Struggling families need more help to save, says academic think-tank

January 12 2017

Three-fifths of low and middle income households are currently unable to save money, while for people already saving, the ratio between spending and saving is dramatically falling, researchers say.

A new report from CHASM, University of Birmingham's research Centre on Household Assets and Savings Management, is calling on the government and employers to do more to help those on lower incomes to start saving.

The report found that around 16 million people in the UK have less than £100 in savings, which researchers say creates too much financial risk, something which households should be looking to mitigate. Low incomes are a key barrier to saving but policy change could nevertheless help people to save more.

The report's key recommendations include:

- The government should enhance the Help to Save Scheme to make it more flexible and more generous. The money for this could come from rebalancing the amount spent on savings schemes that benefit the better off. For example, the cost of tax breaks on Individual Savings Accounts amounted to £2.6 billion in 2015/16, while the Help to Save Scheme is only expected to cost £70 million per year by 2020/21. A small reduction in the cost of ISA tax breaks could be directed to the Help to Save Scheme.

- For those in work, employers should provide and promote Save as You Earn schemes, working in conjunction with credit unions where appropriate. These schemes are free to set up with credit unions, who can handle the administration of the schemes.
- Joined-up working at local level is important, such as Birmingham's Financial Inclusion Partnership, can lead to important initiatives, like Birmingham Money, to support those on lower incomes. This joint working involves local authorities, credit unions, community development finance initiatives, Citizens Advice, charities and housing associations among others.

Professor Karen Rowlingson, co-author of the report, from the University of Birmingham said:

'It is extremely difficult for those 'just about managing' to save and they get very little support to do this. The government spends a tiny amount of money on supporting people on lower incomes to save compared to the amount it spends on schemes to support the better off. This balance needs to be shifted.'

The report suggests that a more inclusive savings philosophy could provide other direct benefits by improving mental and physical health outcomes and increased feelings of security as well as general well-being in individuals and households.

But government alone cannot solve this problem. Co-author, Professor Andy Lymer added:

'Alongside government action, we are also calling on employers and third sector organisations to do more to support people to save. Partnerships between credit unions and employers could be particularly helpful here.'

The Birmingham researchers found the need for flexibility to be extremely important, as employers could only assist those in work, while a different way to make savings would need to be found for those in different situations.

Dr James Gregory added:

'Flexibility is crucial, there is no 'typical' lower income saver and the needs of individuals change as their circumstances change. The language and narrative used when advocating for saving is also important and needs to focus on the positive – i.e. goals and aspirations rather than negatives such as the need for 'rainy day' funds.'

Provided by University of Birmingham

Citation: Struggling families need more help to save, says academic think-tank (2017, January 12) retrieved 26 April 2024 from https://phys.org/news/2017-01-struggling-families-academic-think-tank.html