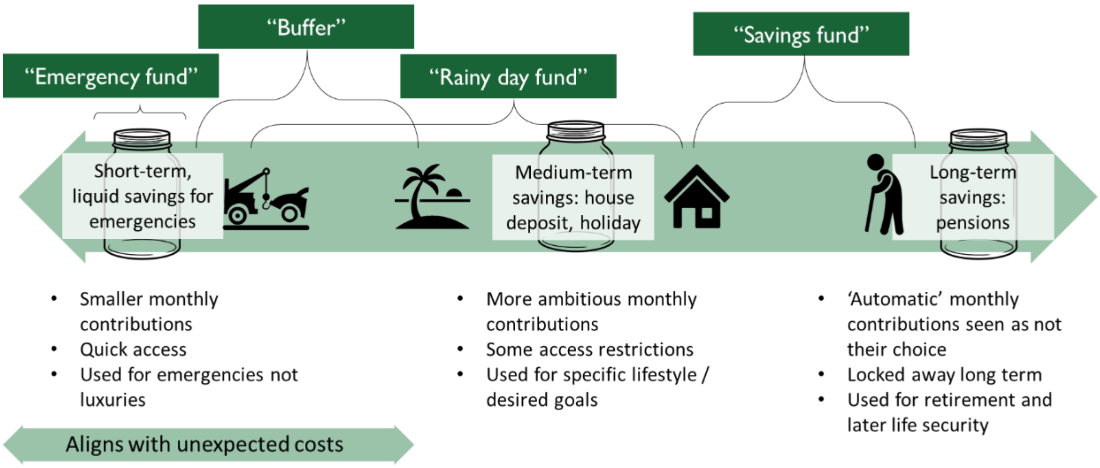
KEY FINDINGS

REACTIONS TO THE CONCEPT

- The pensions sidecar account was largely met with a positive response. Almost all felt having savings "is a good thing".
- The account's main selling point is "peace of mind". Having some savings makes people feel more financially secure.
- A key benefit of the sidecar account is having contributions deducted through payroll. It's easy and imposes some discipline. It means people don't have to think about saving and this might be a powerful tool to overcome inertia.
- Younger people are more optimistic about their ability to save in the future and so viewed the proposition more favourably. Older people, and those with variable-hours employment, are less optimistic.

FRAMING

- The name of the proposition is an important signifier of its purpose.
  - Calling it an "emergency fund" or "buffer" aligns it with unexpected costs. However, this is also makes people think of negative things happening and, as such, isn't a galvanising force for saving money.
  - Calling it a "rainy day fund" or "savings fund" suggests medium-term or long-term savings.



- How the proposition is positioned also affects how it is perceived.
  - Talking about the level of contributions (e.g. £25 per month) is more appealing than focusing on goals (e.g. saving £1,000). When setting goals, people tend to aim high and are then disappointed when they realise how long the goal will take to reach.
  - Framing the product as a 'tool' rather than a savings 'product' or 'scheme' means it's viewed more favourably. It then isn't compared to other financial products and the various incentives they offer.
  - Promoting it as an alternative to high-cost credit is appealing.

- Most want the option to control and change their threshold and contribution levels. While the ideal amounts vary greatly, most expect to contribute £20–60 per month up to a threshold of between £1,000 and £5,000.
- While integral to the current proposition design, some people are suspicious of their contributions overflowing into their pension. For them, this merges two very different saving objectives – short-term, emergency savings and long-term, pension savings. This view is compounded by the fact many feel they are already contributing 'enough' to their pension. (However, throughout the research, we focused on the features, benefits and objectives of the sidecar concept – not those of their workplace pensions.)
- In addition to the pensions sidecar account, many respondents suggested an additional 'middle-pot' would be beneficial. This could sit between the emergency fund and long-term retirement savings. It would be for goal-based savings and would in some way have more restricted access.

1. Background and Methodology

BACKGROUND

According to a report by StepChange Debt Charity, approximately 13 million people lack the savings to afford one month's worth of bills should their monthly income drop by a quarter.[3] There is increasing concern that this is exacerbating a cyclical problem of over-indebtedness, fuelling the demand for short-term, high-cost credit, and in turn making people's financial situations more precarious.

Supporting the development of short-term savings has been identified as a way of overcoming this. According to one report, for those households earning an average net annual income of £25,000 – and taking other significant factors into account – the odds of that household experiencing problem debt is reduced by approximately 44% if they were to have cash savings of £1,000.[4] Currently, many households tend to use a combination of savings and credit, and research reveals that these tend to be substitute goods: the lower an individual's access to savings, the more likely they are to use credit, and vice versa.[5]

In response, multiple initiatives have been implemented to overcome these challenges, most notably, the auto-enrolment pension scheme, the government-funded development of Individual Savings Accounts (ISAs), and the proposed new 'Help to Save' scheme.

Despite these initiatives, many people still don't have the finances available to protect themselves against unexpected bills. Research from the Money Advice Service shows that 44% of working-age adults have less than £100 in a formal savings account.[6] This often leads to debt problems, exacerbated by the fact that many people either do not use, or cannot access, affordable credit to cover them. Thus, there remains scope for an initiative or financial product that works to encourage short-term savings behaviours.

