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**SOCIAL  
EMERGENCY  
LENDING:  
SOCIAL  
EMERGENCY  
SAVING**

JULY 2017

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T H E M C K E L L I N S T I T U T E

# SOCIAL EMERGENCY LENDING: SOCIAL EMERGENCY SAVING

JULY 2017

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# EXECUTIVE SUMMARY

This report proposes a new scheme – “Social Emergency Lending” – to help Australian households under financial stress borrow money at very low interest rates. 20.7 per cent of Australian households don’t have \$500 in savings to use for an emergency<sup>1</sup> such as a broken appliance or child-related expense. Although there are some existing programs that seek to address this, they are neither comprehensive enough, nor easy enough to access.

Because of this, too many Australians are forced to use private-sector “payday” lending services, which often involve annualised percentage rates of over 150 per cent. This exacerbates the problem, rather than solving it.

The Social Emergency Lending (SEL) scheme would allow all Australians earning under \$100,000 per annum to access a low-interest loan of up to \$500 with quick approval and the reason for the loan. Repayments would be made through the tax system, and the interest rate would be the Commonwealth government’s cost of funds plus a small administrative fee to cover costs. At the present time, this would be lower than 3.0 per cent per annum.

## THE SEL SCHEME IS DESIGNED TO BE:

- 1 FAST:** electronic approval and funds flow would be instantaneous.
- 2 BROAD:** covering all Australian taxpayers earning less than \$100,000 p.a.
- 3 LOW INTEREST:** interest rates would be close to the government cost of funds – around 3 per cent at present.
- 4 REVENUE NEUTRAL:** the government would neither make nor lose money from the scheme.
- 5 ENFORCEABLE:** the Commonwealth taxation system would provide a sound, existing enforcement mechanism which ensures compliance and allows the interest rate to stay low.

In addition to Social Emergency Lending, we propose a scheme for “Social Emergency Saving” to tackle the root cause of the problem – lack of sufficient precautionary savings. This would provide incentives for regular monthly savings, the establishment of fee-free sequestered bank accounts, and use insights from behavioural economics and social psychology that have been shown to have positive causal effects in related contexts in the United States.



## AN ESA WOULD HAVE THREE KEY ATTRIBUTES:

- 1** Contributions to it are pre-planned and automatic,
- 2** Contributions are incentivised through matched savings; and
- 3** There are limitations on how frequently the savings can be accessed.

Either of, or both, Social Emergency Lending and Social Emergency Saving could be implemented. They would each, independently, help tackle the financial insecurity that comes from having inadequate savings. Although they need not be implemented together, doing so would be a stronger approach since it would address both a major symptom *and* a major root cause of financial stress and distress.

We propose conducting a modest-sized randomised controlled trial to allow fine-tuning of the emergency savings scheme and tailoring it to the Australian context.

Social Emergency Lending helps address the issue of imminent financial distress, while Social (or “Supported”) Emergency Saving provides a

framework to build financial resilience and enable households to meet future unexpected expenses.

Although these schemes will not solve the problem of low incomes for too many Australians, they will help smooth out the volatility of incomes and provide households with a more stable financial future.

Of course, low incomes themselves, combined with insecure work, unpredictable earnings and high and rising household expenses, lie at the heart of the issue of financial insecurity. In other reports, such as *Switching Gears* (2015) and *Choosing Opportunity* (2016) the Mckell Institute has proposed ways of building a stronger middle class and making housing more affordable.

# THE PROBLEM

## Introduction

In recent years, there has been a dramatic increase in the number of Australian households accessing so called 'payday lending' services. A growing number of individuals and households are resorting to expensive payday loans in order to finance basic living expenses and sudden, unplanned expenses. Payday loans have been the subject of much criticism as the high cost of servicing these loans can further increase the financial pressure on households - and raise the risk of financial exclusion - as people struggle to afford loan repayments.

The increase in payday lending in Australia reflects overseas experiences and is associated with rising inequality, increasing precarious employment and a lack of access to alternate credit products for consumers.<sup>2</sup> There is a strong case for government intervention to disrupt the growth in this predatory market and to provide households with an affordable alternative by establishing an efficient and accessible small loan scheme.

## Increasing financial insecurity in Australia

Current indicators are that around 2 million Australians are experiencing severe or high financial stress with a further 53 per cent of the population experiencing a low degree of financial stress.<sup>3</sup> The number of households in financial stress has been steadily increasing with one survey indicating it has risen from 23.5 per cent in 2005 to 31.8 per cent in 2015.<sup>4</sup>

A key measure of financial security is an individual or household's ability to respond to sudden and unexpected expenses. A lack of access to a small amount of savings, or the inability to raise the money required for a sudden expense, can result in significant economic and social hardship.

