CHAPTER 6

The Impact of Matching on Savings in the U.K. Savings Gateway Program

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The Saving Gateway was a government pilot program that used matching contributions to increase saving by people with low incomes. Two separate pilots experimented with different matching rates, contribution ceilings, eligibility rules, and recruitment mechanisms. The likelihood of joining the pilot doubled as the match rate increased from 20 percent to 50 percent but did not increase further as the match rose to 100 percent. Once in the program, the ceiling on how much a person could contribute each week seemed to have a much larger impact on saving than the match rate. For the low-income target group, the pilots led to new saving rather than a redirection of existing saving from other sources. Important issues of potential selectivity bias need to be considered in evaluating pilot results.

This chapter reviews the experience of the Saving Gateway in the United Kingdom, a government program that used matching contributions to increase saving by people with low incomes (HM Treasury 2001). Two pilots were implemented, the first in 2002–04 and the second in 2005–07. The pilots experimented with different matching rates, contribution ceilings, eligibility rules, and recruitment mechanisms.

In 2008, the Labour government then in power decided to roll out the Saving Gateway nationally (HM Treasury 2008a, 2008b). The launch, scheduled for July 2010, would have covered up to 8 million people, about 20 percent of the population between the ages of 16 and 65. Following the general election in May 2010, the incoming Conservative–Liberal Democrat coalition government canceled the planned scheme as part of its broader program of fiscal retrenchment (HM Treasury 2010).

The Saving Challenge

Successive governments in the United Kingdom have sought to increase both aggregate saving levels and particular forms of saving. There have been a range of policies to encourage both pension and nonpension saving.¹ A common feature of these schemes was the use of tax relief to provide the financial incentive.

Despite these and other interventions, assets, savings, and overall wealth remain unequally distributed in the United Kingdom. Figure 6.1 shows this wide dispersion. It shows that the lowest income deciles have negative financial assets on average.

The Saving Gateway was an experiment in using matching contributions—government cash payments that matched an amount saved by an individual—as a tool that would increase saving levels in a way that was fairer and more effective than tax relief alone (HM Treasury 2004). The approach was to be fairer because the progressive rates of
income tax in the United Kingdom provide a greater monetary incentive to higher earners through tax relief than lower earners—and gave no incentive at all to nontaxpayers. The experiment with matching contributions aimed to be more effective because the concept of a match was expected to be easier to understand than tax relief. Interest in the concept had been stimulated by examples of matching in Australia and the United States and the general realization that tax-based incentives exclude a significant proportion of the population.

The policy was part of a more all-encompassing strategy on saving that aimed to look across the life cycle and across the different methods through which individuals built up assets. It was also intended to highlight the link between debt and assets. The strategy distinguished between debt held by (usually) wealthy individuals (for example, to finance housing) and often very small amounts of (very high-cost) debt held by low-income individuals. These small but high-cost debts can trap people in a cycle of debt and repayment and prevent the build-up of even low stocks of assets.²

The policy was not without critics, even at the outset. The range of arguments against matching design included the need to avoid distorting what might be efficient individual decisions and the fact that a matched saving account may be less effective than other interventions, such as income transfers, increases in spending on programs that target the poor, or financial education programs (Emmerson and Wakefield 2003³). Supporters of the matching approach believed that it would provide a fairer and more effective tool with which people, particularly low-income people, could increase saving (see, for example, Sodha and Lister 2006).
The Saving Gateway Pilots

Table 6.1 sets out a timeline of key events in the history of the Saving Gateway. Nine years elapsed between the initial policy proposals and the planned national launch, partly because there were two rounds of pilots (although even with a single pilot, the gap would have been six years), highlighting that the significant benefits of piloting have to be weighed against the inevitable delay it introduces. The progression from the first to the second pilot and then to roll-out was quite swift at each stage. The political window of opportunity can close even for projects whose evaluations indicate that they are successful. In the absence of other policy options that have been as rigorously tested, alternatives may be introduced that are less effective or more expensive, or the negative conditions that motivate the program can remain unaddressed.