THE PENSIONS SIDECAR ACCOUNT

In recent years, practitioners, researchers and policy-makers have started to develop the idea of a dual-purpose account. In 2014, the idea of a two-tiered system was floated – one which aimed to balance users' liquidity needs with their long-term financial needs – otherwise known as a 'sidecar' account.[7, 8] The term 'sidecar' refers to a short-term savings account, which – when

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3 de Santos (2014) 'Life on the Edge', StepChange Debt Charity. Available at: https://www.stepchange.org/Portals/0/StepChangeLifeontheEdgereport.pdf

4 StepChange Debt Charity (2014) 'Savings and Problem Debt'. Available at: https://www.stepchange.org/Portals/0/documents/media/reports/Savings_Report_Select_FINAL.PDF

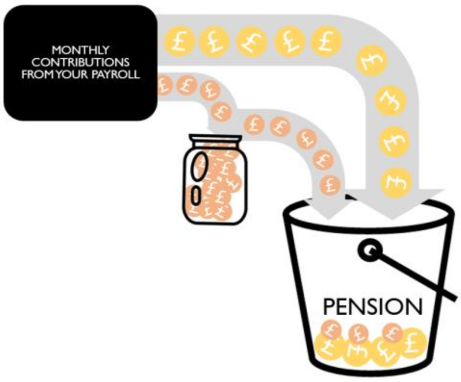
5 McKay (2017) 'Two birds, one stone: using hybrid financial products to manage income volatility', Aspen Institute: Expanding Prosperity Impact Collaborative. Available at: https://www.aspeninstitute.org/publications/two-birds-one-stone-using-hybrid-financial-products-manage-income-volatility/

6 Money Advice Service (2016) 'Closing the savings gap – event slides'. Available at: www.moneyadviceservice.org.uk/en/corporate/research

7 Mitchell and Lynne (2017) 'Driving Retirement Innovation: Can Sidecar Accounts Meet Consumers' Short- and Long-Term Financial Needs?' Aspen Institute. Available at: https://assets.aspeninstitute.org/content/uploads/2017/06/FSP-Sidecar-Accounts-Brief.pdf

8 Beshears et al. (2014) 'Optimal Illiquidity'. Available at: https://eml.berkeley.edu/~webfac/seminars/Optimal_Illiquidity_2014.pdf

established as part of a hybrid product – would usually be paired with a longer-term savings account.



The pensions sidecar account seeks to build on the success of auto-enrolment, and combine this with the need to solve the short-term savings challenge.[9] The process as currently envisaged would require employees to opt in to increase their monthly contributions. This overall deduction would then be split into the appropriate 'pots' – with the original contribution continuing to flow into the pension pot, and the additional contribution flowing into the sidecar account. At the point when the savings cap on the account is reached, the additional savings contribution would begin to flow into the pension pot alongside the original contribution. If the employee withdraws money from the sidecar account at any point, contributions will revert back to the short-term savings pot until it once again reaches the cap.

The development of this pension sidecar savings account is in line with a number of other similar hybrid products. Hybrid products work to boost vulnerable households' financial security,[10] as well as enhancing the overall financial wellbeing of individual savers,[11] through offering the user/customer several services in one. The Aspen Institute's 'Expanding Prosperity Impact Collaborative Initiative' (2017) has identified hybrid financial products as a step in the right direction to supporting families who experience financial difficulty.[12]

> *"The overall concept is excellent ... at an employee level, there's about 17 million employees in the UK with less than £100 of savings"*
>
> Mark Rowlands, NEST
> *Expert Interview*

Moreover, hybrid products have gained increasing attention from governments, private organisations and not-for-profits. Until recently, initiatives designed to encourage short-term savings on the one hand, and long-term savings on the other, have often been offered in isolation, implying a tension between liquid and illiquid savings.[13]

THE OBJECTIVES OF THIS RESEARCH

In this research, the NEST Insight Team and MAS are collaborating to explore the idea of the pensions sidecar savings in more practical terms. This research builds on existing knowledge by testing a hybrid concept with potential users and exploring various design features and delivery mechanisms. Our specific research objectives are to:

- understand existing behaviours in relation to savings, shocks and forward planning, and which structural incentives (i.e. tax relief, employer matching, prizes etc.) might contribute to positive behaviour change
- explore the potential merits of different service features of the sidecar savings account, to maximise user retention and ensure a high-quality user experience
- identify the types of messaging/framing that will 'cut through' to employees to drive engagement with the pensions sidecar account
- present robust recommendations and principles regarding account features and roll-out / communications to inform the large-scale field trial in 2018.

The findings of the research will inform a large-scale field-trial in 2018. This will involve selected employers offering the sidecar account to their employees.

