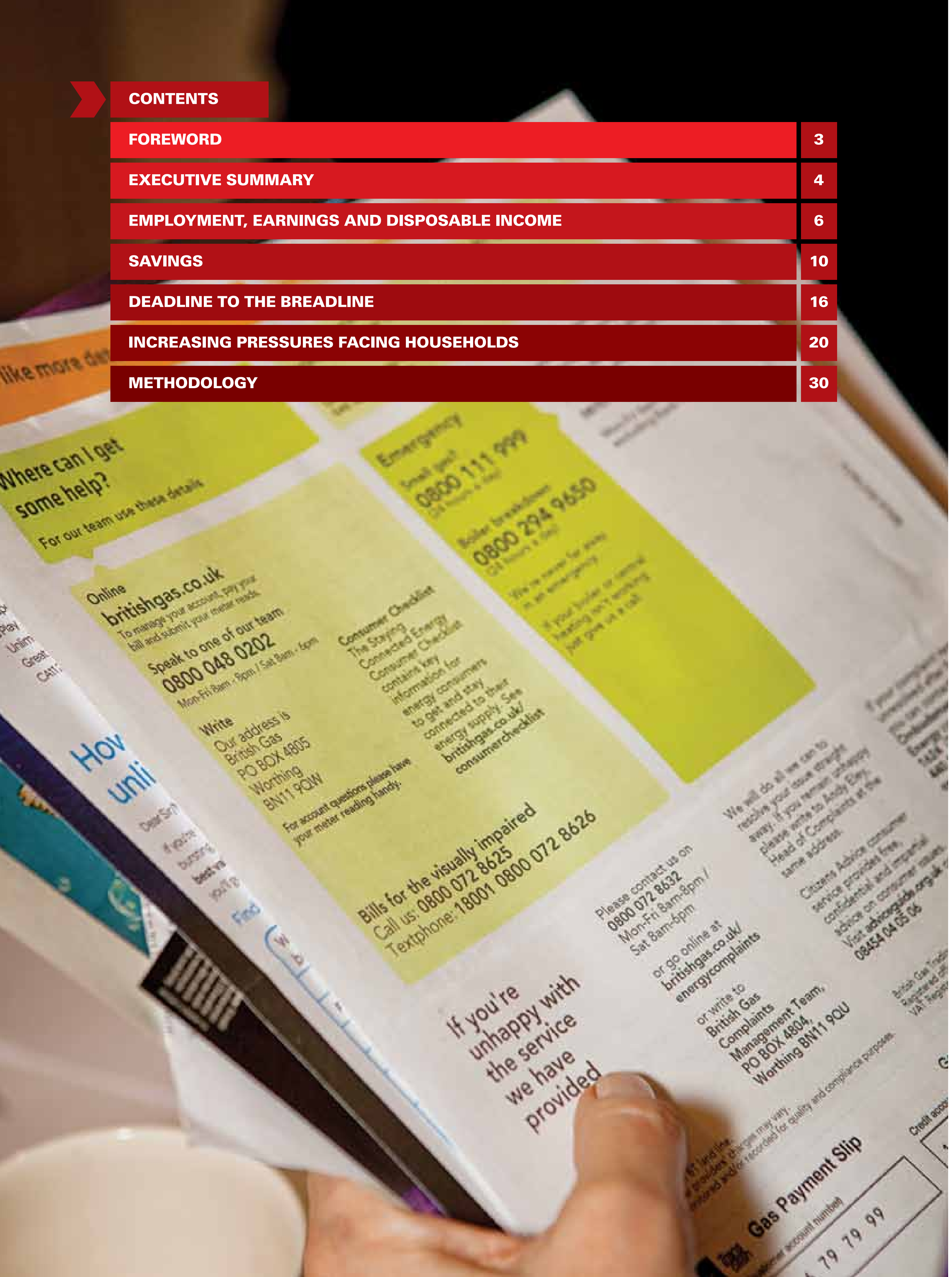
DEADLINE TO THE BREADLINE REPORT 2014

REALITY CHECK.

