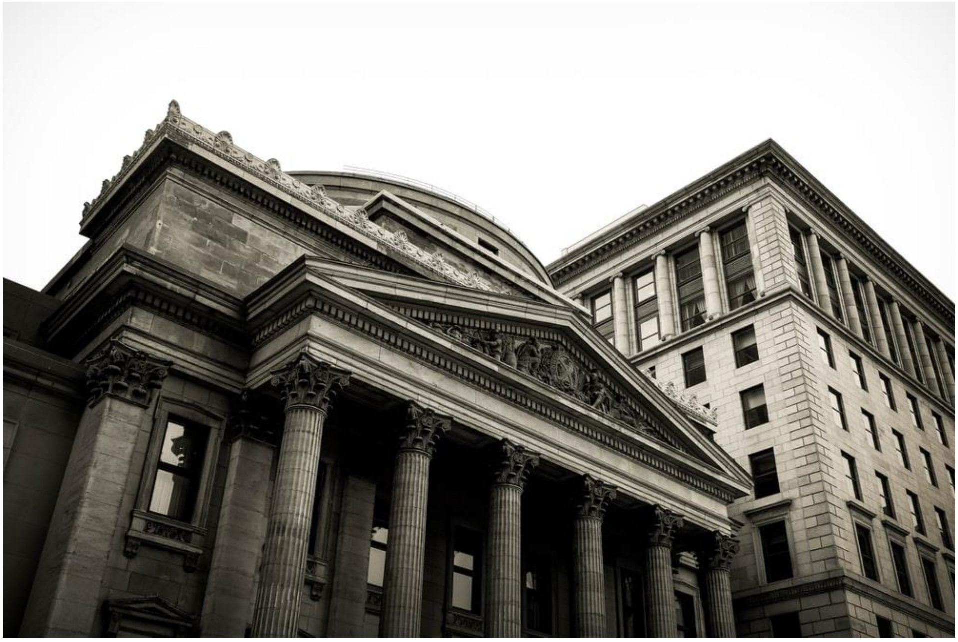
LCP on point

Britain's army of 'accidental savers' – who are they and what are they doing with their windfall?

February 2021



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01 Introduction

The Covid-19 pandemic has had a profoundly negative effect on the financial security of millions of households. Claims for Universal Credit have soared, nearly ten million jobs have been furloughed, more than two million self-employed people have received grants from HMRC, and millions more have missed out on the various support schemes available. In addition, those heavily exposed to fluctuating stock markets may have seen the value of their investments fluctuate wildly in the last year, with some having 'cashed out' at the bottom of the market and thereby crystallised large losses.

But a significant minority of people have had a different experience.

These are people whose employment or self-employment is relatively secure. Their income may have been stable or they may even have benefited from being in one of the few sectors which has expanded in the last year. Whilst the incomes of these people may have been stable, in many cases their expenditure has fallen, particularly as a result of Lockdown and similar measures. Some areas of spending such as groceries or domestic bills may have risen, but major areas of spending such as commuting costs, holidays and travel and eating out have slumped.

The net effect has been to create a group of 'accidental savers'. With little active choice, this group – unlike the many who have suffered economically during the Pandemic - has seen bank balances increase and debts such as credit card balances reduce.

There is considerable policy interest in this group. The Bank of England[1] estimates that in the period March – November 2020 alone, households accumulated £125bn more in savings than would have been expected, with further saving likely to have occurred since then. Based on our estimates of the size of this group, we believe that the typical 'accidental saver' could have benefited to the tune of thousands of pounds in a combination of reduced indebtedness and/or increased savings balances.

A key issue for the shape of any economic recovery is the extent to which these savings are pumped back into the economy in the form of resumed spending or whether – as the Bank expects – the vast majority is retained as savings.

[1] Source: Bank of England Monetary Policy Report February 2021

The purpose of this paper is to look in greater detail at what we know about this group and how far we expect this increased rate of saving to persist once the economy and society emerge from the current restrictions. In addition to official statistics, we use data from a survey of 10,000 employees undertaken for LCP in October 2020 to assess key questions including:

- How large is the group of 'accidental savers'? What are their characteristics in terms of age / income etc.?

- Is this likely to be a purely temporary phenomenon, set to be fully reversed once the worst of the pandemic is over, or is there likely to be a lasting shift in spending patterns?

- Where individuals have saved in the last year, what have they done with the money, how do they regard the windfall they have just experienced, and could that money be used more effectively?

- To the extent that some groups could find themselves saving more on a regular basis, how can public policy best take advantage of this opportunity to tackle under-saving in the UK, particularly with regard to saving for retirement or building up greater short-term savings buffers?

We begin by presenting the evidence from a range of sources to show the extent to which we became a 'nation of savers' during 2020. However, these aggregate figures provide us with only limited insight as they add together those who have saved more with those whose income has slumped and who, if anything, have become more indebted in the last year.