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[9] NEST Insight (2017) Liquidity and sidecar savings. Available at: http://www.nestinsight.org.uk/wp-content/uploads/2017/09/Liquidity-and-sidecar-savings.pdf
[10] McKay (2017) op cit.
[11] McKay (2017) 'Two birds, one stone: using hybrid financial products to manage income volatility', Aspen Institute: Expanding Prosperity Impact Collaborative. Available at: https://www.aspeninstitute.org/publications/two-birds-one-stone-using-hybrid-financial-products-manage-income-volatility/
[12] McKay (2017) op cit.
[13] McKay (2017) 'Two birds, one stone: using hybrid financial products to manage income volatility', Aspen Institute: Expanding Prosperity Impact Collaborative. Available at: https://www.aspeninstitute.org/publications/two-birds-one-stone-using-hybrid-financial-products-manage-income-volatility/

The research methodology for this project can be broken down into two key phases:

- Phase 1 – *set up and landscape scoping*
    - **A knowledge audit** – consisting of rapid desk research and an internal knowledge review around current thinking, existing schemes/initiatives, existing behavioural insight, communications and messaging
    - **4 x Expert interviews (from financial services & marketing and communications industries)** – understanding recent developments and current thinking, as well as discussing potential marketing and communication strategies
- Phase 2 – *investigating and testing*
    - **10 x focus-groups with employees of large organisations** (250+ employees) – taking place during August 2017 in 5 locations across the UK (London, Manchester, Cardiff, Glasgow and Belfast), to test the pension sidecar concept and its key features, as well as the framing, communication and delivery channels that could potentially be used. One of the focus-groups was made up of employees who worked variable hours.
        - Given the technical subject matter, we conducted smaller-than-usual groups – giving us greater scope to engage all individuals in the focus group and enabling us to probe individual responses and explain more clearly the sidecar account concept we were testing, whilst still retaining some diversity in each of the sessions
        - Respondents were asked to complete two 'pre-activities.' These were both selfie-videos. One talked about their experiences of borrowing money and regretting it, and the second asked them to share with us some savings that they have/once had and are/were proud of.
        - To ensure we remained balanced, we built our sample around two dominant criteria: whether people considered themselves to be 'savers' (those with £250-£500 approx. in savings) or 'micro-savers' (those with less than £250 in savings) and their age-group.
        - All had a personal pre-tax income of £10,000 to £35,000 (ensuring a range, but weighted towards those earning between £18,000 and £25,000).
        - All respondents, bar three, were members of NEST or another defined contribution (DC) pension scheme. *NB: The three people that didn't have a DC pension scheme, had decided to opt-out of the auto-enrolment process.*
        - All groups were sampled to meet the criteria of financially 'squeezed' or 'struggling'.[14]
        - Overlaying the core sample framework, we covered the following criteria: 50:50 gender split; spread of ethnicities; a range of employment sectors and geographical spread.
        - All respondents were recruited via a mixed-method approach.[15]

[14] Money Advice Service (2016) 'Market Segmentation: An Overview'. Available at: masassets.blob.core.windows.net/cms/files/000/000/568/original/Market_Segmentation_report_An_overview.PDF

[15] A mixed-method approach to recruitment refers to the combination of various recruitment methods, such as utilising social media as well as more traditional methods, such as on-street and telephone recruitment. It also tends to involve recruiting through a wide business and public database.

2. Key Research Findings

Financial behaviours and needs

SECTION SUMMARY

Almost all respondents that took part in this research recognised that savings were a positive thing, and that they contributed to greater financial security. The vast majority of respondents reported that they struggled to save, and were largely positive about the prospect of tools or support that would help them to do so. There was widescale recognition of the different objectives to savings, and how additional support to save would help them reach their different financial goals, i.e. saving for emergencies, a short-term goal (holiday/car), and a long-term goal (mortgage/retirement).

MOTIVATIONS TO SAVE

Almost all respondents across the groups recognised that savings were a positive thing that could ensure people are more financially secure and resilient to income shocks. Moreover, many reported that a lack of savings was a significant cause of stress and anxiety for them, and the prospect of greater "peace of mind" as a result of more savings was a significant motivator.

"I can't seem to save above a certain amount... I'm always backpedalling"
(30–49, Manchester, saver)

"Every month I put a certain amount away, but there are costs which come out of nowhere which have to be paid for. I usually go into my savings for that"
(Under-30s, Belfast, micro-saver)

Respondents' motivation and aspiration to save varied across the sample – most notably by age-group and life-stage. Respondents within the over-50s segment of the sample were much more pessimistic about their potential to accumulate savings, with many expressing the view that it was too late for them to save enough for it to have a worthwhile impact. Respondents with young families also tended to feel less optimistic about their ability to increase their savings.

Those respondents who had more variable hours employment (and therefore variable income levels) were also among those who were less optimistic about their future finances and ability to save – often reporting that any savings they did manage to set aside during a "good month" was only ever enough to cover themselves during a "bad month".

Younger respondents on the whole were more optimistic about their future likelihood of successful saving. Individuals within the under-30s groups tended to be more positive about their future financial situations more generally – anticipating higher future salaries and ability to make significant financial commitments such as home buying, holidays, cars etc.

Despite the positive attitudes towards saving and the appeal of being in a more secure financial position many felt that their income level didn't allow them to put more than a small amount regularly into savings. They often found themselves withdrawing / using money previously set aside as savings to cover the cost of essentials towards the end of the month.