If a household's income suffers an unexpected shock and suddenly stops, their money would run out in just 26 days on average. For working age families the deadline comes even sooner, at only 11 days. Our report looks at the stark reality that many across the UK are facing.

EVERY DAY MATTERS.®

Legal & General



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FOREWORD.

Welcome to our third Deadline to the Breadline report.

In order to understand how the UK's economic and financial outlook are affecting the financial stability of the average household, this third edition of our Deadline to the Breadline report, looks again at how prepared people across the UK are for a sudden shock to their income. We have again measured how long a household's savings could sustain their current levels of spending before they could be on the breadline.

In this latest report, we have found that the average household in the UK now has a Deadline to the Breadline of 26 days. Although this is an improvement since our last report, this is largely due to more people starting to save a little something over the past six months. However we must not get complacent. It's a reality check to think that across the UK the average household still only has just under four weeks to survive and that even more worryingly half of the regions we researched don't even have that long.

While it's good news more of us are saving, the total amount that UK households are saving each month is slowing as monthly savings decline compared to 2012.

For the first time we have looked at the majority of working age families Deadline to the Breadline picture too. And it's worth noting that 18-64 year olds remain in a difficult financial situation. When viewed in isolation, away from older generations, who have more savings and better financial plans, the Deadline to the Breadline for working age families is just 11 days.

Many people also have no expectations about how much the government will help them: 80 per cent of households either don't know what to expect or expect nothing from the government in terms of financial help for their family in the event of their death. This fact should be considered alongside other new independent research from Demos and Macmillan Cancer Support which shows that a cancer diagnosis, can cost £570 a month.

Therefore, most of us in the UK are still in a precarious situation when it comes to our finances. The fact that the average UK household will be reliant upon friends, family or state benefits for financial support – less than four weeks after a family or individual loses their usual sources of income – should remind us all that this is no time to ignore the warning signs.

For all these reasons, we believe that it is crucial to help everyone understand the importance of making time for financial planning in order to help protect their lifestyle and improve their financial security right now. As our economic recovery continues to gather pace, now is the time for all of us but especially families to take stock and lay the foundations for long-term financial stability.

JOHN POLLOCK,
CHIEF EXECUTIVE OFFICER,
LEGAL & GENERAL
ASSURANCE SOCIETY

EXECUTIVE SUMMARY.

Income shocks can hit households hard and many are not well prepared to deal with the consequences.

This report investigates how long people in the UK could survive financially if all they had to rely on was their savings or minimal state benefits, such as statutory sick pay – their 'Deadline to the Breadline'. This Legal & General research which has been supported by analysis from the Centre for Economics and Business Research (Cebr), draws on a survey of 5,068 people weighted to represent the UK adult population in October 2013.

OUR FINDINGS

26 DAYS

DEADLINE TO THE BREADLINE.

The average household in the UK now has a Deadline to the Breadline of 26 days, up from 18 days in June 2013.

This rise is mainly due to more people starting to save something each month, rather than having no money in the bank. Although, in reality, **this still only means that the typical household's savings will last less than four weeks**, before they are totally reliant upon friends and family and the state for support – **this is nearly three times less than their more optimistic expectations that their savings could last 72 days.**

DAYS TO DEADLINE BY REGION

3x LOWER

The **REAL Deadline to Breadline** is nearly **3 times lower** than the **72 DAYS** people believe they have.

WORKING FAMILIES

For the majority of working age families (18-64 year olds) the Deadline drops sharply to

264 HOURS = 11 DAYS

This shows the effect that the older generation, who have much larger savings and better financial plans have on the UK picture of 26 days as a whole.

4 OUT 5 HOUSEHOLDS ARE WORRIED ABOUT THE RISING COST OF LIVING

13 YEARS

Households are saving £175 per month on average but it would take nearly 13 years to save one years average UK, gross salary of £27,000*.

