

The Saving Gateway: operating a national scheme

March 2008



HM TREASURY



HM Revenue
& Customs



HM TREASURY



HM Revenue
& Customs

The Saving Gateway: operating a national scheme

March 2008

© Crown copyright 2008

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

Office of Public Sector Information
Information Policy Team
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

e-mail: HMSOlicensing@opsi.x.gsi.gov.uk

HM Treasury contacts

This document can be found in full on our website at:

hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

Printed on at least 75% recycled paper.

When you have finished with it please recycle it again.

ISBN 978-1-84532-423-0

PU342

CONTENTS

| | Page |
|-------------------|--------------------------------------|
| Executive Summary | 3 |
| Chapter 1 | Introduction |
| Chapter 2 | Before account opening |
| Chapter 3 | Account opening |
| Chapter 4 | Saving Gateway account features |
| Chapter 5 | Account closure and match payments |
| Chapter 6 | Providers of Saving Gateway accounts |
| Chapter 7 | Compliance checks |
| Chapter 8 | About the consultation process |
| Chapter 9 | Impact Assessment |
| Annex A | Glossary |
| Bibliography | |

EXECUTIVE SUMMARY

The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. This consultation document on the operation and administration of a national scheme is published alongside the Budget.

The Saving Gateway is a cash saving account for those on lower incomes. It provides a financial incentive to save, through the Government matching (a contribution for each pound saved) money, which people save into the scheme. The Saving Gateway was first proposed in 2001 and since then it has been consulted on and piloted twice. In total over 22,000 people took part in the pilots achieving over £15 million in savings. The pilots were successful in confirming matching as an effective incentive to save for those on lower incomes. They demonstrated that the scheme could generate both new savers and new saving and individuals continued to save after the end of the accounts. In addition, there were financial inclusion benefits through bringing individuals into contact with financial institutions for the first time.

Following the success of the pilots and to promote saving and financial inclusion for those on lower incomes, the Saving Gateway will now be introduced nationally with the first accounts available to savers in 2010.

Savings are important in providing people with independence throughout their lives and security if things go wrong. Since 1997, the Government has aimed to support saving and asset ownership for all from childhood, through working life and into retirement. The Government has introduced Individual Savings Accounts (ISAs) which seek to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Government has also introduced the Child Trust Fund (CTF), which seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18. Personal Accounts, for pension saving, will be introduced in 2012 and will promote saving for retirement. The Saving Gateway will sit alongside these initiatives and promote saving for those on lower incomes.

This consultation sets out proposals for the operation and administration of a national Saving Gateway scheme. The document describes who will be eligible for the scheme, how the accounts will be opened and run, how match payments will be made to savers and considers the support and advice which savers might need.

In a national Saving Gateway scheme eligibility will be 'passported' from qualifying benefits and tax credits. Individuals will be able to access the scheme if they are in receipt of:

- Working Tax Credits;
- Child Tax Credits paid at the maximum rate;
- Income Support;
- Incapacity Benefit or Employment Support Allowance;
- Severe Disablement Allowance; and
- Jobseeker's Allowance.

Enabling those in receipt of these qualifying benefits and tax credits to have access to the scheme will give a potential eligible population of around 8 million individuals.

The Government is also looking at ways to provide support and information on the Saving Gateway through intermediaries. Third sector organisations such as credit unions, social housing providers and the Citizens Advice Bureau have expressed interest in providing information on the scheme and support with account opening. Further detail on the account opening process and information and support is set out in Chapter 2.

To indicate that an individual is entitled to hold a Saving Gateway account the Government proposes to automatically send a voucher or unique reference number to eligible individuals. An individual would then need to approach a Saving Gateway provider to open an account. The government proposes that it would not be mandatory for providers to collect vouchers from individuals in order to open an account. This process is set out in Chapter 3.

As set out in Chapters 4 and 5, the Government proposes that in a national Saving Gateway:

- accounts will run for two years;
- the Government will set a limit on the amount that will be matched each month. The Government is minded to set this monthly match limit at £25. The Government proposes that savers will be able to make deposits into their accounts over and above this limit;
- savers will be able to access the money they have saved, but not the match, at any point during the life of the account. This will ensure that those who need to access their money are able to do so;
- the Government will match money (a contribution for each pound saved) which people save into their Saving Gateway accounts. The match will be made on the amount saved every month (not including any interest paid or deposits over the monthly match limit), providing the saver has not made a withdrawal. If any amount is withdrawn, the saver then needs to exceed their previous matchable balance in order to gain a further match;
- the Government is further considering the rate at which to pay the match. The pilot schemes tested match rates of 20p, 50p and £1 per £1 saved;
- the match will be paid to savers after two years, when the Saving Gateway account matures;
- providers will be required to pay a return (such as an interest or dividend payment) on balances saved into the accounts; and
- there will be no specified use for the money individuals have saved or the matched funding they receive. Many individuals will, however, want to continue to save and the Government will look at ways to encourage them to do so. The Government will also allow Saving Gateway accounts to roll over into an ISA on maturity.

As with other savings schemes, accounts will be provided by financial institutions such as banks, building societies and credit unions. The role and responsibilities of providers in the delivery of the Saving Gateway are set out in further detail in Chapter 6. Detail on the relevant compliance checks that will accompany the scheme are set out in Chapter 7. The Government welcomes the views of all stakeholders on any of the issues raised in this consultation document. A full list of consultation questions is set out in Chapter 8.

INTRODUCTION

The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. This consultation document on the operation and administration of a national scheme is published alongside the Budget.

The Saving Gateway is a cash saving account for those on lower incomes. It provides an incentive to save, through the Government matching (a contribution for each pound saved) money, which people save into the scheme. The scheme was first proposed in 2001 and has been piloted twice. Access to the national scheme will be 'passported' from qualifying benefits and tax credits. As with other saving schemes the accounts will be provided by financial institutions such as banks and building societies. This chapter sets out the background and context to the scheme and information on the pilots.

CONTEXT

1.1 The Saving Gateway is a cash saving account for those on lower incomes. It provides a financial incentive to save, through the Government matching money which people save into the scheme.

1.2 The Government consulted on proposals for the Saving Gateway in 2001 and the scheme has since been piloted twice between 2002 and 2007.¹

1.3 This consultation builds on the findings and the lessons learned from the earlier consultations and the pilot schemes. It sets out proposals for the operation and administration of a national Saving Gateway scheme.

1.4 The objectives of the Saving Gateway are to:

- kick-start a saving habit among people on lower incomes by providing a strong incentive to save through matching (a government contribution for each pound saved); and
- promote financial inclusion through encouraging people to engage with mainstream financial services.

Savings strategy

1.5 Savings are important in providing people with independence throughout their lives and security if things go wrong. The Government seeks to support saving and asset ownership for all from childhood, through working life and into retirement. Since 1997, the Government's savings strategy has focussed on improving the environment for saving, providing adequate incentives for saving and empowering individuals with the capability to make the right saving choices. In addition, the Government aims to promote financial capability and inclusion to ensure that people have the right skills to manage their finances, and have access to the appropriate products and services. Key challenges for the Government's saving strategy moving forward are:

¹The Modernisation of Britain's Tax and Benefit System, Numbers 8 and 9, (HM Treasury, 2001)

- equipping people with the capability to make the right savings decisions;
- promoting financial inclusion and access to saving opportunities; and
- sharpening the incentives to save.

Individual Saving Accounts and Child Trust Fund **1.6** Since 1997, the Government has introduced Individual Savings Accounts (ISAs) to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Government has also introduced the Child Trust Fund (CTF) which seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18.