For some, this seemed to lead to a tendency to discount the prospect of saving at all – and several reported the demotivating effect of seeing savings accumulate extremely slowly. This was compounded by many people admitting that they didn't like to think that negative or challenging events would happen to them – and therefore the appeal of saving specifically for 'emergencies' was less motivating than saving for something enjoyable.

BORROWING AND ACCESSING CREDIT

Across the sample, most respondents had borrowed money to cover unexpected expenses within the last few months – turning to family and friends or credit options (e.g. credit card, credit union, finance deals, overdraft).

While the prospect of having available savings to use as an alternative to borrowing was appealing to most – many felt that it wouldn't necessarily prevent them from using credit or borrowing money. For example, when presented with a scenario such as an unexpected bill or a broken appliance, several respondents reported that they would prefer to borrow money from family or use a 0% interest credit card to pay for this, rather than use their own savings. They felt they would be more likely to feel pressure to repay money to others (e.g. family or creditors) than "repay themselves". This was especially the case when discussing savings they had accumulated with a specific goal in mind – e.g. a holiday or significant purchase.

"I feel like I'd rather borrow it because then I know I have to pay it back, whereas you don't have to pay your pot fund thing back … you don't ever pay yourself back"
(Under-30s, Manchester, micro-saver)

Some individuals across the sample struggled to articulate the practical differences between using a savings pot and some of the low-cost credit options – especially credit unions and 0% finance deals they felt confident they could pay off.

A minority had recent experience of high-cost credit (e.g. payday loans) and reported finding the experience stressful. Most said they thought they had learned from this experience and were trying to manage their money better as a result.

DIFFERENT SAVINGS OBJECTIVES

The term 'savings' was interpreted differently across the sample. For some, 'savings' referred to a separate savings account or savings 'pot'. For others, 'savings' could mean mentally earmarking funds within their current account; giving cash to family or friends to keep aside for them; or attempting to limit their spending so to have something left at the end of the month. Across this spectrum, the majority of the sample considered themselves to be *attempting* to save something each month even if they were not always successful or making significant progress.

Some respondents had designed their own 'self-policing' strategies to try and help them manage money and reduce their spending each month – which included:

- withdrawing the cash needed rather than using their card
- not having contactless on their card
- keeping their card hidden on top of the wardrobe or in the drawer.

Most recognised and could articulate the different objectives one might have for saving and the different qualities these savings behaviours would have – for example, how accessible or 'liquid' savings need to be would depend on what you were intending to use them for.

For example, many people felt that savings set aside specifically for emergencies would need to be easily accessible and liquid, whereas savings set aside for longer-term goals might benefit from reduced access (and therefore temptation to spend).

- Smaller monthly contributions
- Quick access
- Used for emergencies not luxuries

- More ambitious monthly contributions
- Some access restrictions
- Used for lifestyle / desired goals

- 'Automatic' monthly contributions seen as not their choice
- Locked away long term
- Used for retirement & later life security

Although many recognised the benefits of saving for multiple goals (e.g. separate short and longer-term savings), the prospect of 'dividing up' savings in line with these multiple objectives felt overwhelming for many. For many respondents, it appeared there was a disconnect between the savings goals they have and their strategies to achieve them

Some short-term and long-term goals shared by respondents included:

SHORT-TERM GOALS	LONGER-TERM GOALS
"to get out of debt, to pay all people I owe money to"	"to have my own flat and not have to pay rent every month...to be able to not worry about money"
"Save up for a holiday"	"run my own carer company"
"have enough to cover any financial commitments"	"to be financially secure and healthy"
"make regular payments"	"no debt, more savings, pension, clear mortgage"
"to keep putting money away each month..."	"would like to save a deposit to buy my own flat"
"home renovation / new car"	"financial independence / own business"

Although most could articulate various goals that they had, when exploring their perceptions of how much money they could realistically put away each month, some of these goals seemed unrealistic for them.

"If I was doing it for a purpose, I'd up my savings ... don't want to wait years for a holiday, do you?"
(Under-30s, Manchester, micro-saver)

'I think I'm just deluded on what's possible ... one year down the line I'll only have a couple of pounds, is there any benefit?"
(50+, Glasgow, micro-saver)

Account proposition

SECTION SUMMARY

Most people quickly understood the key elements of the idea and welcomed the overall intention to support people to save. During the research, it was clear that many respondents liked the idea that you could contribute to a savings pot via payroll deductions. On the other hand, the overflow feature, was sometimes perceived to be a little complex, especially as most felt that they were contributing sufficient amounts to their pension pot. Despite this sense of security their contributions may not be sufficient to meet their future expectations, particularly for those respondents who are only contributing the minimum required by auto-enrolment..

POSITIVE RECEPTION TO THE SIDECAR ACCOUNT

Overall the sidecar account proposition generated a positive first response – the vast majority of respondents welcomed the intention to support people to save.

