CogCo WAGESTREAM

The State of Financial Wellbeing 2024

How leaders shape FinWell in the workplace

FWF
FINANCIAL WELLBEING FORUM

Contents

Foreword
by the authors

How much do you think people earning more than £60,000 spend on their monthly grocery shop? How do you think this would compare with people earning less than £25,000?

In a unique set of surveys, we asked people in both of these groups to estimate what they thought the financial circumstances might be of the people in the *other* group.

The results surprised us. We discovered that in some areas, both groups were really accurate.

The estimate of our lower income group about the monthly spending of higher earners (£500) was very close to reality (£450). And our higher income group was good at estimating the spending of lower earners (£210 versus £250 reality).

But in other areas, both groups were wildly inaccurate. Our participants, for example, underestimated the average savings of people in the other group by a factor of three.

Even accounting for outliers like the London salary divide - where the median salary is markedly higher - these figures reveal the very different circumstances faced by people in different income brackets across the UK.

But perhaps the most surprising finding was how many people there are in both the high and low income groups who struggle. There are individuals in our high income group who say that they have no money left at the end of the month; who have no savings; and who worry on a daily basis about their finances. It is just that there are many more of these individuals in the low income group.

To look at these issues in more detail, we ran a second study as a 'national conversation', which allowed people to tell us how they manage their money, and to 'agree' or 'disagree' with the money-managing techniques used by fellow participants. We then looked at what effect these actions had on people's wellbeing.

We found that actions which help people build up their longer-term financial resilience were associated with significant improvements in wellbeing.

Keeping an emergency fund of six months of expenses, for example, was linked to a significant improvement in people's financial wellbeing.

These studies shed new light on the financial wellbeing of the UK population. They show that across the country people earning vastly different salaries can all experience financial wellbeing challenges. But it is easier for those in the higher income bracket to undertake the kinds of things that will improve their financial wellbeing.

Owain Service

CEO,
CogCo

THE STATE OF FINANCIAL WELLBEING 2024 Foreword by the authors

The State of Financial Wellbeing research programme explores how financial wellbeing is experienced and understood within the context of the workplace.

In early studies, we looked into how these dynamics vary based on workplace role, asking the question 'do managers understand the circumstances and needs of their employees?' Over time, there's been an evolution in this understanding. In our early reports there was a big gap between manager perception and the reality reported by employees. Managers persistently underestimated the prevalence of money worries amongst their teams.

In this newest research study we've developed our methodology. Instead of looking simply at managers vs employees we're now looking at higher earners vs lower earners. It stands to reason that those manager/employee lines will still hold in many cases. But, by widening the net to higher earners –regardless of job role– we also start to capture the experience of well-paid individual contributors.

This matters. A highly experienced individual contributor can own substantial product and strategy decisions in a business. A junior manager might have accountability for several others, but still be earning below the national median wage, and therefore their own experience of financial wellbeing could be quite different from senior management.

As Owain alludes to, the research reveals an 'empathy gap' between higher and lower earners. In particular, higher earners persistently underestimate the financial savviness of lower earners, and find it difficult to estimate how they might be able to save and manage their resources on their relatively tighter budgets.

In the context of workplace wellbeing programmes this empathy gap can be problematic. Well-intentioned senior leaders who underestimate their people will prioritise education as the "fix" to financial wellbeing rather than addressing the true root causes. Our research shows that this focus on education is a red herring.

Taking savings as an example, everyone – regardless of income – understands the importance of saving and can articulate the appropriate savings behaviours that they *should* adopt. However, for lower earners and those who are financially stressed, this knowledge doesn't translate into action.

Overcoming the root cause of this inertia is the key to true workplace financial wellbeing.

The empathy gap is particularly significant because higher salaries come hand in hand with decision-making authority in the workplace. Every single role we reviewed, from entry-level to senior positions, has benchmark pay above the UK median. This means that anyone involved in shaping people policies or designing financial products earns more than the median worker. In summary, a small group of high earners make all the decisions that impact the majority of workers in the UK.

And when higher earners are surrounded by their equally high-earning work peers and social circle, it becomes easy to assume that your personal experience is the norm. Many high earners have been shocked at the rates of pay that qualify as the top 25% of earners in the UK. Earning a little over £45,000 per year would put you in this category, and reaching an annual salary of close to £70,000 would put you in the top 10%.

This research paper is a call to action, asking people to be aware of how their own financial circumstances benchmark against the majority, and to work on building their empathy muscle so they can make better decisions for the people they're serving in their day-to-day work.

Emily Trant

Chief Impact Officer,
Wagestream

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Executive summary

To begin understanding the dynamic between leaders who govern workplace financial wellbeing (FinWell), and their working populations, we analysed data on a sample of research participants who we classify as higher earners and lower earners.

Higher earners are on salaries of £60,000 per year or greater and lower earners are on salaries of £25,000 per year or less.

We wanted to know:
- How much financial circumstances and outcomes differ between these two groups
- How aware they each were of the situations that people in the *other* group experienced

We then extended our research to learn about the financial management behaviours that people use to manage their money, how these vary for higher and lower earners, and which behaviours correlate with better or worse financial wellbeing.

It's important to note that we use '*earnings*' and '*income*' interchangeably throughout this report, to refer to an individual's pay – rather than their household income.

We uncover two gaps that we explore in detail in this paper.

The empathy gap: higher earners underestimate the financial savviness of lower earners.

Higher earners substantially underestimated how well lower earners are managing their money. While they make good predictions in a couple of basic areas – grocery spending and money left at the end of the month – they are wildly out of tune with how this translates into financial resilience and social outcomes.

Higher earners predict that 3x more lower earners are missing out on social activities, that they save a third as much as they really do, that they would survive less than half as long if they lost their main salary, and that they worry about money twice as much as in reality.

This empathy gap is particularly important because we find that every single business decision-making role is in an income bracket that is higher than the UK median. Put simply, a minority of higher earners make all the decisions that affect the majority of the workforce, and yet they struggle to understand their true circumstances.

The action gap: everyone knows which behaviours are positive for financial wellbeing, but lower earners are less likely to be able to act on that knowledge.

We don't have a financial education crisis - we have a financial action crisis. People across all income levels are very clear about the behaviours that are important for good financial wellbeing, but lower earners are much less likely to be acting on them. This finding has significant implications for workplace financial wellbeing programmes, and it's clear that they need to be action-oriented and focus on helping lower earners in particular overcome inertia to act on their pre-existing knowledge.

In particular, a regular savings habit is a key driver for improved financial wellbeing. Individuals with a regular savings habit were much more likely to report high financial wellbeing and high financial satisfaction. This holds true for every income level. No matter the amount of money being put aside, a regular savings habit is a key unlock to increase overall wellbeing.

We urge everyone reading this report to check in with their own empathy gap, and provide practical tips to do this - such as reviewing data about earnings quartiles in their organisation and mapping that to roles with decision-making authority.

Whether or not you have easy access to this data, we make three key recommendations for employers that are grounded in research and proven to be impactful.

Recommendation 1

Aim to meet the standard for living hours, as provided by the Living Wage Foundation.

Recommendation 2

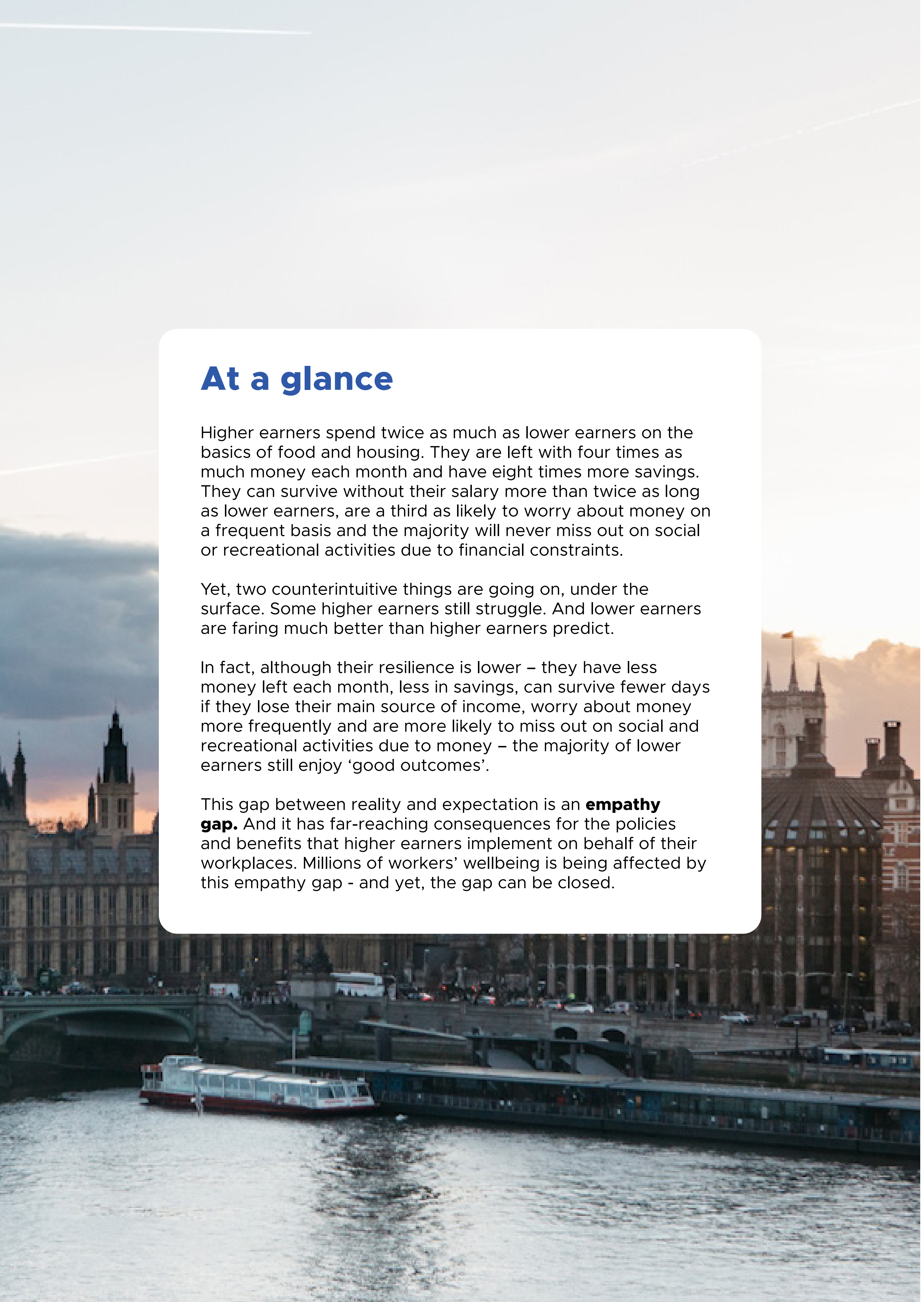
Implement a payroll savings programme and ideally structure it on an opt-out basis so that employees build up savings by default.

Recommendation 3:

Review your workplace financial wellbeing programme and benefits through the lens of how action-oriented they are and prioritise providing financial security benefits that are useful and accessible for the whole workforce.

PART 1

The gatekeepers of finwell



At a glance

Higher earners spend twice as much as lower earners on the basics of food and housing. They are left with four times as much money each month and have eight times more savings. They can survive without their salary more than twice as long as lower earners, are a third as likely to worry about money on a frequent basis and the majority will never miss out on social or recreational activities due to financial constraints.

