

Yorkshire Building Society

The Protection Gap:
How the UK is Living on the Edge

July 2008

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Executive Summary

Many people in the UK are living on the edge in terms of being able to cope financially should they be unable to work. The majority (90%) have no personal income protection and yet should they be unable to work, over two thirds (68%) either do not know how they would survive or have unrealistic expectations of how they would continue to meet their daily expenditures.

Many cannot fall back on rainy day savings either. Over a third (36%) of people in the UK have less than £500 in accessible savings. The average savings held in the UK are £2,474 and with average monthly outgoings (essential and luxury expenditure plus debt repayments) totalling £1,445, these savings would only last for a total of 52 days.

Only a minority have employer benefits – only 37% of employees have long term sickness cover to rely on. Half (50%) of employed people in the UK have no form of income protection from their employers should they be unable to work. Only 10% of self employed people have income protection.

Protecting our income is often thought of as an unnecessary expense, only 10% of people have income protection and 17% have critical illness insurance. Yet, it has never been more important to consider what you would do if your regular income ceased.

In 2008, several major factors have made protecting income of utmost importance:

- Outgoings are rising – inflation currently stands at 3.8%¹ with the rising cost of foods, utilities and oil set to push it higher still by the end of the year. To meet these increasing costs many people and households are holding down several jobs just to make ends meet: many people's finances are very finely balanced
- If trouble hits, there is no "emergency bail out" as houses won't sell (or let) quickly and may be in negative equity – house prices are falling at their fastest rate in ten years and the number of house sales is down 37% on the same period last year²
- Welfare reform – we will see state benefits become even more complex from October 2008, plus they do not even cover essential household expenditure at an average £75.40 per week

¹ Consumer Price Index, June 2008

² HM Revenue & Customs, June 2008

- Increasing numbers of people are self-employed – which means they have no protection in place from an employer. There are currently 3,863,000 self employed people in the UK, 13% of the total workforce.³

This report from Yorkshire Building Society provides an up to the minute picture of who in the UK is 'living on the edge' and the associated implications.

* Unless otherwise stated all research was conducted amongst a UK representative sample of 2,001 adults by Opinion Matters in June 2008 on behalf of Yorkshire Building Society

³ ONS, 2008

1. Living on the edge: the average person's savings will last 52 days

To obtain an exact picture of how 'on an edge' people in the UK are, Yorkshire Building Society has obtained information about people's average monthly essential outgoings (food, accommodation and utilities), luxury expenditure (clothes, grooming and socialising) and debt repayments. We have compared this to their average accessible savings to understand for how long they could meet their expenditure on savings alone.

The research has found that the average UK citizen could survive on their savings alone for 52 days.

Key findings:

- Women are much more exposed than men (Men – 63 days, Women – 46 days)
- The age groups worst off are 35-44 year olds – able to survive for just 39 days
- The East of England and Northern Ireland are the regions with most people living on the edge – able to survive for 44 days
- Divorcees are most exposed – with just 35 days until they are unable to afford their outgoings

However, a shocking 36% of people in the UK have less than £500 in accessible savings in case of an emergency and could survive for just 11 days.

Figure 1: Those most and least exposed by the savings gap

	Most exposed	No. days
1	Divorced	35
2	Employed PT	37
3	35-44	39
4	16-24	41
5	East	44
6	N. Ireland	44
7	Co-habit	46
8	Midlands	46
9	Women	46
10	Yorkshire	46

	Least exposed	No. days
1	Widowed	120
2	55+	97
3	Wales	91
4	Self-employed FT	64
5	Men	63
6	Married	55
7	Single	55
8	South East	52
9	North West	52
10	Self Employed PT	51

£0-500 in accessible savings: those living on the edge

Gender

Almost two fifths (39%) of women have no financial back up should they be unable to work, holding less than £500 in savings. Whilst more men have savings, there are still 29% who do not even meet the £500 mark.

Age

A large proportion of people aged under 44 have less than £500 in savings to fall back on. Those aged 16-24 are most likely to have little in a savings pot (45%), followed by the 25-34 year olds (42%) and then 35-44 year olds (40%).

