Deadline to Breadline 2020
Myths & misconceptions
Welcome

We launched our first Deadline to Breadline research in 2012 to assess the financial stability of people across the UK. Working with the assumption that the average person underestimates their likelihood of suffering from illness or injury. But overestimates the support they could rely on from savings, work and the state - the results were conclusive. The perception was that the average household is 90 days from the breadline if they lost their income, but in reality, the average person could only last for 24 days – a difference of 66 days.

In 2020, we’re operating in a very different world, but consumers view of their priorities and financial stability remains the same. Consumers still underestimate themselves, in fact pets are still better protected than their owners. And so in this edition, alongside revisiting the perception and reality gaps, we’ve also delved deeper into the myths and misconceptions that prevent consumers from engaging further with their financial plans. As well as sharing some hints and tips to overcome these common barriers.

With great insights into the financial state of UK households, their coping strategies and how well these plans would hold up in reality Whether your clients are renting or buying their home, planning a pension or making an investment – having the conversation could allow you to ensure better outcomes for all - we hope you enjoy reading this edition.

Richard Kateley
Head of Intermediary Development

Contents

Executive Summary ................................................................. 3

Financial resilience

Income and spending ............................................................. 6
Savings held and debt ............................................................. 7
Regular saving ...................................................................... 9
Average renter vs. the average mortgagee ................................. 10

Deadline to Breadline

Days to Breadline .................................................................. 12
Perception vs. reality ............................................................. 13

Ability to work

Covid-19’s impact on ability to work ........................................... 16
Understanding the drivers of ability to work ................................. 17
Biggest worry if couldn't work .................................................. 19

Myths and misconceptions about protection

Protection remains low in people’s priorities ............................ 22
The different myths... ............................................................. 24
Myth 1: I have no need to protect my income ............................. 25
Myth 2: I don't think I have a value........................................... 26
Myth 3: Income protection is too expensive ............................... 27
Myth 4: I can rely on my savings .............................................. 28
Myth 5: I have a ‘plan B’ – I can rely on others ........................... 29
Myth 6: I would cut back on spending ....................................... 31
Executive Summary

Many households are far less financially resilient than they think...

Financial resilience

- 17% of households save nothing on a monthly basis...
- ... leading to 1 in 5 households having no savings at all

Deadline to Breadline

- The average household is just 24 days from the breadline, far shorter than the 90 days they mistakenly believe.
- Those in the South East and Yorkshire and Humberside are just 10 days away from the breadline.

Ability to work

- Only 1 in 7 see Covid-19 as something that might affect their ability to work.
- 9 in 10 people don’t see themselves as their largest financial asset.
- Many understand that serious illness, injury and mental health are likely to impact ability to work.
- Almost half say that losing their income would be one of their biggest worries if they were affected by an illness or injury and were unable to work.

Myths and misconceptions

1 in 3
Say they either don’t need or see no value in income protection cover, but this doesn’t match up to the worries people have of losing their income or not being able to support their family.

9 in 10
Don’t see themselves (their earning potential) as their largest financial asset, even though their lifetime’s earnings tend to total significantly more than a property, car or savings pot.

1 in 4
Think income protection is too expensive with under 35s only willing to shell out £30 a month towards it. What they don’t know is that it would take 50 years to save just one year’s replacement income at the same cost.

1 in 3
Think they can rely on their savings but it would take the average working household 14 years to save their gross annual salary, 12 years to save enough to live for a year and 4 years to save what they say they would need in order to feel secure.

For 1 in 7
Plan B involves relying on family and friends, but over half (57%) admit that they could not offer them regular financial support.

No broadband, no way!

In the event of becoming unable to work and forced to cut spending, the top household item that people would be least willing to give up is broadband – the same across all age groups and locations.
Financial resilience

Many UK households may not have the ability to set aside a financial ‘safety net’ each month and must get by with little to no savings. A lack of financial resilience can feel concerning, especially when it comes to unforeseen events such as the Covid-19 crisis impacting people’s ability to work and support their families.

Income and spending

The average working household in the UK has an annual income of just under £35,000. 1 in 5 (21%) of these have an annual income of under £20,000.

After paying for the basics (tax, NI, housing, loan repayments, utility bills and food), the average only has £800 left each month as disposable income.

Younger generations may be over optimistic in their estimations, with the average 25-34 year old stating they typically have £900 left after paying for basics, versus £600 for the average 55-65 year old!

Overall, this drops to just £300 a month after purchasing other essentials such as broadband, phone contracts and fuel. This means the average spends £2,589 a month (or £89 a day) on these basics and essentials.