**PILOT 1**

An initial pilot of 1,500 accounts was conducted in 2002–04. A final evaluation report was published in March 2005 (Kempson, McKay, and Collard 2005). The initial pilot had a 100 percent match rate. Participants could save up to £375 over 18 months at up

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial policy proposals</td>
<td>2001</td>
</tr>
<tr>
<td>Development of initial pilot</td>
<td>2001–02</td>
</tr>
<tr>
<td>First pilot</td>
<td>August 2002–November 2004</td>
</tr>
<tr>
<td>Final evaluation of first pilot</td>
<td>March 2005</td>
</tr>
<tr>
<td>Interim evaluation of second pilot</td>
<td>July 2006</td>
</tr>
<tr>
<td>Final evaluation of second pilot</td>
<td>May 2007</td>
</tr>
<tr>
<td>Announcement of national roll-out in 2010 and consultation on details of the scheme to inform roll-out</td>
<td>March 2008</td>
</tr>
<tr>
<td>Summary of responses to consultation announcement of 50 percent match rate</td>
<td>December 2008</td>
</tr>
<tr>
<td>Saving Gateway Accounts Act passed</td>
<td>July 2009</td>
</tr>
<tr>
<td>Final Labour Budget confirms July 2010 launch</td>
<td>March 2010</td>
</tr>
<tr>
<td>U.K. general election</td>
<td>May 2010</td>
</tr>
<tr>
<td>First Conservative-Liberal coalition government budget announces that scheme will be canceled</td>
<td>June 2010</td>
</tr>
<tr>
<td>Planned launch</td>
<td>July 2010</td>
</tr>
<tr>
<td>Saving Gateway Accounts Act repealed</td>
<td>December 2010</td>
</tr>
</tbody>
</table>

*Source:* Author, based on government documents.
to £25 a month (for example, a maximum of 15 full contributions). The match was then applied at the end of the period. The money could be used for any purpose, in contrast to experiments in other countries that restrict money to certain uses. In four of the five areas, community groups helped find potential low-income participants, who were the target group for the accounts. These groups were part of a separate pilot, called the Community Finance and Learning Initiative. Although financial education services were available for Saving Gateway participants, few people took up the offer, which hence appeared to have little impact on whether people joined the pilot. In the fifth area, letters were sent to people’s homes to alert them to the pilot.

The evaluation of the second pilot was largely positive. Its small size limited the design parameters that could be tested and the degree to which the results could be extrapolated to the broader population. The evaluation used a combination of questionnaires, actual data from the matched account provider, and face-to-face interviews. A reference group not offered the account was used as a control.

Relative to the maximum achievable account balance of £375, the mean balance at the end of the pilot (18 months) was £282 and the median was £375. Before the pilot, 56 percent of the people who participated in the pilot had no reported savings, 13 percent had less than £200, and only 17 percent had more than £500.

The pilot increased saving. The question is whether the saving that accrued was additional or money that was transferred from other balances or borrowed.

The evaluation of the program concluded that the pilot “encouraged genuinely new saving among participants. Most were finding the money they saved from their regular income. There was hardly any evidence that people had either borrowed the money or transferred it from other savings accounts” (Kempson, McKay, and Collard 2005, 47).

The government’s 2008 consultation on the national roll-out of the scheme concluded that “there was evidence that the scheme led to a change in saving behaviour, with 41 percent of savers still saving three or more months after the pilot had finished and 32 percent of savers saying that they were more likely to plan for retirement.” In addition, “a high proportion of account holders (60 percent) agreed that saving into a Saving Gateway account had made them feel more financially secure” (HM Treasury 2008b, 8–9).

Table 6.2 shows the range of responses from qualitative surveys at account opening and account maturity. In general the transitions are positive, meaning that the percentage of people who said they did not save at all fell.