Marital Status

Divorcees are most exposed, 44% hold less than £500 in a rainy day fund, followed by singletons (40%) and those who are co-habiting (40%).

Region

Almost half of all people in the North East of England (48%) have less than £500 in savings to survive on should they be unable to work. Other regions with a high proportion of people 'living on the edge' include Yorkshire (44%), the South West (42%) and Scotland (41%).

Figure 2: Regions with less than £500 in savings

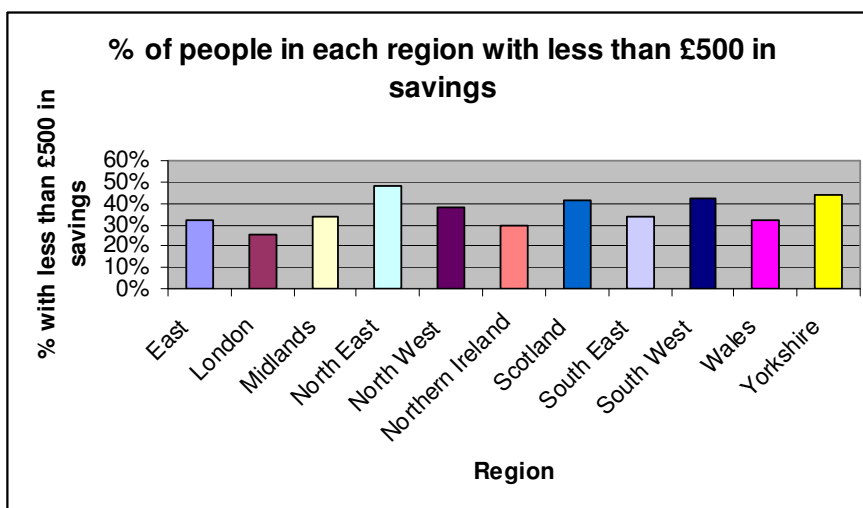


Figure 3: Exposure by gender

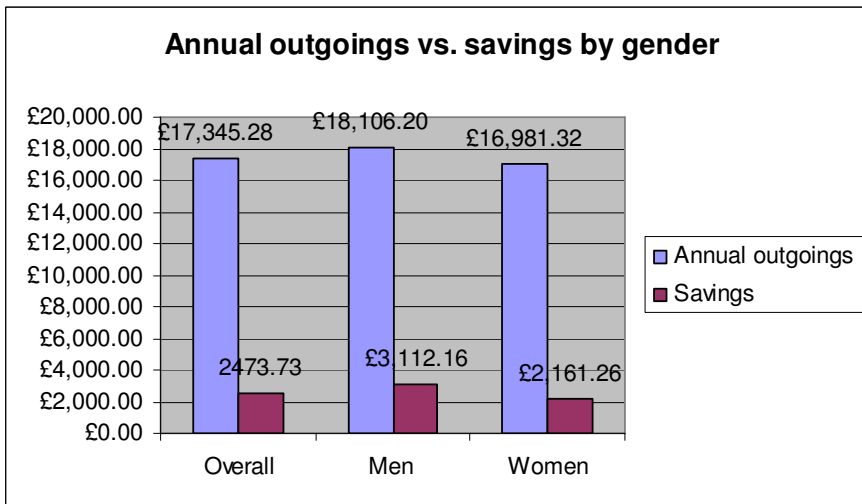


Figure 4: Number of days of survival on savings by age group

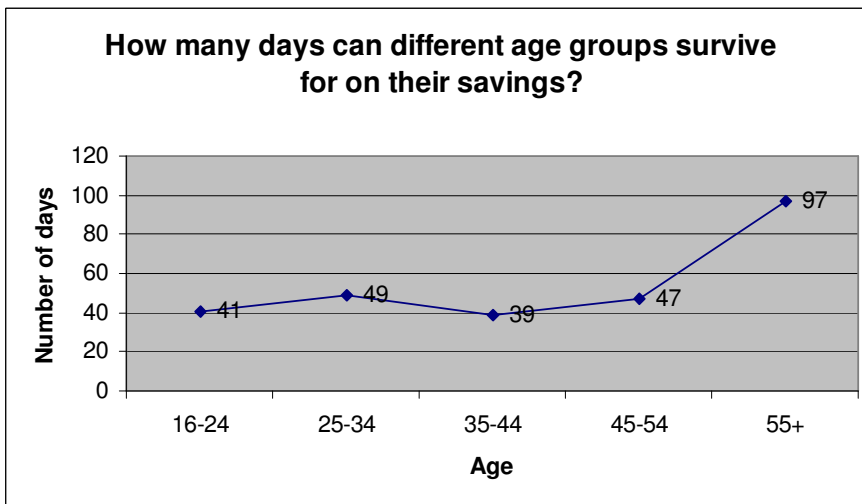


Figure 5: Demographic groups with less than £500 in savings

Group	% with savings under £500
North East	48%
16-24	45%
Yorkshire	44%
Divorced	44%
25-34	42%
South West	42%
Scotland	41%
35-44	40%
Single	40%
Co-habiting	40%
Women	39%
North West	38%
45-54	34%
45-54	34%
Midlands	34%
South East	34%
East	32%
Wales	32%
Married	32%
Northern Ireland	30%
Men	29%
London	25%
55+	21%
Widowed	21%
UK	36%

Figure 6: Number of days different demographic groups could survive on their savings

	Average monthly outgoings	Average accessible savings	No. days survive
Divorced	£1,236.81	£1,420.19	35
Employed PT	£1,458.42	£1,786.50	37
35-44	£1,498.05	£1,908.42	39
16-24	£1,408.42	£1,897.52	41
East	£1,626.04	£2,357.99	44
N. Ireland	£1,370.99	£1,979.38	44
Women	£1,415.11	£2,161.26	46
Midlands	£1,710.16	£2,591.69	46
