nest insight

Real Accounts

Fluctuation Nation

Lifting the lid on the millions of people managing a volatile income

Founding partner

Aviva Foundation

Research collaboration with

GCU Glasgow Caledonian University

Aston University Birmingham UK

CPFW Centre for Personal Financial Wellbeing

Partners

fair4all finance

Money & Pensions Service

Powered by

moneyhub

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About Nest Insight

Nest Insight is a public-benefit research and innovation centre finding better ways to support people's financial wellbeing, now and in later life. We focus on understanding the lived experience of people on low and moderate incomes, learning about their financial needs, challenges and goals through rigorous and thoughtful analysis. We partner with employers, product providers, academics and policymakers to identify, invent, test and evolve practical solutions and see what works best for people in the real world. This builds the case for systems-level change. Our findings are shared widely and freely so that people around the globe can benefit from our work. For more information visit **nestinsight.org.uk**

About Nest Insight's strategic partner

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BlackRock is a global investment manager serving the UK market for more than 30 years with a purpose to help more and more people experience financial well-being. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from The BlackRock Foundation and The BlackRock Charitable Gift Fund. The initiative brings together partner companies and non-profit financial health experts to make saving easier and more accessible for low – to moderate-income people across the US and UK, ultimately helping more people to establish an important financial safety net. For more information, visit **blackrock.com/corporate/about-us/social-impact**

Funding partners

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Fair4All Finance is a non-profit working to make the financial services system fairer for everyone. They exist to transform the system so that everyone has access to the right products and services, whenever they need them. Their funding comes from the Dormant Assets Scheme which makes it possible for money from forgotten bank accounts to be used to help good causes. For more information, visit **fair4allfinance.org.uk/about-us/**

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The Aviva Foundation aims to help people and communities feel in control and positive about their financial futures. Millions in the UK are struggling and worried about money. The Foundation funds organisations working on new ways to help people prevent and prepare for financial challenges, or deal with and recover from financial setbacks. The Foundation gives organisations the support and stability they need so they can use their expertise to innovate and transform the lives of those who need it the most. For more information, visit **aviva.com/sustainability/aviva-foundation/**

Money & Pensions Service

The Money and Pensions Service (MaPS) vision is 'everyone making the most of their money and pensions'. MaPS is an arm's-length body committed to providing access to the information and guidance people across the UK need to make effective financial decisions over their lifetimes. For more information, visit **maps.org.uk**

Programme partners

Aston University BIRMINGHAM UK | CPFW

The Centre for Personal Financial Wellbeing at Aston University is an interdisciplinary, academic, research centre that seeks to get to the heart of the causes and consequences of personal and household financial insecurity. It focuses on providing accessible and timely insights to support a wide range of leaders and decision makers including those in the financial service industry, third sector organisations, academics as well as the general public. For more information, visit **aston.ac.uk/cpfw**

GCU Glasgow Caledonian University

Glasgow Caledonian University (GCU) is shaping society, influencing governments and transforming people's lives around the world. GCU delivers research with outstanding impact, and the 2023 UK Research Excellence Framework classified 91% of their health research as world-leading or internationally excellent for its impact. GCU's Yunus Centre for Social Business and Health runs the FinWell programme, a financial diaries research project evidencing how a better understanding of community-based and health-focused initiatives can improve lives. See **gcu.ac.uk**

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Foreword

It costs more to be poor, whether this means paying more for insurance because of where you can afford to live. Paying more for credit because you're seen as too high a risk. Or paying more for energy because you have to pay by receipt of bill.

It's widely known that there's a premium attached to being poor, which has a dramatic impact on people already struggling with their money, and leaves those with the least with even less. This premium affects one in four (24%) of all British households, costing each household in poverty on average £444 per year. It leaves those with the least at a greater risk of debt. It leaves those with the least more likely to have go without those things we all need to get by.

There has always been a strong link between low incomes and irregular incomes, with many people being paid modest or low amounts also being on zero hour or short term contracts. Irregular incomes exacerbate and sometimes cause poverty premiums. For example, direct debits can tip people further into debt because they haven't been designed for people watching every penny and/or people who get paid irregularly – charging people if they don't have the exact amount of money in their account at the same time every month.

As this report shows, there are as many as 25 million people impacted by irregular pay. People on irregular, or volatile incomes, are paying more, are falling behind, and are missing out on opportunities. And although the impact is often felt hardest by those on the lowest incomes, this volatility premium also affects those on higher incomes too. When incomes increase but flexibility or certainty don't, people can still pay more for things like energy, credit and insurance, as well as housing and travel. What's more, people on volatile incomes miss out on interest from savings accounts. They can miss out on benefiting from initiatives such as the Help to Save scheme because it works best for people on a stable salary. Plus, although informal loans can be a lifeline, people can miss out on building their credit score.

However, it doesn't have to be this way. We can choose to make markets work better and put hundreds of pounds into the pockets of those experiencing the volatility premium. We can choose greater financial resilience for everyone. The issues highlighted by this research require government and regulators to work together, transparently and in partnership, with civil society and businesses. This is because many of the issues simply won't be able to be tackled by the market alone, as certain customers are just not that profitable or desirable. We require fresh thinking and collaborations and, dare I say it, more checks and balances in terms of how markets design and supply their services so that everyone's needs are catered for, including those on low and irregular incomes.

The government has committed to tackling such complex issues, pledging to create a new financial inclusion strategy. This makes me hopeful. During a cost of living crisis we need solutions to decades-old problems that result in people paying more and losing out. This research makes a compelling case for action – reducing costs and increasing resilience for the poorest, but also for people on higher incomes. A win for everybody in the UK. I urge you to join us, and many others, in creating a financial system that works for everyone. A financial system that is inclusive by design.

Prof Martin Coppack
Director of Fair By Design

Professor of Practice in Financial Inclusion and Consumer Policy at the Centre of Household Assets and Savings Management, University of Birmingham

Real Strategies

Executive Summary

This report examines the impacts of income volatility, the economic and mental burdens that disproportionately affect people and households with irregular or unpredictable incomes. While income volatility has become a feature of the UK's modern labour market, the report highlights its damaging effects across all income levels, from the lowest to middle and even higher earners. The volatility premium is a hidden cost that erodes financial resilience, limits opportunities, and presents long-term risks, contributing to economic inequality across the UK.

Context: why examine the impacts of volatile incomes

Volatile incomes result from various employment conditions, such as zero-hours contracts, self-employment, irregular shifts, and multiple part-time jobs. These fluctuations mean people's earnings vary significantly from month to month, making it difficult to manage day-to-day expenses, plan for the future, and build financial security. While many low-income households face the well-documented poverty premium (paying more for essentials due to their financial circumstances), the volatility premium extends to millions of people across income brackets who experience inconsistent income patterns.