"I'm quite proud...it would mean that I don't have to go to my Mum and Dad and ask for money, I'd just have it there – it would reduce the stress"
(Under-30s, Manchester, micro-saver)

"I would feel more relaxed, it's easier than a credit card, almost like a small payday loan you are saving up yourself. Easier, cheaper and less of a commitment"
(Under-30s, Belfast, micro-saver)

Overall, most people quickly understood the majority of the key elements of the account – although a range of consistent questions were often raised up front:

- Does it have to overflow into my pension?
- Can I change the cap?
- Are there risks / could I lose my money?
- How much do I have to put in?
- Who administers it – and what are they getting out of it?
- Who decides when I can access the money?

PAYROLL DEDUCTIONS ARE THE KEY BENEFIT

When presented with the overarching account proposition, the concept of savings being taken directly from respondents' pay was its most popular feature.

Many individuals in the sample were very frequently checking their incoming and outgoing money via mobile banking – in particular towards the end of and beginning of each month around pay day. Many described the moment of seeing their monthly salary arrive in their bank account followed rapidly by the outgoing of bills and regular payments, as stressful and disheartening.

"Young people are more cautious and desperate for help...they want people to be taking the temptation away from them"

Jo Arden, Communications Expert
Expert Interview

Most respondents also recognised that while they felt close to their 'limit' with regards to what they could afford to put aside each month, they had adjusted quite quickly to their monthly income levels after other deductions. In particular, those who had recently undergone pension auto-enrolment realised that 'not seeing' the money deducted from their salary had helped them quickly become accustomed to their new monthly take home income. Many reflected that automatic deductions for emergency savings in this sidecar account may have the same effect.

"Having money taken straight out of your wages, you never see it going – that's a benefit"
(Variable age group, variable hours, Cardiff, saver)

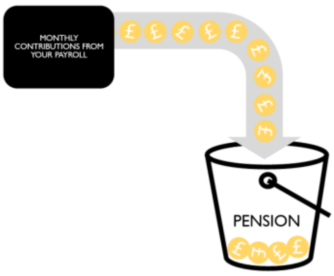
"My struggle is having the discipline to put it aside so it would be good for me. Good for people that struggle to put money aside each month"
(30–49, London, micro-saver)

Nevertheless, some respondents who were more critical of the sidecar account argued that without additional incentives or rewards (i.e. deductions being taken pre-tax), automatic deduction was not a significant benefit and therefore the account did not compare favourably to other types of savings products. However, it is worth noting that most respondents who expressed this opinion did not have any such savings products themselves.

PENSION OVERFLOW IS A CONCERN

Overall, the feature of the account that caused most concern and confusion was the overflow of contributions into pension savings once the savings cap had been reached.

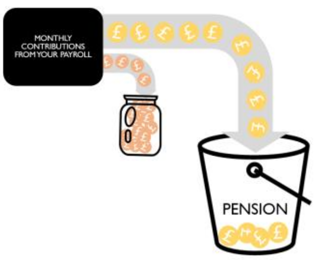
NB: It is important to note here that the benefits of contributing to a pension scheme were not communicated as part of this research. Without doing so, people's perceptions of this overflow element may have been negatively affected.



While the majority of individuals felt broadly positive about the contributions they made to their pension, many felt unsure about the benefits of raising their contributions further.

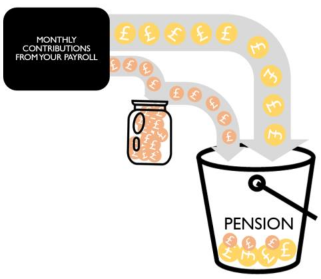
"We're already doing what we've been told to do...we're paying enough into our pension"
(Under-30s, Manchester, micro-saver)

In some instances, there was confusion and misperceptions relating to respondents' pensions. In many cases, people were unsure who their pension providers were, what their contributions were, and what employer matching scheme they had.



In some groups, there was more specific pessimism and distrust of pensions – with some individuals reporting stories of friends or loved ones who had lost workplace pension pots. These individuals in particular were extremely sceptical as to whether it was in their best interests to raise their monthly contributions.

Even among those with more neutral or positive opinions towards their pensions – the differing 'savings goals' of emergency savings and pensions combined into one product or scheme seemed to cause confusion. Without a clear explanation as to why these two goals (short-term liquid savings at one end of the spectrum, and longer-term illiquid savings at the other) would be connected in this way – some people found the two objectives to be conflicting.



"Why would it go straight into my pension? If they want me to have it set aside for emergencies, why would it then get locked away?"
(Under-30s, Belfast, micro-saver)

Many respondents quickly identified that they could withdraw liquid savings to avoid the pension overflow mechanism kicking in – however this felt counter intuitive to the primary goal of the sidecar account (short-term emergency savings).

THE 'THREE JAR' APPROACH TO SAVINGS

As mentioned, one of the reasons the overflow feature of the account was at times confusing for some, was because the 'jump' between an entirely liquid savings account to an 'illiquid' pension pot seemed too big. There seemed to be a disconnect between these two savings objectives for some, and consequently a three-jar approach was suggested as an alternative.