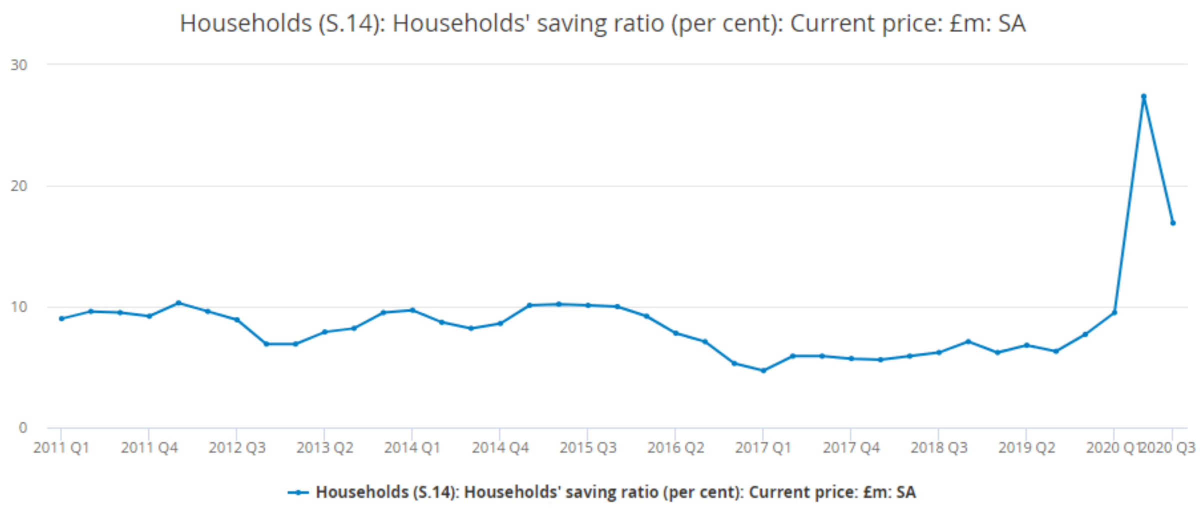
We therefore move on to look at LCP's own survey data, which focuses purely on employees, to find out how many people might be considered 'accidental savers' and what are their shared characteristics. We then move on to more detailed data from the survey on categories of spending to assess how far this reduced spending is likely to be permanent once things return to greater 'normality'.

Finally, we look at the short-term balances built up in the last year to see how they are being used (and how they could be used). We then examine detailed spending patterns to see how far greater saving could be a more permanent feature for some groups and consider the public policy implications if this is the case.

02 Evidence of the rise of the 'accidental saver'

For the economy as a whole, the Office for National Statistics (ONS) measures the 'savings ratio' – broadly speaking the proportion of total household income which is not allocated to current consumption[2]. As Chart 1 shows, for the first half of the last decade the savings ratio hovered just below the 10% figure but had dipped below 5% in early 2017. Although the rate then recovered somewhat, it had reverted to around 10% in the first quarter of 2020. What happened thereafter was unprecedented in modern times, with the overall savings ratio exceeding 27% in Q2 2020, before falling back to a still exceptional 17% in Q3 2020.

Chart 1. UK Household savings ratio in the last decade



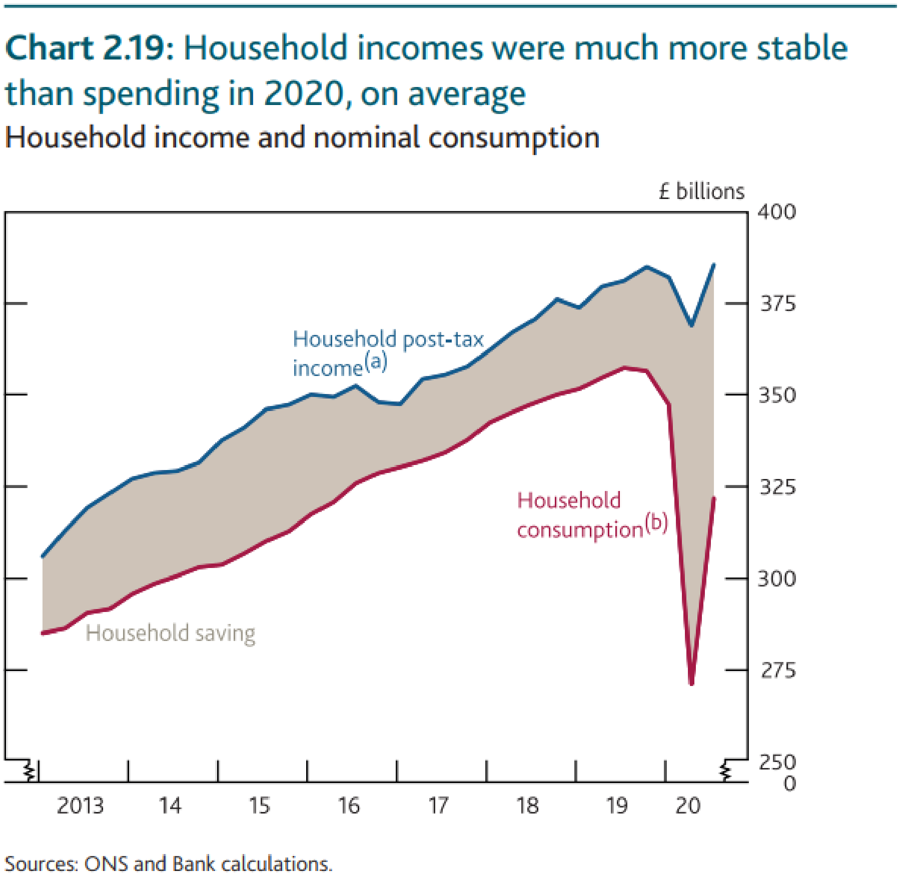
Source: Office for National Statistics: [Households (S.14): Households' saving ratio (per cent): Current price: £m: SA - Office for National Statistics (ons.gov.uk)]

We should however bear in mind that this chart shows an average over all households. It will be a mixture of those who have indeed ramped up their saving during the last year, often without any active choices on their own part, and others who are saving less and have become more indebted due to job loss or pay cuts. Even if the overall savings ratio were to fall further back towards more 'normal' levels, this would still be consistent with the rise of a subgroup of new savers who are worthy of attention.