£300 is of course what is left for the average household. That’s not the case for many lower income households, with 1 in 20 saying they have nothing left after paying for the absolute basics. Renters do have less left (£200) than those with a mortgage (£300) but not significantly so.

This clearly shows the difficulties many households face when looking to set aside money to save each month.
Savings held and debt

The average working household has just over £2,700 in savings and investments.

This falls significantly short of the £12,200 they say they would need to feel financially secure for a year and even more short of the £30,000+ that our research shows based on typical monthly outgoings. For many other households, the gap between their actual savings and the amount they would need to feel financially secure for 12 months is even larger.

Despite what people consider themselves to need, our research shows that based on typical monthly outgoings, an average household would need over £30,000 in savings for it to actually be financially secure and cover all their outgoings for a year.

Those aged 45-54 are most likely to have no savings at all (22%).

As you might expect, those under 25 have the lowest savings on average compared to any other age group, at approximately £1,523. However, it’s actually those aged 45-54 who are most likely to have no savings at all (22%). When it comes to the largest savings pots, it’s those aged 55-65 who are benefiting - with an average of £7,529 saved (though even here 18% still say they have no savings at all).

In fact, 2 in 5 households have less than £1,000 in savings and nearly 1 in 5 households (18%) have no savings at all, rising to 1 in 3 among low income households.

Addressing debt levels is a positive step and one that’s important for people to take. Two thirds (66%) of households have at least some level of debt, with over 1 in 10 (11%) households currently managing over £10k worth of debt.

This rises to 1 in 6 (16%) among households with a mortgage. Excluding student loans, 35-44 year-olds have the highest amount of debt, with an average of £1,184 per household, and 1 in 8 (13%) managing over £10k worth.

Covid-19 has encouraged consumers to address their debt, with 57% of Brits stating that paying off debt has become more important to them since lockdown, rising to 65% among 25-40 year-olds.†

Those in Wales are the most likely to have no savings at all (27%) and Londoners the least likely (10%).

Though having debt can feel worrying, it can be manageable if the right steps are taken and that debt is taken into account alongside savings in any financial planning.

‡ (Savanta Consumer COVID-19 Tracker, 2020)
Regular saving

Covid-19 has forced the nation’s psyche into savings mode. The need for financial resilience, stability and control has become front of mind for many of all age groups when faced with job insecurity or the possibility of falling ill and becoming incapable of working.1

Finding enough disposable income to put away each month can feel like a squeeze for many. The average household saves £200 a month. This means it would take 12 years for a household to save enough to cover just one year’s worth of living expenses, and four years to build a savings pot large enough to feel secure for 12 months.

1 in 6
Save nothing

Not everyone is able, or indeed consider, putting savings aside. In fact, 1 in 6 (17%) households save nothing on a monthly basis—though this is more likely for those who are private renters (21%) than those with a mortgage (10%) or those who own outright (10%). Women are far more likely to say they save nothing (23%) than men (12%).

Perhaps due to the fact they may have less financial dependency from children or older parents, younger people are far less likely to save nothing than those who are slightly older.

Average renter vs. the average mortgagee

A major misconception is that people rent because they can’t afford a mortgage and are therefore not as well off as those who can. The homeowner tends to have a higher salary, lower debt and higher savings, putting them in a slightly more secure position, and they are more likely to protect their income. However, when you look at the average renter vs the average homeowner with a mortgage, there isn’t much between them.

Whilst they may be almost on par in terms of what they can save each month, renters are much more in need of income protection as they generally don’t have the security of their own home. They are also more in debt than homeowners on average, and would reach the breadline 20 days faster.

The average private renter
Is aged 36
Has no children (49%)
Earns £28,486 per year
Has £700 left after paying for the basics
Spends £500 on other essentials so has £200 a month truly disposable
Has £936 in savings
Has £735 worth of debt
Saves £200 per month
Considers their biggest financial asset to be their savings (24%) or their car/vehicle (21%)—but 17% do say it’s themselves (their earning potential)
Believes they could survive a month (30 days) on their savings alone, but is actually only 3 days from the breadline
The top 2 essentials they could not cut back on are broadband and utilities, but they have higher than average ‘need’ for petrol and holidays
Only 2% currently have income protection