Yorkshire	£1,288.73	£1,945.44	46
Co-habit	£1,529.06	£2,310.61	46
45-54	£1,523.32	£2,352.47	47
25-34	£1,460.19	£2,370.43	49
Scotland	£1,354.40	£2,181.00	49
Employed FT	£1,599.70	£2,593.12	49
North East	£1,304.11	£2,147.23	50
South West	£1,391.32	£2,282.40	50
London	£1,748.64	£2,914.77	51
Self employed PT	£1,564.63	£2,625.25	51
Overall	£1,445.44	£2,473.73	52
North West	£1,330.72	£2,282.17	52
South East	£1,571.73	£2,701.83	52
Single	£1,118.01	£2,010.85	55
Married	£1,597.08	£2,863.65	55
Men	£1,508.85	£3,112.16	63
Self employed FT	£1,788.38	£3,764.61	64
Wales	£1,178.82	£3,507.66	91
55+	£1,279.80	£4,079.08	97
Widowed	£871.39	£3,428.83	120

2. Living on the edge: unrealistic expectations of how they would cope

The majority of people (68%) have unrealistic expectations of how they would cope financially should they be unable to work.

One in five (21%) do not know how they would cope, a further one in five (19%) would rely on state benefit which are inadequate (see below), 16% would rely on their savings which as shown in section 1 will not last very long, 7% rely on their employers, which we will see in section 3 they may not be able to, and 5% would rely on selling their house, which may not be a feasible option in the current economic climate.

How would you manage financially if unable to work?

- Don't know – 21%
- State benefits – 19%
- Savings – 16%
- Partner – 16%
- Employer cover – 7%
- Family – 6%
- Sell my house – 5%
- Personal protection products – 4%