[2] To be more precise, ONS defines the savings ratio as: "the amount of money households have available to save as a percentage of their gross disposable income plus pension accumulations". See, for example, Quarterly sector accounts, UK - Office for National Statistics (ons.gov.uk)

Of course, there are two main ways in which saving rates could increase – incomes could rise or expenditure could fall (or both). Chart 2 provides recent data from the Bank of England on household incomes and expenditures which shows very clearly that it was the dip in expenditure during the pandemic which has driven the overall increase in savings rates.

Chart 2. Bank of England data on incomes and spending in 2020

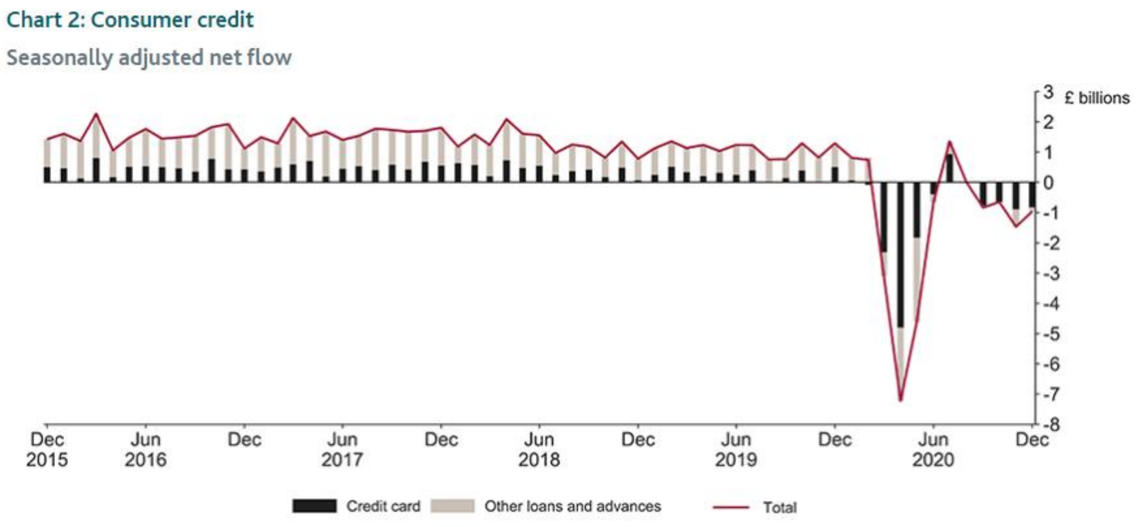


Source: Bank of England Monetary report February 2021 (Bank of England Monetary Policy Report February 2021)

A second indicator on the balance of household saving and spending is the use of consumer credit. On the one hand we are seeing increasing stories about the rise of 'buy now, pay later' services, especially associated with online purchases, and this would suggest a growing level of consumer debt. Indeed, regulators are sufficiently concerned about this issue that the FCA has indicated that it plans to tighten up the regulation in this market. On the other, there are also reports of credit card balances being reduced as individuals have been less able to make large purchases on foreign travel and entertainment.

Chart 3 shows data from the Bank of England on the use of consumer credit in the last five years. The chart shows that in more normal times individuals use a mix of borrowing on credit cards and other loans, typically at a net rate of £1-£2 billion additional credit each month. But, shortly after the first Lockdown was implemented, the stock of consumer credit actually fell by nearly £7 billion in a single month. Commenting on this data, the Bank of England said: "Total net repayments were £16.6 billion in 2020, the weakest in one year on record". Again, whilst some households became more indebted as a result of the economic effects of Covid-19, overall the Pandemic seems to have led to a historic repayment of consumer debt.

Chart 3. Bank of England data on the flow of Consumer Credit



Source: [Money and Credit - December 2020 | Bank of England]

In January 2021, the Office for National Statistics published its own analysis of how the Covid-19 Pandemic had affected household incomes and borrowing ([Personal and economic well-being in Great Britain - Office for National Statistics (ons.gov.uk)]). The focus of the research was primarily on the negative effects of the Pandemic, and the ONS found that nearly 9 million people reported at the end of 2020 that they had to borrow more money than normal. However, they also observed that particular groups had found it easier to save. The following table shows, for different groups, the proportion who thought they would be able to save for the year ahead when the pandemic started, the corresponding figure for December 2020, and the monthly average for the whole period.

Table 1. ONS Survey data on expectations of ability to save Mar-Dec 2020

Proportion of people reporting that they would be able to save for the year ahead, Great Britain, March 2020 to December 2020

Groups	Beginning of pandemic	December	Average over the period
Total population	40.6%	41.2%	38.2%
Household income below £20,000	37.9%	30.4%	30.3%
Household income above £20,000	51.2%	60.1%	53.1%
Self-employed	24.3%	28.5%	29.8%
Employees	44.8%	49.3%	44.8%
Living in rented accommodation	34.7%	30.1%	25.5%
Homeowner with a mortgage	44.2%	48.9%	43.6%
Homeowner (owned outright)	42.6%	44.4%	42.1%
Under 30 age group	57.5%	45.5%	38.5%
30-59 age group	36.6%	40.6%	35.9%
60 and over age group	35.8%	39.4%	35.4%

Source: Office for National Statistics – Opinions and Lifestyle Survey

The figures for the population as a whole suggest that the proportion expecting to be able to save for the coming year dipped slightly from just over 40% in March 2020, averaging just over 38% for the rest of the year, but had recovered to around 41% by the end of the year. But Table 1 shows very clearly however that this average conceals wide variations between groups. Those on low household incomes were less likely to be able to save by the end of the year whilst those on higher incomes were more likely to be able to save. For those who were still in employment by the end of the year, the ability to save had gone up. The under 30s were still the group most likely to be able to save, but the gap between this group and older age groups narrowed considerably over the year. We look in more detail later in this paper at the position of different groups when it comes to identifying the 'accidental savers' of 2020.