The average mortgage holder
Is aged 43
Has children living at home (49%)
Earns £44,159 per year
Has £800 left after paying for the basics
Spends £500 on other essentials so has £300 a month truly disposable
Has £4,313 in savings
Has £1,729 worth of debt
Saves £300 per month
Considers their biggest financial asset to be their property (62%)—just 6% say it’s themselves (their earning potential)
Believes they could survive 3 months (90 days) on their savings alone, but is actually 23 days from the breadline
The top 2 essentials they could not cut back on are broadband and utilities, but they have higher than average ‘need’ for smoking and media subs
14% currently have income protection

1 Savanta Consumer COVID-19 Tracker, 2020

Households saving nothing by age

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-24</td>
<td>8%</td>
</tr>
<tr>
<td>25-34</td>
<td>11%</td>
</tr>
<tr>
<td>35-44</td>
<td>15%</td>
</tr>
<tr>
<td>45-54</td>
<td>24%</td>
</tr>
<tr>
<td>55-64</td>
<td>23%</td>
</tr>
</tbody>
</table>

Households saving nothing by residential status

<table>
<thead>
<tr>
<th>Residential Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private rental</td>
<td>21%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>15%</td>
</tr>
<tr>
<td>Owned</td>
<td>10%</td>
</tr>
</tbody>
</table>
When you take into account the spending patterns, savings and debt of different households, the financial resilience of each becomes clear.

The average household is just 24 days from the breadline – the length of time they could last based on their current daily spending rate and their current net savings (savings minus debt).

Being self-employed correlates with higher financial resilience – this group is 45 days to the breadline on average, nearly double that of employed households.

Many people don’t have a good understanding of their financial resilience, saying they have never thought about how they would cope if they lost their income and what they would need to cover their daily spend.

These differences become more interesting when you compare the reality to people’s perceptions of their situation.

In most cases, their real deadline is far shorter than the 90 days people believe they could rely on just their savings for. Most types of households overestimate how long they could last – some significantly so.

The self-employed are more financially resilient.

<table>
<thead>
<tr>
<th></th>
<th>Perception</th>
<th>Reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>90</td>
<td>21</td>
</tr>
<tr>
<td>Self-employed</td>
<td>45</td>
<td></td>
</tr>
</tbody>
</table>

How many days from the breadline is the average household?
Perception vs. reality

Low income households are already at the breadline — they either don't have enough savings or have too much debt to survive even a day if they lost their income. Those who are renting are far more vulnerable than others — they are only 3 days from the breadline on average vs 23 days for those with a mortgage and much longer (236 days) for those who own properties outright.

Age makes little difference on the length of the deadline, with the exception of the 55+ category in which people tend to become more financially resilient.

Interestingly as the graph shows, the only group to underestimate how long they could last are those who own their property outright. They are aware that they could manage longer than others due to having no rent or mortgage to pay, but don't quite realise the extent of their financial resilience.

Financial advisers can play a key role in informing people and placing them in a better position to cope if things did go wrong.

The average household believes they could stretch the period even further to 120 days if they cut back and only spent on essentials. But, even if the average household cuts back on spending and only spent on basics and essentials, they'd only manage to delay hitting the breadline by 5 days, bringing their deadline to a total of 29 days.

Those in London and the East are the furthest away from the breadline, at 33 days, compared to those in the South East and Yorkshire and The Humberside are the closest.

Perception vs. reality of the number of days a household is from the breadline

Days to the breadline by location

<table>
<thead>
<tr>
<th>Location</th>
<th>Days to the breadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>33</td>
</tr>
<tr>
<td>East Anglia</td>
<td>33</td>
</tr>
<tr>
<td>North East</td>
<td>32</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>31</td>
</tr>
<tr>
<td>East Midlands</td>
<td>32</td>
</tr>
<tr>
<td>West Midlands</td>
<td>25</td>
</tr>
<tr>
<td>Wales</td>
<td>19</td>
</tr>
<tr>
<td>South-West</td>
<td>14</td>
</tr>
<tr>
<td>South-East</td>
<td>10</td>
</tr>
<tr>
<td>Scotland</td>
<td>29</td>
</tr>
</tbody>
</table>
Section 3

Ability to work

In this section, we explore the extent of people’s understanding around external factors that might affect their ability to work. Our research shows that there is more to be done in order to raise awareness of how certain issues can have an impact – for example, many haven’t yet considered the fact that the Covid-19 pandemic could lead to a loss of income. We also delve into what worries people most about actually being unable to work, from loss of income, impact on long-term health, retaining their job, supporting their family and keeping their home.