**PILOT 2**

On the strength of the (interim) evaluation of the first pilot program, the government implemented a new, much larger pilot in 2005. The second pilot included variations in key parameters and contribution levels. It therefore enabled testing of the effects of different match rates and contribution ceilings. It also included people thought to be well outside any potential target group, in order to test whether and at what point diminishing returns from expenditures on incentives set in. The pilot also aimed to test recruitment mechanisms by using telephone and direct mail that could be scalable to a national program. This feature was added because use of community groups and the bundling of financial education in the first pilot were deemed too expensive to include in a national scheme.
Control and treatment groups were randomly selected from three databases: benefit records; random-digit dialing, using databases of phone numbers; and letters sent to addresses randomly drawn from a directory of household addresses. A control group was selected that had the right mix of the proposed target group. Members of the control group were asked the same questions on saving behavior at the start and end of the pilot but were not offered the account. The treatment group was offered the account. Some refused but agreed to participate in the evaluation, allowing researchers to identify whether being offered an account had any impact even if the offer was refused. Some members of the treatment group accepted and opened the account. The evaluation used surveys of each group at the beginning and end of the pilot, some face-to-face interviews, and administrative account data from the account provider, Halifax Bank, a British bank (now HBOS).

The second pilot was larger, with 22,000 accounts. It tested three different match rates (20 percent, 50 percent, and 100 percent) across six areas of the United Kingdom. It also tested different monthly contribution ceilings (£25, £50, and £125) and included a much wider income range, in order to determine whether and at what point diminishing returns to matching set in.

Table 6.3 shows the mean and median contributions, the match rate, and the contribution ceiling in the six pilot areas. The table shows that there was some evidence that a higher overall match led to higher contributions (but with rapidly diminishing returns).
However, the far more dominant impact was the ceiling on monthly contributions. Participants who were offered the lowest 20 percent matching rate for their contributions but were allowed the higher £125 monthly limit made larger contributions than participants offered a 50 percent or 100 percent match but constrained to a lower contribution ceiling. Most people saved up to the contribution ceiling. This result is generally consistent with experience in other settings (see chapter 15), which indicates that the framing of the terms of the match affect behavior.

The higher match rate had a greater impact on the likelihood of opening an account. In the two areas where people were offered a 20 percent match, the average participation rate was less than 9 percent. In the three areas offered a 50 percent match, the average rate was about 20 percent. In the one area with a 100 percent match, the conversion rate was also about 20 percent. These findings suggest that the match rate influences both the participation decision and the amount of saving by people who chose to participate. Higher matches could be offered in the early years of a program to get people into the scheme, with the rate reduced in subsequent years.

Overall, the evaluation of the second pilot showed a 34 percent increase in the probability that people who opened an account would significantly increase their saving. The results showed some decrease in spending by participants on discretionary items, implying that substitution away from other expenditures was a source for the extra saving. There was little or no evidence that participants borrowed to “invest” in the pilot. Set against the positive evidence was the fact that statistical tests could not conclusively demonstrate an increase in the measure of overall net worth, as would be expected if saving had increased. There was evidence that the low-income group appeared to be increasing overall saving by much more than the higher-income group.

### Selectivity Bias

Whether these results reflected unobserved differences (selectivity bias) was a key concern. To address this question, the evaluators used two econometric estimation strategies. Their central concern was identifying the impact of the Saving Gateway accounts. The random

### TABLE 6.3 Mean and median saving balances in Saving Gateway Pilot 2

<table>
<thead>
<tr>
<th>Area</th>
<th>Match rate (%)</th>
<th>Contribution ceiling (£)</th>
<th>Conversion rate (%)</th>
<th>Net monthly contribution (£)</th>
<th>Final balance (before match added) (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Median</td>
<td>Mean</td>
</tr>
<tr>
<td>1</td>
<td>20</td>
<td>50</td>
<td>6.5</td>
<td>50</td>
<td>33</td>
</tr>
<tr>
<td>2</td>
<td>20</td>
<td>125</td>
<td>10.3</td>
<td>125</td>
<td>89</td>
</tr>
<tr>
<td>3</td>
<td>50</td>
<td>50</td>
<td>21.8</td>
<td>50</td>
<td>39</td>
</tr>
<tr>
<td>4</td>
<td>50</td>
<td>25</td>
<td>16.2</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>5</td>
<td>50</td>
<td>25</td>
<td>22.8</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>6</td>
<td>100</td>
<td>25</td>
<td>19.7</td>
<td>25</td>
<td>20</td>
</tr>
</tbody>
</table>

control group (the group not offered accounts) provided a strong control. It allowed fully randomized experimental comparison of the impact of being offered an account on saving rates, because there was no selection bias.

