



# STAY ON TRACK

Your quick-start guide to state benefits



For advisers only

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It used to be the case that if you couldn't work or had a long-term illness the government would help you out a bit financially. And while that's still true, over the years that safety net has been getting cut back.

Even if you qualify for support, the difficult and lengthy process can be off-putting. It's likely you'll need to jump through hoops like filling in complex application forms, appeal processes and long waiting times. Add to that navigating different rules like those for cohabiting versus married couples. And even if you get through all of that, your payout is likely to be less than you need to pay the bills, let alone maintain the lifestyle you're used to.

**Changes to the welfare system over recent years have made it more important than ever for your clients to have adequate protection in place.**

We've developed this guide to help you stay on top of state benefits, and to help you understand what the state will provide when you're talking to your clients about their protection needs.

DID YOU  
KNOW?



**3.3 million**

people have applied for Employment and Support Allowance in just under four years – **that's over 5% of the UK population**

**55 pages**

- that's the length of the application form

**19 weeks**

for assessments completed in September 2017, that's how long it took on average for someone making a claim to get a final decision - that's almost five months.

Source:  
ESA-WCA Summary, UK Government, March 2018

# THE 'I DON'T NEED IT' CHALLENGE

This is a phrase you probably hear a lot from your clients. And it's one of the main reasons people give for not having cover. They think they simply don't need it.

In our State of the Protection Nation 2018 research, 58% of the people we spoke to felt they didn't need income protection, 47% said they didn't need critical illness cover and 34% told us they didn't need life insurance.<sup>1</sup>

So, it wasn't surprising that we also found that the take-up of protection is very low throughout the UK.<sup>1</sup>

Protection take-up is low. The percentage of people who own:

Life insurance

35%



Critical illness cover

12%



Income protection

9%



These figures are worrying when you consider that people are far more likely to be diagnosed with a critical illness or have an injury that stops them working than to die before retirement age.<sup>2</sup> **And the need for a plan B has become even greater following changes to state benefits.**

Source:

<sup>1</sup> State of the Protection Nation, Royal London, May 2018

<sup>2</sup> Risk Summary Report, Royal London, September 2018

# STATE BENEFITS ARE CHANGING

One of the most recent changes to state benefits is the type of support the government gives to people who can't cover their mortgage payments because they're unable to work.

## What you need to know:



### Mortgage support is now a loan, not a free benefit

This means that anyone getting Support for Mortgage Interest (SMI) payments has to pay these back to the government, plus interest, when they sell their property, transfer it to another owner or when they, or their partner, dies.



### The government's current rate of interest is 2.61%

If someone is paying a higher rate of interest to their mortgage lender, then they'll have a shortfall and might not be able to cover their payments.



### There's an upper limit to the mortgage used to calculate an SMI loan

It's £200,000 for people getting Income Support, Income-based Jobseekers Allowance, Income-related Employment and Support Allowance or Universal Credit and £100,000 for people receiving Pension Credit.



### There's a 10-month wait for the first SMI payment

The only exception to this is for people getting Pension Credit who get paid straightaway.

Because of these changes, homeowners who don't protect their income and can't pay their mortgage might find themselves getting into debt. Or the equity they have in their property could be eaten into. In extreme cases they could lose their home.

# WHAT ELSE HAS CHANGED?

## Bereavement support has been cut back

Since April 2017, instead of a family getting government support until the youngest child reaches 20, they now only get these payments for a maximum of 18 months. But following a Supreme Court ruling in August 2018 when an unmarried widow was given access to a widowed parent's allowance for her bereaved children, there could be further changes to give cohabiting couples the same benefit rights as married couples.