Covid-19’s impact on ability to work

Even in the early stages of 2020 (April), with Covid-19 at its peak and uncertainty facing the nation, people’s confidence in their personal ability to work remained high. A proportion tend to have a fairly positive outlook despite external factors impacting jobs across the country, with over 1 in 3 stating that they were not worried about anything affecting their ability to work – whether that be illness, or accidents and injuries.

What, if anything, are you concerned about which might affect your ability to work?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>35%</td>
</tr>
<tr>
<td>Illness in general</td>
<td>16%</td>
</tr>
<tr>
<td>Covid-19</td>
<td>15%</td>
</tr>
<tr>
<td>Deterioration long-term health</td>
<td>13%</td>
</tr>
<tr>
<td>Serious accident/injury</td>
<td>7%</td>
</tr>
<tr>
<td>Serious long-term chronic illness*</td>
<td>5%</td>
</tr>
<tr>
<td>Being made redundant</td>
<td>4%</td>
</tr>
<tr>
<td>Mental health issues</td>
<td>3%</td>
</tr>
<tr>
<td>Disability</td>
<td>2%</td>
</tr>
</tbody>
</table>

That theme remained the same even during the early days of the national lockdown, with Covid-19 front of mind for only 1 in 7 (15%) as something that might affect their ability to work. However, as lockdown continued, a strong shared anxiety around Covid-19 and its impact on personal finances developed, as people became acutely aware of the myriad of ways that Covid-19 could, or has, affected their ability to work. Potential illness, family care duties, furlough and redundancy have all contributed to the unearthing of a sense of vulnerability that people can no longer ignore when it comes to their personal finances. Although insurance policies cannot help with all these issues they need to be considered in a client’s plan.

“Covid-19 could take away our jobs and it would be really hard after the pandemic to find another job due to a recession. Loads of people are being laid off so it’s very likely. You just have to be smart with your money and not make reckless decisions.”
(Male, 29, London)

Different age groups note varying degrees of concern around Covid-19 and their ability to work. The zero hour contract generations are likely to suffer the most, along with customer facing and entry level roles where significant cuts are being made. This is front of mind for younger people, with 1 in 5 21-24 year-olds spontaneously saying they worry that Covid-19 will affect their ability to work, without being prompted to.

1 in 5
21-24 year-olds spontaneously say they worry that Covid-19 will affect their ability to work.
Understanding the drivers of ability to work

Serious illness, injury and mental health are not top of mind in our day to day lives.

When asked what their top of mind concerns were, only 5% spontaneously said serious illness without being prompted. Yet this rocketed to almost half (46%) when they were asked specifically about it, and a similar response was seen with serious injury and mental health.

We all have underlying concerns that we tend to shy away from, but the data shows that when prompted, concerns are pulled into sharper focus. As humans, our over optimism and “it won’t happen to me” attitude can cloud our judgment, but being realistic and aware of the situation is the only way to prepare for problematic situations.

Age has a significant impact on the types of concerns people are most likely to have, as shown in the graph, below. For example, those aged 45+ are the most likely to feel concerned about long term illness, whereas those aged 21-24 are most likely to feel concerned about the impact of mental health. Personal experience may be a contributor to this, with over 1 in 4 21-24 year-olds reporting having experienced mental health issues in the past.

With the looming long term impact of Covid-19 on the horizon, mental health will likely remain a major concern for this age group. For most, these issues aren’t top of mind, so people need help to see the potential impact they could have on their ability to support themselves and their families.

The prompts that advisers can use to remind clients of the factors that may affect their ability to work, such as illness, injury or mental health are vital.

Which of the following are you concerned about that might affect your ability to work?

- Serious long term illness
- Serious injury
- Mental health issue

Serious long term illness:
- Have personally experienced it: 7%
- Agree it is a concern, when prompted: 46%
- Have it as top of mind concern: 5%

Serious injury:
- Have personally experienced it: 8%
- Agree it is a concern, when prompted: 33%

Mental health issue:
- Have personally experienced it: 3%
- Have it as top of mind concern: 3%
Biggest worry if couldn’t work

What would be your biggest worry if you were affected by a serious illness or injury that meant you couldn’t work?