Personal Accounts **1.7** Pension reforms are being introduced to ensure that from 2012 workers will be auto-enrolled by their employer into a workplace pension - either an existing employer scheme or the new scheme of Personal Accounts. This will mean that the default position will be for workers to be saving in a pension, unless they choose to opt out. The target group for these reforms will be low to moderate earners who are likely to be most at risk of under-saving for their retirement.

1.8 The Saving Gateway will sit alongside ISAs, the CTF and Personal Accounts to provide an incentive for lower-income savers.

Financial inclusion

1.9 The Saving Gateway will be an important initiative in the promotion of financial inclusion. Financial inclusion is about ensuring that everyone has access to appropriate financial services, enabling them to:

- manage their money on a day-to-day basis effectively, securely and confidently;
- plan for the future and cope with financial pressure by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and
- deal effectively with financial distress should unexpected events lead to serious financial difficulty.

1.10 The role of saving in contributing to the Government's financial inclusion objectives, in particular the goal that people have access to financial services enabling them to plan for the future and cope with financial pressures, means that saving is now incorporated within the Government's Financial Inclusion Strategy. The issues relating to saving and financial inclusion will also be included within the extended remit of the Financial Inclusion Taskforce.

Financial capability

1.11 In January 2007, the Government set out its aspirations for increasing consumers' capability over the next 10-20 years. This includes ensuring that:

- adults have access to high-quality generic financial advice;
- children and young people have access to a planned and coherent programme of personal financial education; and

- there is a range of government programmes focussed on improving financial capability, particularly to help those who are most vulnerable to the consequences of poor financial decisions.

1.12 The Government will publish its action plan on financial capability later in the spring. This will set out next steps on promoting personal finance education, alongside the Government's full response to the Thoresen Review of Generic Financial Advice (See Chapter 2).

1.13 A national Saving Gateway scheme will promote financial capability through developing individuals' understanding of savings products and financial services through using the accounts.

Christmas saving schemes

Farepak 1.14 The Saving Gateway will provide a regulated saving scheme for those on lower incomes. The importance of this was underlined in Brian Pomeroy's recent review of Christmas saving schemes² in response to the collapse of Farepak, in 2006.

The Social Fund

1.15 The Saving Gateway will operate alongside the Social Fund which provides a safety net of discretionary grants and loans for the most vulnerable in times of crisis. The Government has recently announced that the Department for Work and Pensions (DWP) will conduct a financial and practical feasibility study into whether the private and third sectors can be brought into partnership with the Government in delivering a reformed Social Fund budgeting loans scheme.

² *Review of Christmas Saving Schemes* (HM Treasury, March 2007)

THE SAVING GATEWAY PILOTS

1.16 The Saving Gateway was piloted twice between August 2002 and February 2007.

Pilot 1

1.17 The design of the first pilot is summarised in Box 1.1.

Box 1.1: Saving Gateway pilot 1 (August 2002 to November 2004)

Key features:

- 1,500 Saving Gateway accounts were opened in five locations: Cambridge, Cumbria, East London, Manchester and Hull;
- accounts were provided by the Halifax (now HBOS plc);
- savers were recruited in conjunction with Community Finance Learning Initiative (CFLI)*, by local organisations or by an invitation letter;
- accounts ran for 18 months;
- there was a £25 per month contribution limit;
- the maximum matchable amount was 15 months of maximum contribution limit. This meant that an individual could miss a contribution in three of the months (these were referred to as “payment holidays”) and still achieve the maximum match payment;
- the match rate was £1 for each £1 saved and the maximum balance that could be matched was £375;
- those eligible to open an account were of working age and:
 - working more than 16 hours per week and earning less than £11k per year, or earning less than £15k per year with children or a disability; or
 - receiving benefits or out of work.

* Community Finance Learning Initiative was a Department for Education and Skills pilot scheme aiming to join up financial literacy, micro-enterprise and adult learning services.

Key findings of the first Saving Gateway pilot

1.18 The final evaluation of the first Saving Gateway pilot, published in March 2005³, found that:

- the scheme generated both new savers and new saving. For example, among savers, the number of people saving regularly quadrupled and the amount they saved doubled;
- there was evidence that the scheme led to a change in saving behaviour with 41% of savers still saving three or more months after the pilot finished and 32% of savers saying that they were more likely to plan for retirement;

³Incentives to save: Encouraging saving among low-income households, Kempson, McKay, Collard, (Personal Finance Research Centre, University of Bristol, March 2005).

- the scheme encouraged a conversion of informal saving (i.e. money held in cash at home) to formal saving (i.e. the Saving Gateway); and
- a high proportion of account holders (60%) agreed that saving into a Saving Gateway account had made them feel more financially secure.

Pilot 2

1.19 The key features of the second Saving Gateway pilot are summarised in Box 1.2.

Box 1.2: Saving Gateway pilot 2 (March 2005 to February 2007)

Key features:

- over 22,000 Saving Gateway accounts opened in six locations: the same five areas as the first pilot* plus an additional area: South Yorkshire;
- accounts were provided by the Halifax (now HBOS plc);
- savers were recruited by telephone, mail shots from DWP benefit records and from postcode address files;
- accounts ran for 18 months;
- variable monthly contribution limits: £25 (three areas), £50 (two areas) and £125 (one area);
- the maximum matchable amount was 16 months of maximum contribution limit;
- variable match rate per £1 saved: £0.20 (two areas), £0.50 (three areas, one of which offered an additional £50 bonus payment), £1 (one area);
- those eligible to open an account were of working age and:
 - earning less than £25k for individuals in work;
 - earning less than £50k for households in work; or
 - out of work receiving Jobseeker's Allowance, Income Support, Incapacity Benefit or Severe Disablement Allowance; and
- participants were also offered financial training with their Saving Gateway account.

*Pilot 1 areas: Cambridge, Cumbria, East London, Manchester and Hull.

1.20 The second pilot was designed to test different match rates and monthly contribution limits, the effect of an initial endowment and a range of financial education and support. The account was made available to a wider range of income groups than in the first pilot. The features of the accounts in the second pilot in each area are shown in Table 1.1.

Table 1.1: Features of the Saving Gateway accounts in the second pilot

| Location | Match (per £1) | Contribution limit (£ per month) | Maximum achievable balance | Maximum match available |
|-----------------|-------------------|-------------------------------------|-------------------------------|----------------------------|
| | £ | £ | £ | £ |
| Cambridge | 0.20 | 125 | 2,000 | 400 |
| Cumbria | 0.50 | 50 | 800 | 400 |
| East London | 0.20 | 50 | 800 | 160 |
| Manchester | 1.00 | 25 | 400 | 400 |
| East Yorkshire | 0.50 ⁴ | 25 | 400 | 250 |
| South Yorkshire | 0.50 | 25 | 400 | 200 |

Key findings of the second Saving Gateway pilot

1.21 Evaluation of the pilot was carried out by Ipsos MORI and the Institute for Fiscal Studies. The final report was published in May 2007⁵. Key findings were:

- 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 incentivise people to save;
- there are benefits in having an account structure for regular savings – monthly contribution limits of £25 per month were affordable for those on lower incomes, those on higher incomes were able to save more;
- a time-limited account kick-started a saving habit among those new to saving with most savers believing that they would continue to save after the Saving Gateway pilot ended;
- the pilots led to new saving particularly among those on lower incomes and there was a positive impact on attitudes to saving especially among those new to saving. However, those on higher incomes were able to recycle existing savings;
- those living closer to a Halifax branch were more likely to open an account than those who lived further away, demonstrating the importance of ease of access;
- savers learnt through “learning-by-doing” and welcomed support and guidance at account opening and maturity. However, voluntary opt-in to financial education did not work; and

⁴ An additional £50 bonus was paid to account holders for saving at least £50 in the scheme.