*Office National Statistics annual hours and Earnings Survey 2013

80% OF HOUSEHOLDS

either don't know what to expect or expect nothing from the government in terms of financial help for their family in the event of their death. 36% have no idea of government support if they fell ill. **Highlighting the importance of making time for financial planning now rather than when it's too late.**

- **45% of people know someone who has suffered a serious illness or injury.** And when asked how they survived, the most common sources of financial support were friends and family and the state to make ends meet, which both helped at least 23% of people.
  While at least 9% of people cut back on either heating and lighting or food and some people also used food banks, payday loans or pawnbrokers at this traumatic time.
- This is in stark contrast to peoples' expectations of how they would deal with a crisis – only 8% thought they would rely on their friends and family for financial support.
- **Strikingly, 66% of households do not expect to receive any financial help in the future from friends and family. The remaining 34% expect monthly support of £107, which still just 6% of the average (mean) household's typically monthly outgoings of £1,783.**

% **Most households expect INTEREST RATES to rise in 2014 or 2015.**

33% of households have no savings so they could be on the breadline tomorrow! This is slighltly less than 37% last June.

1.

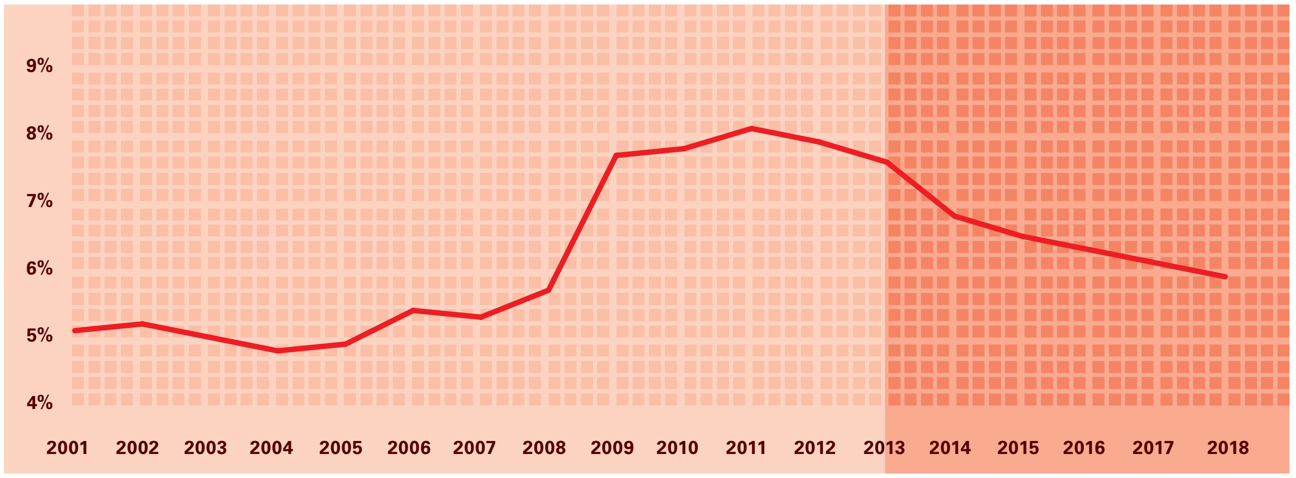
EMPLOYMENT, EARNINGS AND DISPOSABLE INCOME.

The UK economic recovery began to gather momentum at the end of 2013, with both consumer and business confidence making remarkable improvements. The UK's employment market has also strengthened, adding over 600,000 jobs in 2013.

The over 65s in particular have seen extraordinary employment growth, with jobs in this age group increasing by 10% year on year over the three months to October, as many have chosen to stay on in employment for longer rather than take retirement.