Losing income 46%
Losing my job 34%
Long-term impact on my health 31%
Losing my home 30%
Impact on my family’s well-being 26%
My family not being financially protected 24%
Not being able to live my lifestyle 20%
Losing my routine 14%
The way I view myself 12%
Uprooting my life 9%
Cost of medical care or travelling to place of care 8%
Childcare 6%

Naturally, different life stages bring different variations of worries:

Losing income is a top worry for nearly half (46%) overall, but even more from private renters (50%)
Losing their job is a top worry for 1 in 3 (34%) overall, but even more for under 25s (47%
Long term impact on health is a top worry for 1 in 3 (31%) overall, but even more for over 55s (42%)
Losing their home is a top worry for nearly 1 in 3 (30%) overall, but even more for those with a mortgage (42%)
Their family not being financially protected is a top worry for 1 in 4 (24%) overall, but more so for a third (34%) of those with children

Nearly half (46%) rank losing their income in their top 3 worries if they became unable to work.

The Making Sense of Change report tells us that many consumers are now looking to create a financial safety net, through increased financial planning, saving rather than spending, clearing debt, and, crucially, an increased awareness of the importance of having income protection insurance. Over four in ten (44%) say it has become more important to them to have income protection and/or critical illness in place.

However, this hasn’t yet translated into actual purchasing habits. Although consumers have a desire to grow their financial stability, many simply do not have the capacity to plan for the long-term. The benefit of income protection and paying out each month for an unknown future is trumped by short-term financial well-being and this is preventing take up. Pre-Covid-19 barriers to purchase are still playing out in consumer’s minds. (Making Sense of Change Report, Savanta 2020).
Section 4

Myths and misconceptions about protection

For the Myths, we delve into the reasons why so few people adequately protect themselves against losing the ability to work. We also uncover the biggest myths and misconceptions around income protection and look at the key reasons why 92% of respondents don’t have cover, and how advisers can help drive uptake.

Protection remains low in people’s priorities

Despite people feeling concerned about certain factors and the impact they may have on their ability to work, take up of income protection remains extremely low when compared to other financial products and insurance.

As a society we feel the need to protect tangible things because we can clearly see the impact of losing them. For example, we buy car insurance to pay for damages, contents insurance to protect our treasured belongings, and pet insurance to look after our animals if they are ill or injured.

The real question is – why don’t we have the same concern for ourselves? When looking at these figures, we’d rely on income to pay for all of the following, yet personal income is the last thing we insure.

Income protection take up is higher among those who have a mortgage (14%) or have children (11%). Those who have a financial adviser are twice as likely (16%) to have it than those who don’t, but this could certainly be higher if more was done to raise awareness.

“Nearly 6 times as many people insure their home contents and 4 times as many pet owners insure their pet than insure themselves with income protection.”

Which of these financial products do you personally currently have?

<table>
<thead>
<tr>
<th>Product</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car/ vehicle insurance</td>
<td>60%</td>
</tr>
<tr>
<td>Home contents insurance</td>
<td>46%</td>
</tr>
<tr>
<td>A pension</td>
<td>41%</td>
</tr>
<tr>
<td>Pet insurance</td>
<td>34%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>33%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>26%</td>
</tr>
<tr>
<td>Electronics/ gadget insurance</td>
<td>11%</td>
</tr>
<tr>
<td>Critical illness insurance</td>
<td>10%</td>
</tr>
<tr>
<td>Private medical/ dental care</td>
<td>10%</td>
</tr>
<tr>
<td>Income protection insurance</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Amongst those with a pet

Base: 2020 (2739)
The problem is, purchasing any form of life insurance or protection is not an organic process for most. More than 9 in 10 (94%) were triggered to purchase by things such as buying a home and starting a family.

The data shows that renting a home hardly ever triggers a desire to purchase protection. An explanation for the huge gulf between renters and homeowners when it comes to investing in protection could potentially be due to the level of advice available at the point of renting vs buying a property – with the latter being far higher.

The chart below shows the difference between the ‘likely’ triggers for those without protection vs the ‘actual’ triggers for those who have already bought it. For those who haven’t yet bought protection, triggers are less likely to be ‘lifestyle changes’ such as buying a property, and more likely to be experiencing a serious illness or the death of someone close to them – something financial advisers should bear in mind when it comes to understanding prospective customers.

Customers may need to be prompted to consider their own need for protection, and may need advisers to help them understand that certain life events can impact financial security.

The different myths...

If they lost their job due to illness or injury, 1 in 3 say that they would rely on savings or cut back on spending. Other support mechanisms people might turn to include their employer, the state and their partner or family. These are all sensible suggestions, but whether the support will actually be there for them when they turn to it is another question.

These support strategies can influence whether someone believes they need insurance protection at all, and commonly act as a barrier to purchasing it. However, not all of these options may be realistic, and people may need the help of a financial adviser to explore whether relying on them is a risk.

If you did experience a serious illness or injury that meant you were unable to work for longer than 4 weeks, how would you cope financially?