The report focuses on the experiences of roughly 25 million people in the UK affected by income volatility, many of whom face a combination of both the poverty and volatility premiums. That's an estimate based on research from the **Resolution Foundation** that found that four out of five low income earners in the UK have volatile pay, and so do two thirds of those on more moderate incomes. These additional costs further exacerbate financial struggles, especially for those already dealing with the rising cost of living.

Our innovative research approach used monthly interviews to collect first-hand stories and digital transaction tracking to get in-depth, in-the-moment insight into households' income, expenditure and management strategies. Over the course of about a year, we worked with a diverse group of 51 low-and-moderate income households across England and Scotland, collecting between 3 and 10 months of data. To find out more about how we conducted the research, see our **Methodology Impact Brief**.

Key Findings

Volatile incomes affect a wide range of households: Income volatility is not limited to the lowest earners. Four out of five low-income earners and two-thirds of moderate-income earners in the UK experience volatile pay. The volatility is driven by a range of factors, including zero-hours contracts, fluctuating shifts, self-employment, and combining multiple income sources. These unpredictable earnings patterns make it difficult for households to access financial services and products designed for those with steady, predictable incomes.

Financial costs of volatility: On average, Real Accounts households experienced a little over £500 in volatility each month. Households with volatile incomes face a number of direct financial penalties. These include fees for falling behind on bills, higher costs for credit and insurance, and missed opportunities to benefit from cost-effective financial products, such as direct debits, interest-bearing savings accounts, or annual insurance payments. Individuals are forced to rely on high-cost, short-term credit options because they lack the flexibility to align their irregular pay schedules with their monthly expenses.

Psychological and emotional costs: The stress of managing unpredictable income places a significant cognitive and emotional burden on individuals and households. The households in our study described a constant need to monitor and adjust spending, coupled with the fear of falling behind on essential bills, creates a scarcity mindset. This mindset can lead to poor financial decision-making under pressure, as well as negative mental health impacts, including anxiety and depression.

Long-term impacts of managing a volatile income: Households on volatile incomes are often unable to save effectively or make investments in their future. People are unable to feel the full benefit of initiatives to improve their financial standing, such as qualifying for credit, building savings, or participating in government savings schemes like Help to Save. This can lead to households falling further behind, both financially and in terms of their ability to progress in their personal or professional lives. The volatility premium also affects the broader economy, by undermining the financial stability and holding back the potential of a significant portion of the population.

Income volatility across income levels: Even when households with volatile incomes experience income growth, they often continue to struggle due to the mismatch between income flexibility and expense predictability. This was particularly evident in the Real Accounts data collected for this report, which showed that income volatility is not fully resolved by raising household income levels. The unpredictable nature of earnings continues to pose challenges even for higher-income earners, leading to increased costs and financial strain.

How could the impacts of income volatility be addressed?

1. **Inclusive public policy:** The government can play a central role in addressing the volatility premium through ensuring the needs of this group are reflected in policy design:
    - **Adapting financial inclusion strategies:** Government initiatives would ideally be as flexible as possible to the needs of volatile-income workers. A good example is the Help to Save scheme, which currently caps monthly payments at £50 to maximise the savings bonus but could, for example, add flexibility to this cap to allow households on volatile incomes to contribute more during better months.
    - **Strengthening protections for households on volatile incomes:** Policymakers and regulators could champion the rights and needs of consumers with irregular pay, similar to protections for low-income households, to ensure fair access to essential services and better-designed financial products.
2. **Employer-driven workplace Initiatives:** Employers can help reduce the effects of volatility by:
    - **Stabilising income:** Employers should work towards reducing income fluctuations by offering more secure contracts, flexible pay frequency (e.g., weekly or bi-weekly pay), and access to financial wellbeing tools, such as salary advance schemes or workplace loans.
    - **Supporting savings:** Offering opt-out workplace savings schemes can encourage regular saving, even for those on unpredictable incomes. This would give employees the ability to build emergency funds and feel more in control of their finances.

- **Employer pension contributions:** Employers could decouple pension contributions from employee contributions or offer temporary employee contribution breaks, allowing people to maintain their pension savings during periods of financial volatility.

3. **Financial industry innovation:** Financial institutions have the opportunity to develop products and services tailored to the needs of households with volatile incomes:

   - **Timely borrowing information:** Improved tools that notify individuals when they are nearing their borrowing limits or when they need to take action can help people make better-informed financial decisions.
   - **Flexible credit options**: Developing credit products that accommodate irregular pay schedules can prevent households from relying on expensive payday loans or other high-cost credit solutions.
   - **Customising savings options**: Financial institutions should create savings products that align with the reality of volatile incomes, allowing households to save when possible, without stringent monthly requirements.

The volatility premium represents a significant but often overlooked cost which is both financial and about broader quality of life, and which affects millions of UK households. Addressing this issue requires coordinated efforts across the public, private, and community sectors. Through a combination of inclusive policy design, employer initiatives, financial sector reforms, and community support, the UK can reduce the financial strain caused by volatile incomes, ensuring greater financial stability for households and improving the overall resilience of the economy.

Creating a more inclusive financial system that supports people on irregular incomes is not only a matter of social equity but also an essential step toward long-term economic growth. The recommendations outlined in this report aim to provide actionable steps to reduce the volatility premium and ensure that the UK's financial system works for everyone, particularly those who face the daily struggle of managing unpredictable income streams.

What is the volatility premium?

Too many people on volatile incomes are paying more, missing out, and falling behind. With as many as 25 million people living in households impacted by irregular pay, the volatility premium erodes the resilience of people and communities, and ultimately the UK's prospects for economic growth.

Millions of people on volatile pay experience the financial costs of living with uncertainty. People's experiences of volatility are a result of a wide range of circumstances, and reflect work and life contexts that can be found in all parts of the economy. These range from zero-hours contracts and self employment to weekly pay, variable pay rates at different times, changing shift patterns, as well as multiple jobs, job changes, time out of work and the interaction of earnings and benefits.

The work on the poverty premium evidences how the challenges of managing an insufficient income affect those on the lowest incomes, quantifying the extra costs people in poverty pay for essentials such as energy, credit and insurance. People on the lowest incomes pay more because they're often unable to take advantage of the most cost-effective options – for example, relying on more expensive prepayment energy tariffs rather than direct debits, or paying higher premiums because they can't make large lump sum payments for insurance.

Our work has identified an additional set of costs – a financial premium arising from volatility – faced by those with irregular or unpredictable pay. Real Accounts households' data and stories about the lived experience of managing volatile incomes show that they pay a similar premium to the poorest households. And this is the case, even for people on higher incomes.