Yet, two counterintuitive things are going on, under the surface. Some higher earners still struggle. And lower earners are faring much better than higher earners predict.

In fact, although their resilience is lower – they have less money left each month, less in savings, can survive fewer days if they lose their main source of income, worry about money more frequently and are more likely to miss out on social and recreational activities due to money – the majority of lower earners still enjoy ‘good outcomes’.

This gap between reality and expectation is an **empathy gap.** And it has far-reaching consequences for the policies and benefits that higher earners implement on behalf of their workplaces. Millions of workers’ wellbeing is being affected by this empathy gap - and yet, the gap can be closed.

Checking your pay privilege

We analysed data on a sample of higher earners and lower earners. We wanted to know:

- How much financial circumstances and outcomes differ between these two groups.
- How aware they each were of the situations that people in the *other* group experienced. So, for example, did people on lower incomes have an awareness of how much more people in the higher income group spent on groceries or were able to save?

We hypothesised these groups would struggle to predict answers for the other group. In the book “The Perils of Perception” author Bobby Duffy gives exhaustive examples of how bad we are at predicting or guessing pretty much everything – from the proportion of teen pregnancies to our risks of being involved in a car accident. Our brains use so many cognitive biases and mental shortcuts that we struggle to make predictions that are anywhere close to reality. No harm done when it’s for pub quiz answers, but this inability to accurately predict information is potentially quite problematic when it comes to setting policy decisions that impact large groups of people. We wanted to understand how big a problem this is, particularly when it comes to the financial lives of lower income workers.

In our sample we studied 138 higher earners (salary £60k pa and above) and 129 lower earners (salary £25k pa and below). All were in full time work.

To put these salaries in context, in 2023 the median salary in the UK was £34,963.[1]

We also looked at a snapshot of ONS data from April 2024 Real Time Information Filings.[2] In the tax year 2024/25 there are 37.4m individual income tax payers.

- 29.5m are basic rate taxpayers (78.8%), earning up to £37,700
- 6.31m are higher rate taxpayers (16.8%), earning from £37,701 to £125,140
- 1.13m are upper rate taxpayers (3%), earning over £125,140

Using this same data, earnings are split into percentiles.

Based on that snapshot, nearly 4 in 5 employees earn £37,700 or below. Our lower earners are comfortably below the median point for earnings and our higher earners are comfortably above it, earning more than at least three quarters of the working population.

Percentile	Monthly pre-tax pay	Yearly pre-tax pay
10th	£782	£9,384
25th	£1,383	£16,596
50th	£2,357	£28,284
75th	£3,618	£43,416
90th	£5,474	£65,688
95th	£7,443	£89,316
99th	£15,651	£187,812

1 Annual Survey of Hours and Earnings 2023, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2023
2 ONS data on real time information, April 2024, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted

Knowledge gaps and assumptions

We asked participants 10 questions about spending, saving, using financial products and how their money impacted their lives. We then asked each group to predict answers for the other group.

Higher earners do a reasonable job of predicting how much lower earners spend on groceries, and how much money they have left at the end of the month, but all their other predictions are a fair way off the mark. A pattern emerges where higher earners not only underestimate lower earners' financial resilience and savviness, but also misjudge the most common challenges faced. On the one hand, they predict a much more dire situation for lower earners than is the reality when it comes to savings and financial resilience. This is perhaps the work of several years of headline news about the cost of living.

On the other hand, they fail to predict some of the core challenges of being a lower earner, namely volatility in earnings due to hourly paid work and lack of access to credit options.

When higher earners are making predictions about lower earners, they:

- Wildly overestimate usage of credit products like BNPL and overdrafts. In our data set well over half of lower earners have *never* used these products, but higher earners estimated that figure was closer to 1 in 20.
- Show an understanding that lower earners are subject to some income volatility. However, higher earners significantly underestimate the extent of this volatility, and by extension they underestimate the implications of coping with volatility. 1 in 5 lower earners report that their income is never consistent, but higher earners thought this happened to fewer than 1 in 20 people.
- Underestimate how financially savvy lower earners can be. For example, they predict lower earners have less money left at the end of the month, save much less than they do, and are in a more dire financial situation if they lose their main income. They also assume the significant majority (8 in 10) are missing out on social and recreational activities on a frequent basis due to financial constraints, which isn't the case.

Interestingly, lower earners are better at estimating higher earners. They accurately predict the amount of money higher earners have left at the end of the month, and make very close predictions when it comes to food and housing costs.

Lower earners make reasonably good predictions about how higher earners use products like BNPL and overdrafts, and reasonably good predictions about how all of this translates into money worries and impact on social recreational activities.

One area where lower earners fail to make accurate predictions is what this all means in terms of savings and financial resilience; they underestimate both by about half. Is the gap in wealth so vast that it's difficult to grasp? High earners typically have a median savings of £25,000 and can live for six months without income. For our lower earners – who make less than £25k pa – perhaps the idea that someone might have more than your whole annual salary tucked away in savings is impossible to imagine.

Perhaps the idea that someone might have more than your whole annual salary tucked away in savings is impossible to imagine.

Money and behavioural science

Understanding money is far from simple, and understanding how *other people* experience money is even more complex.

We are funny creatures when it comes to money. Money is entirely fungible but many of us behave as though it isn't. If we earn a bonus we're tempted to splurge in a way we wouldn't be out of core pay – known as the windfall effect.[3] In our mental accounting we assign savings a different job from pay, so much so that spending our savings on everyday items causes a whopping 50 extra days of money worries each year.[4]

We are also quite bad at understanding our own skill level and predicting the circumstances of other people. This is a challenge for HR leaders who need to design compensation and benefits schemes that hit the mark.

In order to understand quite how bad we are at this task, consider this 1981 study that found 93% of people thought they were a better than average driver.[5] Although this is a rather old example, it highlights the statistical impossibility of 93% of people being better than average. Many people are clearly worse drivers than they think they are.

More recently, a Yougov poll asked Britons in 2024 if they thought they could qualify for the 2028 Olympics if they started training today. Over a quarter of respondents believed they could do so.[6] In reality, around 11,000 athletes attended the 2024 Olympics out of a population of eight billion. Your odds of qualifying are closer to 1 in a million than 1 in 4.

This tendency for people to think they are better than average is known as illusory superiority, sometimes also called 'superiority bias' or 'above-average effect'. If we think we're better, smarter and more capable than those around us, we underestimate their capabilities and seek the wrong solutions to address challenges such as the savings crisis in the UK.

3 The Psychology of Windfall Gains, Hal R. Arkes, Cynthia A. Joyner, and Mark V. Pezzo, Ohio University, Jane Gradwohl Nash, Stonehill College, and Karen Siegel-Jacobs and Eric Stone, University of Michigan, https://deepblue.lib.umich.edu/bitstream/handle/2027.42/31364/0000276.pdf?sequence=1
4 The State of Financial Wellbeing, The UK Workplace Report 2022, Wagestream, https://wagestream.com/en/state-of-financial-wellbeing
5 The Perils of Perception: Why We're Wrong About Nearly Everything, Bobby Duffy, Atlantic Books 2018
6 A quarter of Britons think they could qualify for the 2028 Olympics, Yougov research, August 2024 https://yougov.co.uk/sport/articles/50301-a-quarter-of-britons-think-they-could-qualify-for-the-2028-olympics

Spending and saving

Spending and saving covers four questions about grocery spending, housing costs, money left at the end of the month and total savings.

People in the higher income group spend around twice as much on groceries and housing as those in the lower income group.

Groceries

The median spend for higher income earners was £450/month; whereas it was £250 for those in the lower income group. Groceries was an area where our two groups were really accurate at predicting what those in other groups spend.

- Higher earners predicted that lower earners spend £300 per month on groceries, fairly close to the £250 per month that lower earners report spending.
- Lower earners predicted that higher earners spend £500 per month, very close to the £450 per month that higher earners report spending.

Housing

The median housing spend for higher earners was £875 per month compared to £410 per month for those on lower incomes.

If these figures seem low, it's worth noting that the median is skewed by those who don't pay anything at all in house costs due to fully paid mortgages or living rent free with family. Although this represents the minority of cases, it can still have a sizeable impact on the median. Nearly a third (32%) of lower earners don't pay any housing costs, likely to be a subset of the ~9% who live with parents and the 30% who own their home outright. Not so many higher earners have nil housing costs. A quarter (25%) of higher earners pay nothing despite 35% owning their home outright. Fewer than 1% of higher earners live with parents.

Research participants struggled to accurately predict housing costs in both groups. Lower earners were moderately accurate; they predicted £1,150 per month vs the reported £875 per month. Higher earners were not at all accurate, guessing around £800 per month vs a reality of £410.

Why the large gap in predictions? One hypothesis is market exposure. Every time you step into a grocery store you encounter different tiers of products, from basic through to luxury ranges. You can choose to pay more or less for many similar items based on brand, perceived luxury ('finest' or 'best' versions), organic or fair trade status, artisan products and more. By comparison, living costs are a more personal, even private calculation and we do not typically get the same exposure to the actual range of extremes within the housing market.

Those who live in more expensive housing options might not be aware of the many different ways that housing costs can be kept low – council housing, housing associations, affordable rent schemes, intermediate rent schemes, community land trusts, HMOs, room-sharing and more. In comparison, those who live in less expensive housing may have fairly high exposure to higher cost housing options due to planning legislation. In 1990 the "Town and Country Planning Act 1990" came into effect. This includes a legal mechanism, known colloquially as 'Section 106', which empowers local authorities to put provisions on developers to provide local area benefits – such as affordable housing – when granting permission. The widespread use of Section 106 means that new housing developments tend to have a provision for affordable or social housing, which means that lower earners may be living side-by-side with higher earners, but at reduced cost. In spending on housing and groceries, we would expect there to be differences in spending power. But when we start to dig into questions that pertain to financial resilience, we see bigger differences opening up.

Money left at the end of the month

We asked how much money people had left at the end of the month, and found that our higher earners had four times as much as our lower earners (£1,000 vs £250). Despite our higher earners spending twice as much on housing and food, there was still an ample surplus of funds at the end of the month. Although our lower earners reported a median of £250 left at the end of the month, around 1 in 7 (14%) say they have £0 left at the end of the month. This problem isn't unique to lower earners – 4% of higher earners also tell us there is £0 left at the end of the month – but it is much more concentrated in this population.

Our groups were fairly accurate in their predictions for each other. Lower earners were spot on with their median guess of £1,000, and higher earners were reasonably close with their guess of £150 vs £250 reported.

Savings

The gap is particularly stark when we look at savings. Lower earners have a median savings balance of £3,000; for higher earners it's £25,000. With four times more money left at the end of the month, higher earners accumulate more than eight times the savings of lower earners.

Close to a quarter (24%) of our lower earners have nothing saved, compared with just 2% of our higher earners. The Money and Pensions Service (MaPS) estimates that nationally, 17% of all adults have no savings whatsoever - and we see the distribution of this stat across our two groups.[7] It's worth noting that our sample is not nationally representative because we're missing our middle group earning between £25,000 and £60,000 per year.

The disparity in perception of savings is striking. Higher earners substantially underestimate the median savings for lower earners, predicting just £1,000. This estimate is not only one-third of the actual savings balance, but also just one twenty-fifth of what higher earners have themselves saved. Although higher earners accurately predict that lower earners spend about half as much and are fairly close in estimating their end-of-month balance (about one-sixth), they fail to translate this into an accurate estimate of their savings balance.