⁵ *Interim Evaluation of Saving Gateway* (Institute for Fiscal Studies and Ipsos MORI Social Research Institute, July 2006); *Final Evaluation of the Saving Gateway 2 Pilot: Main Report*, Harvey, Pettigrew, Madden, Emmerson, Tetlow, Wakefield (Ipsos MORI and Institute for Fiscal Studies, May 2007)

- there were financial inclusion benefits from extending a structured matched savings account to people on lower incomes. Many of these benefits are around formalising informal savings, promoting regular saving and getting people to engage with financial institutions for the first time.

A NATIONAL SAVING GATEWAY SCHEME

1.22 Building on the pilots and informal consultations, the Government is now setting out proposals for a national Saving Gateway scheme.

1.23 In designing a national scheme the Government has looked to adhere, as far as possible, to the following principles:

- it should be simple for savers to understand, access and use;
- it should be simple and cost-effective for providers to operate;
- it should be simple and cost-effective to administer;
- it should enable compliance, minimising the amount of error and actively managing the risk of fraud; and
- it should 'work with the grain of how people think'.

Delivery of the Saving Gateway

1.24 The Saving Gateway account will be administered by HM Revenue and Customs (HMRC), building on its experience and expertise of administering other incentivised saving products such as ISAs and the CTF.

RESPONDING TO THIS CONSULTATION

1.25 The Government would welcome views on any of the issues covered in this consultation document. In particular, the Government would be grateful for responses to the questions that appear at the end of each chapter and are summarised in Chapter 8. Details of how to respond are also set out in Chapter 8, including an explanation of the approach to consultation responses under freedom of information legislation.

1.26 This consultation document is being published on 12 March 2008 and the formal consultation period will run for 12 weeks. The consultation therefore closes on 4 June 2008.

1.27 This document is available on HM Treasury's public website at www.hm-treasury.gov.uk

2

BEFORE ACCOUNT OPENING

Entitlement to a Saving Gateway account will be ‘passported’ from qualifying benefits and tax credits. This means that individuals will be able to open an account if they are in receipt of the benefits and tax credits listed below. The Government is also looking at ways to provide support and information on the Saving Gateway to help individuals with account opening and the process of saving in the account.

This chapter describes who will be eligible for a Saving Gateway account and possible ways to provide information and support on the scheme.

ESTABLISHING ELIGIBILITY FOR THE SAVING GATEWAY

Passporting 2.1 Savers will have eligibility to the Saving Gateway ‘passported’ from qualifying benefits and tax credits. This means that individuals will be able to open an account if they are in receipt of the benefits and tax credits listed below.

Qualifying benefits and tax credits 2.2 Individuals will be eligible to open a Saving Gateway account as long as they are in receipt of one or more of the following benefits and tax credits:

- Working Tax Credit;
- Child Tax Credit paid at the maximum rate;
- Income Support;
- Incapacity Benefit or Employment and Support Allowance;
- Severe Disablement Allowance; and
- Jobseeker’s Allowance.

Number of eligible individuals 2.3 Enabling those in receipt of these qualifying benefits and tax credits to have access to the scheme will give a potential eligible population of around 8 million individuals.

2.4 Eligibility will be on an individual rather than a household basis. This will mean that all individuals in receipt of a qualifying benefit or tax credit will be entitled to open a Saving Gateway account. Where there are two named recipients on an award letter both will be able to open a Saving Gateway account.

2.5 Participation in the Saving Gateway will be voluntary for eligible individuals. There will be no auto-enrolment of individuals into Saving Gateway accounts.

Changes of circumstance

2.6 Once an individual opens a Saving Gateway account any changes in their circumstances that occur after the account has been opened will not affect entitlement.

2.7 For instance, if an individual were to open a Saving Gateway account when out of work and in receipt of Jobseeker’s Allowance (JSA) and later found work and was no longer entitled to JSA, that individual’s Saving Gateway account would not be affected. Deposits could continue to be made and the match payment would be paid in the usual way when the account matured.

SUPPORT AND ADVICE FOR SAVERS

2.8 The Government is considering the support and advice that individuals might need regarding the opening and operation of a Saving Gateway account. Individuals may particularly need advice:

- when deciding whether or not to open a Saving Gateway account; and
- when thinking about the use of the account balance once the account matures.

HMRC advice and information

2.9 HMRC will provide general information about the operation of the Saving Gateway scheme to all its customers through the HMRC website.

2.10 HMRC will also provide a telephone helpline service to give support and guidance to providers operating the Saving Gateway scheme and to individuals who may have general enquiries or wish to confirm their eligibility.

Generic Financial Advice

Thoresen Review **2.11** The Thoresen Review of Generic Financial Advice published its Final Report on 3 March 2008. The report recommends a large-scale pilot or 'pathfinder' to test the delivery of a 'Money Guidance' service.

2.12 The Government welcomes the Thoresen final report and has announced a pathfinder, to be jointly funded by Government and the Financial Services Authority (FSA) and delivered by the FSA in conjunction with the National Strategy for Financial Capability. Following evaluation, if the Government decides to proceed with a full national Money Guidance service, HMRC will work with it to ensure that the Saving Gateway is included as a subject area in the range of advice delivered.

THE ROLE OF INTERMEDIARIES

2.13 The Government is exploring ways in which intermediaries could assist savers with account opening.

2.14 The Government is also exploring the extent to which intermediaries may be able to work with providers to increase the accessibility of the Saving Gateway. In particular, social housing providers, credit unions and the Citizens Advice Bureau have indicated that they would be willing to work with the Government to deliver information on the Saving Gateway scheme.

- The Government welcomes stakeholders' views on the provision of advice and support on the Saving Gateway and on the role of intermediaries in providing advice and support.

3

ACCOUNT OPENING

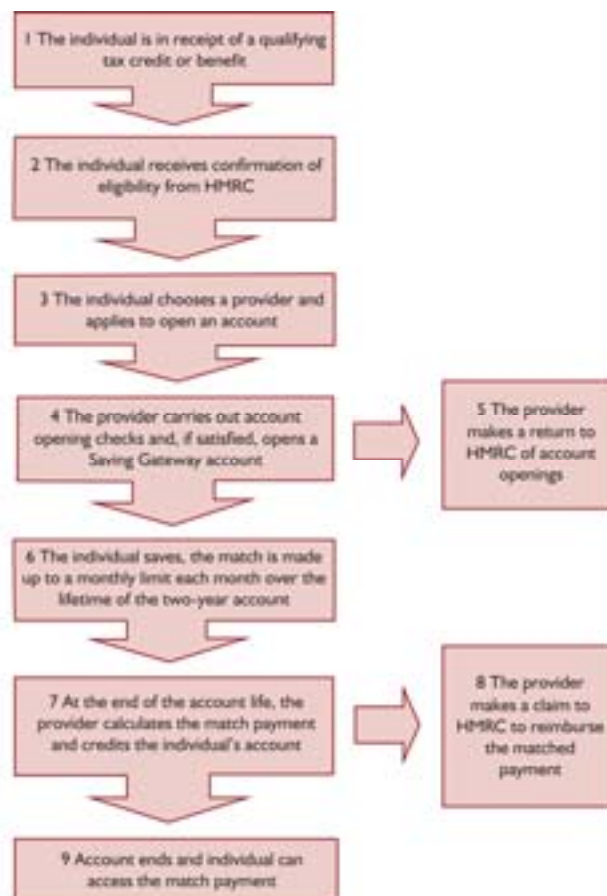
To indicate that an individual is entitled to open a Saving Gateway account the Government proposes that it will automatically send a voucher or unique reference number to eligible individuals. Individuals will then need to contact a Saving Gateway provider to open an account.