While the financial impacts and extra costs are similar to those people pay as part of the poverty premium, the impacts of income volatility present households with an additional set of risks and challenges. These include:

- Additional out of pocket costs arising from volatility, such as fees from an increased likelihood of falling into bill arrears, or costs from missing out on supermarket deals in low-income months.
- Exclusion costs, from being more likely to rely on informal savings and borrowing tools and missing out on credit score benefits, access over time to a better, wider range of financial services such as interest-bearing savings accounts, and
- Psychological costs arising from the cognitive load of constant day-to-day money management and the scarcity mindset this induces – which can have a mental health impact but also lead to additional financial costs from decisions taken under pressure or without time to consider all options.

Households we spoke to were mostly low and middle income. With the effects of volatility, however, many bounced between low, moderate and even occasionally into high income categories as their incomes dipped and spiked. Using real-time transaction data and monthly stories, we found that the volatility premium is not necessarily resolved by raising a household's income. For some Real Accounts households, this led to more challenges and volatility to juggle. When income increased but flexibility or certainty did not, households continued to pay more for the basics. Conversely, and showing the premium people place on predictability, we saw some households during the study electing to take an overall reduction in income to move to a job with stable pay.

Many people suffering from volatile incomes and paying the volatility premium are also on low incomes and paying the poverty premium, but we also find that the volatility premium can extend the costs of the poverty premium up the income distribution and impact directly on those with higher incomes.

As these costs accumulate, households are at risk of falling behind. This can be very literal: falling into rent arrears or missing bills payments. Households struggle to find breathing space, as the timings of recurring expenses clash with salary and benefits payments. In the longer term, household fall behind their potential – where they would be if they had less volatility or better options for how to save, spend, borrow and build despite unpredictable incomes.

Our understanding of the impacts of income volatility centres people's own accounts of their hopes, aspirations and concerns for the future. In doing so, we aim to reflect how many of the choices people have today could be improved to strengthen households' confidence and sense of security that they can reach their financial and life ambitions. From freedom from worry about whether there's enough money in the right accounts to send the kids to school with a proper lunch, to retiring with dignity, Real Accounts households are clear on how they want to progress, and on the ways that volatility keeps them from doing so.

The pound and pence costs are only one part of the story.

For many households on irregular or unpredictable income, their money is always on their minds. And even if they aren't experiencing poverty, they are faced with the near constant sense of not having enough when they need. Behavioural economics has found that scarcity – when your resources aren't sufficient to meet your needs – impacts cognitive function and can make it difficult to look beyond the problem at hand or take in potentially useful new information. Many people use some form of mental accounting, for instance – assigning different meanings to money and keeping it separate, at least mentally and sometimes physically. In the past, people might have kept cash in different tins or envelopes – one for bills, one for groceries etc. Today, mental accounting is often done virtually through different online accounts or in apps like Monzo that offer different pots to hold your money. Mental accounting has been shown to help keep an overview of finances, but scarcity makes that so much harder. Faced with often low and volatile incomes, we saw many Real Accounts participants go beyond the regular or occasional accounting and instead feel pressured to constantly make decisions around their finances for fear of losing control.

What drives income volatility

In the context of a 'fluctuation nation' volatile pay is the norm, not the exception – even for those in steady jobs. According to research from the Resolution Foundation[1], four out of five low income earners in the UK have volatile pay, and so do two thirds of those on more moderate incomes. They found the average fall in monthly pay for an individual to be more than their typical monthly grocery bill: £250.

Volatility was the norm across the Real Accounts sample as well: all 51 Real Accounts households experienced some month to month income volatility during the study. Yet, their experiences differed and showed the range of drivers and factors that play into income volatility, including:

- the **type of work** someone undertook (e.g. zero-hours contracts, self-employment, changing shift patterns),
- **how frequently were being paid** (e.g. weekly pay, variable pay rates at different times),
- the **number of income sources** they combined to make a sufficient income (e.g. multiple jobs, side jobs),
- **life events** (e.g. job changes, time out of work, irregular support from separated parents, and the interaction of earnings and benefits),
- **overall income level** (e.g. those at the lower-income end experiencing sharper effects than those on a moderate income).

Much of Britain, from our bills to our welfare state, is built around a steady monthly pay cheque. But our research shows this is not the reality of working life for many of us. Around three in four workers experience big upward and downward changes in their monthly take-home pay. This volatility is a particular challenge for low paid workers, who are less likely to have savings to fall back on when their pay packets shrink, and yet are more likely to have big falls in monthly pay.

Daniel Tomlinson,
Research and Policy Analyst, Resolution Foundation – from 2023 press release

1 www.resolutionfoundation.org/publications/irregular-payments/

In Impact Brief 1 we developed seven profiles that show the range of experience and the many shapes income volatility can come in:

- **Treading water:** Low-income households with one steady, but insufficient source of income that they may complement with other, more volatile income (e.g. casual work). Stable, but at constant risk of falling.
- **A constant balancing act:** Households that combine multiple sources of income that mean they move back and forth between low – and middle-income and are constantly managing.
- **Out of sync:** Households with a stable source of income, yet with varying amounts due to pay pattern (e.g. weekly, 4/5 weekly) and sometimes varying overtime. Trying to solve the mismatch between income and expense timing.
- **Stable and steady:** Middle-income households that have a stable, regular sources of income. Experiencing occasional, small changes due to pay changes or tax adjustments.
- **An ideal journey:** Predominantly young, single households who are able to use volatility to their advantage, for example working overtime to save up for a specific goal.
- **Caught in a safety net:** Low-income households who primarily draw income from benefits and experience occasional, yet highly impactful volatility due to the system.
- **An unsure bet:** (Mature) students who are transitioning from the volatility of being a student (e.g. combining loans with irregular work) to trying to secure full-time employment.

Recognising the diversity of profiles and utilising the wider view into household income we were able to gain from access to open banking transaction data, we took a view not only of pay, but of household 'incomings' to explore volatility. To do this, we defined income as the sum of salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, and interest. In this way, we were able to assess the money households had available to cover expenses without having to draw on savings, rely on gifts or take out loans.

To understand how much volatility households experienced, we compared their month-to-month income to the average income they received throughout the study.[2] Across all of the Real Accounts households, we found that variation was 29% or £504.93 – very nearly what the ONS estimates it costs to keep the average household running for a week.[3] We also found that volatility not only had a greater impact on those on lower incomes, it was also more likely to affect them: while high-income households[4] in the sample experienced on average 16% variation, this went up to 23% for middle-income households[5] and to 35% for low-income households.[6] The wider the fluctuations in income a household experiences, the greater the adverse impact of the volatility premium on that household.

2 We calculated this volatility using two measures: 1) The standard deviation – variation of month to month income from mean monthly income – which gives us an amount of variation we can express in £. 2) The Coefficient of Variation – standard deviation divided by the mean – which allows a comparison across households. A CoV of 0 means that income was fully stable while a CoV of 1 means complete volatility.
3 Living Costs and Food Survey, Office of National Statistics, 2024
4 Net household income, equivalized by household size £45k+
5 Net household income, equivalized by household size £30 – 45k
6 Net household income, equivalized by household size under £30k

The impacts of irregular and unpredictable incomes

Households' transaction data and firsthand stories show that the impacts of volatility go beyond what is happening in individuals' bank accounts. They ripple out to the opportunities they might miss and the mental stress that comes with managing volatility.