Lower earners also underestimate the median savings for higher earners, although relatively their prediction is much closer at £10,000 vs actual savings of £25,000.

7 Money and Pensions Service, November 2022, https://maps.org.uk/en/media-centre/press-releases/2022/one-in-six-uk-adults-have-no-savings

Lower earners accurately predict that higher earners spend more (about twice as much), they accurately predict that they have more money at the end of the month (four times as much) and they predict that higher earners have over three times as much savings. They clearly and consistently guess that it's a high balance, and make a reasonably rational guess about the figure. Extending the logic from their own savings, £250 left at the end of the month has translated into £3,000 of savings – 12 months of money left over. Applying the same calculation, the best guess for higher earners would be £12,000 per year. £1,000 left at the end of each month, multiplied by 12 months gets us to a reasonable guess of £12,000. But it's more than double that amount at £25,000. Not only are higher earners saving more each month, but they're able to retain more months of savings in an accumulated balance.

Financial products

In the financial products category we selected two mainstream financial products that have relatively consistent costs: Overdrafts and Buy-Now-Pay-Later (BNPL).

Our results here were surprising. Both groups used these products in an almost identical manner. However, higher earners certainly didn't predict that this would be the case; they dramatically overestimated how much lower earners used these products. Higher earners thought that usage of BNPL and overdrafts was nearly ubiquitous amongst lower earners, when in fact the significant majority of both groups (nearly 70%) report never using these products.

Lower earners were much more likely to predict that a high proportion of higher earners never use these products, estimating that around half of all higher earners never use them; the true figure is again around 70%.

Financial inclusion

Financial inclusion means that individuals have access to useful and affordable financial products and services that meet their needs. This is particularly important for individuals whose financial resilience is low – for example driven by low or unpredictable income, lack of savings or both. In these circumstances access to useful and affordable financial services and products can be a lifeline to help individuals maintain smooth spending and essential consumption across peaks and troughs in income.

We see in other research that usage of mainstream credit products, such as overdrafts, sits at around half of typical usage levels in a population of workers on lower and variable pay.[8] There may be an element of financial exclusion that's impacting our lower earners, and it's reasonable to assume that our higher earners who do not face these same barriers might not understand that this is the case.

8 Unlocking the Pay Cycle, Wagestream, February 2023, https://wagestream.com/en/resources/financial-wellbeing-research-whitepaper-unlocking-the-pay-cycle

It may also be a reasonable assumption that there is perhaps less need amongst higher earners who report having substantial savings and funds left over each month. BNPL is another story. It has attracted a huge amount of regulatory scrutiny in recent years, and has been associated with increased checkout conversion and the potential risk of overspending.[9,10] Given this scrutiny, our research hypothesis is that we would see a different usage pattern between higher and lower earners, and that lower earners would use this more because it's a free and accessible credit product. We confess to our own surprise at these results.

Income volatility

Next we looked at income volatility. We asked our research participants if their pay was the same each month, or if it varied. Flexible work, where working hours or shift patterns are adjusted to support the needs of individuals, carries meaningful upside for employees and has been the topic of important legislation over the last few years.[11]

Nonetheless, volatile hours, and therefore volatile pay, creates shaky foundations for financial security. Research from the Aspen Institute in the US finds that income volatility disrupts important household consumption, leads to late payment of bills, increases the risk of food insecurity, and can lead to utility disruptions and housing instability.[12]

Volatility of core pay is a feature of some lower paid work that is shift based or hourly paid. If you are paid by the hour, and the hours you work change week to week then so does your pay. Hourly pay tends to be associated with lower paid job roles and sectors, such as social care, hospitality, retail, distribution, security and facilities management.

We wanted to know if higher earners, who are more likely to work in jobs and sectors that feature a steady monthly paycheck, would understand the prevalence of pay volatility for lower earners.

Lower earners report substantial volatility in their pay. Nearly 1 in 5 (19%) report that their pay is 'never the same' and a further 17% report that their paycheck varies 'one to next'.

Higher earners estimate that just 4% of lower earners experience pay that is 'never the same'. However, they then predict that nearly a third (29%) of lower earners experience pay that varies 'one to next'. So although they underestimate the substantiveness of this volatility, they do exhibit awareness that this is a characteristic that lower earners experience.

For higher earners 1 in 10 (10%) report that their pay is 'never the same' and a further 12% tell us that it varies 'one to next'. Lower earners tend to underestimate this volatility, predicting that just 4% and 5% respectively will experience this pattern.

Although we find that higher earners do have some income volatility, due to the outcomes they report we interpret this volatility as largely one-directional (upwards) based on earning additional bonuses or commission, rather than two-way volatility of core earnings, where base pay can fluctuate up and down month to month.

9 The Woolard Review - A review of change and innovation in the unsecured credit market, Report to the FCA Board, 2 February 2021, https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf
10 Buy Now Pay Later, An experimental approach to improving comprehension and decision making, Paul Adams and CogCo, https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Buy%20Now%20Pay%20Later%20Experimental%20Research%20Public%20Report.pdf
11 UK Government guidelines on flexible working are available at https://www.gov.uk/flexible-working
12 Joanna Smith-Ramani, David Mitchell, Katherine Lucas McKay, Aspen Institute, "Income Volatility, Why it destabilizes working families and how philanthropy can make a difference", 2017 https://www.aspeninstitute.org/wp-content/uploads/2017/12/AFN_2017_Income-Volatility_Final.pdf

Outcomes

If pay is lower, but spending is also lower, is there any difference in outcomes?

To understand this, we considered three outcomes:

1. How many days could you continue to meet your living expenses if you lost your job?
2. How frequently do you experience money worries?
3. How often are you unable to participate in social or recreational events due to your finances?

We observed a significant gap across all three outcomes, with higher earners substantially overstating this disparity. Interestingly, when we first launched the **State of Financial Wellbeing** research programme, we observed the opposite: higher earners tended to greatly understate the gap.

Both scenarios are problematic, especially when higher earners hold positions of influence over lower earners. For example, when higher earners make strategic decisions about pay and benefits, they risk investing in the wrong areas. If they focus on perceived needs, such as financial education, rather than real needs, like access to an inclusive savings toolkit that addresses inertia, they could misallocate limited resources and fail to address the actual challenges faced by lower earners.

"Decision makers will often make decisions on policies and processes that don't meet the needs of people on low incomes because they don't share the same background or experience.

This is why we advocate for companies to take an inclusive design approach to both designing products for their customers and to maximising employee financial wellbeing. People on low incomes are often financially savvy and need financial products that meet their needs, not more financial education"

Maria Booker
Head of Policy, Fair By Design

How many days could you meet your expenses if you lost your job?

Lower earners report being able to get by for a median of 75 days if they lost their job; for higher earners this was 180 days. Despite higher spending, higher earners still have more resilience when it comes to meeting their core costs.

Martin Lewis, founder of MoneySavingExpert.com, recommends setting an emergency fund to the value of 'at least six months' worth of bills', although three months' worth 'wouldn't be too bad'. In this study our higher earners were achieving this 6 month recommendation, and our lower earners were getting close to the next threshold with around 2.5 months of financial resilience.

However, the distribution of this data showed that once again, low resilience was concentrated amongst lower earners. Over a third (36%) of lower earners say that they couldn't survive for more than a month; and 13% a week or less. Higher earners were a third as likely to face similar struggles; 13% wouldn't be able to pay bills for more than a month and 4% a week or less.

When it comes to understanding the other group, both tend to substantially underestimate the average resilience of the other group. Higher earners thought that lower earners would be able to manage just 30 days, a sixth of higher earners' resilience and much less than the actual 75 days. Lower earners underestimated higher earners by about half, predicting they would manage 95 days rather than the full 180 days.

This point mirrors our findings when it comes to savings. Higher earners substantially underestimate the capability and resilience of lower earners; they know it is lower than themselves but they predict it is much lower. On the flip side, lower earners can't quite fathom how much money and how much resilience higher earners have managed to accrue.

Frequency of Money Worries

Worrying about money is more complex than it seems. It isn't a case of simply feeling worried, these worries extend to far-reaching implications that affect productivity, decision-making, impulsivity and available IQ.[14] This phenomenon is known as 'scarcity mindset'.

The inaugural **State of Financial Wellbeing** report, published in 2022, found that a quarter (24%) of workers worried about money every day, but HR leaders predicted this figure was just 2%.

13 https://www.bbc.co.uk/news/magazine-35801951
14 Mind Over Money, Exploring the link between IQ and financial stress, Wagestream 2024, https://22239477.fs1.hubspotusercontent-na1.net/hub-fs/22239477/Report%20Mind%20Over%20Money.pdf

Scarcity mindset

The concept of 'scarcity mindset' is a phenomenon that's studied in psychology and behavioural economics.

A summary journal paper, "Freeing Up Intelligence", explains the mechanics of scarcity mindset as follows:[15]

- *"An involuntary preoccupation with an unmet need, such as a shortage of money or time, can capture our attention and impede our ability to focus on other things.*
- *A fixation on scarcity taxes our cognitive capacity and executive control, thus diminishing intelligence and impulse control, among other things.*
- *We can free up cognitive bandwidth by converting recurring demands into one-time actions."*

Anything can be scarce, but a prevalent and often studied example is money. Researchers argue that financial scarcity can create decision-making patterns that lead to worse financial outcomes. One study in the US demonstrated that when individuals were prompted to think about a stressful financial circumstance – in this case an unexpected and very expensive car repair cost – those with lower household income experienced a deterioration of 13 IQ points.[16] Individuals with higher household income did not experience any deterioration of IQ.

The impact of losing 13 IQ points is significant. It's a bigger drop in IQ than is observed when research subjects are tested after losing a full night's sleep.[17] Most people have at one time or another experienced a night without sleep, and understand how difficult it is to focus the following day. Not only is it difficult to focus, it also makes us feel irritable and can lead to impulsive behaviour.[18] This is the impact of scarcity mindset; a distraction that takes up material cognitive bandwidth, affects decision making, and increases impulsivity, anxiety and poor planning.[19]

15 Freeing up Intelligence, Scientific American Mind, February 2014, https://scholar.harvard.edu/files/sendhil/files/scientificamericanmind0114-58.pdf
16 Freeing up Intelligence, Scientific American Mind, February 2014, https://scholar.harvard.edu/files/sendhil/files/scientificamericanmind0114-58.pdf
17 Freeing up Intelligence, Scientific American Mind, February 2014, https://scholar.harvard.edu/files/sendhil/files/scientificamericanmind0114-58.pdf
18 The Effects of Sleep Deprivation on Your Body, Healthline, August 2024, https://www.healthline.com/health/sleep-deprivation/effects-on-body
19 Scarcity of Cognitive Function around Payday: A Conceptual and Empirical Analysis, Anandi Mani, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao, September 2020, https://shafir.scholar.princeton.edu/sites/g/files/toruqf4226/files/scarcitycogfuncpayday_copy.pdf

Mani et al (2020) put this even more clearly:

> ***"Scarcity mind-sets are exacerbated by the juggling and firefighting pressures inherent to scarcity contexts. A scarcity mind-set is not simply the outcome of scarce resources but a function of the challenges and urgencies involved in managing everyday needs with limited resources. Small factors such as synchronicity between income and spending, predictability, default payments, rainy day funds, and so forth can greatly reduce the persistent demands of managing life under scarcity. Well-timed income and expenses, especially when resources are scarce and there is little slack, demand less attention and effort than when income and expenses are misaligned."***

Further research backs this up. Evidence shows that increasing the frequency of paydays reduces cognitive load and improves outcomes including decreased borrowing, increased ability to afford education and training, increased ability to afford childcare, and lower financial stress.[20]

Research from financial benefits provider Wagestream also shows evidence of this in practice. Individuals who use its toolkit – including the flexible pay benefit – overwhelmingly report that this leads them to spend less. This suggests that the predictability of being able to understand pay ahead of payday, and the consumption smoothing that's achieved by using flexible pay, work together to reduce the cognitive load of managing scarcity.