At the time of writing, we are still in a period of lockdown and the overall impacts of the pandemic on household finances remain unclear. But in addition to the economy-wide official statistics quoted above, other surveys and anecdotal evidence continue to paint a picture of an economy where some households have emerged from the pandemic in a stronger financial position. Examples include:

- Some financial advisers are reporting increased volumes of discussions about what to do with 'surplus' capital; some retired savers are drawing down less quickly on their accumulated pension pots and/or are asking about how they can make intergenerational transfers to support younger family members who may be struggling; see for example: Advisers face an influx of queries on what to do with surplus cash as savings ratio soars | Portfolio Adviser (portfolio-adviser.com)

- Investment platforms have reported a significant growth in new accounts, including as investors sought to buy in to stock markets following sharp falls in the first quarter of 2020; see for example: Surge in investment account openings on UK platforms | Financial Times (ft.com)

In the next section we use a large-scale survey of employees undertaken for LCP by Opinium Research to estimate how many people have become 'accidental savers' as a result of recent events.

03 How many people are 'accidental savers' and who are they? – LCP data

Average figures for the whole economy conceal a great deal of variation in terms of the impact on household finances of the Pandemic. Whilst millions of people have undoubtedly suffered considerably, a significant minority have found their financial position strengthened, with income largely unchanged but spending reduced. In this section we attempt to assess the size and characteristics of this group.

This analysis is based on a survey undertaken in October 2020 which involved an online survey of 10,000 employees[3]. One of the questions which they were asked was: "Has Covid-19 changed your ability to save?". The results are shown in Table 2.

Table 2. Has Covid-19 changed your ability to save?

No - I am still saving at the same level as before Covid19	38%
No - I am still unable to save	15%
Yes - I am able to save more	24%
Yes - I am saving less	23%
Grand Total	**100%**

Source: Opinium Survey of employees for LCP, Oct/Nov 2020

Table 2 is a reminder of the diverse impact of the Pandemic, with an almost equal split between those who are able to save more and those who are saving less. However, based on an employed population of around 27 million people, our survey suggests that as many as 6.4 million people may have become 'accidental savers' as a result of Covid-19.

[3] Note that the economy-wide figures for increased saving will reflect higher saving rates amongst the retired population as well as amongst employees. We focus on employees here partly because of the availability of this new data source and partly because of the particular potential for 'accidental saving' as work-related expenditures such as commuting costs have fallen markedly.

Two other questions from our survey shed light on how the Pandemic has affected financial behaviours – the impact on 'ability to control my daily spending' and the impact on 'ability to pay debts'. The results are shown in Tables 3 and 4.

Table 3. Has Covid-19 affected your ability to control your daily spending?

No - it has not been affected	70%
Not applicable	3%
Yes - in a negative way	13%
Yes - in a positive way	13%
Grand Total	**100%**

Source: Opinium Survey of employees for LCP, Oct/Nov 2020
Note: Column subtotals may not add to 100% because of rounding

Table 4. Has Covid-19 affected your ability to repay your debts?

No - it has not been affected	61%
Not applicable	19%
Yes - in a negative way	12%
Yes - in a positive way	8%
Grand Total	**100%**

Source: Opinium Survey of employees for LCP, Oct/Nov 2020

Taking Tables 2, 3 and 4 together shows quite an interesting story. Table 3 shows roughly equal numbers of people being positive as being negative about how the pandemic has affected their ability to control their spending, and this mirrors the results on saving in Table 2. However, the absolute proportions reporting an impact on their ability to 'control' their spending are much lower than the proportion reporting an impact on their ability to save. It seems likely that this reflects the 'accidental' nature of some of the new saving. Whilst some people now feel more 'in control' of their spending, far more are simply more able to save – presumably without having to have made any active choices.

Table 4 shows a less rosy picture with more people reporting a negative change in their ability to pay debts. Given that the numbers in Table 2 reporting being more able and less able to save are broadly equal, this suggests that we are tapping in here (at least in part) to those from Table 2 who reported that they were not able to save at all before the pandemic and who are still in that position. For this group, saving was not an option at the start and for many, it would seem, they are if anything even less able to save / less able to repay their debts. This is a helpful reminder as we move on to focus on the financial 'winners' of the last year, those who are now more able to save than in the past.

Looking at the roughly 6.4 million 'accidental savers' highlighted in Table 2, we can break them down according to their age, gender and income. The results of this analysis are shown in the following charts.