And these impacts are not just experienced at the individual level – people rely on others within and beyond their households for support. This is an important part of the story, and explains how the impacts of income volatility extend to how people engage with their local communities and economy.

Households are paying more

Research on the **poverty premium** has shown clearly that poor households pay more – for example because they can't afford cheaper annual premiums and instead are forced to opt for more expensive monthly payments or can't set up direct debits and instead spend more on pay as you go. We observed this effect with Real Accounts households and saw how volatility further complicated the situation. A volatile income extended the poverty premium to middle-income households who might usually not be impacted by it and exacerbated it for low-income households who with more stable finances might have been able to plan ahead and mitigate it.

The latter was the case for Becky. As a single mother who makes ends meet through a combination of part-time work and Universal Credit (UC), Becky is one of the low-income participants in Real Accounts. But she has an intricate system of budgeting that usually allows her to plan ahead for larger expenses, such as a new school uniform for her child that she is able to save up for at the beginning of Real Accounts.

Yet, when her car insurance is up for renewal, she is just coming out of a particularly volatile period of her life: she had received a long-awaited, but last-minute offer from the council to move into a larger flat. The unplanned additional expenses and changes to her income had thrown her usual meticulous financial planning out of the window and she ended up in arrears and with no savings buffer for the insurance premium. As a result, **Becky pays ~£250 more** opting for monthly payments on her insurance rather than the annual premium.

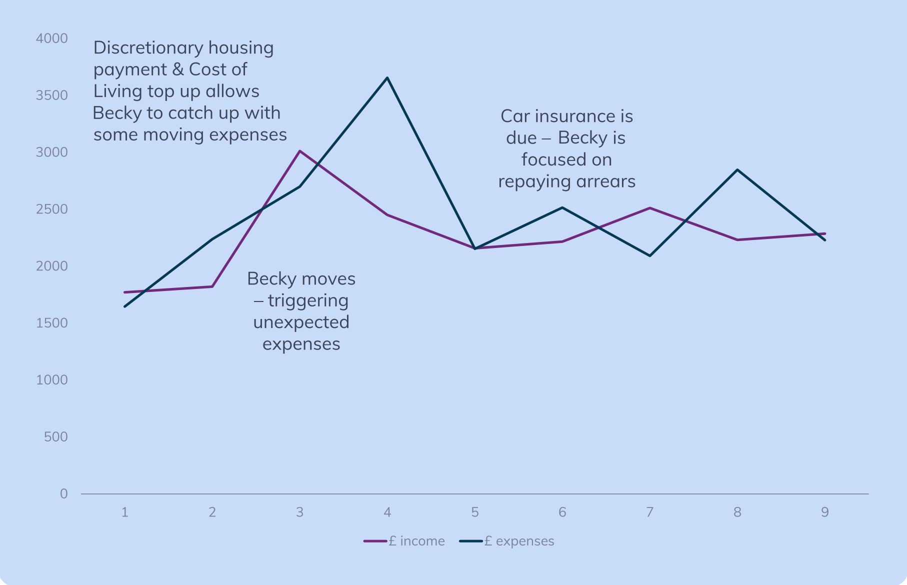
Real People

Becky

It's gone up to 95 something [from 44.99]. (...) You could get a cheaper price if you pay annually but I don't have £900 something to pay it up, so then you go with the option of instalments. But then what happens is, you tend to have to put down a larger deposit in order for the instalment to continue and the deposit at the moment is in the region of £190 to £250, so that's another chunk of money you would need to pay [...] So you're kind of in defeat.

Real Solutions

Becky's income* and expenses



*__Income includes:__ salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, interest

Volatility snapshot

Monthly net income*

£1,771.49 – 3,013.01

Income volatility:

- StDev: £371.95
- CoV: 0.16

Real Strategies

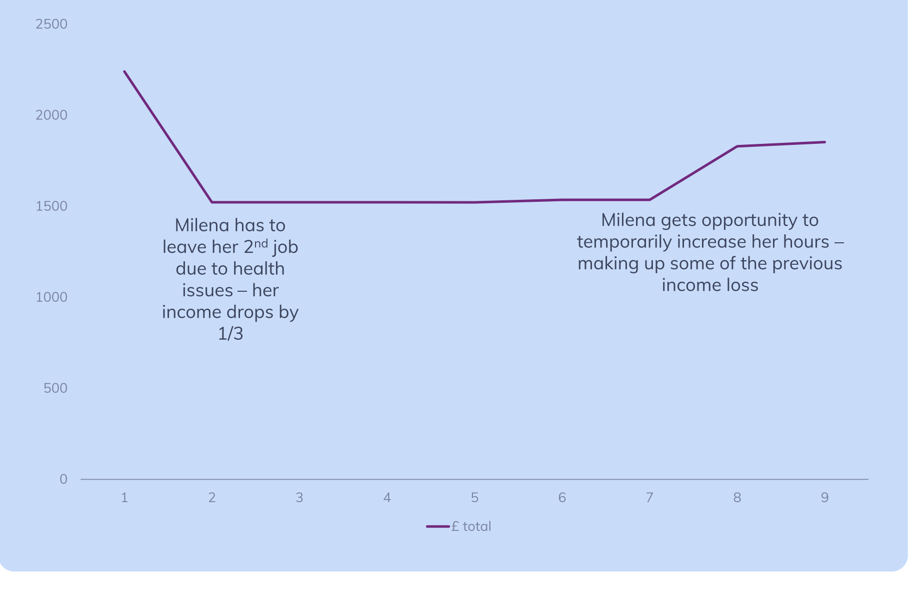
Households are missing out

Real Accounts households are tenacious and proactive in managing their finances, especially when those are volatile. In Impact Brief 2 we showed the custom strategies and tools they used – from borrowing and saving informally to developing intricate budgeting systems across multiple pots of money – to stay on top of their income and expenses.

But by using their own tools and strategies rather than being part of the system, they miss out on financial inclusion and benefits that come from more formal financial services. Saving informally doesn't provide interest for example or get you access to schemes such as Help to Save, and informal credit doesn't help build up a credit score or unlock access to loans for bigger costs and opportunities (e.g. a car that would help you get to a better job, or training that would improve earning potential in the future).