20 Scarcity of Cognitive Function around Payday: A Conceptual and Empirical Analysis, Anandi Mani, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao, September 2020, https://shafir.scholar.princeton.edu/sites/g/files/toruqf4226/files/scarcitycogfuncpayday_copy.pdf

When we measured how frequently people worried about money, once again there were big differences. Around 30% of our lower earners worry about money weekly (10%) or even daily (20%); the figure for higher earners is 10% (4% weekly and 6% daily).

Higher earners greatly overestimated lower earners' money worries. They guessed 63% would worry weekly, including 37% daily. In reality, 20% worry daily, about half as much as predicted. Higher earners also thought just 3% of lower earners would never worry about money, while 20% report no worries at all.

In the recent past we saw more bad predications; the first **State of Financial Wellbeing** report, published in 2022, found that a quarter (24%) of workers worried about money every day, but HR leaders predicted this figure was just 2%.[21] Perhaps a few years of relentless Cost of Living Crisis headlines has caused the pendulum to swing the other way. Although money worries are slightly more prevalent than they were a couple of years ago, our higher earners now believe they are near-universal. Could it be that as higher earners start to feel the squeeze of inflation and higher mortgage rates, money worries have climbed the pay scale and are front of mind for everyone?

Lower earners were fairly accurate in their predictions, recognising that a small minority of higher earners would have frequent money worries. They predicted that 7% of higher earners worry about money at least weekly, slightly below the true figure of 10%. They also predicted that a high proportion of higher earners would never have any money worries (37%), slightly overestimating this compared to the actual result of 32%. The shape of the worry curve that higher earners experience was quite well understood by lower earners. This is in sharp contrast to the fairly substantial over and under estimations that higher earners make about lower earners.

Missing out on social moments

The majority of our higher earners (58%) never miss social or recreational events due to financial constraints; whereas that only applies to a minority of our lower earners (38%). Around 10% of higher earners miss out on a monthly or more frequent basis. More than twice as many lower earners miss out frequently; over a quarter (26%) miss out monthly or more often.

Once again, our higher earners predicted a much more dire picture for our lower earners, estimating that just 1 in 20 (5%) would never miss out, and that nearly 8 in 10 (78%) would miss out at least monthly. This gap between prediction and reality is quite significant.

And yet again, our lower earners were very accurate in predicting the impact on higher earners. They estimated that 8% would miss out monthly or more (vs 10%) and that 55% would never miss out (vs 58%).

21 The State of Financial Wellbeing, The UK Workplace Report 2022, Wagestream, https://wagestream.com/en/state-of-financial-wellbeing

The gatekeeper empathy gap

On the whole, lower earners paint a more accurate picture of how higher earners experience money and life. They estimate higher earners' costs, remaining money, use of financial products, income volatility, and participation in social activities with reasonable accuracy. The empathy gap does sometimes extend both ways, though: lower earners underestimate higher earners' resilience—such as savings and job loss buffer—by about half, although they still correctly predict how this resilience affects money worries and social participation.

The same cannot be said for our higher earners. While they make good predictions in a couple of basic areas – grocery spending and money left at the end of the month – they are wildly out of tune with how this translates into financial resilience, and social outcomes. They struggle to recognise that a significant proportion of lower earners are financially savvy, capable of stretching more limited resources to save, feel good about money, and participate in social and recreational activities.

It is true that there is a gap in outcomes between these groups. More lower earners have no money left each month, no savings, more frequent money worries, low financial resilience and more frequent limitations on their ability to participate in social and recreational activities. **From an employer perspective understanding this gap is crucial to avoid misplacing support efforts.** People leaders often place a heavy focus on financial education, rather than a focus on financial inclusion. This approach assumes lower earners need more education, overlooking the reality that low and variable income leads to financial exclusion. It is an issue best addressed with more inclusive financial products and services, particularly if work scheduling practices continue to create income volatility.

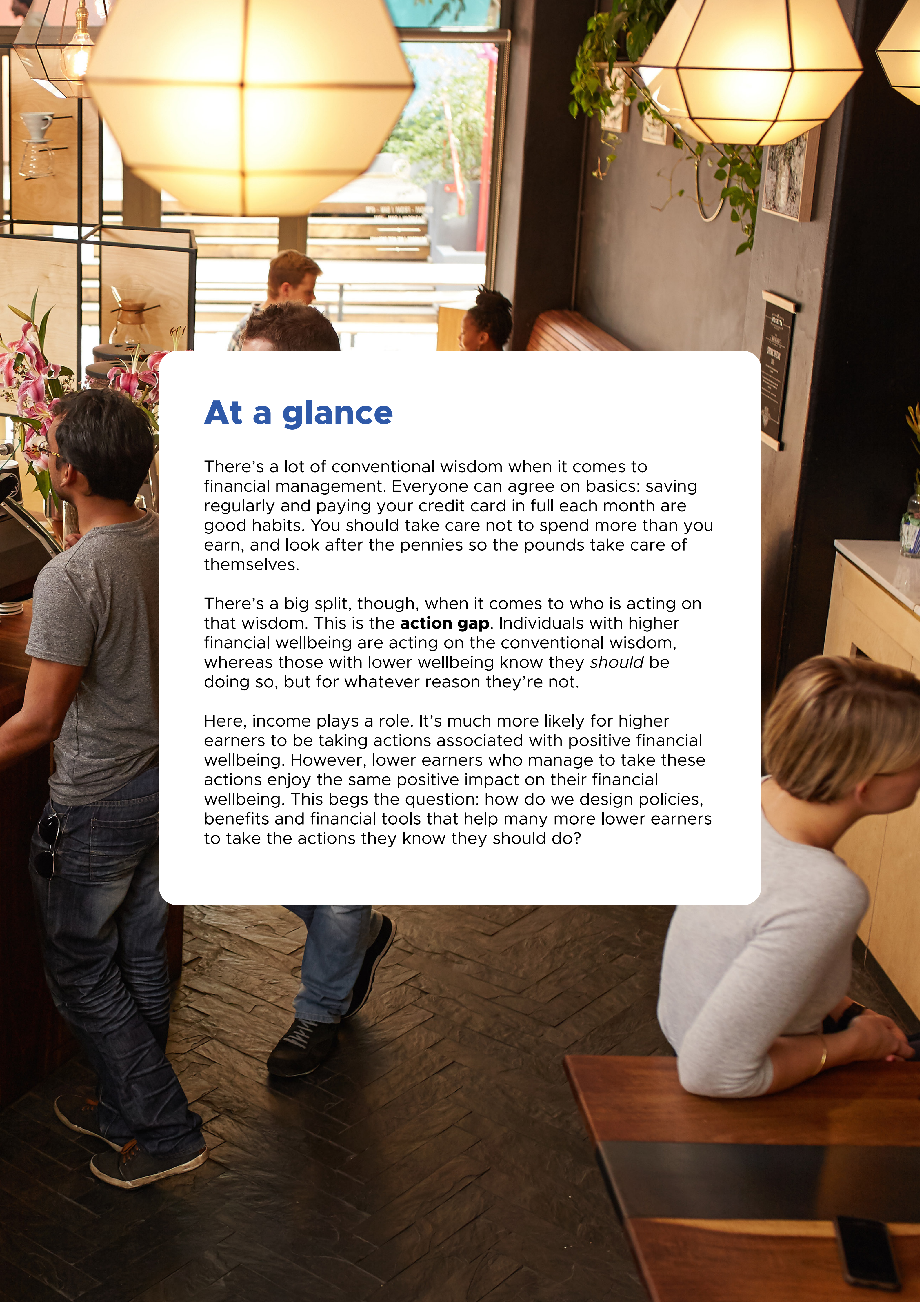
In our research we used a salary benchmarking tool called Pave to look at the entry level pay for the types of roles that are involved in i) decisions about designing & building products and services, and ii) decisions about HR/People/policies. This includes roles such as:

- Product manager, product designer, software engineer, QA engineer, project manager, graphic design, business intelligence, data analyst, data scientist
- HR generalist, HR business partner, people operations, compensation
- Risk & compliance

They all benchmark above the national median wage. Not to mention managers, leaders and political leaders who make the biggest decisions that impact financial wellbeing. Every single role that has decision-making power, from policy to how your banking app looks and what company benefits are on offer, are earning more than most people. Often far more.

PART 2

From empathy **to** action



At a glance

There's a lot of conventional wisdom when it comes to financial management. Everyone can agree on basics: saving regularly and paying your credit card in full each month are good habits. You should take care not to spend more than you earn, and look after the pennies so the pounds take care of themselves.

There's a big split, though, when it comes to who is acting on that wisdom. This is the **action gap**. Individuals with higher financial wellbeing are acting on the conventional wisdom, whereas those with lower wellbeing know they *should* be doing so, but for whatever reason they're not.

Here, income plays a role. It's much more likely for higher earners to be taking actions associated with positive financial wellbeing. However, lower earners who manage to take these actions enjoy the same positive impact on their financial wellbeing. This begs the question: how do we design policies, benefits and financial tools that help many more lower earners to take the actions they know they should do?

The education trap

To better understand the role of FinWell gatekeepers and the empathy gap, we created a national conversation about financial wellbeing using the Ekota platform.[22]

It all flowed from a single question: **'What are some ways you personally manage your money?'** and allowed a broad conversation to flow from that starting point.

In a study spanning a nationally representative sample of 643 people, study participants were able to submit their answers to this question and state if they agreed or disagreed with answers that *other* participants submitted. In addition, we asked participants to respond to survey questions about their own financial wellbeing so we could see how particular financial behaviours and beliefs are associated with better or worse financial wellbeing.

Many of the answers that our participants submitted could be classified as 'conventional wisdom' rather than real actions. For example, 'save a little if you can'. This conventional wisdom achieved high consensus, with the significant majority agreeing that it is sensible.

Where we saw opinion start to split, though, was around answers that describe real behaviours, such as 'I try and save 10% of my income each month'. These action-oriented answers showed that some respondents were acting on conventional wisdom and others were not. Many of those who agree that they should save a little if they can are not then taking practical action to put aside a regular part of their income each month.

The gap between knowledge and action is fascinating and there are multiple ways we could interpret it – ranging from inertia through to financial capability. What's clear is that people know what they *should* be doing, but that doesn't translate into what they are doing. In the behavioural science literature this is known as the 'intention-action gap', which describes the distinction between what we plan to do, and what we actually end up doing in practice.

This gap between knowing and doing is exactly why a programme of intervention is sometimes needed. For example, prior to auto enrolment in pensions, less than a third of private sector employees had a pension. In the early 2000s the UK Government's Department for Work and Pensions attempted to close this gap and ran a wide number of research pilots to measure the success of various combinations of advice and information, before concluding that this approach was entirely ineffective.[23] The only effective solution was to implement automatic enrolment, which successfully addressed the inertia around saving for retirement.