Data collected as part of the Poverty and Exclusion in Modern Australia (PEMA) survey, indicates that 20.7 per cent of Australian households don't have \$500 in savings to use for an emergency.<sup>5</sup> For households that rent their home, this increases to 33.1 per cent.

The ABS uses an inability to access or raise \$2,000 in a week for something important as an indicator of financial stress. ABS data indicates that 14.4 per cent of Australian households would be unable to raise \$2,000 within a week.<sup>6</sup>

## One emergency away from significant financial distress

This insufficient access to emergency finances significantly reduces the financial resilience of Australians placing more people at risk of financial exclusion if a household is unable to meet their financial commitments. The lack of a financial "buffer" means a sudden car breakdown, the need for urgent dental treatment, a broken appliance, or a child-related expense can place an individual or a household in significant financial and social difficulty. In the case of a medical or car-related expense, the inability to quickly find a solution can further exacerbate financial stress by impacting on an individual's future earning capacity.

For a growing number of Australian households, a lack of access to savings is leading people to seek alternate financing that can exacerbate financial hardship. Resorting to high-cost payday lenders can put people on a path to financial distress and exclusion as the high costs of servicing those loans increases financial pressure. The increasing use and prevalence of payday lenders - and the increase in online payday lending services in particular - is cause for concern.

## Payday lending in Australia

Payday loans are generally loans of less than \$2,000 that are typically repaid via direct debit within a period ranging from 16 days to 12 months. These loans are also referred to as Small Amount Credit Contracts. Despite the name, they are not limited to people with an income from work and repayment periods are generally longer than the next pay period. A key feature of these loans is that finance is approved and provided quickly - sometimes

within minutes of applying. The money is generally provided as cash or a direct deposit into the recipient's bank account.

Payday lending has long been present in Australia but the past decade has seen a twenty-fold increase in demand for short term loans.<sup>7</sup> Online payday lending services have increased significantly in recent years and the internet is now the primary channel for households accessing payday loans.<sup>8</sup> Lenders have successfully used online advertising and lead generation to promote their services to new consumers who may have been less willing to access storefront payday lending services.

The rise in online payday lenders has coincided with a dramatic increase in the number of households accessing these loans.<sup>9</sup> A 2012 study estimated that approximately 1.1 million Australians were, on average, taking out three to five loans per year. An estimated 40 per cent of payday loan customers took out more than 10 loans per year.<sup>10</sup>

As well as an increase in the number of loans, there has been a shift in the type of households accessing payday lending. Prior to 2010, the vast majority of households utilising payday loans were households in *financial distress*. This is defined as a household that is regularly unable to meet their financial commitments. Since 2010, there has been a significant increase in the number of *financially stressed* households using payday loans - this is defined as a household that is generally coping with their financial commitments. The average number of loans per household has also increased as has the average amount owed per loan.<sup>11</sup>



**TABLE 1** Number of households using payday loans in the last three years

	2005	2010	2015
Number of financially distressed households	348,976	395,297	376,206
Number of financially stressed households	7,121	20,805	266,881
<b>TOTAL</b>	<b>356,097</b>	<b>416,102</b>	<b>643,087</b>

*The Stressed Finance Landscape Data Analysis, a report by Digital Finance Analytics and Monash University Centre for Commercial Law and Regulatory Studies (CLARS)<sup>12</sup>*

### Increasing concern about the impacts of payday lending

There has been increasing concern about payday lending practices and their impact both globally and within Australia.

Government regulation that came into effect in 2013 placed limits on the fees payday lenders can charge. Currently, lenders can charge a one-off loan establishment fee of a maximum of 20 per cent of the amount loaned and an additional 4 per cent monthly fee that does not reduce as the loan is paid off. Lenders cannot charge additional interest on top of these fees and loan repayments are capped at 20 per cent of a consumer's gross income. Despite these restrictions, payday loans remain a very expensive form of finance.