## Universal Credit isn't beneficial to everyone

This is replacing Child and Working Tax Credits, income-based Jobseeker's Allowance, Income Support, Employment and Support Allowance, and Housing Benefits. In theory this should make claiming benefits simpler, but there have been plenty of reported teething problems. What's more, a four-year benefit freeze means a family of four getting Universal Credit will be over £800 a year worse off by 2020, according to the Joseph Rowntree Foundation.<sup>1</sup>

## Income protection won't affect means-tested benefits

There has been some good news. The Department of Work and Pensions has confirmed that it won't take into account any income people receive from an insurance plan, that's intended to cover their mortgage payments, when assessing for any means-tested benefits. This applies to legacy benefits and Universal Credit.

Source:

<sup>1</sup> 'Benefit freeze is the real problem not Universal Credit', Joseph Rowntree Foundation, October 2017



# SAM'S STORY

## WHO



Sam is a 33-year-old single homeowner who has recently been signed off work with depression. He doesn't have children and has no income protection. He didn't think he needed it.

## PERCEPTION



Sam has around £3,000 in savings, which will pay his outgoings for a couple of months. But when this runs out he has no back-up plan. He'll need to rely on government support to help him out.

## REALITY



Sam's lucky to work for a company that will give him full pay for three months while he's off. After that he will move onto Statutory Sick Pay (SSP). If he's not eligible for this, or when the SSP has finished paying out, he might qualify for Employment and Support Allowance (ESA).

After making a claim, to start with Sam will be paid at the assessment rate of up to £73.10 a week for 13 weeks, as he is over 25. If he's entitled to ESA, Sam will get up to £110.75 a week if he's placed in the 'support group' or up to £73.10 a week if he's in the 'work-related activity group'.

Assuming he's eligible, Sam would get a maximum ESA payment of just £5,270 a year.<sup>1</sup> As Sam's monthly outgoings are £1,500 a month, and he only had £3,000 savings, he would have a shortfall of £9,730.

How would he cover his bills and maintain any kind of lifestyle?

**£18,000**

Annual outgoings

**£5,270**

Maximum annual  
ESA payments

**£3,000**

Savings

**£9,730**

Annual shortfall

Source:

<sup>1</sup> 13 x £73.10 + 39 x £110.75 = £5,269.55

# STATE BENEFITS WHAT'S AVAILABLE?

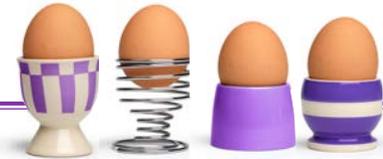
Please note that state benefits are changing, so depending on where someone lives in the UK they may be entitled to different benefits. The following is a general guide only and is not exhaustive. For more information visit [gov.uk](http://gov.uk), from where all figures are sourced.



## WORK

<b>Working Tax Credit</b>	<b>Value</b> Up to <b>£1,960</b> a year.	<b>Eligibility</b> You must be in paid work and on a low income (and have a child if you're aged from 16 to 24).
<b>Jobseeker's Allowance</b>	<b>Value</b> Up to <b>£73.10</b> a week ( <b>£57.90</b> if you're aged 16-24; <b>£114.85</b> for couples).	<b>Eligibility</b> You must be actively seeking work.
<b>Income Support</b>	<b>Value</b> Up to <b>£73.10</b> ( <b>£57.90</b> if you're aged 16 to 24; <b>£114.85</b> for couples).	<b>Eligibility</b> You must have no income or a low income, <b>no more than £16,000</b> in savings, be working less than 16 hours a week and be ineligible for Jobseeker's Allowance or Employment and Support Allowance.

Other work-related benefits include Industrial Injuries Disablement Benefit, Pension Credit and Reduced Earnings Allowance.