Chart 4. Percentage of employees who are able to save more – by gender

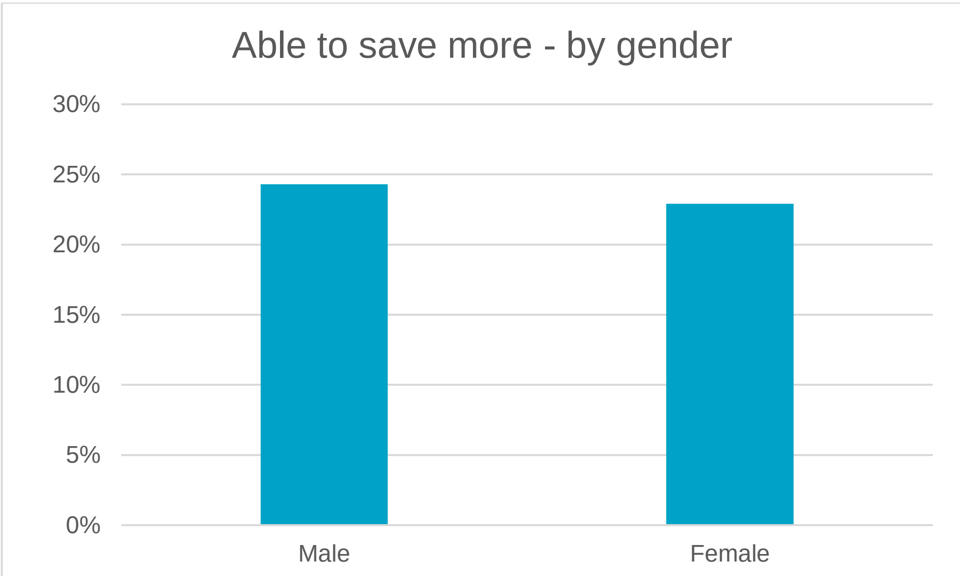


Chart 5. Percentage of employees who are able to save more – by age

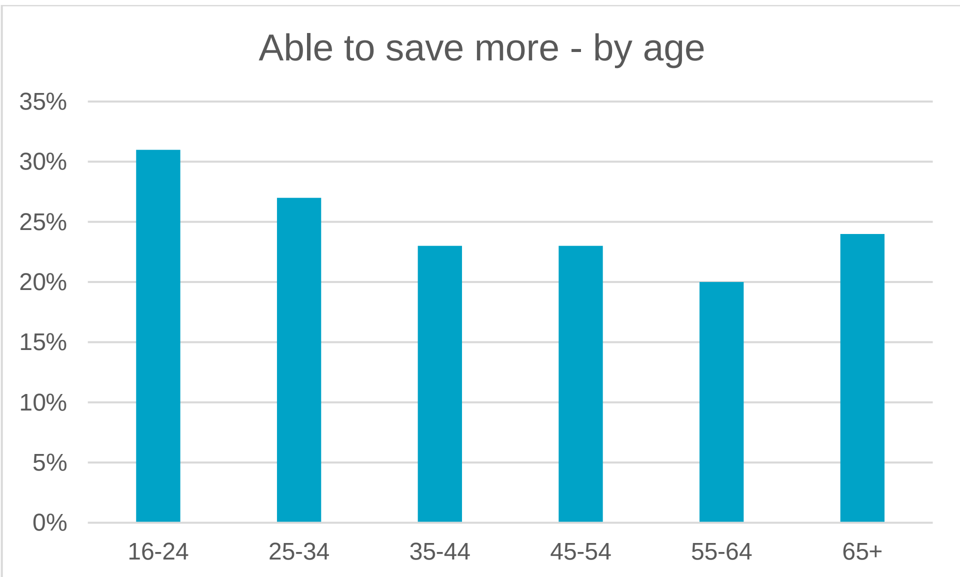
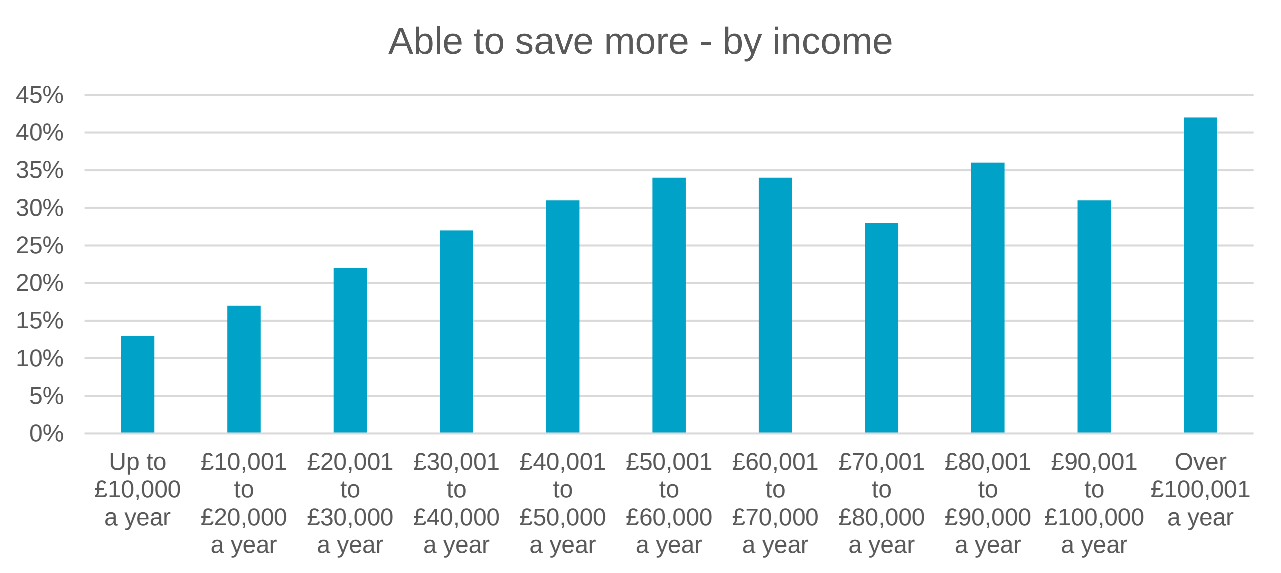


Chart 6. Percentage of employees who are able to save more – by income



With regard to the characteristics of the 'accidental savers', Chart 4 suggests that there is little difference between the sexes – women are almost as likely as men to find that they are able to save more as a result of Covid-19.