This is the case for Milena who has found a way of making savings work for her, but as a result misses out on accruing interest and the financial inclusion that comes with saving in a bank account (e.g. being able to demonstrate proof of funds). Melina experiences a sudden drop in income due to health issues which result in her drawing on her savings to cover shortcomings for several months. At the same time, her living situation is temporary and she needs to save up for a deposit for a flat. Melina finds it difficult to keep money set aside for a future deposit in her savings account where transferring money into her current account is quick and easy: "*Maybe it's too easy*". At the same time, Milena isn't comfortable fully locking away her savings as she needs the security that she can access if her income changes again. So instead, she starts overpaying on her energy bill and gradually builds up £500 in her energy account. She likes that the money is accessible if needed, but that this would require her to make a request with a processing time of up to two weeks.

Milena's income*



*__Income includes:__ salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, interest

Volatility snapshot

Monthly net income*

£1,521.99 – 2,241.27

Income volatility:

- StDev: £252.06
- CoV: 0.15

Other Real Accounts participants are missing out in a different way: by not being able to change their situation in the present and invest in their future. James for example juggles a highly volatile income from engaging in the arts with temporary admin roles – missing out on career progression in both as he can neither fully invest in one or the other.

Real People

James

[With the arts] It's not like you can climb a ladder. The money is sporadic. With the other job, who knows what will happen. If music isn't there, it might be full time.

And Thomas manages his volatile income – paid weekly and depending on the shifts he worked and overtime – by budgeting tightly, paying off different bills every week and splitting larger expenses across weeks. This is only made possible because his largest outgoings are to his flatmate who covers rent, council tax, and utilities and to his former partner for their children's expenses. Both are flexible and let Thomas pay in weekly rather than monthly instalments.

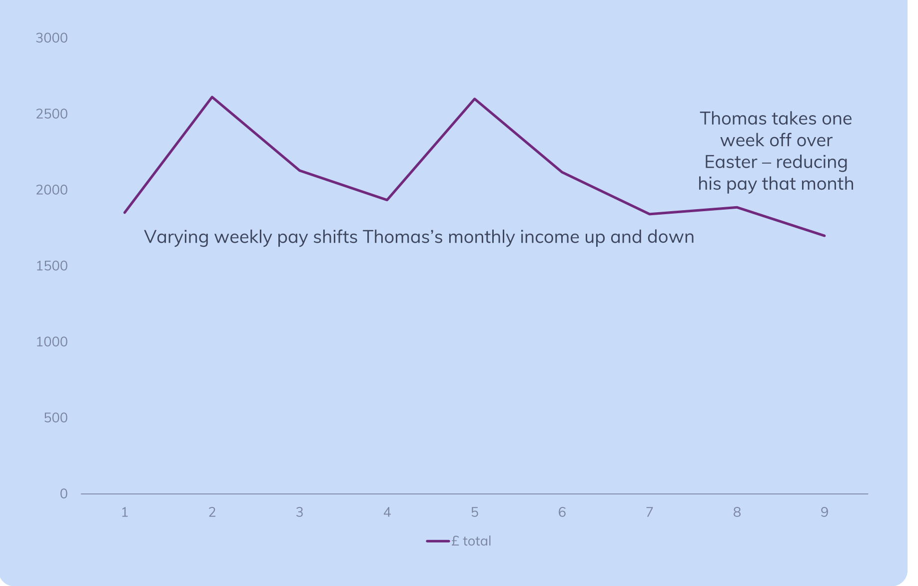
Thomas has found a way to work with his volatility, but it is a system that is sensitive to change and keeps him stuck where he is – living with a flatmate who can help buffer his pay irregularity.

Real People

Thomas

*I try to be sh*t-hot about my finances, I'm quite particular. Because I know, if I let it escape me, it will go out of control... I've had to be, out of necessity, because I didn't want to be... irresponsible, but because I've got things to pay and I wanna be that adult, especially for my children.*

Thomas's income*



Volatility snapshot

Monthly net income*

£1,699.72 – 2,613.18

Income volatility:

- StDev: £326.30
- CoV: 0.15

*__Income includes:__ salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, interest

Households are wearing out

Volatility is not only expensive in money terms. Managing it is also tiring. Real Accounts stories showed the mental load, stress and anxiety that came with the uncertainty of irregular income and the constant efforts to try to match up expenses with income. Those with volatility shoulder the mental burden of managing on their own, tracking expenses and income in a way that works for them.

I do kind of have a budgeting technique in that in my calendar every month I kinda put down when things are gonna come out, say [pointing to her calendar] Microsoft subscription there, and my internet provider and there my energy bill. Every month I put down what's due to come out.

Frankie,
4-weekly pay

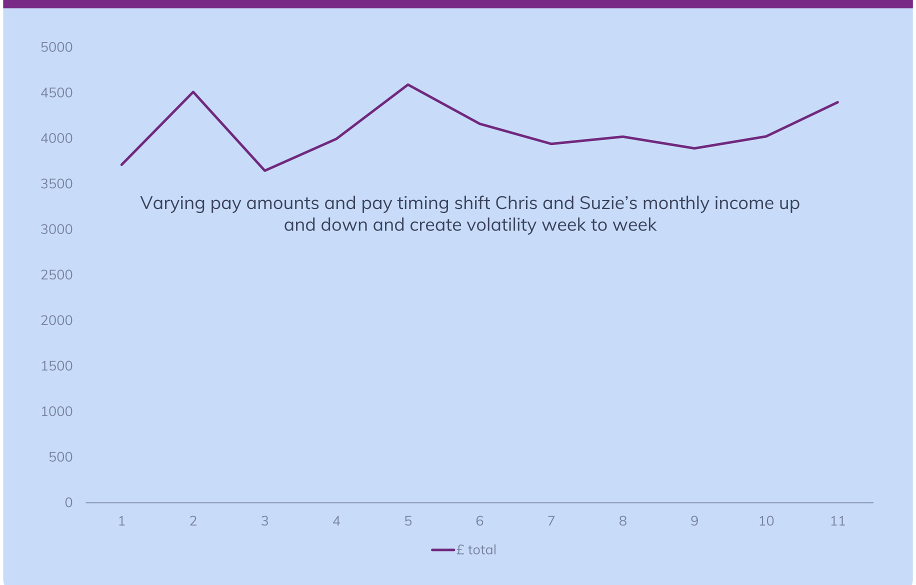
Managing volatility is a daily grind. We recorded this conversation between Chris and Suzie for example, a couple with young children whose income is made up of a variety of sources that all come at different times with slightly different amounts. They are discussing what should be a simple task – where to do their weekly grocery shop. Yet, on a tight budget and with income at irregular times and not in sync with the timing of their expenses, this seemingly simple task is actually anything but. Instead, it takes significant mental bandwidth and sometimes means Chris and Suzie pay more:

Suzie: *This is ridiculous, but it gets like this. I would normally say, right, I would have a food shop prepped and booked to arrive Friday. But to save the best money, Asda, which has the best deals, they pre-authorise the payment the day before. [If I go shopping in person] I can never keep to budget because I have my youngest son with me, so it's a nightmare trying to juggle everything with the calculator, or go to Tesco and do the scan and shop which will cost more, or leave it another day and get an Asda shop for Saturday.*