Base: (2380)
**Myth 1: I have no need to protect my income**

Nearly 1 in 3 consumers say that they don’t need income protection. They either don’t see the value in it or it isn’t a current priority. However, that does mean that 2 in 3 do see a value in it – but many people think about it so little that they dismiss it easily when they do.

This particular myth is a cumulation of other myths. For example, if you already think that you can’t afford the cover, have another source to rely on, or that you aren’t your own biggest financial asset, why would you believe you have any need for income protection?

The other main contributor to this myth is the idea that ‘it won’t happen to me’. Unfortunately, this isn’t necessarily true – in fact, the odds of being off work due to ill health for a prolonged period of time is higher than most people think. According to our own risk calculator a 30-year-old male has a 32.4% chance and a female has a 42.5% chance of being unable to work for 1 month or more before 65, because of an illness or injury.

People who are most likely to not see a need for income protection are more likely to have higher than average savings and disposable incomes; own their home outright with no mortgage or live with parents; and are least likely to have children. As we’ve seen, people are willing to insure things that are important and of sentimental or financial value to them. Tangible things, such as their home, their pets, their cars and even their gadgets, but they don’t consider insuring themselves. This suggests that it’s not the idea of insurance that’s the issue, but more so people’s lack of thought or understanding of the risks and consequences of income loss.

Advisers have a key role in helping clients understand the need and benefits of protecting their income against certain unforeseen events which can happen to any of us at any time.

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**Myth 2: I don’t think I have a value**

One of the biggest misconceptions held by consumers is that they are not a financial asset worth protecting. Property is considered to be the highest value financial asset, followed by savings and vehicles, with only 1 in 10 (11%) seeing themselves (their earning potential) as their biggest asset.

Naturally, those who own properties see that as their biggest value by far (62% of those with a mortgage and 51% of those who own outright). Private renters see their savings pot or their car as being their most valuable financial asset, ranking them even higher than themselves (their earning potential).

Interestingly the group that were most likely to see themselves as their biggest asset where those in lower income households.

There is a common misconception that financial assets are limited to material goods, which leads to further confusion that it’s only worth insuring valuable tangible possessions (i.e. a house or a car) rather than yourself. Whereas in reality, your personal ability to earn an income is actually your biggest asset, when you consider that the annual income equates to a far higher financial value than savings or vehicles.

“I don’t really have assets so there isn’t much that needs protecting.”

(Female, 25, Yorks & Humber)

The average working household’s annual income is just under £35,000. And ONS data shows that the average worker could earn over £1.4million in their lifetime. These figures prove that individuals are worth significantly more than the average home (£232,000*), the average price of a used car (£10,000**) or the average savings pot (slightly above £2,700). This hugely significant asset is frequently overlooked – as you’ll have seen earlier, people are a massive 6 times more likely to insure their home than their income.

Advisers can play a beneficial role in educating clients that they might actually be the highest value asset they have.

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*Other sources: *Office of National Statistics UK House Price Index: March 2020. ** Fleetnews.co.uk Dec 2019
Myth 3: Income protection is too expensive

The majority of people think that income protection is too expensive – in fact, a quarter (24%) state this as a main reason they haven’t bought it.

People believe that on average, the cost of protecting £1,500 a month would cost £50 a month in income protection payments - however many would only be willing to pay £20.

This clearly shows that there is a wide gap between perception and reality. If people were able to understand the true costs, along with the benefits, they may be more likely to consider purchasing it. If more people were to realise that they were, in fact, their own biggest financial asset and that their own income was of more value than any support they might receive from employers, family or friends in a crisis, perhaps their perception might change.

52% would be willing to spend more than £20 a month on income protection.

The good news is that over half (52%) say that they would be willing to pay a bit more than £20 per month to protect their income. If myths continue to be dispelled and barriers to income protection are tackled, customers may begin to see the value and importance of protecting their income and change the way they view the cost.

Though it’s hard to give an average monthly cost of income protection due to different variables such as salary, age, occupation and deferred periods, one of the benefits of the plans is that they can be adapted to meet most people’s budgets, more so than many other products out there.

In reality, people are likely to be surprised by how little income protection cover (IP) can cost. IP is designed to pay out a monthly benefit in the event of being unable to work due to incapacity caused by illness or injury. Take a 28-year-old non-smoker, opting to help protect a salary of £35,000 to the age of 65, the cost could vary from £38.88 down to £5.73 a month depending on the length of benefit, deferred period and occupation.