However, as Chart 5, shows, there are marked differences according to age, with an almost linear relationship between age and the extent to which you have become an accidental saver. Nearly 1 in 3 employees under the age of 25 is now in a position to save more compared with only around 1 in 5 in the 55-64 age group. We consider in the next section in more detail why this might be, but it seems reasonable to suppose that expenditure items of importance to young people such as entertainment will have been most impacted by the pandemic. In extreme cases, some young people may have moved back home with parents thereby saving substantially on housing and other costs, though our data does not enable us to quantify this effect.

Interestingly, as Chart 6 shows, when it comes to the income level of the 'accidental savers', it is broadly the case that the more you earn, the higher the likelihood you are able to save above your pre-Covid-19 levels. This could in part be because many of those on lower earnings have actually been furloughed and are trying to get by on a reduced wage[4]. By contrast, those on higher earnings may be spending less on commuting costs and other work-related costs and may be more likely to work in jobs which allow for home working.

[4] Official figures for those 'furloughed' via the Coronavirus Job Retention Scheme show that, particularly in the early days of the pandemic, younger workers (and presumably therefore those on lower wages) were more likely to be furloughed. In July 2020, around 2.4 million under 35s had been furloughed compared with around 1 million in the 35-44 age group and a similar number in the 45-54 age group.

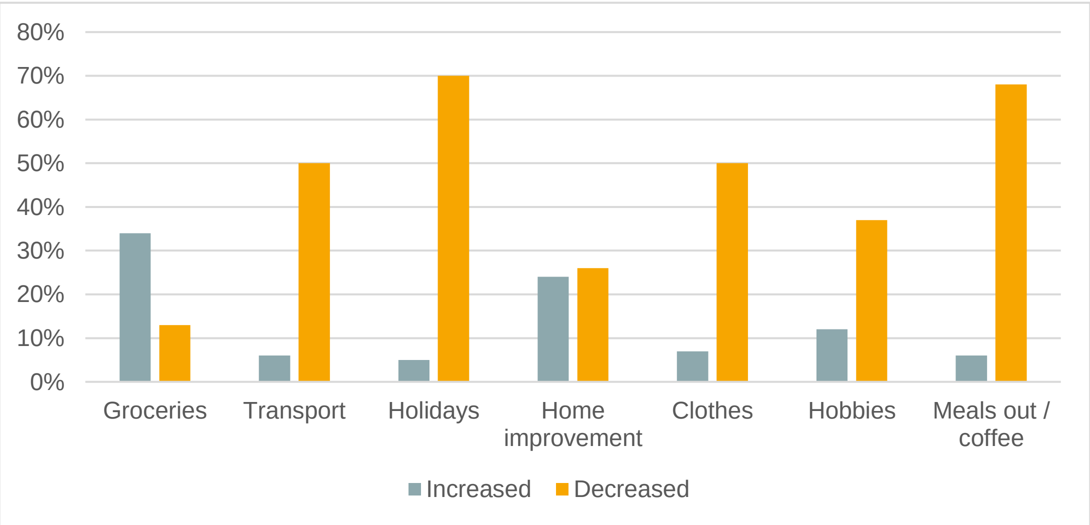
04 What does the data tell us about whether this increased saving is likely to be permanent?

A key question for public policy is whether the phenomenon of the 'accidental saver' is a temporary, one-off quirk of the pandemic and will disappear once the economy and society opens up, or whether it could signal a more long-term change.

To try to understand whether this is likely to be temporary or permanent, we can look at how 'accidental saving' has arisen. In particular, on the assumption that in most cases this arises not because incomes have risen but because overall spending has fallen, in this section we look in more detail at the impact which the Pandemic has had on spending patterns.

As part of our survey we ask, for a number of different spending categories, whether spending has increased or decreased. Key results are shown in Chart 7.

Chart 7. Has your spending on each category increased or decreased?



With more working at home it is perhaps not surprising that the only area where there has been an unambiguous increase in spending is on groceries. More time spent at home has presumably also increased awareness of / dissatisfaction with the state of the home itself, and nearly 1 in 4 people report increased spending on home improvements. But nearly 70% of the sample said they were spending less on holidays, nearly as many spending less on meals out, and around half spending less on day-to-day transport and on clothes.

More detailed analysis of these responses for particular subgroups shows:

- Savings on commuting and travel costs are smallest for the youngest age groups, suggesting that many of these have jobs which do not enable them to work from home;

- The older age groups (those over 55) were much more likely to save money on holidays; by contrast, nearly 1 in 4 of the under 25s were spending *more* on holidays; there are various possible explanations for this – younger people may have been less cautious about the risks of travel, but the more expensive holidays that older people may traditionally have enjoyed have simply not been available;

- Older people are the most likely to have cut back on eating out, with 75% of over 55s having cut back compared with around half of the under 25s; but a significant minority of younger people (around a quarter) actually reported spending more on coffees and eating out, again perhaps reflecting greater willingness (or necessity) to venture outside the home;

A crucial question is how far we should expect these trends to be permanent and part of the 'new normal' of life post-Covid-19 or whether spending levels will quickly revert to previous patterns.

Some aspects of spending will clearly revert to past patterns as lockdown is lifted. For example, the ONS figures on the aggregate savings ratio indicated that there had already been some reduction in overall savings levels in Q3 2020 compared with the depths of the first lockdown.