Employers should avoid the temptation to try to 'solve' financial wellbeing through education and information on its own.

These results repeatedly show that individuals know what they should be doing, but they struggle to make it happen for themselves. This finding is a call to action for employers to consider using the power of the workplace to implement more interventions and nudges that go with the grain of what people say they want to be doing – which is saving.

22 https://ekotaspace.com/
23 Source: interview with Helen Dean, Invisible Worker podcast episode 2, July 2024, https://finwellforum.com/en/invisibleworker

This finding should also be heard loud and clear; people know what choices they should be making. The UK Government tested this theory extensively two decades ago, and ultimately rolled out a huge-scale intervention with pensions auto enrolment. Seek action and positive interventions to turn the workplace into a true force for good when it comes to financial wellbeing.

Finally, we looked at self-reported financial wellbeing and correlated this with how individuals responded. Time and energy spent on short term money management correlated with higher stress and lower wellbeing. Conversely, longer term planning behaviours correlated with better wellbeing. This finding might seem obvious, in that individuals who need to spend their time managing the day to day are likely to be struggling more. However, this finding also connects with the theory of scarcity mindset, and we make recommendations for simple changes that can alleviate some of this day to day 'noise' for individuals around managing money.

The action gap

We asked a single question: 'What are some ways you personally manage your money?'

Many of the answers were not about ways that people manage their money and instead fit into the category of 'conventional wisdom'. These were statements about behaviours and practices that are well understood, and should lead to better money management if they're followed up with real action:

- *'Saving for an emergency fund is a wise move to make'* (90% agree);
- *'Save a little if you can'* (91% agree);
- *'I avoid taking on new debt unless necessary'* (87% agree);
- *'Don't spend what you don't have'* (87% agree).

Agreement with these statements holds up when looking at different subsections of respondents. Those with both higher and lower income, and higher and lower financial wellbeing, have very similar rates of agreement with these and equivalent statements.

Conventional wisdom is fairly uncontroversial. But there is an action gap in responses.

Answers that were more specific and action-oriented split opinion. These tend to be real behaviours and financial habits. Despite the majority of people agreeing on what they *should* do, far fewer implement them in practice.

For example, 90% of people agree saving for an emergency fund is a wise move to make but just 35% of people agree that they save 10% of their income each month and 41% keep an emergency fund of six months' expenses. **Less than half of all people who agree that this savings behaviour is important are taking action.**

The action gap

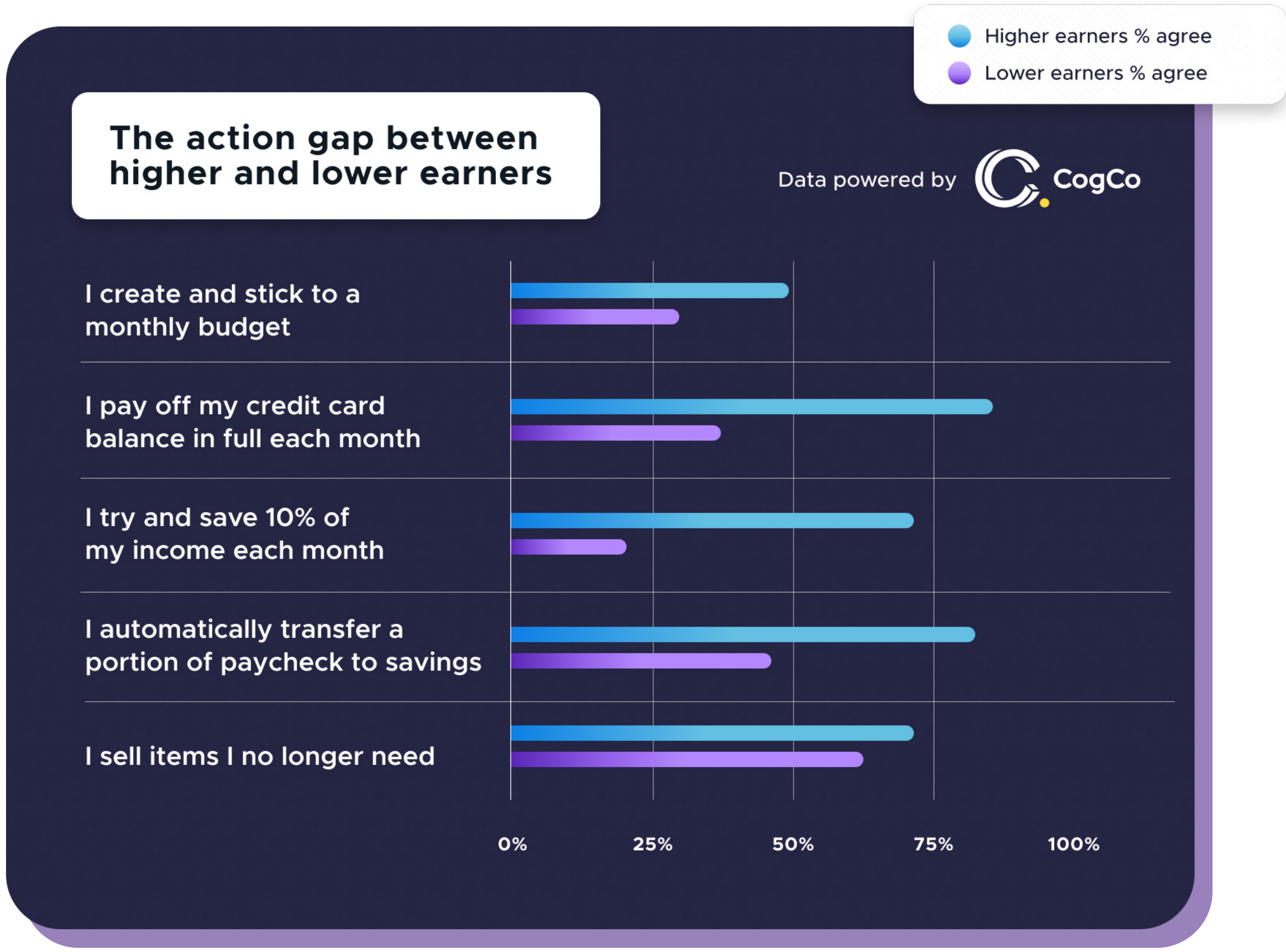
Data powered by CogCo

CONVENTIONAL WISDOM	% AGREE	TRUE ACTION	% AGREE
Saving for an emergency fund is a wise move to make	90%	I keep an emergency fund of six months' expenses	41%
Save a little if you can	91%	I set savings goals	43%
I avoid taking on new debt unless necessary	87%	I pay off my credit card balance in full each month	55%
Don't spend what you don't have	87%	I create and stick to a monthly budget	39%

This action gap is much more pronounced among lower earners. For example, although 35% of people try to save 10% of their income each month, this rises to 73% for those earning £60,000 per year or more and drops to 23% for those earning under £25,000 per year.

It's tempting to think this is a capability point and that lower earners cannot afford to save 10% of their income. However, this gap persists in other behaviours too. For example 39% of respondents create and stick to a monthly budget and once again higher earners (50%) are more likely to agree than lower earners (36%). This holds true for selling items that are no longer needed (73% vs 61%) and even negotiating with service providers (94% vs 45%).

Examples of the action gap between higher earners (£60k+) and lower earners (below £25k)

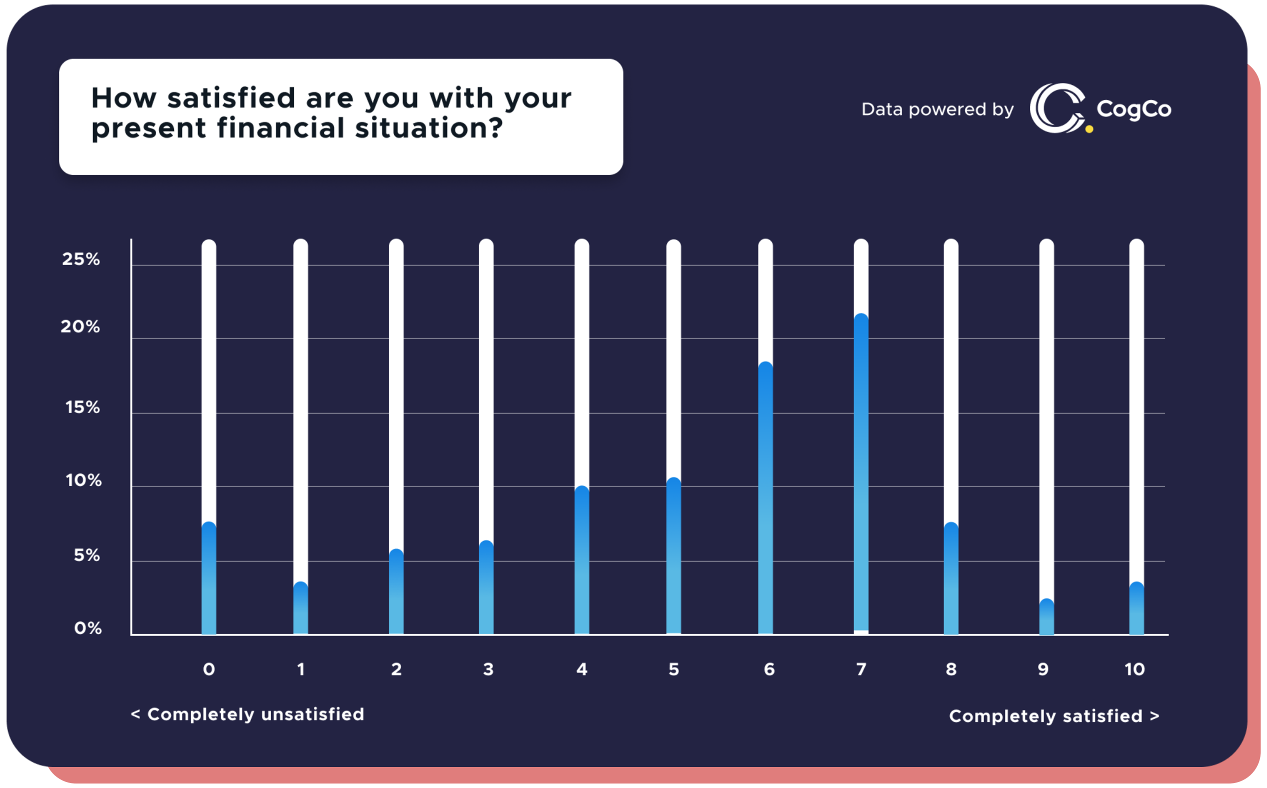


This is a consistent theme. People have a clear understanding but fail to do what they know they should do, and this is more pronounced for individuals on lower incomes. Once again, the issue is not education. Helping people to take *action* is what is sorely needed.