There were concerns about selection bias in comparing people who opened accounts and people who declined to do so. Indeed, there were observable differences between people who did and did not open accounts when offered the opportunity. Account openers tended to be better educated, earn more, and live closer to a branch of the provider. The econometric results included these observable characteristics in the explanatory variables to try and control for their influence. Of course, they could not account for any unobserved differences in the groups that made account openers more likely to respond to the incentives.

Most of the results presented in the second evaluation report focused on the difference between people offered accounts (regardless of whether they opened one) and the control group. For these two groups, there was no selection bias. But these comparisons do not evaluate the impact of actually opening and participating in the accounts over the period of the pilot. Doing so requires comparing account openers with both control groups—and an assumption or judgment about whether the differences in saving are the result of the policy, of unobservable differences, or a combination of both.

Both sets of results are presented here, each needing a caveat. Most people offered an account chose not to open one. People who did open an account may have unobserved characteristics that introduce selection bias. This bias may affect the results, even though researchers controlled for age, sex, employment, race, housing tenure, education, health, income, household composition, and numeracy.

**Impact on Saving, Consumption, and Overall Net Worth**

As highlighted above, the impact on saving, consumption, and overall net worth depends on whether the comparison is made between people offered an account or between people who actually opened an account and the control group. Among people offered an account, there is limited evidence of an increased probability of increased saving, some evidence of reduced spending on purchases outside the home, such as dining out, and no evidence of any change in net worth (table 6.4). Among people who actually opened an account, there is strong evidence of an increase in the probability of saving more and reduced spending on food consumed outside the home. But even for this group there is no evidence of a change in net worth.

These results pose something of a conundrum, because in the qualitative evaluations, people generally reported saving more out of current income rather than transferring money from other accounts (though a significant minority of higher-income participants reported recycling existing savings). If people are increasing saving out of current income as a result of the pilot and increasing their balance in the new account, net worth should be rising.

**The Planned National Roll-Out**

In response to the second evaluation report, the government decided to create a national scheme. A 2010 launch was announced in the 2008 Budget. Alongside the
announcement, a consultation was published on the way in which the national scheme would operate. The government consultation summed up the results of the evaluation that provided the justification for the roll-out as including the following factors (among others):

- Individuals were overwhelmingly positive about the effect of matching as a simple and easily understood incentive to save.
- It was not necessary to offer match rates as generous as pound-for-pound in order to incentivize people to save.
- The pilots led to new saving, particularly among those on lower incomes. However, those on higher incomes were able to recycle existing saving.
- Those living closer to a Halifax branch were more likely to open an account, demonstrating the importance of ease of access.
- Savers learned through learning by doing and welcomed support and guidance at account opening and maturity. However, voluntary opt-in to financial education did not work.
- There were financial inclusion benefits from extending a structured matched savings account to people on lower incomes. Many of these benefits are around formalizing informal savings, promoting regular saving, and getting people to engage with financial institutions for the first time (HM Treasury 2008b).

To ease administration, policy makers decided that eligibility for an existing benefit or tax credit would confer eligibility for a Saving Gateway account. Up to 8 million people—some 20 percent of the working-age population—were to be eligible, making the scheme a potentially very significant intervention. The final match rate announced after the consultation was 50 percent. Accounts would last two years, with a monthly contribution ceiling of £25. The evaluation results showed that the ceiling had a significant effect on behavior, as many people seemed to treat it as advice or a target level of savings. Consequently, choosing a ceiling that was the lowest tested in the pilots was likely to be an effective