Chris: *Morrisons are the worst as they do it [pre-authorise the card] two days before.*

Suzie: *Yeh two days before. So even if I know the money's going to be in my account by Friday, I've got to wait another day to actually have the shop [but we need the food on Friday].*

Chris and Suzie's income*



Volatility snapshot

Monthly net income*

£3,647.26 – 4,592.24

Income volatility:

- StDev: £307.78
- CoV: 0.08

***Income includes:** salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, interest

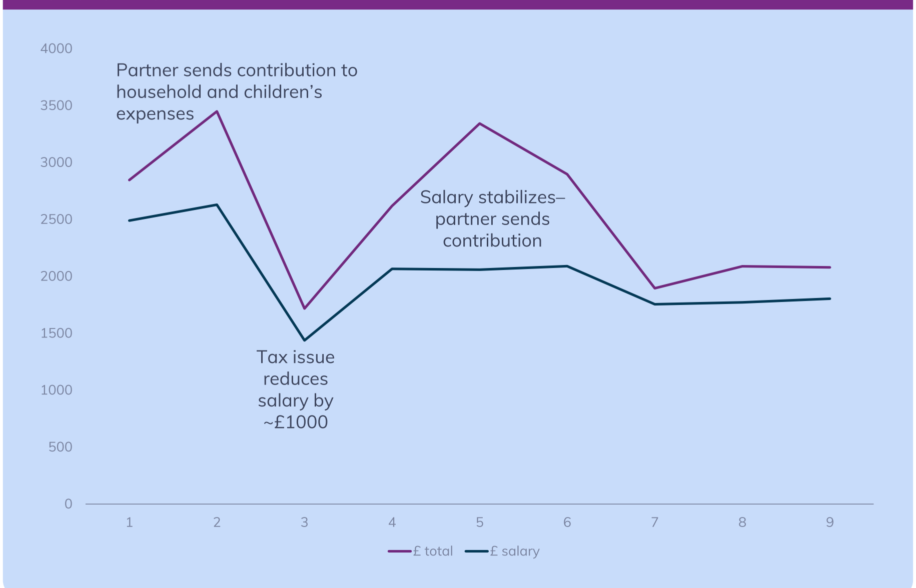
And sometimes, as for Laura, volatility tips an already tense situation over the edge – with not only financial, but also mental and emotional consequences. A recent immigrant to the UK and a single mother, Laura works two jobs to provide for her family: a full-time position in an office during the week and additional hours in the care sector on evenings and weekends. While her salary is usually steady, the support Laura receives from her children's father is irregular and introduces significant volatility in her household income.

Laura's already walking on a tightrope when her employer makes a tax error which results in a sudden drop in income of almost £1000 as additional taxes owed are deducted from her salary without any warning. She struggles to afford rent that month and ends up having to cancel one of her children's birthday parties and take on additional debt to make ends meet. Luckily, a family member offers to host Christmas so that Laura and her children don't have to completely miss out on the festivities, but the stress of this sudden shock has lasting impacts on Laura.

"I was already under a lot of pressure because I needed to pay my rent (...) and I had to start looking for how I was going to pay for it. (...) I couldn't even sleep at night. Worried about the new month, I don't even know how I'm going to cope (...) I've just been thinking what else can I do to be able to make up. Maybe speak to the landlord. (...) I don't know, I'm just so confused, thinking all night, praying, crying.."

While her salary goes up again, the tax issue takes months to be fully sorted out and even four months later, Laura is still unsure if her salary has now stabilized or will further change. Her mental health continues to be affected: ***"I'm getting depressed about my financial status."***

Laura's income*



*__Income includes:__ salary, benefits, pension, self-employment and other payments such as child payments from separated parents, sales, rewards, interest

Volatility snapshot

Monthly net income*

£1,718.33 – 3,450.22

Income volatility:

- StDev: £633.23
- CoV: 0.25

Real Solutions

Households are falling behind

Taken together, these impacts mean that households on volatile incomes are falling behind.

While Real Accounts households have worked hard to develop strategies for short-term resilience and security, we found that the success of those strategies was not guaranteed. A small increase in a recurring expense, an unforeseen cost, a family member deciding they need their spare room back, or the end of a relationship can derail people's progress and test their resilience beyond what their current coping strategies can manage. No one's plans are entirely future-proof, but a volatile income makes it harder to find an approach to managing in the present that will also work in the future.

Their potential to build their savings, to pursue personal and professional goals, progress financially and prepare for later life are all hindered by the impacts of volatility. This is the ultimate premium households pay – falling short of where they could be, if the systems around them offered more flexibility to manage irregular or fluctuating incomes.

Addressing the different elements of the volatility premium

There is no single solution that will resolve all of the challenges households face when managing volatile incomes. As we have seen throughout the Real Accounts programme, people experience the impacts of volatility across multiple dimensions of their financial and personal lives. Addressing the impacts of irregular incomes requires layering of different types of interventions and giving households access to a well-stocked toolbox of options for how to save, spend, borrow and plan.

Opportunities for action across the system

There are opportunities for public policy, employer and finance industry stakeholders to reduce the impacts of income volatility.

Having millions of people in the UK on volatile incomes at risk of falling behind their potential erodes the potential wins to be found in a policy environment intended to drive economic growth. **There are opportunities for Government to:**

Develop a more comprehensive understanding of people's approaches to saving. At the moment, much focus is rightfully placed on, for example, the number of people who do not have £100 in savings. We have seen that households on volatile incomes devise many different ways of building, using and replenishing their savings. For many, this is happening outside of the traditional savings accounts and in shorter intervals than might be traditionally advised – daily or weekly, instead of monthly. The short-interval approach we saw among many Real Accounts households indicates that people who might not be considered regular savers, actually use their savings as playing a key role in their day-today-money management.

Ensure inclusivity of policy design. An example of this would be to explore how adding flexibility to interventions such as the Help to Save Scheme might make them more accessible to households on volatile incomes. The Help to Save scheme allows eligible people entitled to Working Tax Credit or Universal Credit to save between £1 and £50 each calendar month, receiving a bonus of 50p for every £1 they save over four years. At the time of writing, the Help to Save scheme has been recently updated to extend eligibility, diversify its delivery and increase the options to help participants save. The scheme's benefits could be further amplified making the savings boost more accessible to households on variable pay who might not be able to save one month, but could for example save £100 the next (which would exceed the current £50 monthly pay-in limit).

Champion specific protections for households on volatile incomes. Whether they are on high or low incomes, households with irregular or unpredictable pay shop for deals, and make significant efforts to manage what they spend. They need to find in policymakers and regulators strong advocates for their needs as consumers. This can build on the work to protect low-income households interests in essential markets, by including volatile income in the understanding of the factors that make households vulnerable.