This chapter gives an overview of how the Saving Gateway accounts will operate and describes in more detail the process for opening a Saving Gateway account.

THE ACCOUNT OPENING PROCESS

3.1 Figure 1 gives an overview of how the proposed Saving Gateway account will work.

Figure 1: Overview of the Saving Gateway account process



3.2 The Government has considered a number of alternative models for the account opening process and has looked to balance both the needs of savers and those of providers in designing the process.

Self - certification **3.3** In particular, the Government has considered the merits of allowing individuals to self-certify their eligibility to the Saving Gateway when applying to a provider to open an account. This would involve an individual recognising that they were eligible to open an account. They would then approach a provider to open an account without any formal proof of eligibility.

Voucher **3.4** The Government proposes, however, that to provide a greater level of certainty for savers and providers, it will automatically issue confirmation of eligibility for a Saving Gateway account to individuals (*Step 2 in Figure 1*). This could be in the form of a voucher or a unique reference number. The Government will refine the format of the confirmation of eligibility following consultation. **The Government welcomes views on the form that this confirmation of eligibility should take.**

3.5 The use of a voucher or reference number system will allow providers to confirm an individual's eligibility at the point of account opening and reduce the need for HMRC to carry out additional checks after account opening. A voucher-based system should therefore reduce the risk of accounts being opened erroneously or of multiple accounts being opened by one individual. This will avoid nugatory work for providers in closing accounts that have been opened incorrectly and any uncertainty around eligibility that individuals may have.

Applying to open an account

3.6 An individual who wishes to open an account will contact a provider and use the voucher or unique reference number issued by HMRC to confirm their eligibility for the Saving Gateway (*Step 3 in Figure 1*).

3.7 The Government proposes that it will not be mandatory for providers to collect vouchers from individuals in order to open an account. Instead, individuals will be able to quote the Saving Gateway reference number printed on the voucher when opening an account in order to confirm their eligibility.

Changes in eligibility

3.8 An individual's entitlement to the benefits and tax credits that will lead to eligibility for the Saving Gateway can change over time. For this reason the Government proposes that confirmation of eligibility issued by HMRC will be time-limited and will carry an expiry date.

Checks prior to account opening

3.9 If the provider is satisfied that the confirmation of eligibility issued by HMRC to an individual is valid, any necessary additional checks (for instance the normal checks which are carried out when anyone opens a bank account) would be carried out by the provider prior to opening the account.

3.10 As long as these checks are satisfactory, the provider will open a Saving Gateway account and inform the individual accordingly (*Step 4 in Figure 1*).

3.11 Where confirmation of eligibility issued by HMRC has been lost by an individual, HMRC would be able to issue a duplicate copy on request.

Individuals not eligible to open a Saving Gateway account

3.12 In cases where HMRC discovers that a Saving Gateway account has been opened for an individual who was not eligible, HMRC would contact both the individual and the provider to inform them of this. It will then request that the provider closes the individual's Saving Gateway account.

3.13 It would be for the provider to agree with the individual on the course of action to be taken following an instruction from HMRC to close a Saving Gateway account, such as transferring any funds deposited into an alternative savings account.

3.14 Cases where an individual knowingly provides false information to open an account, or in an attempt to open an account, are considered in Chapter 7.

- What are your views on the proposed account opening process?
- The Government proposes that it will automatically issue confirmation of eligibility for a Saving Gateway account to individuals through, for example, a voucher or a unique reference number. The Government welcomes views on the form that this confirmation of eligibility should take.

4

SAVING GATEWAY ACCOUNT FEATURES

This chapter sets out the key features of Saving Gateway accounts. In summary:

- accounts will run for two years;
- the Government will set a limit on the amount that will be matched each month. The Government is minded to set this limit at £25 per month. The Government proposes, however, that savers will be able to make deposits over and above this limit into their accounts;
- savers will be able to withdraw money from their account at any time;
- providers will be required to pay a return on money saved in a Saving Gateway account; and
- providers will be required to send savers a statement at least once a quarter showing information on account activity and the match payment that has been achieved by the saver.

ACCOUNT CHARACTERISTICS

Account duration

4.1 The Government proposes that Saving Gateway accounts will run for two years.

4.2 The Government believes that allowing a longer duration for accounts than in the pilots (which ran for 18 months) will assist in further developing a saving habit and be attractive to potential account holders. This will also fit with the design of mainstream financial savings products which tend to be based on whole years.

Deposits

Monthly contribution limit

4.3 The Government will set a limit on the amount that will be matched each month. The Government is minded to set this limit at £25 as the pilots demonstrated that this amount is likely to be affordable to the target group. The Government proposes, however, that savers will be able to make deposits over and above this limit into their accounts.

4.4 As in the pilots, if a saver is unable to pay in the full matchable amount up to the limit in one month they will not be permitted to make up that amount in a subsequent month. Only deposits up to the match limit for the month will qualify for the match payment.

Withdrawals

4.5 The pilot accounts offered the flexibility to make withdrawals from the accounts. Although the evaluations showed that very few savers made withdrawals, it is proposed that in a national scheme savers should be able to withdraw the money they have saved (but not the match) at any point during the life of the account. This will ensure that, as with ISAs those who need access to the money they have saved are able to do so.

Minimum balance 4.6 The Government proposes that a minimum balance of £1 must be left in the account until maturation in order to keep the account active and to qualify for the match payment.

Return on account balances

Interest and dividends 4.7 The Government proposes that a return on balances held in Saving Gateway accounts should be paid by providers to savers.

4.8 The expectation is that this return will usually take the form of interest, but could take an equivalent form, for example to enable credit unions to pay dividends to Saving Gateway savers.

4.9 The interest or return paid will not be taken into account when calculating the match payment. Therefore providers will need to put in place systems that are able to exclude this sum when calculating the account balance that qualifies for matching.

Statements

4.10 Providers will be required to provide a statement to the saver at least quarterly during the life of the account, including the point at which the account matures. It is proposed that statements should contain the following information:

- the saver's name and address;
- the statement date;
- the opening balance for the statement period;
- all transactions (deposits and withdrawals) made over the statement period;
- the amount of the match payment achieved each month;
- details of any interest or equivalent investment return paid in the statement period; and
- the closing balance for the statement period.

5

ACCOUNT CLOSURE AND MATCH PAYMENTS

This chapter sets out what will happen when a Saving Gateway account reaches maturity, including how the match payment will be calculated and paid to the saver.

The Government will match money (a contribution for each pound saved), which people save into their Saving Gateway accounts. The match will be made on the amount saved every month (not including any interest paid or deposits over the monthly match limit), providing the saver has not made a withdrawal. If any amount is withdrawn, the saver then needs to exceed their previous matchable balance in order to gain a further match.

The match will be paid to savers at the end of two years when a Saving Gateway account matures. It is proposed that, on account maturity, providers will pay this match to savers. The Government will then reimburse providers for this matched payment.

The Government will not specify what the matched funds should be spent on or where they should be saved. The Government would, however, like to look at ways to encourage individuals to continue to save after the end of the Saving Gateway account period and will allow accounts to roll-over into an ISA. Providers will be required to put in place a process to transfer the account balance to a default, interest bearing, saving account, once Saving Gateway accounts have matured.

MATCHED PAYMENTS

When the match is paid and on what amount

5.1 The Government will match money (a Government contribution for each pound saved) which people save into their Saving Gateway accounts. The match will be made on the amount saved every month (not including any interest paid or deposits over the monthly match limit), providing the saver has not made a withdrawal. If any amount is withdrawn, the saver then needs to exceed their previous matchable balance in order to gain a further match (Table 5.1).