FinWell correlations

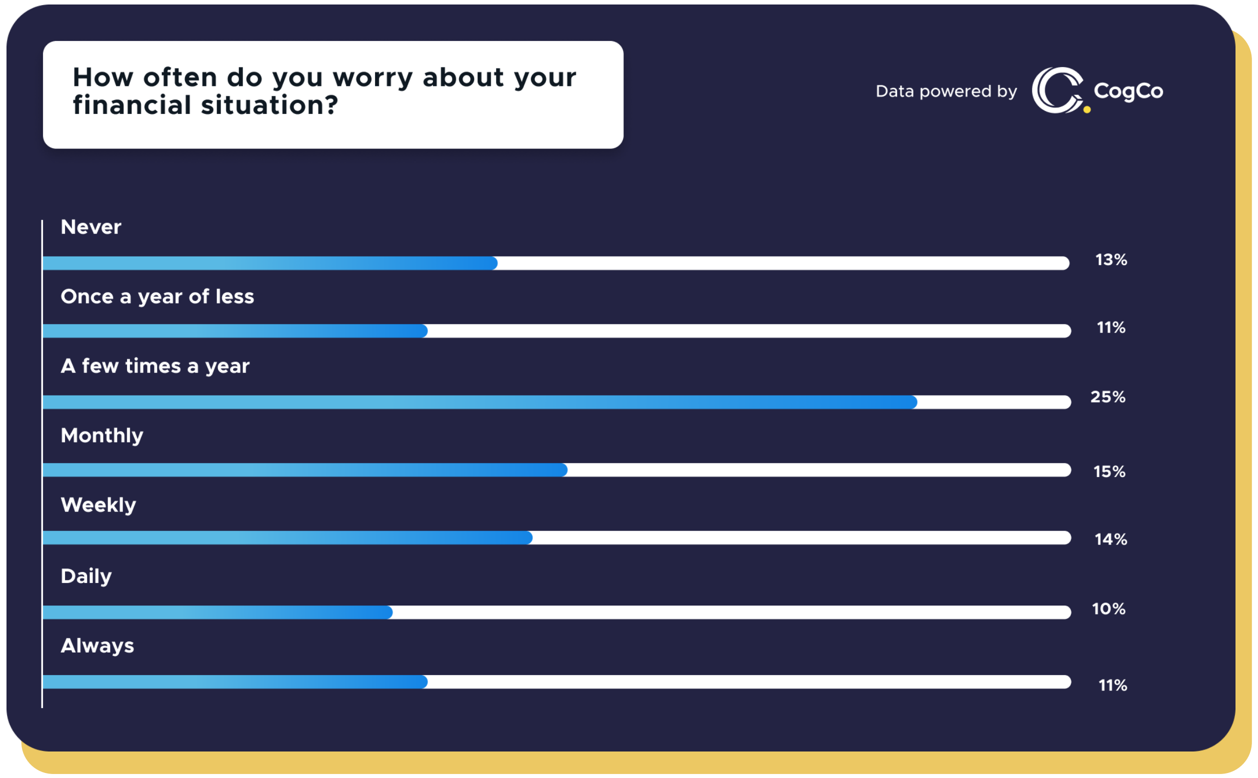
We asked two questions about how participants feel about their financial situation: 'how satisfied are you with your present financial situation?' and 'how often do you worry about your financial situation?'

We then used these responses to understand if higher or lower levels of satisfaction or worries were associated with any particular financial behaviours.



A minority of people were unsatisfied (36%) with their present financial situation and a slight majority (53%) were satisfied. The remainder (12%) were neutral.[24]

24 Numbers have been rounded, so may not add up to 100%



Half of respondents (50%) rarely or never worry about money. 1 in 6 (15%) worry on a monthly basis, and the remaining 35% worry weekly or more often. This figure on frequent money worries is slightly higher than we saw from the first part of our study (30%), but broadly well aligned. It's worth noting once more that this part of our study is nationally representative.

Alongside getting a nationally representative picture of financial satisfaction and money worries it's particularly interesting to see which of the behaviour statements correlate with positive or negative sentiment about financial wellbeing.

It's the practical behaviours – which people know they should do but often fail to act upon – that really come out top. There's a big change in satisfaction amongst those who pay off their credit card in full; and are able to keep an emergency fund of six months' expenses; and can save any excess cash.

The following lists show statements where there is a statistically significant correlation. Correlation does not equal causation. The fact that certain behaviours are linked with higher levels of financial satisfaction doesn't necessarily mean that they cause them. There might be other reasons for higher satisfaction that are unrelated.

THE STATE OF FINANCIAL WELLBEING 2024 From empathy to action

Higher financial satisfaction

– *"I negotiate with service providers"*

– *"I save up and pay cash for most things"*

These two behaviours had the strongest positive correlation with higher financial satisfaction. Both are about control and planning. Negotiating with service providers gives people a voice when it comes to their bill payments and is highly likely to lead to cost savings.[25] Saving cash to pay for things requires foresight and planning, plus an element of delayed gratification.

One really interesting nuance is that using cash *to control spending* is associated with increased financial worries. But *saving up* cash to pay for things is associated with higher levels of satisfaction. This likely stems from the different dynamics at play: controlling spending involves resisting temptation in the moment, while saving up is about proactively planning and using cash to support desired purchases.

Lower financial worries

– *"I only spend what I have"*

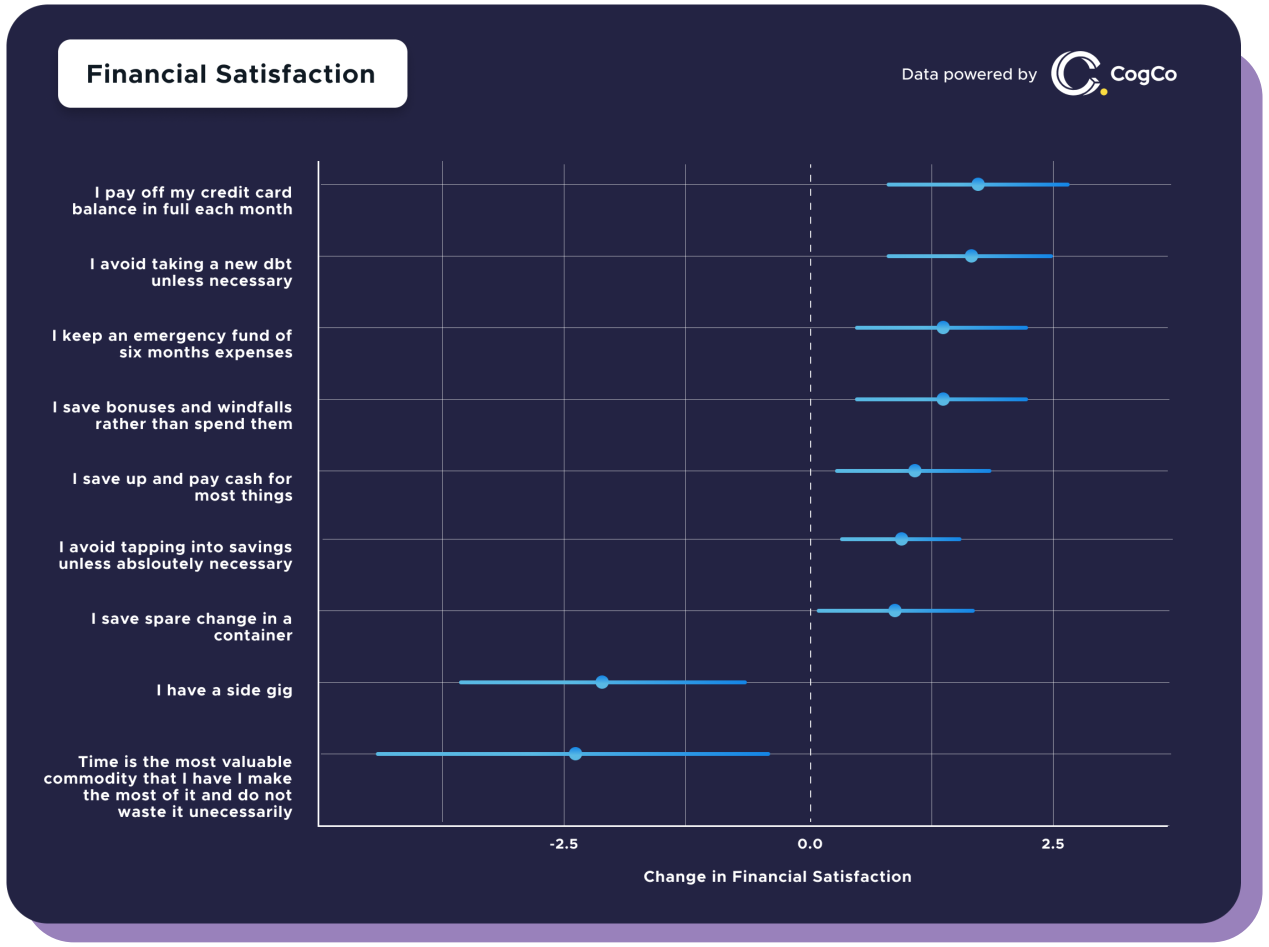
– *"I don't take on debt unless it is absolutely necessary"*

– *"I try and save 10 percent of my income each month"*

The behaviours linked solely to lower financial worries, i.e. there is a negative correlation with financial worry, fit into two categories; living within your means and building resilience. In lay terms, these behaviours are best described as budgeting and planning. While budgeting and planning are important behaviours, the best intentions will always be challenged by unpredictable income.

Therefore, it's not enough to simply educate people that they should budget; rather, people should be equipped with clear, predictable data about their finances. One useful starting point is to meet the Living Wage Foundation's "living hours" standard.[26] Alternatively, employers could offer real-time data on hours worked and earnings up to payday. The Wagestream platform does exactly this, and increasingly payroll providers are working to embed improved data features into their proposition.

25 A Citizens Advice super complaint to the CMA identified that it costs consumers who don't negotiate or switch a £4.5bn annual loyalty penalty, equivalent to nearly £900 per year. https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Super-complaint%20-%20Excessive%20prices%20for%20disengaged%20consumers%20(1).pdf
26 Living Wage Foundation standard for living hours, https://livingwage.org.uk/living-hours