Looking at spending areas, as the constraints on the economy are lifted it seems very likely that the slump in spending on holidays, eating out etc. will be largely reversed. Indeed, it may be that some people will choose to use the money they have saved on holidays in 2020 to go on more expensive holidays in years to come, both because they can afford to do so and as an antidote to a tough year. Ongoing quarantine rules could however act as a dampener on this for some time to come, whilst there are already reports of UK holiday providers being fully booked for this summer

A key question however will be whether the pandemic results in a longer-term shift towards home working. Whilst it is much too early to say with any certainty, and current expectations may not be borne out in practice, there are some indications of a more fundamental shift:

- a survey of nearly 1,000 company directors by the Institute of Directors found that around three quarters said that in their organisations there would be increased home-working after the Pandemic (Home-working here to stay, new IoD figures suggest | Institute of Directors | IoD)
- Cardiff University and the University of Southampton conducted three surveys that each included more than 6,000 people across the UK. The research found that almost nine in ten workers wanted to continue with some degree of home-working long-term, while almost half wanted to work from home all the time (Homeworking in the UK: Before and During the 2020 Lockdown | WISERD)
- Firms such as Google and Facebook, amongst others, have discussed plans for large parts of their workforce to work remotely or to have the option to do so, at least for part of the working week; Facebook Tells Employees To Work From Home Up Until Summer 2021 (forbes.com)

It does seem likely that 'remote' working and involving colleagues in meetings via video conferencing etc. is likely to be much more acceptable and practical than in the past. If this reduces overall levels of commuting and other work-related costs then the groups who can benefit from this – typically older, more senior employees and those in sectors where work is less dependent on face-to-face contact – will continue to save at higher levels than in the past through reduced work-related expenditure. To the extent that some have chosen to move out of urban areas for a better experience of home working this is also likely to result in a more permanent change in spending patterns for these groups.

05 Short-term windfalls – where is the money going?

With more than six million employees saving more as a result of the pandemic, a key question is what they are doing with the money. Our survey asked this group where they have put these increased savings and the results are in Table 5.

Table 5. Where are 'accidental savers' putting their savings?

Put into a separate saving account	61%
Kept it in my current account	28%
Put into medium term savings / investments	17%
Put into long term savings / investments	12%
Added to my pension	5%
Paid off debts	5%
Other	2%

Source: Opinium Survey of employees for LCP, Oct/Nov 2020
Note: Respondents were allowed to select more than one answer

Perhaps reassuringly, around three in five of those who are now saving more have set some of the money aside in a savings account, though just over a quarter have simply let the money build up in a current account. Whilst this is understandable in the very short-term, leaving meaningful sums in a current account almost certainly paying little or no interest is unlikely to be a good long-term strategy. However, many may be unaware of the way in which leaving cash on deposit can actually result in a steady reduction in spending power over time as a result of the impact of inflation.

Only a small minority have put extra money into a pension or other long-term savings vehicle, despite the fact that the sample consists exclusively of employees, the large majority of whom will be members of a workplace pension. This suggests that awareness and knowledge of the advantages of saving into a pension needs to be increased. It also prompts the question as to whether it could be made much easier for people to be able to make one-off / ad hoc contributions to their pension over and above contributions via regular payroll deduction, or to undertake additional regular or one-off savings through other routes such as workplace saving schemes.

There is clearly no 'right answer' as to what people should do with any savings 'windfall' arising from the pandemic, but some good general principles would include:

- Paying off debt, especially high interest debt such as credit cards or payday loans; Table 5 shows that only around one in twenty of our sample actively used their windfall in this way;

- Building up a short-term savings buffer – debt often arises in the first place because households lack a modest cash reserve which can cover unexpected or 'lumpy' items such as replacing a car or a major household item; having some ring-fenced emergency funds of this sort can help to build up financial resilience; the UK Financial Capability Strategy (Financial Capability Strategy for the UK | Helping people - FinCap) reports that over 11 million people have less than £100 in savings, and the current situation may offer a relatively painless way for at least some of these people to give themselves more of a financial safety net, as well as improve their financial confidence and awareness;

- Save for the long-term – the UK has a chronic problem of under-saving for retirement; the DWP estimates that over ten million people may not be saving enough to maintain their standard of living once they stop earning; although automatic enrolment will help to address this over the longer term, many workers will have started pension saving for the first time well through their career and could benefit from making additional contributions.

In summary, whilst the large number of accidental savers is very welcome when it comes to improving household finances, there is limited evidence so far that this money is being used to maximum effect. More needs to be done to help households to understand how to use these windfalls to put their finances on a more sustainable footing, whether through paying down high cost debt, building up a savings buffer and/or making up for past under-saving for retirement[5].

[5] It is however worth noting the 'paradox of thrift' at this point; as the Bank of England points out, the prospects of the UK economy depend heavily on how far savings accumulated during the pandemic are now spent down to boost the economy; whilst this might be desirable at an aggregate level, for any individual household, a better strategy might involve much more prudence as set out above.

06 *Longer-term policy implications*

We have found that over 6 million workers have found themselves saving more as a result of the pandemic, largely without any active decision to become savers. They have simply found themselves less able to spend.

Whilst some of this reduced consumption is likely to be reversed once restrictions on movement are lifted, there is also some reason to think that the experience of widespread remote working may lead to some permanent shift in levels and patterns of spending, particularly for those on middle and higher incomes, whose jobs may more readily lend themselves to new ways of working.

If millions of people are indeed now enjoying a bigger gap between their regular income and their regular spending, how can we ensure that this turns into their long-term benefit rather than simply sitting in a current account and ultimately being spent?

a) nudges by pension providers to additional one-off pension saving

In recent years we have seen clear evidence of the power of behavioural 'nudges' in the pensions space. Automatic enrolment is based on the principle that if people are 'nudged' into pension saving through being enrolled into a pension with freedom to opt out, they are far more likely to save than if they are simply given the ability to opt in. The experiment has been a huge success, with more than ten million more people now saving for a pension, and barely one in ten choosing to opt out.

In the context of 'accidental savers', the problem is that the default position is simply a gradual accumulation of cash as a result of reduced spending. The reduced spending may not have been an active choice and, as we saw in the previous section, relatively few people have responded by turning this into long-term savings.