A \$300 payday loan with a four-month repayment period will cost a borrower \$408 to repay in full. This can be compared to an average credit card with an interest rate of 18 per cent that would cost a borrower just \$305 to repay over the same period.<sup>13</sup> Data from the US found that while a majority (59 per cent) of payday loan applicants had a personal credit card many of them were 'maxed out' or had less than \$300 credit remaining.<sup>14</sup>

The high repayment costs result in many payday loan customers experiencing financial hardship, particularly those who repeatedly borrow.<sup>15</sup> Low income households struggling

with repayment costs are at a significantly greater risk of having to repeatedly borrow more money to finance basic living expenses. Lenders often time their repayment dates to coincide with an individual's wage or income benefit payments. This can leave people without adequate money to cover rent, food or other basic living expenses once the loan repayment has come out of their account thereby increasingly the likelihood of the need for an additional loan.

Repeat borrowing is a key feature of the payday loan business model with profits overwhelmingly derived from regular, repeat borrowers.<sup>16</sup> The average payday loan customer in the US takes out eight loans per year with each loan valued at around \$US375.<sup>17</sup> While the Australian data is less conclusive, estimates are that the average payday loan customer borrows a median of \$300 four to five times a year.<sup>18</sup>

Aggressive marketing has become a feature of the industry with online advertising repeatedly targeting both current customers and previous applicants. It is also common practice for payday lenders to on-sell the data of people who have been rejected for a loan to other, higher risk payday loan providers.

Despite the regulations introduced in 2013, the industry continues to experience significant growth with estimates that it will grow to \$2 billion a year by 2018.<sup>19</sup>

## PAYDAY LENDING PRACTICES

### CASH CONVERTERS

Cash Converters has long been a major player in Australian payday lending services opening its first store in Perth in 1984 and now dominating the online lending market with a market share estimated to be up to 70 per cent.<sup>20</sup> Cash Converters has been the subject of major investigations by the Australian Securities and Investments Commission (ASIC) over concern about its lending practices. The most recent investigation involved Cash Converters lending to financially vulnerable consumers without properly assessing their capacity to repay the loans. In November 2016 Cash Converters was forced to refund consumers \$10.8 million in fees for 118,000 SACC loans. This was paid in addition to \$1.35million in fines paid to ASIC for 30 infringement notices.<sup>21</sup>

Consumer advocates allege that the ASIC investigation did not go far enough as it did not apply to customers who took out in-store as opposed to online loans. Advocates have since launched court action against the company for allegedly allowing one financially vulnerable woman to take out 23 payday loans in addition to 76 pawn-broking agreements.<sup>22</sup>

### BEST & LESS

Retailer Best & Less came under criticism for promoting payday loans in its stores and on its website. Best & Less stores had prominent in-store advertising promoting Capfin payday loans of up to \$5,000. The promotion included hard copy application forms and links to the online application form. The retailer received an unspecified referral payment for any applications received as a result of this advertising.<sup>23</sup> The signage and website promotion have since been removed. This followed criticism by CHOICE and Financial Counselling Australia.





A 2016 Federal Government inquiry into payday lending and consumer leases found that existing consumer laws do not provide adequate protection for consumers.<sup>24</sup> The inquiry made a range of recommendations that the Federal Government has committed to implement including reducing the cap on the total amount of loan repayments from 20 per cent of a consumer's gross income to 10 per cent of their net income, removing restrictions on early repayments, preventing lenders from making unsolicited offers to current or previous consumers and banning lenders profiting from referrals to other loan services.

These regulations are welcome however they are inadequate to properly reduce the risks for households of a continued growth in this market and they do not address the high demand for this type of loan.

#### Existing alternate schemes are inadequate

There are some alternate schemes in place to assist households in need of short-term loans. These include the option for individuals in receipt of Centrelink payments to receive an advance on their regular payments and a community-run, and government supported, No Interest Loan Scheme.

#### CENTRELINK ADVANCE PAYMENT

Centrelink advances are generally between \$250 and \$500 and have some of the benefits of payday loans in that the amount is generally approved quickly and as cash. The limitations of these advances are the low amount available and the fact that the repayment period is capped at six months which can make the repayments too high for some recipients. This option is obviously restricted to people currently in receipt of Centrelink payments.

#### NO INTEREST LOAN SCHEME

The No Interest Loan Scheme (NILS) is supported by the Federal Government and the National Australia Bank and run by 178 community organisations across the country. This scheme provides loans of between \$300 and \$1,200 at around 600 locations across Australia. Loans are restricted to use for essential goods and services such as fridges or washing machines, and some medical procedures. The initial scheme was set up in 1981 and has had over 180,000 clients since it began.

Under the NILS, loans are available to people in receipt of a healthcare or pension card or with

a household income of less than \$45,000 per year. The average loan amount is \$900 and 95 percent of loans are repaid in full.<sup>25</sup> The scheme is an example of Circular Community Credit where once a repayment is made those funds then become available to another borrower.