## FAMILY

<b>Child Tax Credit</b>	<b>Value</b> A basic amount of up to <b>£545</b> a year for the family amount, plus <b>£2,780</b> for each child, and a further <b>£3,275</b> for each disabled child (plus up to an additional <b>£1,325</b> if they are severely disabled).	<b>Eligibility</b> Outside a Universal Credit area you must have at least one child.  In a Universal Credit area, you must have three or more children and you or your partner must have reached Pension Credit qualifying age.
<b>Child Benefit</b>	<b>Value</b> <b>£20.70</b> per week for your eldest child and <b>£13.70</b> for each additional child.	<b>Eligibility</b> Payable for any child you're responsible for, even if you aren't their parent.
<b>Childcare</b>	<b>Value</b> <b>Free childcare for children aged 2 to 4</b> , or help and/or tax exemptions if they're older.	<b>Eligibility</b> You must be paying for care provided by a registered childminder, school, care worker, play scheme, nursery or club.

Other benefits relating to family include Care to Learn, Parent's Learning Allowance, Free School Meals, Statutory Maternity Pay and Maternity Allowance.

# STATE BENEFITS WHAT'S AVAILABLE?



## ILLNESS, DISABILITY AND CARING

<b>Personal Independence Payment</b>	<b>Value</b> Between <b>£22.65</b> and <b>£145.35 a week.</b>	<b>Eligibility</b> You must be aged 16 to 64 and be affected by a long-term health issue or disability.
<b>Carer's Allowance</b>	<b>Value</b> <b>£64.60 a week.</b>	<b>Eligibility</b> You must care for someone for at least 35 hours a week who is getting Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Constant Attendance Allowance or an Armed Forces Independence Payment.
<b>Employment and Support Allowance</b>	<b>Value</b> Up to <b>£73.10 a week</b> if you're assessed in the work-related activity group, or up to <b>£110.75</b> if you're in the support group.	<b>Eligibility</b> You must be ill or disabled and unable to work, under State Pension age and not getting Statutory Sick Pay, Statutory Maternity Pay or Jobseeker's Allowance.

Other disability-related benefits include Blind Person's Allowance, Disability Premium, Industrial Injuries Disablement Benefit and Vaccine Damage Payment.



## HOUSING

<b>Housing Benefit</b>	<b>Value</b> All or part of your rent.	<b>Eligibility</b> You must be on a low income, whether unemployed or working.
<b>Winter Fuel Payment</b>	<b>Value</b> Between <b>£100 and £300 annually</b> to help pay your heating bills.	<b>Eligibility</b> You must have been born on or before 5 November 1953.
<b>Cold Weather Payment</b>	<b>Value</b> <b>£25 for each 7-day period</b> of cold weather between 1 November and 31 March.	<b>Eligibility</b> You must be claiming Pension Credit, Income Support, Jobseeker's Allowance, Employment and Support Allowance or Universal Credit.
<b>Support for Mortgage Interest</b>	<b>Value</b> A <b>loan</b> to cover interest payments on your mortgage, loans for certain home repairs and improvements. <b>Current interest rate to calculate payments = 2.61%; maximum value of mortgage covered = £200,000.</b>	<b>Eligibility</b> You need to be getting (or be treated as getting) a qualifying benefit, such as Income Support, Jobseeker's Allowance, Employment and Support Allowance, Universal Credit or Pension Credit

Other related benefits include Council Tax reduction, a free or discounted TV Licence and the Warm Home Discount Scheme.

# STATE BENEFITS WHAT'S AVAILABLE?



## BEREAVEMENT

### Bereavement Support Payment

#### Value

£2,500 as a first payment plus £100 a month, or £3,500 as first payment plus £350 a month if claiming Child Benefit. Payments stop after 18 months.

#### Eligibility

You must claim within three months of the death of your spouse or civil partner to get the full amount (you can get a reduced amount if claiming within 21 months). At the moment this benefit only applies to married couples, but this could change to cohabiting couples after a Supreme Court ruling in August 2018.

### Guardian's Allowance

#### Value

£17.20 a week.

#### Eligibility

You must be bringing up a child whose parents have died (you can potentially be eligible if there's one surviving parent).

Other related benefits include War Widow/Widower Pension.



## UNIVERSAL CREDIT

### Universal Credit is replacing the following benefits:

- Income Support
- Jobseeker's Allowance
- Employment and Support Allowance
- Working Tax Credit
- Child Tax Credit
- Housing Benefit

Universal Credit is being introduced in stages across the UK and will cover all areas by 2022.