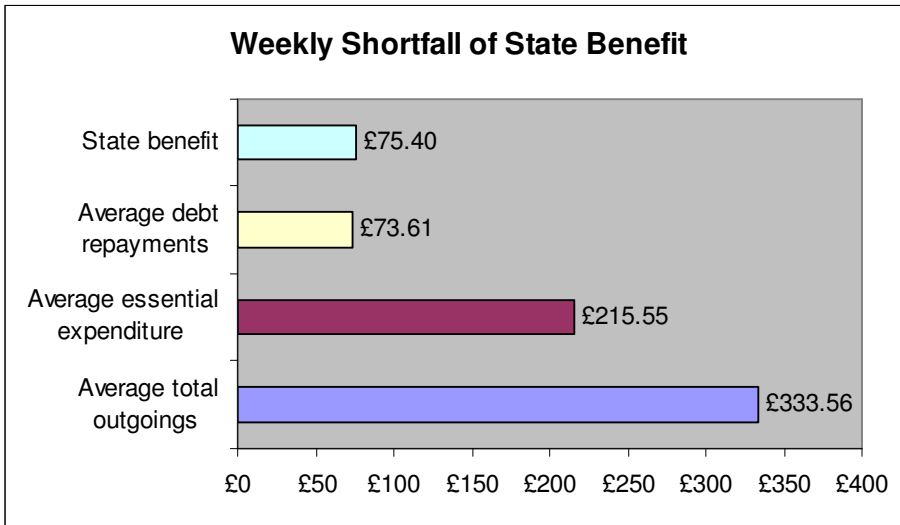
How state benefits don't bridge the gap

The average weekly outgoings of people in the UK including essential, luxury and debt expenditure is £333.56. State benefit payments are £75.40 per week. If a person unable to work wanted to maintain their current lifestyle they would have a weekly shortfall of £258.16 or 77%.

If we take out the luxuries and debt repayments and look at just average total weekly essential expenditure, so spending on just food, accommodation and utilities, this is £215.55. With state benefit only this is still a shortfall of £140.15 or 65%.

Average total debt expenditure is £73.61 – this alone is all that the weekly state benefit would cover, with just small change left over.

Figure 7: State benefit vs. average expenditure



3. Living on the edge: most people can't rely on employer benefits

There are 25,450,000 people employed in the UK, of which only 50% have any form of protection benefit. Of the other half of the UK workforce:

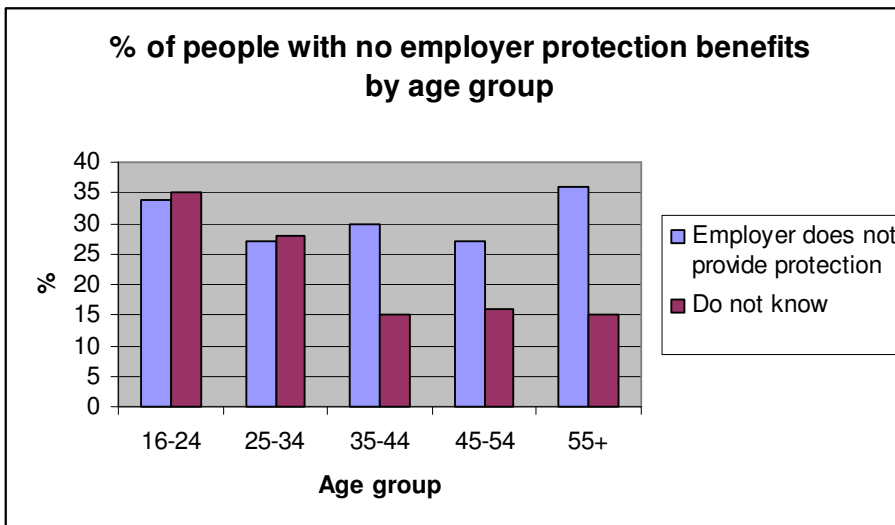
- 30% do not have any cover at all from their employers
- 20% do not know whether they have employer benefits

Of the 50% that do have cover from their employer that they are aware of:

- 40% have Death in Service cover
- 37% have Long Term Sickness benefit
- 15% have Incapacity benefits

42% of people do not know how long their employer would continue to pay them for if they were unable to work due to sickness.

Figure 8: Age groups with no employer protection



4. Living on the edge: most people have no protection insurance

Almost half of respondents have protection in place in the event of their death, to ensure that their families are taken care of; however this still leaves half who have not considered the implications of this eventuality.

Worryingly only 10% have income protection – this means that for the vast majority, should they be unable to work or otherwise have a loss of income, their family finances would greatly suffer. It seems for most it is actually better to die than to survive.