As we've covered here and in our previous impact briefs, volatility impacts all kinds of people, not only self-employed people or those running their own business. This means that there's an important role for employers to play in addressing how much their employees' incomes dip and spike, and the tools available to them to manage. **There are opportunities for employers to:**

Work with employees to reduce income volatility at its sources. Real Accounts households valued the range of financial wellbeing tools that employers can offer. They had a clear view of how these tools could improve their resilience, and a sophisticated sense of 'good' and 'bad' use cases. These included initiatives that address the root driver of volatility (fewer zero hours and insecure contract types, flexible pay frequency), and those that give people options to smooth income and expense on their own (salary advance schemes, workplace loans, emergency and sidecar savings). We have explored the potential positive financial wellbeing, retention, attraction and productivity impacts of some of these offers in previous research.[7] And there is a growing evidence base on the benefits of building systems that support or automate behaviours that people often want to do but struggle to act on.[8] In addition to being good for people's finances, these types of interventions support people's emotional wellbeing.

7 www.nestinsight.org.uk/bridging-financial-gaps-for-workers/
8 **www.nestinsight.org.uk/wp-content/uploads/2024/05/Smarter-Payday.pdf, https://www.nestinsight.org.uk/wp-content/uploads/2023/09/Opt-out-autosave-at-work.pdf**

Offer opt-out workplace savings schemes. We have seen in Real Accounts that households on volatile incomes need ways to save that are easy, empowering and can build on their existing savings behaviours. Evidence from Nest Insight's research and trials shows that interventions to support building accessible savings through the workplace is not only effective but also highly inclusive in bringing those into savings who were least likely to have savings before. Having savings put away each pay period, or being able to cover an emergency cost from their own wages can give people a sense of security and control, and regard themselves as people who have agency over the direction of their financial lives.

Commit to ongoing employer contributions to pensions. Real Accounts households have demonstrated the financial and mental pressures faced by those on variable pay, especially when they are on a low income. Recent research modelling the trade-offs and long-term outcomes for households at different contribution rates suggests that some households would ultimately be better off if they could pause their contributions at the moment, and stabilise their living standards and wellbeing during their working life. These households would benefit if they could still receive an employer contribution even while they are not contributing. Decoupling employer contributions from employee contributions or offering temporary employee contribution breaks would give households struggling with volatility security for the future while they manage the impacts of irregular pay in the present.

Organisations across the finance industry can cater to the millions of households across the UK on volatile incomes. These households are looking for well-designed tools, services and resources that relieve the pressures that dominate their mental energy day-to-day, and that support them to prepare for life's bigger events and their long-term financial wellbeing. **There are opportunities for the finance industry to:**

Empower people with more timely information about their borrowing. Households told us that they would value tools that give them more notice when they are approaching their spending and borrowing limits. This could build on the technology already being used to assess creditworthiness and other finance checks, and would support people to make more informed decisions.

Real People

Jeffrey

Having weekly pay is so liberating. It's brilliant! You're almost never caught short. The only thing you've got to do is keep on top of the big ones that come, like rent, I always used to pay it weekly, so I'd go online and rather than pay by direct debit I'd do it myself. Things like the phone bill, broadband and all that, they would hit you on week four, so you'd have to factor in that in week four you'd have less money. Having weekly pay was a godsend...

Improve the available market of flexible credit options. Having access to credit options that match their need for flexibility and affordability would also help people manage their spending and make more informed choices about when and how to use formal credit. There is an opportunity to further develop and integrate the needs and preferences of people on volatile pay into the development of savings, credit, insurance and investment products for vulnerable customers and set them on a journey to becoming valued customers who are able to manage better. Getting things right for today's 'vulnerable customers' can be seen as investment in those customers' financial progression. The work of building a market of flexible solutions has business implications – external resourcing is required to make products commercially viable and sustainable. For example, No Interest Loans schemes in the UK and Australia used the support of Treasury, large lenders, and funders and regulators across government to pilot (and in the case of Australia, scale up) no interest loans to people are declined for credit, either due to affordability or lending criteria.

Consider how to improve the effectiveness of households' informal strategies. Although Real Accounts households held mixed views about whether the informal should be made formal, our discussions with them highlighted the opportunity to better understand the roles that communal and informal savings and credit mechanisms play in supporting their financial – and often emotional – wellbeing.

What we heard from households: co-creating credit products

In the final months of the study, in collaboration with our partners at Fair4All Finance, we held a series of co-creation groups with Real Accounts households. The aim of these groups was to explore two key themes:

- How would you design a fixed-term loan that works for you?
- How would you design a Buy Now, Pay Later (BNPL) loan that works for you?

As experts on their own experience, households shared their views with us, and reacted to several product propositions. Their key messages to us were:

1. **The most responsible way to provide credit is to enable savings as part of proposition**
    - Savings opportunities lower the ‘risk of downward spiral’ or over reliance
    - People sometimes use overpayment to lower debt or keep in savings to not spend ‘in a good month’ and thus keep on track
    - In BNPL, people would like the opportunity to increase their down payments to lower their credit need
    - People liked the idea to contribute monthly in a membership model if their credit need could be flexed
    - For some people, the main consideration was less about returns, but having the feeling of being in control and having access to a trusted provider who is there to support you for the longer term
2. **As a provider, transparency means providing more detail, earlier than you think people might want it**
    - Ahead of application, participants would want to see more breakdown on the cost of credit, how it might compare to other product options – especially in visual table format
    - People wanted more clarity on what happens in the life of the loan if they can’t repay, payment holiday options, changing term length, for example
    - Better explanations of key terms such as ‘open banking’ and ‘soft and hard credit checks’ with better language is likely to reduce alienation – as soft credit check feels less like a ’quote’ and aimed at ‘bad score customers’
3. **Check-ins and reassurance most popular**
    - Many participants would prefer not to see automatic increases in credit limits where these have not been requested – they would prefer this to be more of a dialogue where they are made aware of the option (e.g. because their credit score has improved) but given the option whether to take it up
    - Participants felt that it could be beneficial to have the option to pause for a moment when engaging with online processes, even within a transaction. This would give them space to think options through, and whether they are making the best choice in light of their circumstance and income
    - Check-ins could potentially be a knowledge resource, but participants felt they would be more likely to use them as for accountability and as a sounding board
    - Check-ins could also act as a stepping stone before formal debt support where people want to self-serve and have credit as part of their options
    - Participants felt that just knowing that there’s a number to call made a provider feel more trustworthy
    - Chatbots were seen as a relevant starting point, if they are easy to use

4. Timeliness of an intervention is crucial

- Having the ability to pause within a transaction or decision is much more helpful for understanding the related educational information that providers offer than having standalone information
- Life events were referenced by all as changing points in their interaction with money and receptiveness to products and information. People wanted tailored interactions when starting new jobs, getting married/moving in with people or welcoming children into their family as this is when they are open to change