5.2 The match will be paid to savers at the end of two years when their Saving Gateway account matures (*Step 2 in Figure 1*).

Match rate 5.3 The Government will further consider the rate at which to set the match. The pilots tested match rates of 20p, 50p and £1 per £1 saved. The evidence from the pilots demonstrated that the match rate did not need to be as high as £1 per £1 to incentivise people to save.

Table 5.1 Example of how the match will be made

| Month | Deposit / Withdrawal | Balance | Match made each month (using 20p match rate*) |
|--------------|-------------------------|-------------|---|
| Jan | 25 | 25 | 5 |
| Feb | 25 | 50 | 5 |
| March | 25 | 75 | 5 |
| April | -5 | 70 | - |
| May | 25 | 95 | 4 |
| June | 25 | 120 | 5 |
| Total | £120 | £120 | £24 |

*Illustrative match rate

5.4 Table 5.1 shows how the account will operate and how the match builds up each month according to the amount saved. The match will be made on the amount saved every month (not including any interest paid or deposits over the monthly match limit). Taking money out of the account will not reduce the match already built up. The saver will not, however, build up any more match until they have exceeded their previous matchable balance.

5.5 The example uses an illustrative match rate of 20p per pound saved. In the first three months £25 was saved and £5 match was made (£25 x 20p). In the fourth month (April) £5 was withdrawn so no additional match was made. In May a further £25 was saved. As £5 of this took the saver to their previous matchable balance, £20 was matched. The saver therefore made £4 match (£20 x 20p). In June the saver saved an additional £25 gaining £5 match. In this case the total match earned by June ($£5+5+5+4+5$) = £24

5.6 An illustrative example of how the match is calculated on the amount saved is set out in Box 5.1.

Box 5.1: Illustrative example of calculation of match payment

Highest balance of money saved into account = £220

Withdrawals = £20

End balance = £200

Match based on highest balance = $220 \times 20\text{p match rate}^* = £44$

Interest earned = £5

Return to the saver at the end of the account:

End Balance £200

Match £44

Interest £5

Total £249

=====

A saver achieved a maximum matchable balance during the life of a Saving Gateway account of £220. They finished with an end balance of £200 due to withdrawing £20 during the life of the account. The saver achieved a match based on the highest balance of £220. With an illustrative match of 20p this would be £44 ($£220 \times 20\text{p}$). Including the highest balance, the match and interest the saver had a closing balance of £249.

*Illustrative match rate

Timing of the match payment

5.7 Once the account has matured the match payment will be made by the provider to the saver.

5.8 As in the Saving Gateway pilots, and in line with other saving schemes such as ISAs and CTF, the Government does not propose to specify what the matched money or savings may be spent on.

5.9 The match payment will be paid by the provider to the saver as soon as practicable after the account matures. The provider will then be reimbursed for the matched payment by the Government.

5.10 It is anticipated that the rules governing the operation of the Saving Gateway account will specify a time limit by which providers must pay the match to savers. Views are sought on what time period would be appropriate. It is necessary to balance the need to transfer the match payment to savers quickly after the account matures with the time needed by providers to calculate and make the payment.

After the match payment is made

5.11 Following maturity and the payment of the match payment, the account will cease to be a Saving Gateway account. Providers will be required to put in place a process to transfer the account balance to a “default”, interest bearing, savings account in those cases where the saver does not contact the provider with instructions to reinvest the funds or close the account.

Rollover to ISAs **5.12** Many individuals will want to continue to save after the end of the accounts and the Government will look at ways to encourage them to do so. **The Government also proposes to allow Saving Gateway accounts to rollover into ISAs on maturity and would welcome stakeholders’ views on this point.**

PROVIDER RETURNS AND ACCOUNT RULES

Provider’s monthly claim to HMRC

5.13 The provider will be required to submit a return to HMRC on a due date each month showing the total match payments paid out since the last return was submitted (*Step 8 in Figure 1*). The duty of providers to make returns to HMRC is set out in Chapter 6.

5.14 In addition to informing HMRC of the total match payment paid out by providers each month, the return will represent a claim by the provider to HMRC for the reimbursement of this amount.

5.15 Each month HMRC will reimburse providers for the total match shown on the Saving Gateway return in a single electronic payment.

Saving Gateway account rules

5.16 It will be the duty of providers to ensure that accounts are operated within the rules that will be laid down by Government to regulate the operation of Saving Gateway accounts.

5.17 These rules will help to provide a regulated environment to save in and will ensure consistency and fairness for savers regardless of the provider they choose to open an account with.

5.18 HMRC will be responsible for checking that providers are operating Saving Gateway accounts in accordance with these rules by means of periodic checks, as set out in Chapter 7.

5.19 The Government proposes that the statutory rules that will set out the framework for the operation of Saving Gateway accounts will prescribe the following requirements to which all accounts must adhere:

- the account duration;
- the match rate;
- the monthly match limit;
- a requirement for providers to pay a return on investment on credit balances held in Saving Gateway accounts;

- the method by which the match payment is to be calculated;
- a requirement for providers to pay the match payment to savers following maturity of the account;
- the time limit within which the match payment must be paid to the saver following maturity of the account;
- a requirement for savers to be sent a statement in respect of the account at least quarterly, setting out amounts saved, the match earned to date and the interest or return; and
- a requirement for providers to allow savers to withdraw money deposited in the account before the account matures.

- The Government welcomes views on the length of the time period within which providers should be required to make the match payment to the saver's account. It is necessary to balance the need to transfer the match payment to savers quickly after the account matures with the time needed by providers to calculate and make payment.
- The Government proposes to allow Saving Gateway accounts to roll-over into ISAs and would welcome stakeholders' views on this point.
- Are there any other matters, beyond those listed in this chapter that should be prescribed in the rules governing the operation of Saving Gateway accounts? Consideration needs to be given to balancing the need for accounts to be well regulated and fair for savers with the need not to impose unnecessary regulatory burdens on providers.

6

PROVIDERS OF SAVING GATEWAY ACCOUNTS

This chapter describes the role and responsibilities of providers in the delivery of the Saving Gateway, including requirements to submit information returns to HMRC about account openings and closures. It also proposes that the Saving Gateway accounts would be offered by multiple providers to help widen access to the scheme.

ACCOUNT PROVIDERS

Number of providers

6.1 The Government would like to broaden provision of a national scheme by allowing multiple providers to offer Saving Gateway accounts. This will help to widen access to the Saving Gateway by offering savers a choice of providers best suited to their location and circumstances.

Approval of providers

6.2 The Government proposes that providers should be approved by HMRC before they are able to offer Saving Gateway accounts. To gain approval, providers will submit an application to HMRC in a similar way to the existing process for approving providers of the CTF.

Role of Providers

6.3 Providers will be responsible for opening and running accounts in accordance with Saving Gateway account rules and for paying match payments to savers and claiming the amount paid back from HMRC.

PROVIDERS' INFORMATION OBLIGATIONS

6.4 As part of the process of operating Saving Gateway accounts, providers will be required to make returns to HMRC detailing account openings and account closures, including details of match payments made.

6.5 As set out in Chapter 4, providers will also be required to supply each saver with a statement detailing account activity at least quarterly.

Account openings

6.6 Providers will be required to submit an information return to HMRC on a due date each month containing details of all new accounts opened since the last return was submitted (*Step 5 in Figure 1*).

6.7 The Government proposes that this return must state the total number of accounts opened since the last return was submitted and for each new account must provide additional information including:

- saver's name and address;
- saver's Saving Gateway unique reference number and/or National Insurance Number;
- date of application to open the account; and
- date of account opening (if different from date of application).