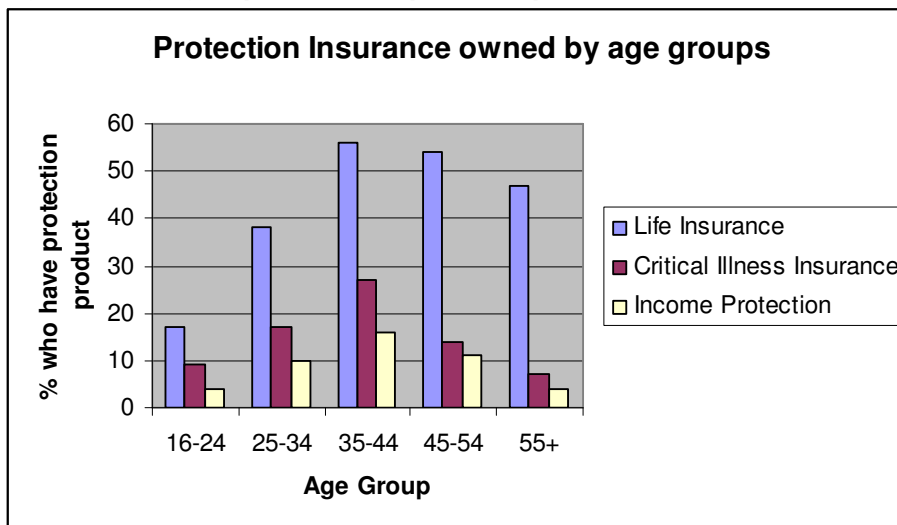
Protection Insurance held by respondents:

- 47% have life insurance
- 17% have critical illness cover
- 10% have income protection

Of those who have cover – a quarter (25%) do not know how much they are covered for.

Those who have been identified as most at risk in section 1 – those aged between 35 and 44, who could only survive on their savings for 39 days, are also those who are also most likely to take out protection insurance. However, the numbers are still grossly inadequate. Whilst half (56%) have life insurance, just a quarter have critical illness insurance (27%) and just 16% income protection.

Figure 9: Age groups who own personal protection insurances



People who are married are twice as likely to take out a Critical Illness policy as those who are single (20% vs. 10%). However this still leaves 80% without any protection for their partner should they be unable to work due to illness.

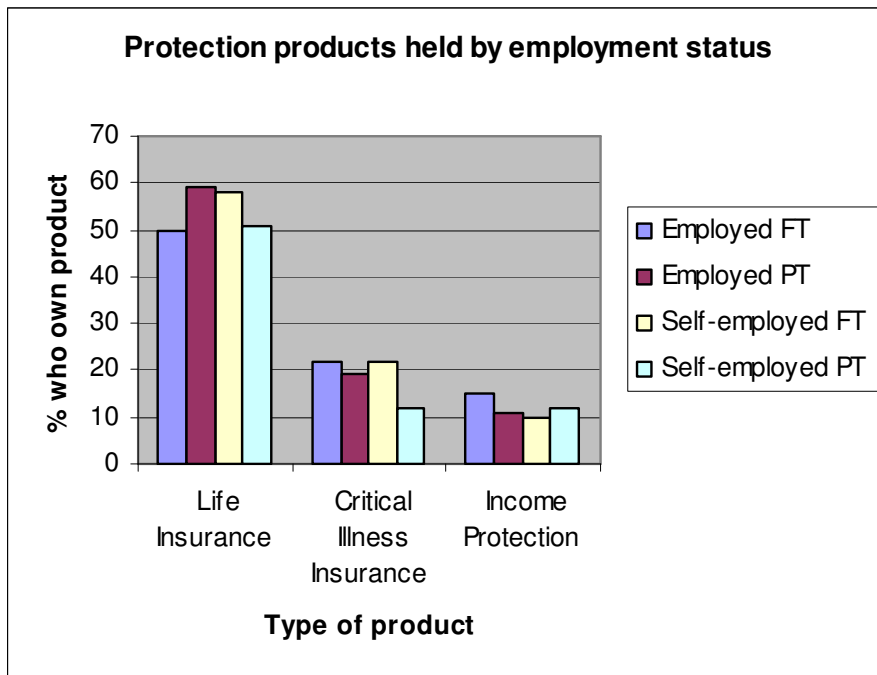
Self-employed

There are 3,863,000 self employed⁴ people in the UK (13% of the total workforce).