Though people may worry about the cost being too high, many appear unaware of the benefits available compared to saving. If the person described above saved the £38 a month rather than insuring their income, it would take them over 76 years to save what the income protection policy would pay out in the first year of a valid claim.

Advisers are key in helping their clients to understand the costs and the benefits of income protection, tailoring an individual product to their needs and budgets.

“It made me curious that it might not be as expensive as I thought. But I still think it’s more of a middle-class luxury type of thing...”

(Female, 44, East Midlands)

Myth 4: I can rely on my savings

Almost 4 in 10 (37%) say that they would rely on their savings if they were to become seriously ill or injured, and a small proportion state that they don’t need income protection due to already having enough saved.

Some are of the opinion that saving is better than insuring – with over two thirds (69%) saying that they’d prefer to save up for unforeseen events rather than insure against them in anticipation. Interestingly, even the majority (65%) of people with no savings at all say this too.

So, what drives this attitude towards saving over insuring? It would appear in general, people don’t have an insurance mindset around protecting their income or perhaps they simply haven’t been shown the true benefit of insuring themselves with an income protection plan. But there is a strange dichotomy that those with no savings and those with the most savings are more likely to have insurance, according to our research.

Our research shows that, to feel fully financially secure, people would want to have £12,200 saved up. Based on the average household savings, it would take them 12 years to save enough to live for a year and 4 years to save what they say they’d need to feel financially secure for 12 months.

Advisers are ideally placed to help clients understand the benefits and shortcomings of both savings and insurance. In reality, a combination of the two could be the best solution, and perhaps consumers would feel more comfortable having both.

The average household only saves £200 a month. It would take them 14 years to save their gross annual salary, 12 years to save enough to live for a year and 4 years to save what they say they’d need to feel financially secure for 12 months.

Budget planners are an excellent tool to help clients see what their monthly outgoings are and what they are committed to paying; then it’s easy to do the maths and see how long their savings could cover these costs. Once depleted, they might have to resort to a plan B.
Myth 5: I have a ‘plan B’ – I can rely on others

Employer

Around 5 in 10 (28%) say that they would rely on their employer should they become seriously ill or injured. This is an attitude shared amongst workers across most sectors and company sizes, but particularly amongst those working for large (250+) companies. This reliance may be based on previous experience, as 4 in 10 state that they have previously relied on their employer for support in the past.

However, employees can’t guarantee, and in many cases are unsure of the amount their employer will pay them or for how long – which can lead to severe uncertainty. Almost half (45%) believe they will pay out for more than 3 months, and 3 in 10 believe that their employer will cover over 75% of their wage.

In reality, the standard amount paid by employers is 75% or less. They are not obliged to (and many don’t) offer any extra cover over and above statutory sick pay (SSP) which is approximately £95.85 per week (SSP figure 2020-2021).

State

2 in 10 (18%) say that they would rely on the state for support, rising to 1 in 3 amongst low income households. Private renters are more likely to say they would rely on the state for support than mortgage holders (21% vs 14%). Older age groups are more likely than younger generations to say they would rely on state support, 22% of 45-54 year-olds vs only 13% of 21-24 year-olds. Only 1 in 4 correctly estimate statutory sick pay (SSP) close to the £95.85 it is (for the tax year 20/21), with over a quarter over-estimating the amount.

Even for those correctly estimating, the gap between state support and the average monthly income or expenditure is significant. SSP equates to £411 per month, whereas the average monthly income is £2,889, and the average monthly spend on basics is £2,089. That means that SSP would only cover 20% of the average spend on basics, and 14% of the average gross salary.

“I got a serious illness I do not know how I will cope after 3 months, because I have savings that will last me that long, but after that I would have to rely on the state to pay my bills and pay for my food.”

(Male, 16, West Midlands)

And how long do you think your employer would pay you if you are unable to work for longer than 4 weeks due to serious illness or injury?

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<th>Duration</th>
<th>Total</th>
<th>Private renting</th>
<th>With mortgage</th>
<th>Own outright</th>
<th>21-24</th>
<th>25-34</th>
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<td>1-2 weeks</td>
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<td>7-12 months</td>
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Family

Finally, over 1 in 10 (15%) state that they would rely on family and friends for financial support, should they become seriously ill or injured. People believe that this is a frequent method of support, with 1 in 4 believing that someone they know has previously relied on family and friends for financial help. However, our research shows that only 15% of people have actually done so in the past.