### TABLE 6.4 Impact of Saving Gateway pilot on saving, consumption, and net worth

<table>
<thead>
<tr>
<th>Event</th>
<th>% of all participants offered an account</th>
<th>% of all participants who opened an account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability of increasing saving by more than twice the monthly contribution ceiling</td>
<td>5.3*</td>
<td>34.2*</td>
</tr>
<tr>
<td>Probability of spending more than £25 ($40) on food outside the home</td>
<td>−4.2*</td>
<td>−21.8*</td>
</tr>
<tr>
<td>Probability of increasing net worth</td>
<td>1.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Probability of increasing net worth by more than twice the monthly contribution ceiling</td>
<td>−0.2</td>
<td>−1.2</td>
</tr>
</tbody>
</table>

**SOURCES:** IFS and Ipsos Mori 2006; Emmerson and others 2007.

**NOTE:** *Significant at 1 percent level.*
way to control costs. Setting a low ceiling would also reduce the problem of savings substitution, in which people with higher incomes and higher existing savings recycled those savings to get the match. In addition, given that some people might try to game the system by recycling savings from noneligible friends or relatives, limiting contributions to the lower level helped constrain costs. However, it would be difficult to prevent such gaming once the system became an established part of the savings infrastructure, given that accounts were short term and complete access was to be allowed at account maturity.

Complete freedom of access to funds in the accounts was in contrast to other countries, which tried to mandate the use of savings for education or home purchase. Although restrictions may have merits, if the aim is to provide people with savings for a “rainy day” and increase flexibility for the unexpected, it is important to allow flexibility on the use of the savings.

The government introduced and passed the legislation to authorize the scheme in 2009 (the Saving Gateway Accounts Act 2009). It then worked with potential suppliers and interested parties, such as groups working with low-income people, to craft the final design and plan the roll-out.10

The General Election and the End of the Saving Gateway Scheme

The launch date was set for July 2010. In May 2010, the United Kingdom held a general election, in which a Conservative–Liberal Democrat coalition replaced the Labour government. Against the backdrop of challenging public finances, the new government announced in its first budget in June 2010 that it could not afford to extend the Saving Gateway (HM Treasury 2010).

Although the new government scrapped the scheme, the concept of matched saving for low-income people has appeal across the political spectrum. It has a clear fairness angle in providing incentives for a group typically excluded from tax incentive–based approaches, which typically benefit the better-off. It also has a clear “self-help” rationale. Personal responsibility and control over finances underpin individuals’ attempts to improve their own lives; initial assistance from the government creates a virtuous circle that frees the state from the need to provide further assistance when individuals encounter inevitable income shocks. The absence of any controls over the use of the money is consistent with a libertarian view of giving people control over their own decisions. Broad interest in helping people create their own savings on which to fall back on did not translate into proposals to curtail their almost instant access to high-cost credit cards and store cards, which undermines many of the best intentions of would-be savers.

Conclusion and Policy Implications

The Saving Gateway was an attempt to address the long-standing problem of low or negative saving by people with low incomes. It aimed to test matching as a new approach to engage and incentivize saving. The approach offered financial incentives that were easier to calculate and of significantly greater value than tax relief for the target group. Two pilots were conducted, both independently evaluated.
The pilots provided positive qualitative evidence of the impact on people’s lives, including increased experiences of emotional well-being and the sense of being in control. Both showed that significant balances could be built up in a savings account by people with relatively low incomes.

The second pilot showed that low-income people who opened accounts significantly increased their savings and reduced their consumption. People with higher incomes were more likely to recycle existing savings, showing the importance of proper targeting of the incentives.

A wide range of observable characteristics were controlled for. However, it is impossible to rule out the chance that some unobserved characteristics could have driven the increased saving. The probability that participants in the second pilot increased overall saving relative to the control group was 34 percent. However, this probability fell to just 5 percent once the impact of being offered but not actually opening an account was tested.

Following the pilots, the previous government decided to roll out the scheme nationally. It was convinced of the benefits—and of the absence of viable alternatives to increase saving for low-income people. The planned roll-out directly incorporated many of the lessons from the pilots. The government elected in May 2010 canceled the national scheme on the grounds that it was unaffordable.