Worryingly, 90% of self employed people do not have any income protection insurance and 78% do not have any critical illness cover in place; leaving them exposed should they be unable to work due to illness or injury or having to rely on minimal allowance from the state incapacity benefit.

Those who are self-employed (full-time) are more likely than those who are employed (full time) to take out life insurance (58% vs. 50%).

Figure 10: Types of protection products owned by employment status



⁴ ONS 2008

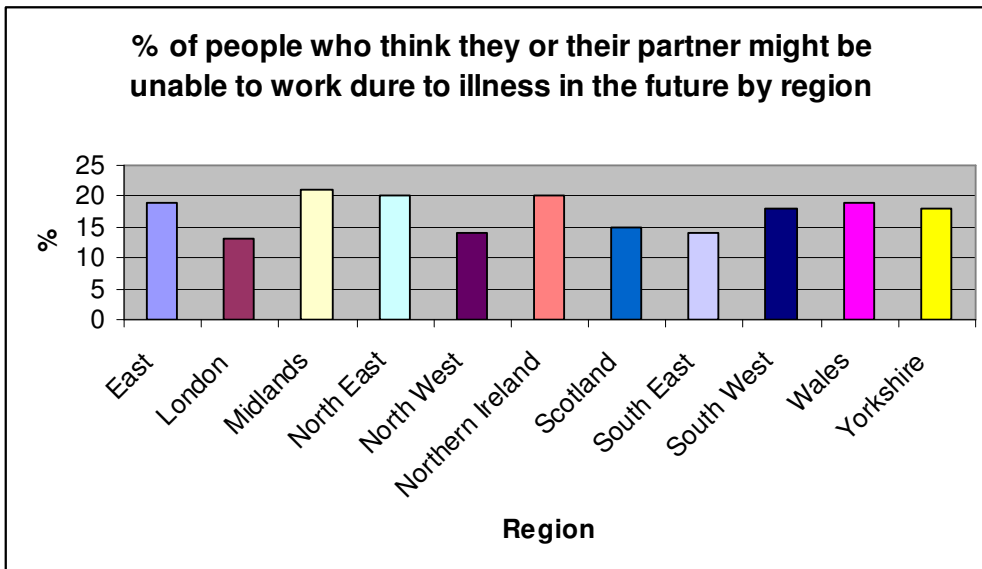
5. Living on the edge: expectation of long term incapacity to work

17% of people think it is very likely that they or their partner may be unable to work for up to 6 months in the future due to illness.

However, figures from the Department of Work and Pensions show that of the one million people that take sick leave every week, 3,000 do not return within six months.

Yet despite this relatively high percentage, the vast majority still are not taking out the protection required to shelter them from the risk of losing their income.

Figure 11: Expectation of long term incapacity to work



Conclusions

This research paints an alarming picture of the financial risks that many people in the UK are taking by not having personal protection products. There is very little state benefit to rely on, few employers offer protection and savings are not enough to cover anyone for an adequate length of time. Many Britons are in fact, 'living on the edge' with nowhere to turn to should they be unable to work or suffer a loss of income.

Against a backdrop of increasing economic uncertainty, and a stagnating housing market, which means that even a 'sell quick to raise cash' option is restricted, Yorkshire Building Society is concerned that many people ought to urgently consider their financial needs and obligations and assess whether they would benefit from investing in adequate protection.

To find out more

Yorkshire Building Society

www.ybs.co.uk/protection

Government

www.direct.gov.uk

Office of National Statistics

www.statistics.gov.uk

Key Facts

Average age of Critical Illness Claimant⁵

- Cancer 43
- Heart Attack 47
- Multiple Sclerosis 39
- Stroke 43

Likelihood of needing to claim

- People are 26 times more likely to be incapacitated and off work for more than 6 months, than to die before the age of 65.⁶
- Lung cancer currently accounts for 6% of all deaths and 22% of all deaths from cancer in the UK. Each year more than 33,000 people die from lung cancer, that's around 1 every 15 minutes.⁷
- Around 8,000 women under 50 are diagnosed with breast cancer each year in the UK.⁸
- In the UK it is estimated that approximately 10,000 people are diagnosed each year with Parkinson's disease, 1 in 20 are under 40 years of age.⁹
- The most common type of cancer for men aged between 20 and 39 is testicular cancer.¹⁰
- 1 in 6 people suffer from depression or chronic anxiety.¹¹