Ideally, this would work similarly to the current sidecar account being tested, but an additional 'mid-way' pot would be incorporated to bridge the gap between an entirely liquid savings pot and an illiquid pension pot. As referenced in the savings behaviour section of this report, people tended to recognise the different objectives and qualities of savings, and when applying this thinking to the account concept being tested they started to see the need for the incorporation of a middle pot.

The aim would be for this pot to act as a slightly 'longer-term' savings pot than an entirely liquid account, but a 'shorter-term' savings pot than an entirely illiquid account, hence the term 'middle-pot'. It could potentially be framed with savings 'goals' in mind, as opposed to 'accumulation over time', to encourage more long-term financial planning.

PERCEIVED WIDER BENEFITS

Although the overall objective of the sidecar savings account was largely met with a positive response, there were some respondents that didn't think it would be useful for them. Nevertheless, most respondents were able to identify wider benefits.

Many thought that it would prevent them from overspending each month. Through making their monthly contributions to their savings pot more difficult to access, they would be deterred from spending it in 'the spur of the moment'. It would enable a moment of reflection where people could think about what they were about to spend their money on and reconsider whether or not it was actually something they wanted to do.

Moreover, if respondents tended to use the savings pot for something other than emergency savings, it could lead to more financial planning and encourage users to save for their future. Additionally, even if the sidecar account was not taken up by employees, it could prompt consideration and discussion of saving methods more generally, and help people to recognise and articulate their different savings needs/desires.

Account framing

SECTION SUMMARY

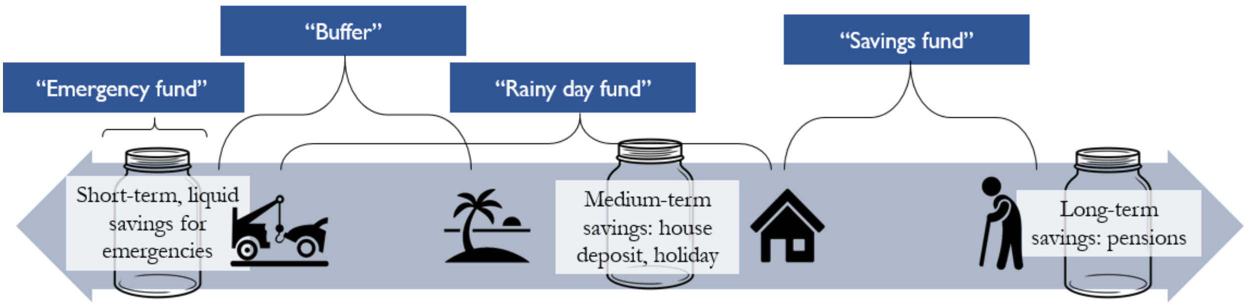
Framing tended to play a key role in determining the way people felt about the pensions sidecar account. The title given to the account impacted on people's perception of the overall savings objective. Moreover, positioning the sidecar account as a 'tool' rather than a 'financial product' seemed to make people less critical overall and think of the account as more likely to help them.

FRAMING IS AN INFLUENTIAL FACTOR

The way the sidecar account is framed has implications for not only people's perception of how they could use their savings, but also whether it would be something they would be interested in using themselves. The language used to describe the account also played a key role in communicating its overarching goal.

For example, the word 'emergency' appeared to align with the overarching objective of the sidecar account. However, it was not seen as a particularly galvanising force for saving money. It tended to make respondents think of the negative things that they might need 'emergency savings' for, which didn't seem to be particularly encouraging in terms of getting people to save. Most preferred to picture themselves saving for more positive things, such as holidays, a car, a mortgage or their children's education.

Moreover, when describing the savings account as an 'emergency pot', many respondents seemed concerned with what constituted an 'emergency'. Questions were immediately raised as to whether users of the sidecar account would have to explain their 'emergency' to someone, who would go on to decide whether they qualify, before granting them access to their savings.



> *"I really don't want someone having to approve whether something is genuine hardship, so access to the money should be unrestricted..."*
>
> Will Sandbrook, NEST
> *Expert Interview*

"Emergency means something you want to put into a pot specifically for emergencies…but then whose right is it to tell me what is an emergency?"
(30–49, Manchester, saver)

"Why should people ask what you're doing with your money?"
(Respondent with variable income in a mixed-age focus group, Cardiff, saver)

On the other hand, when referring to the sidecar account as a 'general savings' account, respondents tended to think more long-term about their savings and what they could achieve.

"I'd use it to pay the mortgage off"
(30–49, Manchester, saver)

"I would want the cap to be high ... there are always expensive things in life, like moving to a new house or family illnesses or vet bills"
(Under-30s, London, saver)

POSITIONING THE PENSIONS SIDECAR ACCOUNT AS A TOOL

One of the most promising ways of framing the pensions sidecar account was as a 'tool' rather than a 'financial product' or 'service'. This tended to make respondents less critical overall and more likely to see it as something that could help them. Some respondents tended to be less likely to express concern over what additional incentives they were going to receive and show less suspicion over who would be providing it. Moreover, when positioned as a 'tool', there was more of a sense of it being something they used and controlled, and respondents tended to worry less about where their money might be going and how it was going to be used.