Account closures

6.8 Providers will be required to make a monthly return to HMRC detailing the accounts that have matured or otherwise closed (*Step 8 in Figure 1*).

6.9 The Government proposes that these returns must state the number of accounts that have matured in the return period and the total amount of match payment made in that period. For each account additional information will be required, including:

- the saver's Saving Gateway unique reference number and/or National Insurance Number; and
- the amount of match funding paid to the saver.

6.10 There will be a due date each month by which the return must be made. The provider will be required to make "Nil" returns if they have not made any match payments since submitting the previous month's return.

6.11 This return will also serve as a claim to HMRC for reimbursement of the match payments made in the return period, as set out in paragraphs 5.13 to 5.15.

Mandation of online filing

6.12 The Government proposes that it will be mandatory for returns to HMRC to be filed online.

6.13 The Government would welcome views on what issues there might be in making online filing the sole means for the submission of returns to HMRC.

LEAD-IN TIMES

6.14 The Government would be grateful for stakeholders' views on **what lead-in time would be required by providers to develop the systems needed to support any changes required to administer Saving Gateway accounts.**

TRANSFER OF ACCOUNTS BETWEEN PROVIDERS

6.15 The Government proposes that a saver will be able to transfer an account from one Saving Gateway provider to another. This might be necessary where, for instance, a saver moves home and can no longer access the branch network of his or her current provider.

6.16 The Government would welcome views on any issues raised by the process of transferring accounts, including what information the new provider will require from the previous provider in order to transfer the account.

INTRODUCTION OF THE SAVING GATEWAY

6.17 Making the Saving Gateway available to all eligible individuals immediately after a national scheme is launched could potentially lead to a high volume of applications in the period after its introduction.

6.18 The Government recognises that such a “spike” in applications for the scheme may put a strain on the capacity of providers to process and deal with applications. The Government is considering options to mitigate the impact of a spike in applications in the early stages of the scheme.

- The Government would welcome views on what issues there might be in making online filing the sole means for the submission of returns to HMRC.
- What lead-in time would be required by providers to develop the systems needed to support any changes required to administer Saving Gateway accounts?
- The Government would welcome views on any issues raised by the process of transferring Saving Gateway accounts between providers, including what information a new provider would require from the previous provider in order to transfer the account.

COMPLIANCE CHECKS

This chapter sets out HMRC's role in conducting compliance checks to ensure that the Saving Gateway scheme is being operated correctly, and to reduce rates of error and minimise the risk of fraudulent activity.

HMRC'S APPROACH TO SAVING GATEWAY COMPLIANCE

7.1 HMRC will aim to minimise errors in the operation of the Saving Gateway by designing processes to be as simple as possible. It will also seek to provide clear guidance both to providers and savers, thereby helping customers to make fewer errors.

7.2 HMRC will draw on the experience of operating CTF and apply best practice in designing the Saving Gateway.

7.3 HMRC's procedures for Saving Gateway compliance checks and the powers that underpin them, will broadly follow existing procedures and powers for taxes and credits administered by HMRC.

7.4 HMRC's powers are being reviewed as part of the ongoing Review of HMRC's Powers, Deterrents and Safeguards. The Government intends that the compliance procedures for Saving Gateway will reflect the thinking coming out of that review.

HMRC COMPLIANCE CHECKS

7.5 Providers will be subject to audit checks by HMRC on the way in which they operate the Saving Gateway scheme. HMRC auditors will also offer 'help visits' to any provider who would like clarification on operational issues.

7.6 Where requested by providers, HMRC will undertake integrated audits for Saving Gateway, CTF and ISA in order to reduce the administrative burden on providers.

7.7 HMRC will have information powers to enable it to require providers to provide additional information as part of its audit procedures.

7.8 HMRC's approach will be to offer help and support for providers to get things right. HMRC will have the power to withdraw the authorised status of providers who repeatedly fail to operate Saving Gateway in accordance with the prescribed rules and guidance. Penalties may be charged in serious cases involving fraud or actions falling just short of fraud and for failures to take reasonable care.

RECORD-KEEPING REQUIREMENTS

7.9 Providers will be required to keep records to demonstrate that Saving Gateway accounts are being operated in accordance with the statutory rules and to enable the audit of individual accounts, including checking the accuracy of match payments made.

7.10 The Government proposes that providers will be required to retain such records for four years from the date on which they were made, issued or given to enable HMRC to carry out audit checks.

CHECKS TO CONFIRM ELIGIBILITY OF SAVERS

7.11 HMRC will establish the eligibility of individuals before issuing confirmation of eligibility, as set out in Chapter 3. This means that there will be no need for HMRC to contact savers routinely to check their eligibility for the Saving Gateway.

7.12 HMRC may check individuals' eligibility in some cases, such as where third party information is received. In such cases, HMRC will have information powers to enable it to require savers to provide additional information where necessary in order to check eligibility.

7.13 If HMRC discovers that a Saving Gateway account has been opened by a person who was not eligible, HMRC will instruct the provider to close the account and will inform the saver of that decision.

PREVENTING AND DEALING WITH FRAUD

7.14 HMRC will seek to design the Saving Gateway in such a way as to minimise the risks of fraud. In order to deter fraud HMRC will have the powers to recover match payments, charge interest and penalties and, in the most serious cases, may undertake formal criminal investigation.

RIGHTS OF APPEAL

7.15 Savers and providers will have the right of appeal against decisions taken by HMRC including:

- where a penalty has been charged by HMRC;
- where a decision has been taken by HMRC to close a Saving Gateway account on the grounds that the individual is not eligible for the Saving Gateway; and
- where an assessment has been made by HMRC to recover monies that a saver or provider has received but was not entitled to.

7.16 Financial institutions will have a right of appeal against:

- a decision by HMRC to refuse to approve the institution as a Saving Gateway provider; and
- a decision by HMRC to withdraw Saving Gateway provider status from a financial institution.

SUMMARY OF QUESTIONS

8.1 The Government welcomes the views of all stakeholders on any of the issues raised in this consultation document. A full list of the specific questions asked in this document are set out below. Responses are welcome to any or all of these questions:

- Q1** The Government welcomes stakeholders' views on the provision of advice and support on the Saving Gateway, and on the role of intermediaries in providing advice and support.
- Q2** The Government welcomes stakeholders' views on the proposed account opening process.
- Q3** The Government proposes that it will automatically issue confirmation of eligibility to a Saving Gateway account to individuals through, for example, a voucher or a unique reference number. The Government welcomes views on the form that this confirmation of eligibility should take.
- Q4** The Government welcomes views on the length of the time period within which providers should be required to make the match payment to the saver's account. It is necessary to balance the need to get the match payment to savers quickly after the account matures with the time needed by providers to calculate and make payment.
- Q5** The Government proposes to allow Saving Gateway accounts to roll-over into ISAs and would welcome stakeholders' views on this point.
- Q6** Are there any other matters, beyond those listed in Chapter 5 that should be prescribed in the rules governing the operation of Saving Gateway accounts? Consideration needs to be given to balancing the need for accounts to be well regulated and fair for savers with the need not to impose unnecessary regulatory burdens on providers.
- Q7** The Government would welcome views on what issues there might be in making online filing the sole means for the submission of returns to HMRC.
- Q8** What lead-in time would be required by providers to develop the systems needed to support any changes required to administer Saving Gateway accounts?
- Q9** The Government would welcome views on any issues raised by the process of transferring Saving Gateway accounts between providers, including what information a new provider would require from the previous provider in order to transfer the account.

HOW TO RESPOND

8.2 The Government welcomes responses on any of the issues raised in this consultation document and in particular, to the questions outlined at the end of each chapter.