Higher satisfaction and lower worries

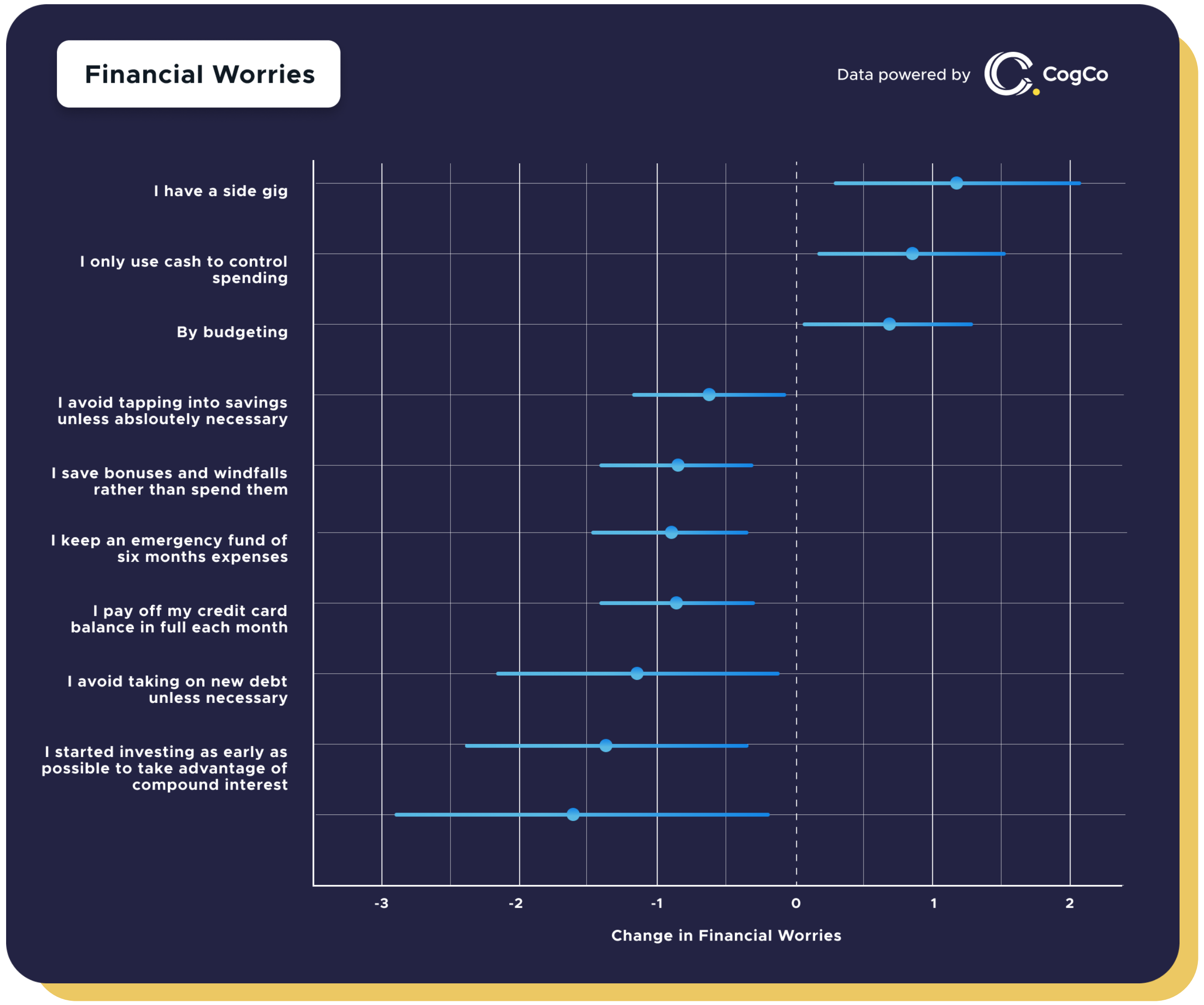
- *"I automatically transfer a portion of paycheck to savings"*
- *"I keep an emergency fund of six months' expenses"*
- *"I pay off my credit card balance in full each month"*

This is our powerlist of behaviours that are positively correlated with both higher satisfaction and lower levels of financial worry. They are the actions that flow from much of the conventional wisdom that generated such strong consensus, particularly around savings.

Having some savings set aside is an essential building block of financial wellbeing. Without savings, any sort of financial shock can quickly turn into problem debt. Research from StepChange found that if a household has just £1,000 saved, this reduces the likelihood of getting into problem debt by nearly half.[27]

27 StepChange Debt Charity, Tackling the coronavirus personal debt crisis, November 2020, https://www.stepchange.org/Portals/0/assets/pdf/tackling-the-coronavirus-personal-debt-crisis.pdf

Savings can also create peace of mind and improve general wellbeing. Individuals who have savings are more likely to report higher levels of life satisfaction and overall wellbeing – which is linked to increased productivity at work.[28]



28 Nest Insight, Workplace emergency saving, A landscape review of existing evidence, July 2021, https://www.nestinsight.org.uk/wp-content/uploads/2021/07/Workplace-emergency-saving-a-landscape-review-of-existing-evidence.pdf

Closing the **gaps**

There is much work to do - but there are clear steps employers can take, to shift their financial wellbeing strategy from words into actions.

Before jumping into these recommendations, start by checking your own empathy gap: use the Institute of Fiscal Studies tool[29] to check how your household income stacks up against the rest of the UK.

Then ask the question *"How much do we truly understand about the lower and higher earners in our workplace?"*

Can you get your hands on the data to answer the following questions:

- What are the earnings quartiles in your organisation? Importantly, this should be about total pay rather than an hourly rate of pay.
- What is the average fluctuation in earnings by quartile? How does this compare as a percentage, as a cash figure, and as a proportion of the typical food & housing costs that our higher and lower earners reported in this research?
- Do you have any decision-makers in your organisation in the bottom two quartiles?

If you can persuade your organisation to collect some additional data, we strongly encourage you to use the questions and statements in the appendix of this report to run your own research to see how intention and action diverge based on earnings quartiles.

Beyond collecting data, the recommendations below are practical and proven for improving financial wellbeing and you won't go amiss by implementing as many of these as you can.

29 https://ifs.org.uk/tools_and_resources/where_do_you_fit_in

Employer action plan

Opportunity:
Volatile working hours create shaky financial foundations. Lower earners are more likely to experience volatility, and this links to worse financial outcomes.

Recommendation:
Aim to meet the standard for living hours, as provided by the Living Wage Foundation.

The Living Wage Foundation has created a standard for employers called Living Hours.[30] In it they outline three commitments employers should make to provide financial stability for employees.

The Living Hours standard calls on employers to provide the right to:

1. Decent notice period for shifts: of at least 4 weeks' notice, with guaranteed payment if shifts are cancelled within this notice period
2. The right to a contract that reflects accurate hours worked
3. A guaranteed minimum of 16 hours a week (unless the worker requests otherwise)

Opportunity:
A regular savings habit is strongly correlated with better financial satisfaction and lower financial worries. Lower earners have 8x less savings than higher earners and are more likely to have £0 in savings.

Recommendation:
Implement a payroll savings programme and ideally structure it on an opt-out basis so that employees build up savings by default.

Access to an appropriate savings product is an important component of financial inclusion. There's a strong evidence base that payroll autosave is a highly effective way to get individuals on low and variable income to create a savings habit and start building a savings buffer.[31] Recent research from Nest Insight shows that savings participation can reach as high as 71% of eligible employees with this approach.

Wagestream has been an active participant in this savings research trial, and as such can already implement opt-out payroll savings for employers. There are also many other pathways to delivering a successful payroll savings programme. Nest Insight has written a guide for employers outlining different options for making this work, and the technical and regulatory considerations for each one.[32]

30 Living Wage Foundation standard for living hours, https://livingwage.org.uk/living-hours
31 Nest Insight, Opt-out autosave at work, September 2023 https://www.nestinsight.org.uk/wp-content/uploads/2023/09/Opt-out-autosave-at-work.pdf
32 Nest Insight, Getting Employees Started with Saving, April 2023 https://www.nestinsight.org.uk/wp-content/uploads/2023/04/getting-employees-started-with-saving.pdf

Opportunity:
There's an action gap when it comes to implementing well known financial behaviours. Individuals know what they should be doing, but struggle to make it happen.

Recommendation:
Review your workplace financial wellbeing programme and benefits through the lens of how action-oriented they are and prioritise providing financial security benefits that are useful and accessible for the whole workforce.

Be aware that the financial circumstances and needs of the HR team who assess these offerings will often be very different from the financial circumstances and needs of the workers who use them.

This recommendation is explored in more detail in the following section.

Financial wellbeing toolkit

Focus on providing a wellbeing toolkit that's tailored to the needs of your workforce and considers their circumstances including volatility of earnings. Financial education can be helpful, but unless it's paired with actionable and accessible financial security tools it's likely it will fall short of the mark.

When considering a financial wellbeing offering, ask the following questions:

- How does this create financial inclusion for women and individuals from ethnic minority backgrounds?
- How does this work for individuals on variable pay?
- What access to financial products do individuals need to have to successfully use this?
- What proportion of the workforce will be able to use this?
- Are there any particular groups who are more or less likely to benefit from this?

Components of an inclusive and action-oriented financial wellbeing toolkit

Flexible pay (Earned Wage Access) and workplace loans

The research team at Nest Insight wrote a report on the potential of two financial wellbeing tools – earned wage access and workplace loans – to improve low-and moderate-income employees' financial footings.[33] This research maps how these two products fit into employees' financial lives, and where they are most likely to have a positive impact. Consider these as your foundations from which to build a comprehensive workplace financial wellbeing toolkit.

Earned wage access is an inclusive financial tool that creates capability for workers to proactively manage their cashflow. Its usage is associated with improved self-control, reduced spending, and better outcomes at home and in the workplace.[34]

Workplace loan providers can offer affordable and inclusive loans and credit building products that are designed to safely help individuals access credit where they need it, and build their credit profile in order to open up lower cost mainstream credit options in the future. These products tend to come with APRs that are better than open-market options.

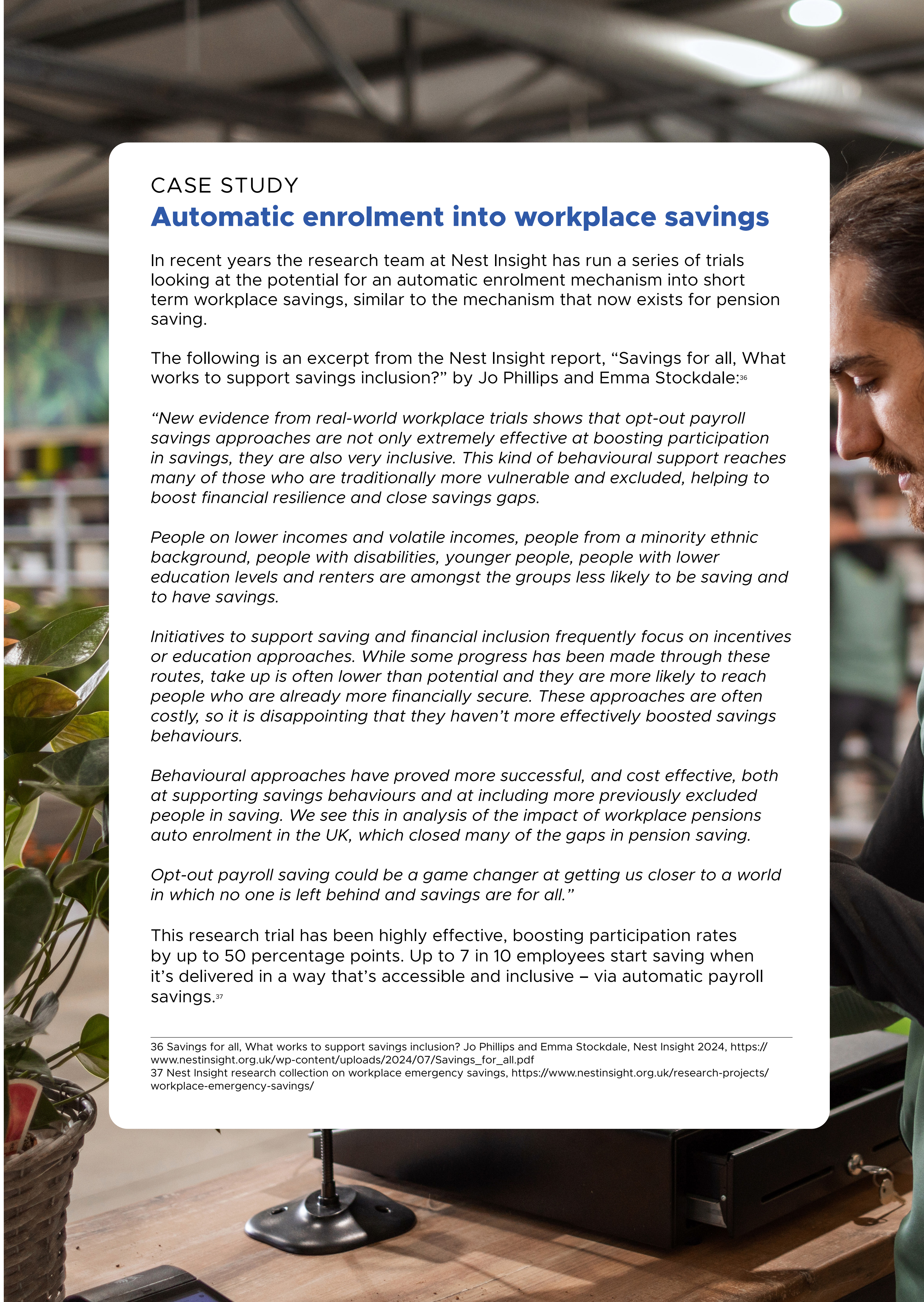
Workplace savings

Offering a workplace savings programme is a powerful way to increase savings participation. By removing friction and barriers to saving – such as the choice of which savings provider to choose, effort to open an account, effort to transfer funds to a savings account each payday, and even decisions about how much to transfer – employers can create long-lasting savings habits that improve resilience and financial wellbeing. The case study highlights the additional impact of structuring workplace savings on an opt-out basis rather than an opt-in basis.