This was seen as the alternative to positioning the sidecar account as a financial product, which often resulted in respondents talking about comparisons with other available products, and the desire to get the 'best deal'. Unlike the 'tool' framing, a financial product framing often tipped people into 'comparison mode', where they started to think about the benefits/drawbacks compared with other savings products, despite typically not utilising these other options. Examples include, competitive interest rates, additional incentives and rewards. Furthermore, this 'comparison mindset' tended to make people critical of the provider and their intentions for administering it.

"The moment you bung in incentives, I'm going online to compare it to other products"
(50+, Cardiff, saver)

"I wouldn't be interested, unless they were going to give me something..."
(50+, Glasgow, saver)

THE IMPORTANCE OF TRANSPARENCY

Transparency around the overall objective of the sidecar account had important implications for the way people felt about it. Despite emergencies not being a galvanising force for saving, and the fact that none of the respondents had the recommended level of savings to act as a buffer, most understood and recognised the security benefits of having them and often had positive intentions of doing so. Thus, transparency tended to make people more appreciative and trusting of the sidecar account, particularly when referring to the potential of emergency savings to offer 'peace of mind'.

Moreover, when explaining that the sidecar account is designed to support people in avoiding having to use/apply for short-term, high-cost credit, most responded positively.

"By saying it's to stop people going to payday loans – you should say that at the beginning, it's to stop the sharks from getting anything"
(50+, Cardiff, saver)

"It's important to be transparent and tell people exactly what this is – this will make people ask themselves whether or not they could manage better, and question whether this would help them to cut down their debt"
(Variable age group, Cardiff, saver)

Most of the concerns about the sidecar account arose because of confusion about the rationale behind the design of this type of account. For example, some were suspicious that they were being manipulated by the sidecar account (e.g. relating to the automatic overflow to their pension). Nevertheless, clarity over the overarching aims and objectives, and particularly its positioning as an alternative to short-term, high-cost credit, tended to dull this sense of suspicion. People tended to think more positively about what the sidecar account is trying to do and was almost seen to be a 'revenge' tool against those out to exploit those that are struggling financially.

NB: For some respondents who had never taken short-term, high-cost credit, framing the sidecar account as an alternative to this sometimes had the unintended consequence of making them feel this account was designed for someone else.

INCENTIVISING THE PENSIONS SIDECAR ACCOUNT

While some spontaneous incentives were mentioned, most did not see these as essential (when evaluating the sidecar account as a 'tool' rather than a 'product')

- Popular incentives included:
    - Interest – some respondents expected competitive interest rates on their accumulated savings, particularly when referring to the account as a 'financial product'.
    - Employer matching – although many respondents welcomed this incentive, and thought it relevant because of the accounts link to the workplace pension, most recognised that this was perhaps unrealistic.
    - Cash prizes for meeting goals.
    - Pre-tax saving – some expected their contributions to be deducted pre-tax. However, it was recognised by some that this would provide them with a tax 'loophole'. They could contribute the majority of their income to the sidecar account tax-free, and then withdraw it.
    - Ability to borrow against the value of the savings.

However, some made the point that if there was no incentive, there would be little difference between the account and an ordinary ISA.

CONTRIBUTION BASED FRAMING VS. GOAL BASED FRAMING

Whether the sidecar account was presented as contribution-based or goal-based framing affected how motivated respondents felt to engage with it. Contribution-based framings tended to be more appealing than goal-based framings, especially when aiming for smaller 'emergency' funds opposed to long-term savings. One of the data-capture tools used during the focus-group sessions, asked people to think of and set a savings goal, as well as a monthly contribution amount. This exercise revealed how deeply discouraged people often were from saving when shown the length of time it would take them to reach their savings goal, based on the monthly contributions written down in their response sheets.

"I'm gutted ... 5k ... it'll take me 16 years to get my bathroom done"
(50+, Glasgow, micro-saver)

As a result, respondents tended to prefer contribution-based framings, where they'd be shown how their contributions would accumulate over time, as opposed to a goal-based framing where they'd be shown how long it would take them to reach this goal. When suggesting that respondents think of a savings goal, they tended to anchor high and set large savings targets. As mentioned previously, this in turn often led to disappointment when they realised how long it would take them to get there. However, when thinking about contribution-based framings, most tended to think about the accumulation of savings through the contribution of realistic monthly amounts.

Service features

SECTION SUMMARY

Most people wanted the option to control their contribution amounts and their overall savings target. They also tended to want control over their level of accessibility. However, most people recognised that having an entirely liquid account could be counterintuitive in terms of reaching their targets. As a result, a number of suggestions were made about potential ways of limiting access to their savings funds.

IDEAL TARGET AND CONTRIBUTION RATES VARIED

Most wanted the option to control both their target and contribution amounts. Many were conscious that they'd struggle to save anything, and wanted to make decisions regarding their level of contributions. Further, many mentioned that they'd want to be able to change their overall target in order to continually build on their short-term, liquid savings and prevent the overflow of their contributions into their pension pot.