8.3 The consultation will run for 12 weeks from 12 March 2008 until 4 June 2008. We cannot guarantee to consider responses received after the closing date.

Responses should be sent to:
Saving Gateway Consultation
Room G67
HM Revenue and Customs
100 Parliament Street
London
SW1A 2BQ

Email: julie.dufty@hmrc.gsi.gov.uk

8.4 Please state whether you are responding on behalf of an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

8.5 A summary of responses to the consultation will be published at www.hm-treasury.gov.uk. Responses to the consultation will be used to inform Government policy.

Confidentiality of consultation responses

8.6 All written responses may be made public on the Treasury's website unless the author specifically requests otherwise in writing.

8.7 In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of emails will be disregarded for the purpose of publishing responses unless an explicit request for confidentiality is made in the body of the response.

8.8 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

8.9 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

8.10 Subject to access to information legislation, if you wish part, but not all, of your response to remain confidential, please provide two versions: one for publication with the confidential information removed, and a confidential version for use by HM Treasury and HMRC.

8.11 The Department will process your personal data in accordance with the DPA and, in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

8.12 Any Freedom of Information Act queries should be directed to:

Correspondence and Enquiry Unit
Freedom of Information Section
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4681

Email: public.enquiries@hm-treasury.gov.uk

Code of practice for written consultation

8.13 This document and the consultation process that follows, is designed to meet the criteria set out in the *Code of Practice on Consultation*:

- consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy;
- be clear about what the proposals are, who may be affected, what questions are being asked and the timescale for responses;
- ensure that the consultation is clear, concise and widely accessible;
- give feedback regarding the responses received and how the consultation process influenced the policy;
- monitor the department's effectiveness at consultation, including through the use of a designated consultation coordinator; and
- ensure the consultation follows better regulation best practice, including carrying out an Impact Assessment if appropriate. A Saving Gateway Impact Assessment is at Annex A.

8.14 The full *Code of Practice on Consultation* is available from the Cabinet Office website: www.cabinet-office.gov.uk/regulation/Consultation/Code.htm

Complaints

8.15 If you have any complaints about any element of the consultation process leading from the issue of this document, please contact:

Duncan Calloway
Room 3/37
100 Parliament Street
London
SW1A 2BQ

Email: Duncan.calloway1@hmrc.gsi.gov.uk

Tel: 020 7147 2389

Summary: Intervention & Options

| | | |
|---|---|----------------------------|
| Department /Agency: HM Treasury | Title: Impact Assessment of The Saving Gateway | |
| Stage: Consultation | Version: 1 | Date: 12 March 2008 |
| Related Publications: "The Modernisation of Britain's Tax and Benefit System" (Numbers Eight and Nine, Published April 2001 and November 2001) | | |

Available to view or download at: <http://www.hm-treasury.gov.uk>

Contact for enquiries: Miranda Worthington

Telephone: 020 7270 4698

What is the problem under consideration? Why is government intervention necessary?

Savings are important in providing people with independence throughout their lives and security if things go wrong. The Government has introduced Individual Savings Accounts (ISAs) to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Child Trust Fund (CTF), introduced in April 2005, seeks to promote saving and financial education and to ensure that in future all young people have a financial asset at 18. Personal Accounts, for pension saving, to be introduced in 2012, will promote saving for retirement. The Saving Gateway will sit alongside these initiatives to promote saving for those on lower incomes.

What are the policy objectives and the intended effects?

The objectives of the Saving Gateway are to:

- kick-start a saving habit among people on lower incomes by providing a strong incentive to save through matching (a government contribution for each pound saved); and
- promote financial inclusion through encouraging people to engage with mainstream financial services.

What policy options have been considered? Please justify any preferred option.

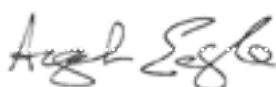
1. Do nothing.
2. The Saving Gateway - the Saving Gateway has been piloted twice with positive results. The Saving Gateway pilots were successful in promoting saving and financial inclusion. 1,500 people participated in the first pilot, and match rates were set at £1:£1. The second pilot ran with over 22,000 participants and tested different match rates and monthly contribution limits.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The scheme will be monitored as the programme is implemented and its impact reviewed once sufficient evidence has been amassed. Compliance costs are routinely reviewed after one to three years.

Ministerial Sign-off For Consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 4th March 2008

Summary: Analysis & Evidence

Policy Option:

Description: Introduce the Savings Gateway

| COSTS | ANNUAL COSTS | | Description and scale of key monetised costs by ‘main affected groups’. The cost to Government will depend on the final parameters of the scheme. Financial institutions offering the Saving Gateway will incur the costs of administering accounts. Further consultation will help to form a picture of likely costs to providers. | |
|-------|--|-----|--|--|
| | One-off (Transition) | Yrs | | |
| | | | | |
| | Average Annual Cost (excluding one-off) | | | |
| | | | | |
| | | | Total Cost (PV) | |
| | Other key non-monetised costs by ‘main affected groups’ | | | |
| | None | | | |

| BENEFIT | ANNUAL BENEFITS | | Description and scale of key monetised benefits by ‘main affected groups’. Benefits will be in terms of Saving Gateway participants developing a saving habit, building a stock of savings, and being brought into contact with mainstream financial services. These are difficult to quantify, though we expect the total benefits to outweigh the total costs. |
|---|--|-----|---|
| | One-off | Yrs | |
| | £ | | |
| | Average Annual Benefit (excluding one-off) | | |
| | £ | | Total Benefit (PV) |
| Other key non-monetised benefits by ‘main affected groups’ The Saving Gateway aims to help kick-start a saving habit and promote financial inclusion. The scheme will also provide a regulated saving environment for individuals on low incomes and there will be knock-on effects on financial capability through learning by doing. | | | |

Key Assumptions/Sensitivities/Risks

The Exchequer costs of the Saving Gateway are dependent on the final design of the accounts.

| Price Base Year 2008 | Time Period Years | Net Benefit Range (NPV) £ | NET BENEFIT (NPV Best estimate) £ Small, Positive |
|-------------------------|----------------------|------------------------------|--|
|-------------------------|----------------------|------------------------------|--|

| | | | | |
|---|--|-------|-------|--------|
| What is the geographic coverage of the policy/option? | | UK | | |
| On what date will the policy be implemented? | | 2010 | | |
| Which organisation(s) will enforce the policy? | | HMRC | | |
| What is the total annual cost of enforcement for these organisations? | | £ N/A | | |
| Does enforcement comply with Hampton principles? | | Yes | | |
| Will implementation go beyond minimum EU requirements? | | No | | |
| What is the value of the proposed offsetting measure per year? | | £ 0 | | |
| What is the value of changes in greenhouse gas emissions? | | £ 0 | | |
| Will the proposal have a significant impact on competition? | | No | | |
| Annual cost (£-£) per organisation (excluding one-off) | | Micro | Small | Medium |
| Are any of these organisations exempt? | | No | No | N/A |

| Impact on Admin Burdens Baseline (2005 Prices) | | | | (Increase - Decrease) |
|---|-----------|-------------|-----------|-----------------------------|
| Increase of | £ see p.5 | Decrease of | £ see p.5 | Net Impact £ see p.5 |
| Key: Annual costs and benefits: Constant Prices | | | | (Net) Present |

Evidence Base (for summary sheets)

Savings are important in providing people with independence throughout their lives and security if things go wrong. Since 1997, the Government has aimed to support saving and asset ownership for all from childhood, through working life and into retirement. The Government has introduced Individual Savings Accounts which seek to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Government has also introduced the Child Trust Fund, which seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18. Personal Accounts, for pension saving, will be introduced in 2012 and will promote saving for retirement. The Saving Gateway will sit alongside these initiatives to promote saving for those on lower incomes.