⁵ Legal & General: Let's Talk Protection, March 2008

⁶ IAD Information Centre (DWP), 2005. ONS Annual Abstract of Statistics 2005

⁷ Cancer Research UK, 2008

⁸ www.cancerhelp.org.uk December 2007

⁹ Parkinson's Organisation UK, December 2007

¹⁰ Cancer Research UK, December 2007

¹¹ Financial Times, June 2006

Appendix 1 - State benefits explained

Statutory sick pay

- The standard rate for Statutory Sick Pay is £75.40 a week.
- Statutory Sick Pay is paid by employers, usually on normal payday in the same way as wages or salary.
- Statutory Sick Pay is subject to tax and National Insurance contributions, although earnings may not be high enough unless the individual gets other payments on top of Statutory Sick Pay.
- Statutory Sick Pay is paid for every day the person would normally be working. It starts on the fourth day of any period of sickness and lasts for a maximum of 28 weeks.

Incapacity Benefit

Individuals may be able to claim Incapacity Benefit if any of the following apply:

- Statutory Sick Pay has ended, or they cannot get it
- they are self employed or unemployed
- they have been getting Statutory Maternity Pay (SMP) and have not gone back to work for their employer because they are incapable of work
- they were under State Pension age when they became sick

They must also have been:

- paying National Insurance contributions
- unable to work due to sickness or disability for at least four days in a row (including weekends and public holidays)
- unable to work for two or more days out of seven consecutive days
- getting special medical treatment

Or they must:

- be aged between 16 and 20 (or under 25 if they were in education or training at least three months immediately before turning 20)
- have been too ill to work because of sickness or disability for at least 28 weeks
- have been too ill to work before they turned 20 (or 25 if they were in education or training at least three months immediately before turning 20)

Incapacity Benefit is paid at three weekly rates:

- short-term (lower) IB is paid for the first 28 weeks
- short-term (higher) IB is paid from weeks 29 to 52
- long-term IB is paid from week 53

Incapacity Benefits
Current weekly amounts

Weekly rate	Amount	Amount if you're over State Pension age
short-term (lower rate)	£63.75	£81.10
short-term (higher rate)	£75.40	£84.50
long-term basic rate	£84.50	You're not eligible for long-term basic rate IB

Welfare reform – changes from October 2008

From October 2008, the Employment and Support Allowance will replace Incapacity Benefit and Income Support for new customers. The new system will consider what an individual is capable of, and what help they need to manage their condition and return to work.

A new test, the Work Capability Assessment, will be introduced in October 2008 alongside the new Employment and Support Allowance and will be applied to all those people claiming the new allowance. It will replace the current Personal Capability Assessment, which is weighted more towards a person's physical disability and bases itself around assessing people's incapability for work.

The Work Capability Assessment will look at people's physical and mental ability, such as learning disabilities and other similar conditions. It will assess what an individual can do - rather than can't do. Individuals with health conditions will be given support and employment advice to enable them to return to work where possible.

Appendix 2 – Cost of Protection Insurance

Life Insurance

Non-smokers, age 35 next birthday, level term assurance for 25 years with sum assured of £120k

- Female cost £11.36 per month
- Male cost £13.16 per month

Critical Illness Insurance

Non-smokers, age 35 next birthday, level term assurance for 25 years with sum assured of £120k

- Female cost - with guaranteed critical illness cover - £55.65
- with reviewable critical illness cover - £46.95
- Male cost - with guaranteed critical illness cover - £59.83
- with reviewable critical illness cover - £49.99

Income Protection

Non-smokers, age 35 next birthday, with £500 cover per month (based on a salary of £20k to the age of 60)

- Male cost with deferred period of - 4 weeks £35.85
- 13 weeks £18.22
- 26 weeks £12.09
- 52 weeks £10.00
- Female cost with deferred period of - 4 weeks £60.86
- 13 weeks £30.00
- 26 weeks £19.27
- 52 weeks £15.26