Employer loans

Employers can offer zero interest payroll deducted loans of up to £10,000 with no tax implications.[35] This might be a lifeline for employees who are otherwise financially excluded and unable to access any form of credit. Employers will need to consider the process for requesting a loan, if they are for specific purposes or generally available, administering the loan, whether repayment terms will flex with earnings, and how to handle leavers.

33 Nest Insight, Bridging Financial Gaps for Workers, July 2023, https://www.nestinsight.org.uk/wp-content/uploads/2023/07/Bridging-financial-gaps-for-workers.pdf
34 Mind Over Money, Exploring the link between IQ and financial stress, Wagestream 2024, https://22239477.fs1.hubspotusercontent-na1.net/hubfs/22239477/Report%20Mind%20Over%20Money.pdf
35 UK Government guidance on employer loans and tax, https://www.gov.uk/expenses-and-benefits-loans-provided-to-employees/whats-exempt



CASE STUDY

Automatic enrolment into workplace savings

In recent years the research team at Nest Insight has run a series of trials looking at the potential for an automatic enrolment mechanism into short term workplace savings, similar to the mechanism that now exists for pension saving.

The following is an excerpt from the Nest Insight report, "Savings for all, What works to support savings inclusion?" by Jo Phillips and Emma Stockdale:[36]

"New evidence from real-world workplace trials shows that opt-out payroll savings approaches are not only extremely effective at boosting participation in savings, they are also very inclusive. This kind of behavioural support reaches many of those who are traditionally more vulnerable and excluded, helping to boost financial resilience and close savings gaps.

People on lower incomes and volatile incomes, people from a minority ethnic background, people with disabilities, younger people, people with lower education levels and renters are amongst the groups less likely to be saving and to have savings.

Initiatives to support saving and financial inclusion frequently focus on incentives or education approaches. While some progress has been made through these routes, take up is often lower than potential and they are more likely to reach people who are already more financially secure. These approaches are often costly, so it is disappointing that they haven't more effectively boosted savings behaviours.

Behavioural approaches have proved more successful, and cost effective, both at supporting savings behaviours and at including more previously excluded people in saving. We see this in analysis of the impact of workplace pensions auto enrolment in the UK, which closed many of the gaps in pension saving.

Opt-out payroll saving could be a game changer at getting us closer to a world in which no one is left behind and savings are for all."

This research trial has been highly effective, boosting participation rates by up to 50 percentage points. Up to 7 in 10 employees start saving when it's delivered in a way that's accessible and inclusive – via automatic payroll savings.[37]

36 Savings for all, What works to support savings inclusion? Jo Phillips and Emma Stockdale, Nest Insight 2024, https://www.nestinsight.org.uk/wp-content/uploads/2024/07/Savings_for_all.pdf
37 Nest Insight research collection on workplace emergency savings, https://www.nestinsight.org.uk/research-projects/workplace-emergency-savings/

Sick pay policies and benefits

Employers should consider how their sick pay policies and benefits might impact different groups of employees, and whether these policies and benefits are helping to create financial stability and financial inclusion.

The UK has one of the lowest rates of statutory sick pay (SSP) across all OECD countries.[38] Taking sick leave for two weeks would put 91% of frontline workers under financial pressure, while 28% would have to choose between heating and eating.[39]

Insurance benefits

Lower income households pay more for their insurance, not only due to underwriting practices but also due to a need to spread the cost of annual premiums over the year. Employers are in a unique position of being able to procure group insurance benefits that eliminate some of the data and underwriting biases faced by lower income workers and particularly individuals from minority ethnic backgrounds.[40]

A call to arms

Most readers of this report are likely to identify with the higher earners in our study, more than the lower earners.

This report is not here to debate pay levels for particular roles. Instead, this is a call to remember that your lived experience, your financial wellbeing, your experience of saving and credit and everything in between is likely to not be representative of the majority of workers if you are in the minority of earners.

There is a temptation to try to address financial wellbeing solely with education and information, and this does a disservice to the individuals who already know what should be happening but for various reasons struggle to act on it. In this case, knowledge *isn't* power; action is.

Instead, employers can create positive action around financial wellbeing by creating better access to services and support, and by making them as easy as possible to use. Employers have always played a role in financial wellbeing, and interventions in the financial lives of the workforce are nothing new. You only need to look as far as automatic enrolment into workplace pensions to see this in action. Now there's an opportunity for the next wave of action to drive greater financial inclusion and wellbeing for workers across the UK. We must not let the opportunity slip.

38 N. Cominetti et al, Low Pay Britain 2023 : Improving low-paid work through higher minimum standards, The Resolution Foundation, April 2023, https://economy2030.resolutionfoundation.org/reports/low-pay-britain-2023/
39 Frontline workers unable to afford sick days, HR Magazine, August 2023, https://www.hrmagazine.co.uk/content/news/frontline-workers-unable-to-afford-sick-days/
40 The Poverty Premium, Fair by Design, November 2021, https://fairbydesign.com/wp-content/uploads/Fair-By-Design-A4-Summary-Doc_Nov2021.pdf

About this research

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This report draws primarily on two complementary studies, carried out between May and September 2024.

Study #1 snapshot: the empathy gap

In this study we used a sample of 138 higher earners (salary £60k pa and above) and 129 lower earners (salary £25k pa and below). All were in full time work.

	Lower earners	Higher earners	What high earners predict for low earners	What low earners predict for high earners
Monthly grocery spend	£250	£450	£300	£450
Rent/mortgage expenditure[41]	£410	£875	£800	£1,150
Money left at the end of the month[42]	£250	£1,000	£150	£1,000
Savings[43]	£3,000	£25,000	£1,000	£10,000
Living days if lost job[44]	75	180	30	95
Worry about money daily	20%	6%	37%	~3%
Worry about money weekly	10%	4%	26%	4%
Never worry about money	20%	32%	3%	~37%
Daily miss out on recreation due to money	6%	-	16%	-
Weekly miss out on recreation due to money	10%	~1%	31%	4%
Monthly miss out on recreation due to money	10%	~9%	31%	4%
Occasionally miss out on recreation due to money	23%	13%	12%	18%
Never miss out on recreation due to money	38%	58%	5%	55%
Paycheck never the same	19%	10%	4%	5%
Paycheck varies one to next	17%	12%	29%	20%
Paycheck occasionally varies	20%	27%	35%	31%
Paycheck generally the same	45%	50%	31%	44%

41 32% of low earners report £0. 29% own accommodation outright, 9% live with parents. 25% of high earners report £0. 35% own outright, less than 1% live with parents.
42 14% low earners have £0 at end of month. 4% of high earners have £0 at end of month.
43 24% of low earners have no savings. 2% of high earners have no savings.
44 6% of low earners unable to live a single day. 13% a week or less. 36% 30 days or less. 1% high earners unable to live a single day. 4% a week or less. 13% 30 days or less.

Study #2 snapshot: the action gap

This second study used a nationally representative study of 643 participants.

Those participants submitted 88 answers to our question, and placed a total of 16,371 votes on the answers submitted by others.

Statements where there is a statistically significant difference

Statement	Difference	Strength
"I only spend what I have"	People with fewer financial worries more likely to agree	1
"I don't take on debt unless it is absolutely necessary"	People with fewer financial worries more likely to agree	1
"I negotiate with service providers"	People with higher financial satisfaction more likely to agree.	2
"I only buy the cheapest versions of groceries"	People with higher financial worries more likely to agree	1
"I use community resources like food banks"	People with higher financial worries more likely to agree	1
"Time is the most valuable commodity that I have I make the most of it and do not waste it unnecessarily"	People with higher financial satisfaction more likely to agree.	1
"I sell items I no longer need"	People with higher financial worries more likely to agree	3
"I started investing as early as possible to take advantage of compound interest"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	3 3
"Don't be misled by adverts trying to make you buy what you don't need"	People with fewer financial worries more likely to agree	1
"I try to spend less amount of money"	People with higher financial worries more likely to agree	2
"I save up and pay cash for most things"	People with higher financial satisfaction more likely to agree.	1
"Every penny matters"	People with lower financial satisfaction more likely to agree	1
"I buy second hand clothes and sell the ones I don't use anymore"	People with higher financial worries more likely to agree	1
"You can save no matter your income"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	2 1
"I try and save 10 percent of my income each month"	People with fewer financial worries more likely to agree	1
"I pray to god for enough money to help myself till month end"	People with higher financial worries more likely to agree	1

Statement	Difference	Strength
"I save money by shopping at charity shops or online marketplaces for clothes"	People with lower financial satisfaction more likely to agree People with higher financial worries more likely to agree	1 3
"I automatically transfer a portion of paycheck to savings"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	1 1
"I keep an emergency fund of six months expenses"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	4 4
"I avoid tapping into savings unless absolutely necessary"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	4 4
"I pay off my credit card balance in full each month"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	4 4
"I avoid taking on new debt unless necessary"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	3 1
"I have a side gig"	People with lower financial satisfaction more likely to agree People with higher financial worries more likely to agree	2 2
"I save bonuses and windfalls rather than spending them"	People with higher financial satisfaction more likely to agree. People with fewer financial worries more likely to agree	2 1
"Don't spend what you don't have"	People with fewer financial worries more likely to agree	1
"I try to enjoy my life but plan my future"	People with higher financial satisfaction more likely to agree.	2
"Write payments onto a calendar"	People with higher financial worries more likely to agree	1
"I use Buy Now Pay Later Services"	People with lower financial satisfaction more likely to agree People with higher financial worries more likely to agree	1 2
"I use my overdraft"	People with lower financial satisfaction more likely to agree People with higher financial worries more likely to agree	1 1

About Wagestream & CogCo

About Wagestream

One thousand employers - like Asda, Bupa, Burger King, Pizza Express and the NHS - make work more rewarding, by offering financial benefits through the Wagestream platform.

Three million people use Wagestream to manage budgeting, get paid when they choose, save for a rainy day, chat to money coaches, access exclusive discounts, and more - all in one app.

Wagestream is a B Corporation, built with the Fair By Design financial inclusion campaign.

About CogCo

CogCo helps organisations understand the behaviour of their users, customers or employees, and improve their products, services and campaigns.

CogCo does this by combining insights and methods from behavioural science, design and data science. We draw on the latest evidence from across these fields, and then focus on their practical application to develop and test new ideas that work in practice.

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