The objectives of the Saving Gateway are to:

- kick-start a saving habit among people on lower incomes by providing a strong incentive to save through matching (a government contribution for each pound saved); and
- promote financial inclusion through encouraging people to engage with mainstream financial services.

Consultation to date and Pilots

The Government has consulted on the Saving Gateway twice, these consultation documents are available on the HM Treasury website (<http://www.hm-treasury.gov.uk/>)

1. *Saving and Assets for All: The Modernisation of Britain's Tax and Benefit System*, No. 8, April 2001; and
2. *Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System*, No. 9, November 2001.

The scheme has also been piloted twice. Complete reports and analysis of these pilots are also available on the HM Treasury website:

1. *Incentives to save: encouraging saving among low-income households*, Bristol University – Personal Finance Research Centre, March 2005; and
2. *Final evaluation of the Saving Gateway 2 Pilot*, Institute for Fiscal Studies & Ipsos MORI Social Research Institute, May 2007.

The Saving Gateway pilots were delivered in partnership with the-then Department for Education and Skills (DfES), with Halifax (now HBOS plc) providing the banking facilities. The first pilot ran from August 2002 to November 2004, with individuals' accounts open for an 18-month period, around 1,500 participants took part. The pilot covered five areas: Cambridge; Cumbria; East London; Hull and Manchester. People living in these areas were eligible to open an account if they were of working age (16 to 65) and if they had:

- household earnings less than £15k a year;
- individual earnings less than £11k a year; or were
- out of work or receiving benefits.

Individuals could save up to a limit of £25 per month into the account and up to a maximum of £375 overall for which they received a £1 to £1 match when the account matured. The final evaluation of the first pilot was published in March 2005.

A second, larger Saving Gateway pilot ran in the same five locations as the first pilot, as well as an additional area, South Yorkshire. The pilot started in March 2005, with accounts open for 18 months (as in the first pilot). Around 22,000 accounts were opened. The second pilot was open to a wider income group. Individuals were eligible for the second pilot if they were of working age (16 to 65) and had:

- household incomes less than £50k a year;
- individual incomes less than £25k a year; or were
- out of work or receiving benefits.

The pilot tested different match rates (20p, 50p or £1 match for every £1 saved); different monthly contribution limits (£25, £50 or £125); the effect of an initial endowment (£50); and opt-in to voluntary financial education. The final evaluation of the second pilot was published in May 2007.

The pilots point to the success of matching as a targeted incentive for lower income savers. Other key findings from the pilots were that: the Saving Gateway generated both new savers and new saving amongst existing savers; and that the scheme brought individuals into contact with mainstream financial institutions for the first time.

Eligible Population

Building on the results of the pilots, the Government will offer Saving Gateway accounts to individuals who are in receipt of one or more qualifying benefits or tax credits. The total estimated eligible population is around 8 million individuals. The full list of qualifying benefits/tax credits is as follows:

- Working Tax Credit;
- Child Tax Credit paid at the maximum rate;
- Income Support;
- Incapacity Benefit or Employment Support Allowance;
- Severe Disablement Allowance; and
- Jobseeker's Allowance.

Admin Burdens

Providers will only incur costs in relation to the Saving Gateway if they opt to provide accounts to eligible people.

Those financial organisations that opt to provide Saving Gateway accounts will incur a cost in setting up and administering Saving Gateway accounts. The detailed statutory requirements for Saving Gateway providers are the subject of consultation. Subject to consultation responses, the Government is minded to require potential providers to gain approval for operating Saving Gateway accounts from HMRC. Once approved, providers will also be required to:

- submit a monthly return containing details of all new accounts opened;
- submit a monthly return of accounts that have matured. For compliance purposes, in addition to the total amount of match payment made, this return will contain a record of the amount of match funding paid to each participant;
- send a Saving Gateway account statement to each saver at least quarterly;
- allow savers to withdraw money deposited;
- pay a return on credit balances held in Saving Gateway accounts; and
- keep (and hold for 4 years) records to demonstrate that Saving Gateway accounts are being operated in accordance with the statutory rules.

Providers will also be subject to periodic audit by HMRC to ensure accounts are run in accordance with the rules of the scheme. However, to minimise this burden, providers may be able to request that HMRC undertake integrated audits for Saving Gateway, Child Trust Fund and ISA.

The Government will be consulting with the financial services industry on the total cost to the market of meeting the statutory requirements of the Saving Gateway. This further consultation should enable the industry administration burdens to be estimated in time for the implementation stage Impact Assessment. The Government would welcome evidence from industry to aid with quantifying this.

Competition Assessment

The Saving Gateway offers financial institutions a new saving product to sell to eligible individuals. It is not expected to have any significant impact on competition in the savings product market.

Small Firms Impact Test

The Saving Gateway will potentially be delivered through a range of providers that wish to take part in the programme. The Government is minded to require that returns and claims from providers be sent in electronic form. However, this is already the case for providers of the Child Trust Fund and gradual phasing of electronic filing of Self

Assessment has already begun. The implementation of the Saving Gateway is unlikely to impact significantly on small providers.

Gender Equality

The benefits and tax credits from which the Government will passport eligibility to the Saving Gateway are offered to both men and women.

Disability Equality

The Government will offer the Saving Gateway to individuals claiming the benefits and tax credits listed above. The qualifying benefits and credits include Severe Disablement Allowance and Incapacity Benefit.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

| Type of testing undertaken | Results in Evidence Base? | Results annexed? |
|----------------------------|---------------------------|------------------|
| Competition Assessment | Yes | No |
| Small Firms Impact Test | Yes | No |
| Legal Aid | No | No |
| Sustainable Development | No | No |
| Carbon Assessment | No | No |
| Other Environment | No | No |
| Health Impact Assessment | No | No |
| Race Equality | No | No |
| Disability Equality | Yes | No |
| Gender Equality | Yes | No |
| Human Rights | No | No |
| Rural Proofing | No | No |

A

GLOSSARY

| | |
|----------------------|---|
| CTF | Child Trust Fund |
| DPA | Data Protection Act 1998 |
| DWP | Department for Work and Pensions |
| FOIA | Freedom of Information Act 2000 |
| FSA | Financial Services Authority |
| HMRC | HM Revenue and Customs |
| ISA | Individual Savings Account |
| JSA | Jobseeker's Allowance |
| Match rate | The Government contribution for each pound saved in a Saving Gateway account |
| Match payment | A government-funded payment made to a saver when a Saving Gateway account matures, based on the highest matchable balance achieved during the life of the account |
| Provider | A financial institution which offers Saving Gateway accounts |
| Saver | A person who opens a Saving Gateway account |

BIBLIOGRAPHY

Saving and Assets for All, The Modernisation of Britain's Tax and Benefit System, Number 8, HM Treasury, April 2001

Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System, Number 9, HM Treasury, November 2001

Incentives to Save: Encouraging saving among low-income households Kempson, McKay, Collard, Personal Finance Research Centre, University of Bristol, 2005

The Saving Gateway – from principles to practice, Sonia Sodha and Ruth Lister, Institute for Public Policy Research, 2006

Interim Evaluation of Saving Gateway, Institute for Fiscal Studies, and Ipsos MORI Social Research Institute, July 2006

Review of Christmas Saving Schemes, HM Treasury, March 2007

The Final Evaluation of the Saving Gateway 2 Pilot: Main report, Harvey, Pettigrew, Madden, Emmerson, Tetlow, Wakefield, Ipsos MORI and Institute for Fiscal Studies, May 2007

ISBN 978-1-84532-423-0



9 781845 324230