There are no credit checks but there is a five step application process. As part of this process applicants need to make an appointment and attend an interview in order to have the loan approved. This slows down the process considerably and loan approval can take from three days up to several weeks.

In addition to the need for fast finance, research has shown that many people accessing online payday lending services prefer the anonymity of the process when compared to requesting money from family or welfare agencies.<sup>26</sup> As well as making the approval process too slow, the interview process is likely to deter some potential applicants. Good Shepherd Microfinance administers the NILS scheme and estimates that the scheme is currently only meeting 6 percent of the market demand.<sup>27</sup>

In many ways our Social Emergency Lending scheme builds on the motivations and positive features of the NILS. There are, however, three

notable drawbacks of NILS: (i) the application process is complex; (ii) the income threshold is very low; and (iii) it operates on too small a scale.

The benefits of payday lenders are that they are fast and easy to access and the money is provided as cash. There are few limits on who can access these loans provided the applicant meets a lender's risk criteria. Furthermore, there are no restrictions on what the loans can be used for. The application process is relatively anonymous and the repayment process is simple to understand. Existing schemes do not meet all the components of this criteria hence the growing demand for payday loans.

There is a clear and growing need for a low cost, government loan scheme that provides a fast and efficient service. As well as assisting individuals and households to avoid spiralling repayment costs and predatory lending practices, a government lending scheme could be linked with an emergency savings account program to build ongoing financial security. In this way, the SEL scheme could utilise a moment of financial crisis to not only provide a low-cost emergency loan but also to assist people to increase their financial resilience.

# THE SOCIAL EMERGENCY LENDING SCHEME

## How would the scheme work?

### ELIGIBILITY

Any Australian citizen or permanent resident who is 18 years or older with a taxable income of less than \$100,000 and with a tax file number (TFN) would be eligible for the scheme. The scheme involves essentially instantaneous access to a low-interest loan of up to \$500. A maximum of two loans per person per annum would be allowed.<sup>28</sup>

### ACCESSING A SOCIAL EMERGENCY LOAN

Since there are no additional requirements beyond eligibility for the loan, access to the funds can be arranged completely electronically. A simple portal through myGov (with a redirect from a dedicated feeder page) would allow for this. The standard security procedures for providing one's tax file number and bank account details would apply – but for those with a myGov account there would be no additional logistics.

For those without easy internet access, a computer can be used for this purpose at a Centrelink office or public library. Although it is important to keep the need for “physical distribution” to a minimum, the service could also be accessed through Australia Post in a manner similar to many of the existing services they facilitate.

### INTEREST RATE AND REPAYMENT

Repayment would be through the tax system and, as mentioned above, eligibility is conditioned on having a TFN. Repayment of the loan would be due on the filing date of the

individual's annual tax return, unless the loan had been taken out less than six months prior, in which case it would be due on the following tax-return filing date.

At the time of writing the 10-year Australian government bond rate was 2.64 per cent, so that the interest rate on loans under the scheme would be 2.89 per cent.<sup>29</sup> In the past five years the government bond rate has not been above 4.5 per cent, and has been lower than 2 per cent.

The unambiguous eligibility criteria also avoid the significant problems and hardships that arose under Centrelink's automated debt raising and recovery system.<sup>30</sup>

### Financial impact to government

By design, the government would lend funds under the scheme at their long-term borrowing cost (the 10-year bond rate), plus the small administration cost of 25 basis points, so there is no budgetary impact: positive or negative. The government would, of course, be making loans to individuals and therefore the scheme would have a “balance sheet” impact. The government would have an asset on its balance sheet, representing the loan that it is to be repaid. This is exactly the same as a private sector business having an “account payable”, except that the government has the ability to enforce repayment.

Using Australian Tax Office data, we estimate that 8.3 million Australians would be eligible for the scheme. Assuming a usage rate of 35 per cent, a single annual loan of \$500 per user, and an average outstanding loan period of

12 months, the size of the scheme would be approximately \$1.45 billion at a given point in time. This is extremely modest in comparison to the \$465.4 billion size of the government balance sheet, and \$19.5 billion in taxes receivable.<sup>31</sup> Furthermore, the fact that it is an enforceable payment due means that it would likely be deducted from gross debt and have zero impact on net government debt.

In any case, ratings agencies such as Standard & Poor's and Moody's Investor Service would no doubt see the positive impact of such a scheme on government finances through decreased reliance on other social welfare schemes.