5. Moments of impulse purchases require the most help

- Many participants felt that confident in their day-to-day budgeting skills, but less confident in their ability to manage 'treats' or 'rewards'. All participants recognized that these are often well-deserved (especially for children) and planning for them should be part of how they manage their funds. When unplanned, these were seen as risks that might take households off track
- Related to the ask on check-ins and reassurance – participants welcomed advice or discussion on how to manage impulse purchases, particularly to discuss how they could think through the trade-off of purchase today and foregone items in future
- Some felt that a form of 'comfort credit' – small lines of credit specifically for non-essential purchases – could be part of the answer, but they felt this would work best with guardrails to prevent 'opening the floodgates' to more debt or unplanned spending, or prevent access in emergencies

6. Using the strategy of leaving items in baskets to regulate impulse purchases

- Among participants, many used a common trick self-regulate impulse purchases – leaving items in a basket for a week to see if they still wanted or needed the purchase or could go without
- Participants were interested in solutions that would allow them to keep stock of all their 'wanted' items, tracking the total cost of the basket, identifying any price reductions, and giving them the time to prioritise items in the basket in a non-pressurised environment
- Participants wanted retailers to signpost to available resources – especially local charities or organisations providing grant support for school and home furnishings

7. Cashback welcomed but not seen as a differentiator

- Participants felt that many companies offer cashback, and sometimes the hassle isn't worth the benefit
- Cashback was seen as the most valuable when it is flexible (e.g. users have a choice of retailer) and easy to use (e.g. part of payment account)
- A cashback option is unlikely to encourage additional spending

8. Although different household have different needs, they agree about some things that would be helpful

- There was consensus among households that time should be spent for people to set up their own preferences on customer journeys enabling the guardrails which work for them: Limits for a particular merchant, using BNPL only for larger items, warnings within a transaction, number of loans at a time, invoice based loans, etc.
- Many participants liked the idea of receiving personalised recommendations based on customer data
- Participants welcomed more friction, especially if they were given the power to set the level of friction according to their own preferences

Towards better outcomes for households on volatile incomes

An integrated landscape of solutions for households on irregular and unpredictable incomes would lead to a set of outcomes that diminish the presence and impacts of volatility.

1. People would have an increased capacity to save

As discussed in a previous Real Accounts impact briefs, many people on volatile pay have 'latent' savings intentions or self-customised savings approaches, but don't always feel that there's a way to save that works for them. In attempting to build up their savings, they sometimes experience either too much or not enough friction, and the options available to them don't always offer the right amount of flexibility. Trust in individuals and institutions also plays an important role in our households' savings decisions. Credit union savings models speak to many of these concerns, and there is strong evidence of their role in building financial inclusion.

Real People

Fred

Saving is something that I've wanted to do in my head, but the minute it comes to putting it into practise it falls by the wayside, sadly... it's something I genuinely wish I could do sometimes. There's nothing worse than when something side swipes you and you get hit with a massive debt and you haven't got a penny saved.

2. Communities would be better able to support each other

Many Real Accounts households felt pride in being able to provide help to others, and held deep trust in the reciprocal support networks that helped them save or borrow. Transaction data for some households also reflected the key roles these arrangements play in keeping households afloat when pay is particularly unpredictable. There is an opportunity to make these informal systems safer and more effective for all involved, and to move from day-to-day survival to longer term resilience.

Real People

Simone

I think they understand where I'm coming from, 'cause they're struggling themselves. I dunno, I think it's just 'cause we understand each other.

Real People

Frankie

We all get paid at different times, so I get paid every four weeks. My friend Julie and my friend Sam work for the same company; they get paid on the same date at the end of every month. And our friend Louisa, she only works part-time. She has children and stuff and gets money at different stages throughout the month, so there's always someone who's got a bit of money [to lend each other].

3. People would be more in control over how much they spend, how and when

The financial element of the volatility premium means that even people who aren't experiencing poverty can end up paying more. This is driven by how they pay for things (cash, transfers, online transactions, etc.), and when they pay for things (upfront, instalments, on receipt of bills, etc.). Fair By Design estimate that it costs people on low incomes an extra £202 to pay for their energy on receipt of bills, and an £103 to pay for their car insurance by monthly payments rather than an up-front annual lump sum.[9] Many households on unpredictable (but not always low) incomes also pay this premium because the systems for accessing these essentials do not routinely offer them flexible payment options, or charge them extra for the flexibility they need. Some Real Accounts households were aware that they were overspending on their utilities and insurance, and would be empowered to take control of how much they spend if suppliers and providers offered more flexible payment options.

4. People would be freed up to set their sights on further horizons

The 'present bias' that comes with having your money on your mind all the time requires people to be constantly making the calculus of whether the financial decisions they're making in this moment are not only optimal for now but will stand them in good stead in the next week, month, year and beyond. It's exhausting, and requires a level of foresight that most households on variable incomes don't have. This is a significant ask of people already engaged in often complicated strategies, and already coping with a high volume of financial decisions. Addressing the impacts of volatility would allow people to shift away from making decisions and planning their financial lives in a context of scarcity and stress.

9 https://fairbydesign.com/wp-content/uploads/Fair-By-Design-Payments-and-the-Poverty-Premium.pdf

5. People would feel confident to engage with the systems that will build their financial security

Most of the households we spoke to scored very well on the financial literacy assessment we gave them. The short test had questions about interest, inflation and investing. People understood the concepts and the maths that sits behind them, but tended to feel that these topics had little bearing on their day to day lives.

The system might feel more like it's made for you if it understands you better – particularly if it reflects an understanding of how variable pay impacts real lives, from how much information you need, and how you're making decisions, and what kind of flexibility you need.

Real People

Frankie

Someone who earns what I earn, like £25,000 a year, I don't think many people with my salary would think about buying stocks.

6. People would have peace of mind

Making decisions under stress and in a context of scarcity, and experiencing constant cycles of adjustment wears down people's sense of security. Income volatility has become an enduring feature in our modern labour market. However, the vulnerabilities created by the volatility premium don't have to be an ongoing source of anxiety and loss in the people's lives.

Real People

Chris and Suzie

We were some of the families that have fallen through the gaps... You can't see the wood for the trees, nothing can change while we're in this cycle...

What we've learnt from Real Accounts households is the need for more tailored solutions that offer financial stability in a world where fluctuation is increasingly the norm. We've written about the ingenuity, attentiveness and tenacity with which households manage the dips and spikes in their incomes within a system that works best for those on stable pay. In the absence of solutions that feel likely they were made for them, people construct their own. Their experiences make the case for more work to be done to ensure financial inclusion for households on irregular incomes, with solutions that work especially for those on low pay.

Find out more about the
Real Accounts programme at
nestinsight.org.uk/research-projects/real-accounts

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To find out more, visit:
nestinsight.org.uk

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