# MICHAEL'S STORY

## WHO



Michael is a 45-year-old father of one and a widower. Neither Michael nor his civil partner had life insurance and when his partner died the household income halved.

## PERCEPTION



With only one income coming into the house, Michael hopes the government will help him cover the mortgage and bills which come to around £2,000 every month.

## REALITY



Because Michael's civil partner died after 6 April 2017 he might be eligible for Bereavement Support Payment. If he's entitled to Child Benefit, Michael will get the higher rate – a first payment of £3,500 followed by up to 18 monthly payments of £350. This gives him a total bereavement support payment of £9,800 but he's planning on using the initial lump sum towards the funeral costs.

With a drop in household income, Michael might also qualify for benefits to top this up and help with things like housing or childcare costs. **If he's eligible for Universal Credit, the standard allowance is just £317.82 a month.**

Bereavement Support Payment might reduce the amount of Universal Credit Michael is eligible for. But even if he gets the full standard Universal Credit allowance of £317.82 a month on top of the monthly £350 bereavement support, the total of £667.82 is only just over a third of the money he needs to cover his £2,000 monthly outgoings.

The financial help Michael receives from the government wouldn't be anywhere near what he needs to maintain his current standard of living.

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**£2,000**

Monthly outgoings

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**£667.82**

Monthly state benefits  
he is likely get

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**£1,322.18**

Monthly shortfall

# SUSAN'S STORY

## WHO



Susan has been diagnosed with breast cancer at the age of 40 and is likely to be off work for at least six months while she's having treatment. Single with no dependents, she rents her flat and doesn't have any income protection or critical illness cover. She has a little bit of savings but wants to use this as a deposit for a house.

## PERCEPTION



Susan hopes that state benefits will make up for her loss of income so she can keep a roof over her head and pay her monthly bills.

Source:

<sup>1</sup>'Rolling Out Universal Credit', National Audit Office, June 2018

<sup>2</sup>'No Small Change: Time to act on the financial impact of cancer', Macmillan Cancer Support, February 2017

## REALITY



Susan is lucky to get full pay from her employer for three months. She'll then go onto Statutory Sick Pay, which is £92.05 a week, for the remainder of the 28 weeks she's eligible for sick pay. After that Susan will be eligible for Universal Credit. The standard allowance is just £317.82 a month, although Susan will also get a housing payment to cover her rent. And many people who claim the benefit are finding that problems with the roll-out of Universal Credit are causing them financial hardship<sup>1</sup>.

At the same time as her income is going down, Susan's day-to-day expenses are likely to go up, because she will need to cover the cost of getting to and from hospital, employing some home help and heating her flat during the day (when she was previously at work). **Research by MacMillan Cancer Care found that 4 in 5 people with cancer are affected financially, on average incurring additional costs of £570 a month.<sup>2</sup>**

Susan won't want to be worrying about her finances at a time when her health needs to come first. But the reality is that her outgoings may be even higher than before she was diagnosed, while her income will drop significantly.

**£317.82**

Standard monthly Universal Credit allowance

**1 in 5**

Proportion of new Universal Credit claims not paid in full on time in 2017<sup>1</sup>

**11 weeks**

How long 40% of new claimants had to wait to receive a payment<sup>1</sup>

# HOW WE CAN HELP

As you'll know, there's a big difference between what people think they need and what they actually need when it comes to protection.

It's so important your clients understand that the state benefits shortfall is very real. It doesn't pay to either rely on, or overestimate, financial support from the government when things go wrong.

That's where you come in - showing them how the right cover could prove invaluable.

And we can help you with that. Our marketing studio is a free tool offering a range of powerful marketing materials and tools to help you handle any objections and guide a conversation with your clients about the protection they need.



Visit [studio.royallondon.com](https://studio.royallondon.com) and get started today.



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