In practice, some individuals refuse to pay tax debts to the government, but they are small enough in size that they are referred to a private-sector debt-collection services. This comes at a modest cost to the government in each case. The expected cost of this would be factored into the interest rate charged by the government. This is essentially a cost of administering the scheme, and our modelling suggests that it would be very small.

### From social emergency lending to supported emergency saving

#### THE EMERGENCY SAVING PROBLEM

The core problem that drives the need for an emergency lending program is the fact that so many Australians do not have \$500 in savings for an unexpected emergency. The scheme proposed in this report is an important part of addressing that problem, but a key part of the solution must also involve supporting greater precautionary saving.

That is, of course, not easy. Quite apart from emergencies, every day cost-of-living pressures make it challenging for individuals to carve out \$500 in precautionary savings and commit themselves to leaving it untouched.

Behavioural economists and social psychologists have long understood that, even when people recognise the need for precautionary savings, they have difficulty in sticking to a commitment, and that there are incentives and “nudges” that can encourage saving without being overly prescriptive or “heavy handed.”

This is related to the issue of saving for retirement—an issue which is more complex than precautionary savings but where behavioural interventions have had considerable success. As the founder of behavioural economics, Professor Richard Thaler put it: “Retirement savings is probably behavioural economists' greatest success story. It is a prototypical behavioural-economics problem because saving for retirement is cognitively hard – figuring out how much to save – and requires self-control.”<sup>32</sup>

Precautionary saving is much less cognitively challenging than retirement savings. It does not require complicated decisions about allocating savings to different asset classes with different risk-return profiles, liquidity characteristics, and time horizons. But the self-control problems are still pressing, and it is in that regard that behavioural interventions can be extremely useful. As Thaler goes on to say: “The lesson from behavioural economics is that people only save if it's automatic. If people just put away what's left at the end of the month, that's a recipe for failure. And we can help.”

## EMERGENCY SAVINGS ACCOUNTS

A sensible way to provide incentives for precautionary savings is through an “emergency saving account” (ESA) at a person’s financial institution, with a target balance of \$1,000.

An ESA would have three key attributes:

1. Contributions to it are pre-planned and automatic,
2. Contributions are incentivised through matched savings; and
3. There are limitations on how frequently the savings can be accessed.

To ensure the scheme is feasible it would, like the emergency lending scheme, be available to individuals with a taxable income of under \$100,000 per year. ESA holders would also need to agree to their financial institution making certain disclosures to the Commonwealth pertaining to the matched funds.

### PRE-PLANNED CONTRIBUTIONS

The holder of an ESA could elect to set a regular transfer from the account into which their salary or benefits are paid, to their ESA.

### INCENTIVISED CONTRIBUTIONS

A key feature of the scheme is that there would be a powerful incentive to save. The federal government would provide a 50 cent contribution to an individual’s ESA for each \$1 that the individual contributes up until the savings goal is reached.<sup>33</sup> Furthermore, participating financial institutions would provide a completely fee-free ESA, meaning that there is no additional impediment to emergency savings.

In this way, emergency savings would be supported by both the government and financial institutions.

Of course, it is possible for financial institutions to also fund part of the cash savings match. An appealing combination may be for the government to provide half of the matched funds and financial institutions the other half—but any mix is feasible.

It has been shown that matched-saving programs can have large incentive effects, if designed correctly. For instance, Massachusetts Institute of Technology economist Esther Duflo, and coauthors, conducted a randomised field experiment of incentivised retirement account (US, IRA) contributions at the time of tax preparation. They found large take-up rates and powerful effects for the treatment with a 50 per cent match, and conclude that such incentives can help overcome behavioral biases and informational limitations.<sup>34</sup> The same authors showed in a follow-up paper that the design of such incentivised savings schemes is crucial. In particular, they showed that the US Federal “savers’ credit” program was not as effective as their field experiment because of design flaws.<sup>35</sup> They demonstrate that a simple match with a salient rate like 50 per cent is more effective than a tax credit.

Thus, the ESA design suggested here follows the best available social science evidence in terms of effective design.

### LIMITATIONS ON ACCESS

The ESA could only be accessed a maximum of twice per annum, and it would be via a transfer from the ESA to the holder’s transaction account. The ESA itself would have no transactional functionality (i.e. no debit card attached and there would be no ability to make cash withdrawals from it).

### AN EXAMPLE

Belinda is a registered nurse earning \$60,000 a year, for a weekly take home pay of \$920.

Belinda elects to contribute \$10 a week to her ESA. This amount is automatically deducted from her transaction account until her ESA goal of \$1,000 is reached.