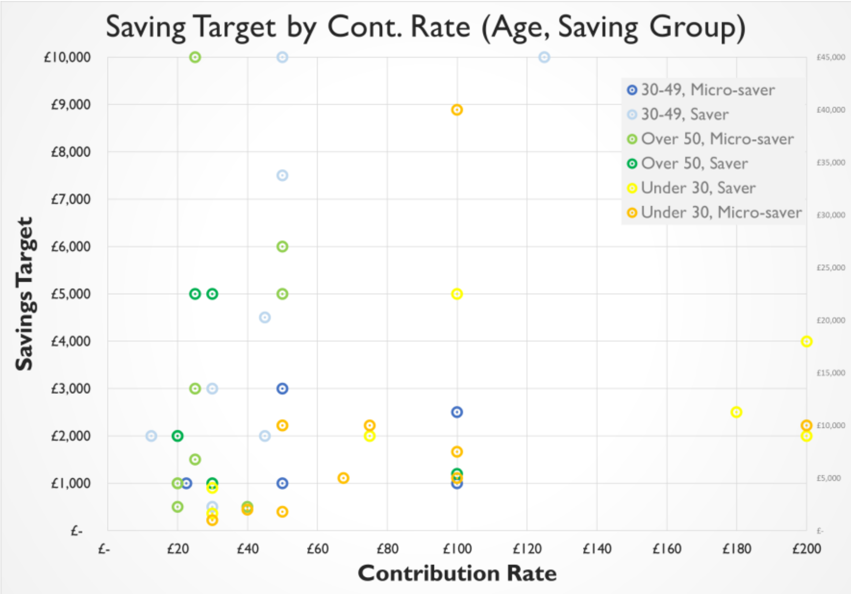
Proposed target and contribution levels varied significantly, but typically target rates fell between £1000–5000 and contribution rates varied from £20–60 per month.

"Can be a bit addictive once you start putting more away. Sometimes nice to try and push it a little bit, maybe put a little bit extra in?"
(50+, Glasgow, saver)

"I'd like to be able to reduce it ... there's still that risk there that one week I can work 60 hours, and then the next I could work 16"
(Variable age, variable hours, Manchester, micro-saver)

The chart below illustrates that the younger group (under-30s) tended to propose slightly higher contribution rates. This may be because they had fewer financial commitments overall and our interviews with this group suggested most had a slightly longer-term, more goal-orientated outlook to their savings.

The chart below shows the stated savings and contribution rates from everyone who took part in the research. Results from this chart should be taken as indicative, as this is a qualitative research project.



However, it is important to note that the under-30s who either had children, or were on variable incomes, tended also to focus more on short-term emergency savings, rather than achieving long-term financial targets. This seemed to be a result of having precarious hours, or having less disposable income, and thus feeling resigned to the fact that long-term financial targets were out of their reach.

Similarly, the older groups (30-49 and 50+) tended to propose lower contribution rates. This could be linked to them having more financial commitments than the under-30s and our interviews with this group suggest their focus is more on the desire for short-term emergency savings and less on long-term goals.

ACCESSIBILITY OF SAVINGS

Quick and transparent access was seen as important if the sidecar account was to be helpful in emergencies. Some wanted immediate and unobstructed access ('it's my money' attitude). However, most recognised that some delays or obstructions to access may be helpful in supporting them to reach their savings goals. Some wanted to be able to place restrictions on accessing their savings. They recognised the disconnect between instant access and overall ability to save, in that having an entirely liquid savings account would inevitably result in them 'dipping in' to their savings and inhibiting their ability to reach their target. A range of design features were put forward to address this and create 'friction' in the process, including:

- restricting access to savings by enforcing people to make a phone call to withdraw cash
- enforcing minimum withdrawal amounts to prevent impulse withdrawals
- separating the savings into chunks, whereby a portion of it is made instantly accessible whilst the rest has restricted access
- reminding users that emergencies don't necessarily need to be dealt with instantly – this tends to be the fear that pay-day loan companies capitalise on, and this sidecar account has the opportunity to help dispel this myth.

In addition, some wanted to be able to choose their own restrictions that they feel would work for them. Being afforded decision making power over how they can restrict access to their savings, along with what they'll be able to do with their savings once they've reached their target, was largely welcomed and could work to encourage financial forward-thinking.

Some thought incorporating nudges/reminders would be helpful for users when they're about to reach their target, with inbuilt suggestions for what they could do with their savings. Some suggestions included:

- allowing savings to flow into the pension
- transferring savings into longer-term savings accounts
- altering savings targets and contributions.

Moreover, some respondents thought that being able to access their account via an app would support them to save and to maintain control over some of the features of the sidecar account.

"If you could do it in an app would be perfect. No going online or different websites"
(Under-30s, Belfast, micro-saver)

Although this may not directly improve the level of pension savings that people have (if for example, they're prompted to up their savings target with this account, or encouraged to move their savings into a long-term savings account), it does help to encourage financial forward-thinking among users, and assists with building financial stability in the short term. This tends, inadvertently, to have a positive impact on long-term financial security, including into retirement age.

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