A huge 9 in 10 (87%) under 25s say they can rely on parents for financial support, along with over 3 in 4 (78%) 25-34 year-olds — showing that the bank of mum and dad plays a key part in future risk planning for the younger generations. And reliance on parents isn’t simply for the young, as 4 in 5 (80%) 45-54 year-olds and nearly half (48%) of 55-65-year-olds also state that they would rely on parents for financial support.

One of our previous reports on the BoMaD found that in 2020, parents lent £20,000 on average to their children, which is the equivalent of a 689n mortgage lender — making the Bank of Mum and Dad the 10th biggest lender in the UK.

Funding from friends and family is supporting 23% of all property sales in the UK - but can it also be expected to support those who are unable to work due to illness or accident? And as younger, less financially stable age groups move into parenthood, are they suitably prepared to support themselves and their family should they become unable to work?

Advisers can help clarify what support state benefit could give and encourage clients to find more robust ways to cover themselves.

Less than half believe that their family would be able to give long term financial support

“I’ve worked hard to get a mortgage and provide a lovely home for myself and my dog. I know my mum would help me out if needs be though. Not forever, she could only do that for so long.”

(Female, 27, South East).

However, when explored in more depth, many admit that the support that family and friends can offer is more likely to take the form of emotional support, a one-off finance injection or a place to live. Less than (43%) believe that they may be able to offer regular financial support.

Advisers can help clarify what support state benefit could give and encourage clients to find more robust ways to cover themselves.
**Myth 6: I would cut back on spending**

In the event of a reduced or lost income, over 3 in 10 say they would cut back on their spending - but it may not be as easy as they think.

8 in 10 would be willing to cut down spending on their daily coffee, socialising, eating out, buying clothes, and going to the gym. But the range of expenditures considered essential has expanded in 2020, reflecting both the move to digital and the context of Covid-19.

Broadband is now the number 1 essential for every age group - a vital tool for job searching, working from home, staying in touch with family and enjoying entertainment services. It is significantly higher than socialising. Those who were most unwilling to give up or cut back on broadband were the self-employed and the over 55s.

Private renters are the least likely to say they would cut back on spending overall. Again, there is a regional bias with nearly half of Northern Irish consumers saying they would cut back on spending vs only a third of Welsh consumers.

Media subscriptions such as Netflix, Spotify and Sky are most important to those under 35. Though 1 in 3 35 to 54 year-olds find them essential too. Nearly a third of 35-54-year-olds are also unwilling to cut back on media subscriptions - perhaps the need for entertainment has become higher due to the Covid-19 lockdown and subsequent lack of leisure time outside the home.

Advisers can benefit from being aware of what is considered essential to customers beyond food and bills, and how this may differ between demographics, in order to help them plan financially.

“I would be willing to cut all the extra cost and just keep food shopping and buying very basic essentials. I would also keep Netflix as it will be the one thing to keep me company and cheer me up when I felt down as I would be home alone.”

(Female, 27, South West)

1 in 3 under 25 would be unwilling to give up or cut down on socialising, and 3 in 10 say the same about their gym membership. Even in a Covid-19-restricted world, it’s important to note how vital socialising and fitness is for younger people.

Taking out income protection sooner rather than later could be a key way to help ensure that people don’t have to give up what is perceived as essential or most important to them.

**Deadline to Breadline 2020: The conclusion**

When we started our Deadline to Breadline research in 2012 we wanted to truly understand the financial stability of people across the UK. To gauge how prepared they are for unforeseen events and measure their ‘deadline to the breadline’ and help with financial planning.

**Deadline to Breadline**

From our 2020 edition, it’s clear to see the need to protect your income remains. With the average household being just 24 days from the breadline, households are still underestimating the ability to withstand illness, injury and death but overestimating the support they could rely on from savings, work and the state. This assumption could have an impact on that ‘Plan B’ financial back up plan.

**Myths and misconceptions about protection**

A new addition to this year’s research included myths and misconceptions about protection section.

**How can Legal & General support you?**

- **Adviser toolkit**
  Designed to support intermediaries, to help clients understand the need and benefit.

- **Helping you talk to your clients**
  How to introduce our Intermediary exclusive Rental Protection Plan.

- **Webinars**
  Stay up to date with our products and services.

- **Further adviser support**
  Expert training support also available through our CII accredited workshops.

**Research method**

This report is based on an online survey among a nationally representative sample of 2,729 UK employed and self-employed consumers aged 21 to 64. It was carried out by Savanta, an independent market research consultancy, during the period 3rd to 17th April 2020. All financial data is shown with a base excluding don’t know and prefer not to say.