However, there may be steps that policy makers and the pensions industry could take to encourage people to turn their increased cash balances into longer-term savings.

These could include pension providers 'nudging' savers to consider one-off additional contributions, particularly in the run-up to the end of the tax-year on 5th April. Effective communications from providers, perhaps with special websites or helplines designed to remove the 'hassle' factor of pension top-ups could help to improve take-up.

b) workplace nudges to additional one-off savings

We have observed that in the longer-term, the accidental savers will tend to be those who have jobs which enable them to work from home and are in sectors which have survived the Pandemic largely unscathed. Employers will know if a significant part of their workforce falls into this category. If so, they can issue communications explaining how additional contributions can be made into a workplace pension or other workplace saving options, and educating members about the benefits of doing so. A particularly powerful intervention would be to offer to match <u>one-off</u> contributions in the way that many larger firms currently match <u>regular</u> employee contributions up to a limit. For employers with older workers, there may be some self-interest in promoting pension saving, as this will enable more workers to build up worthwhile pension pots to enable them to retire at a time of their choosing rather than working on simply because they cannot afford to retire.

c) promoting higher levels of regular saving

The behavioural nudges mentioned above focused mainly on getting individuals to turn their 2020 cash windfalls as 'accidental savers' into long-term savings. But to the extent that we are now seeing longer-term behavioural shifts with some groups able to save more on an ongoing basis, something more systematic will be required.

Again, the workplace is likely to be key, as many of the new savers will be those whose increased saving comes through reduced work-related expenditure.

A number of firms are already supporting initiatives to boost savings rates amongst their workforce. These include:

- Anglian Water, who have a workplace saving scheme which 'rewards' regular savers with a future bonus contribution (see, for example: Anglian Water launches workplace savings scheme - Employee Benefits)

- BT and other employers who have partnered with NEST to support the 'sidecar savings' concept; this allows individuals to set money aside in a savings account but which is still accessible if required; once the balance in the 'sidecar' account exceeds a specified level, additional contributions then go into the workplace pension; (see, for example, Sidecar savings trial employers share insights into their experience so far | NEST Insight Unit)

We have also seen the concept of 'save more tomorrow' work well in the US, encouraging employees to take active decisions and think forward. The concept enables employees to commit to utilising a percentage of any future additional income either through bonus or pay increase for their future savings. This is a good way of engaging employees to think wider than today in respect of their finances.

d) Maximising take-up of employer pension contributions

The most effective way to improve take-up would be to nudge workers to review their pension contribution rate or – ideally – to default members into a maximum rate with the ability to opt for something lower. Many workers save at a 'default rate' and do not review this from year to year, despite changes in their circumstances. Employers, in partnership with workplace pension providers and advisers, could encourage people to review their current level of pension saving and consider increasing it. Many larger firms already have structures in place to match additional regular contributions beyond a minimum level but this valuable benefit is often not taken up. This benefit should be promoted to the whole workforce, but communications to home workers should certainly include reference to the potential for reviewing rates of pension saving.

07 Conclusions

We have found that over 6 million workers have found themselves saving more as a result of the pandemic, largely without any active decision to become savers. They have simply found themselves less able to spend.

Even at an aggregate level, official statistics show that many people ran down debt or saved more money as a by-product of Covid19. But these aggregate figures conceal huge diversity. For some, the Pandemic has been a financial disaster, seeing them losing their job or suffering a loss of business as a self-employed worker. But for others, income has held up while spending has dipped, creating more than six million 'accidental savers', purely among the working-age population.

To the extent that these accidental savers have built up short-term balances (over and above paying off debts), they need to consider how this windfall can be used to put them on a firmer financial footing going forward. This will include setting aside meaningful short-term balances to cover unforeseen expenditures as well as boosting pensions and long-term savings on a one-off basis. More needs to be done to raise awareness of the best way to use this money and to remove the barriers to additional pension saving.

But new ways of working offer the potential for a smaller but significant group of 'accidental savers' on an ongoing basis. These may generally be higher earners whose jobs (and homes) allow them to work from home on an ongoing basis. These additional cash balances will not however automatically turn into additional long-term savings. Employers, pension providers and advisers all have a role to play in ensuring that this unexpected windfall proves of lasting long-term benefit to the individuals concerned and to our nation as a whole.

For individuals:

- It is important to be strategic around using increased cash balances arising from 'accidental saving'; short-term increases can be used to:
    - Clear debts, especially those with high interest charges;
    - Build up a cash 'buffer' to provide protection against future financial emergencies;
    - Make additional one-off contributions to pensions and longer-term savings products.

- Where new patterns of working offer the potential for recurring reductions in expenditure, consider longer-term financial commitments. These could include:
    - Participating in workplace savings schemes, especially where these generate a contribution or incentive from the employer;
    - Take full advantage of workplace pensions, especially where an employer match is available on higher contribution levels.

For pension providers and pension schemes

- Consider how best to identify and nudge 'accidental savers' to channel their additional balances into pension savings, especially in the run-up to the end of the financial year;
- Improve knowledge and understanding of the importance of saving – demystify the complexities associated with pension saving;
- Reduce the 'hassle factor' which can be a barrier to making one-off pension contributions.

For employers

- Assess how far new working patterns may enable sections of the workforce to reduce outgoings and increase capacity for saving;
- Support initiatives designed to increase the financial literacy, capability and resilience of the workforce;
- Offer schemes to support short and medium-term saving and make it easy for the workforce to access these;
- Raise awareness of the availability of employer contributions into the workplace pension, especially where extra help is given to those who contribute beyond default levels.

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