The federal government matches Belinda’s contribution 50 per cent—which is like allowing contributions to be on a pre-tax basis.<sup>36</sup> Belinda’s financial institution ensures that the ESA is fee-free, so Belinda’s \$10 a week saving turns into \$15 each week. At that rate, Belinda has \$750 in her ESA within a year, and in around 15 months has an emergency-savings buffer of a full \$1,000.

### ESTIMATED COST OF THE ESA SCHEME

Based on the 4.86 million Australian adults who have less than \$1,000 in emergency savings,<sup>37</sup> and assuming a 50 per cent government match along with fee-free banking, the cost to ensure that all Australian adults have \$1,000 in emergency savings would be \$810 million. Notice that this is a once-off, one-time cost. It would have no recurring budgetary impact.

We should note that these calculations assume that it is possible to identify the current savings buffer of a household, and therefore only make matched contributions to help “top up” existing savings to the \$1,000. Given the richness of financial institution data on saving and consumption behaviour, and the incentives for individuals to consent to government access to those data, this “top up” scenario seems plausible. If, however, all 4.86 million households required a fresh start to emergency savings (i.e. assuming an ingoing balance of \$0) then the cost would be two times the amount—still only a total of \$1.6 billion as a one-off cost.

If financial institutions also contributed to the match then the cost to the government would be lower. At a 50:50 split between the government and financial institutions the cost to the Commonwealth could be around \$400 million.

## Fine-tuning and rolling out the ESA scheme

As discussed above, there is good social scientific evidence on the benefits and optimal structure of incentivised savings in the U.S. tax-preparation context. There are good reasons to believe that these insights should translate to the Australian context considered here.

A prudent approach to rolling out the ESA scheme, however, would be to conduct a pilot scheme on a fully randomised basis (akin to the Duflo et al approach). This would allow one to assess the causal effect of the emergency saving scheme on outcomes of interest such as financial stress.

This would involve partnering with a large financial institution to select a number (perhaps 100-200) individuals to have an emergency savings account created with the above features. These individuals (the so-called “treatment group”) would also receive the matched savings incentives. Outcomes such as self-reported indicators of financial stress, as well as actual measures of financial behaviour from their transaction history, would be measured.

These outcomes would then be compared to the “control group” – a group of randomly selected individuals not receiving the ESA and incentivised savings. Because of the large number of individuals in the treatment and control groups, combined with random assignment, differences in measured outcomes between those groups indicates the causal effect of the emergency savings scheme.

This randomised controlled trial (“RCT”) would allow fine-tuning and tailoring of the scheme to the specific environment and would allow the scheme’s effectiveness in terms of both outcome and cost to be maximised.



## CONCLUSION

Too many Australians lack the financial resources to meet unexpected but hard-to-postpone expenses. More than one-fifth of Australian households do not have a precautionary savings buffer of \$500. And, too often, such households are forced to resort to extremely highcost “payday lenders” in an emergency.

Our Social Emergency Lending scheme builds on many of the sound concepts behind the existing No Interest Loan Scheme, but has design features that stand to make it more accessible and successful.

### THE SEL SCHEME IS:

- 1 FAST:** electronic approval and funds flow would be instantaneous.
- 2 BROAD:** covering all Australian taxpayers earning less than \$100,000 p.a.
- 3 LOW INTEREST:** interest rates would be close to the government cost of funds – around 3 per cent at present.
- 4 REVENUE NEUTRAL:** the government would neither make nor lose money from the scheme.
- 5 ENFORCEABLE:** the Commonwealth taxation system would provide a sound, existing enforcement mechanism which ensures compliance and allows the interest rate to stay low.

The root cause of the problem, of course, is the lack of precautionary savings. The Supported Emergency Savings plan complements the SEL. It is designed to use insights from behavioural economics and social psychology, along with financial incentives, to help households build their own savings buffer.

### AN ESA WOULD HAVE THREE KEY ATTRIBUTES:

- 1** Contributions to it are pre-planned and automatic,
- 2** Contributions are incentivised through matched savings; and
- 3** There are limitations on how frequently the savings can be accessed.

Together, these schemes have the potential to create greater financial security for a significant number of low and middle-income Australian households.

Of course, low incomes themselves, combined with insecure work, unpredictable earnings and high and rising household expenses, lie at the heart of the issue of financial insecurity. In other reports including *Switching Gears* and *Choosing Opportunity* the Mckell Institute has proposed ways of building a stronger middle class and making housing more affordable.

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