Several key lessons emerge from this experience:

- Matching seems to have a positive impact on saving. It provides a way to reach groups typically excluded from incentives to save based on tax relief. There are issues of deadweight—paying people to do things they would have done anyway—once people outside the low-income target group are included. However, alternative programs (tax relief, direct grants, and financial education) face similar or greater problems and may well cost more. The do-nothing option is very likely to lead to a continuation of low saving and financial exclusion.

- There appear to be strong diminishing returns to more generous match levels—certainly above 50 percent. Contribution ceilings appear to dominate match rates in terms of how much people actually save once they join the scheme, but more generous matches appear to make people more likely to take up the scheme in the first place. Future policy could offer a generous initial match to encourage participation and then reduce it.

- Piloting with independent evaluation is a crucial way to improve policy. There is an inevitable loss of control by policy makers, but there are real benefits to improving scheme design—or not going ahead with a policy that does not seem to deliver the promised benefit.

- Perfect experimental design is difficult if subjects need actively to choose to engage in a program (for example, by transferring their own money into accounts). Selectivity issues inevitably occur even after controlling for a wide range of observable characteristics. There is still value in piloting, however, and using real people in real situations may well be preferable to simulated markets with more control.

- In an ideal world, the behavior of participants would be reviewed 5–10 years later. Testing payoffs such as developing a saving habit or avoiding high-cost debt
requires actual experience rather than reported intentions, which are often overly optimistic.

- Pilots increase the lead time between policy formulation and the establishment of a program. During this time, the window of opportunity for action may close, even for good programs. Finding ways to increase the number of pilots financed from research budgets and speed the implementation and evaluation of pilots would be useful.

- Political risk can affect the willingness of the private sector to participate as a delivery channel, because the investment in systems and training may be wasted if the scheme does not go ahead. Gaining some political consensus can help reduce the risk of government failure in delivering and sustaining an intervention.

- “Choice architecture” is important. A generous attention-grabbing match helped enroll people in the scheme—the equivalent of well-established marketing practice in many markets. Once they have an account, individuals seem to view contribution ceilings as contribution targets. Scheme designers may thus have a high degree of control over the balances people accumulate in the accounts.

Notes

1. Schemes included personal equity plans (PEPs), introduced in 1986; tax-exempt special saving accounts (TESSAs), introduced in 1990; and individual saving accounts (ISAs), which effectively replaced tax-exempt special saving accounts and personal equity plans, introduced in 1999.

2. Although the argument was not made in these terms, the aim was to increase people’s consumption and saving by helping them avoid wasting money on very high-cost unsecured debt (through credit cards and store credits, for example).

3. Both authors were part of the team selected to produce the independent evaluation report on the second Saving Gateway pilot.

4. Currency values in this chapter are given in U.K. pounds; £1 = $1.6132.

5. People recruited were receiving various forms of employment and unemployment benefits. Maximum individual income was £11,000; maximum household income was £15,000.

6. The median was higher than the mean because most people contributed the maximum but some did not—thus the median was also the maximum.

7. Some people went backward: 7 percent of people who said they tended to put money away for the long term at account opening said they did not save at all when asked at account maturity. This result may reflect the fact that their circumstances changed in the interim, or it may be evidence of significant instability in people’s expressed preferences between surveys, which should introduce a note of caution in interpreting survey results.

8. A second pilot was also chosen because by 2005 the public finance environment in the United Kingdom had already started to become tighter. As a result, funds for a national roll-out were not as readily available, despite some political and social pressure to start a national scheme right away.

9. The evaluation included more sophisticated econometric analysis on the conversion rate which did not alter the general message that there was an impact from the generosity of the match.
10. HMRC Saving Gateway news updates were designed “to let you know the what, how and when as we progress towards launch this summer” (HMRC is the U.K. tax authority) (HMRC 2010).

References


HMRC. 2010. “Saving Gateway News Updates Designed ‘To Let You Know the What, How and When as We Progress Towards Launch This Summer.’” London.