Nevertheless, finding employment remains difficult in comparison with the period leading up to the financial crisis. In the three months to October, some 7.4% of the economically active population in the UK could not find employment, while the latest estimates show that 1.5 million people, 4.5% of the UK's workforce, are working part time despite a desire to work full time. This places a strain on household's ability to bring in additional income to strengthen their financial positions and means that those who do lose their current employment, for whatever reason, continue to face a challenge in getting back into work. On average, 54% of unemployed people in the UK have been without a job for more than six months.

FIGURE 1 UK UNEMPLOYMENT RATE

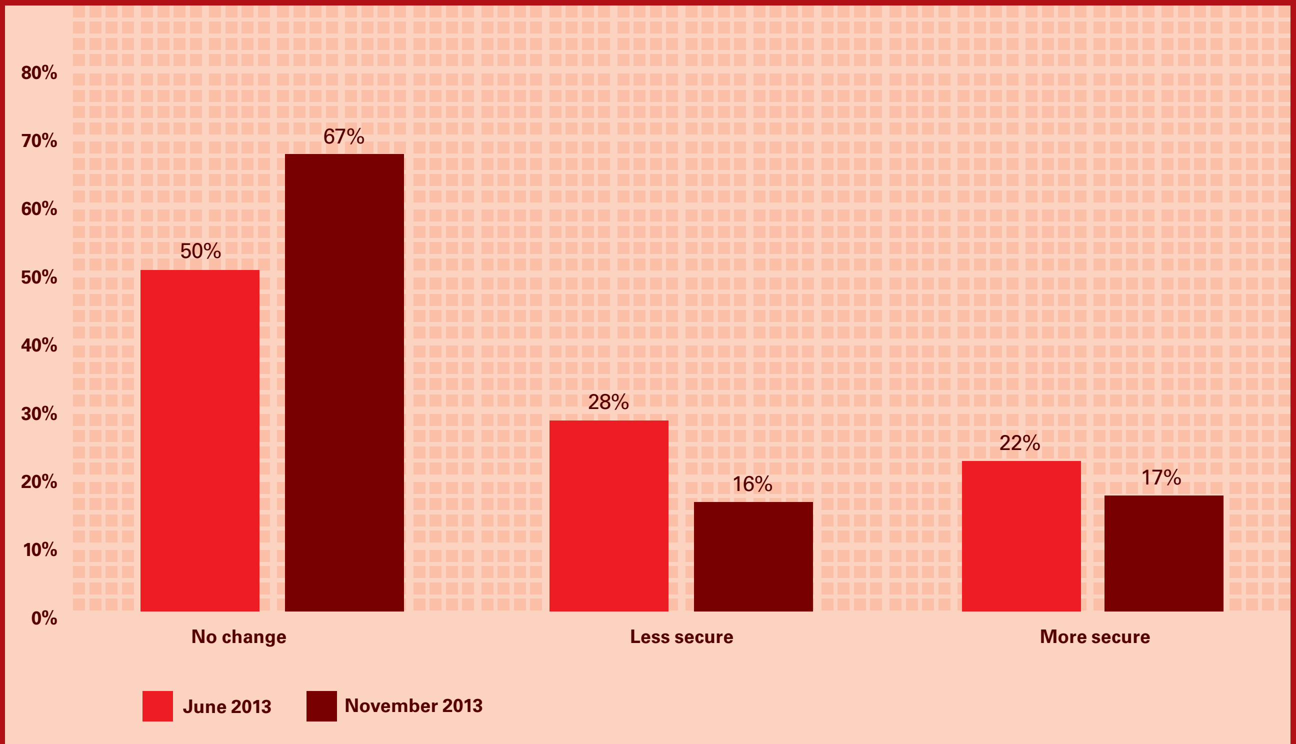


Source: Office for National Statistics, Cebr forecast

54% OF UNEMPLOYED PEOPLE HAVE BEEN WITHOUT A JOB FOR MORE THEN SIX MONTHS.

In November, 17% of households suggested they felt more secure in their current employment than a year earlier, compared to 16% who said they felt less secure and 67% who said there had been no change, as Figure 2 illustrates. On balance, this would suggest that job security has started to stabilise on the back of a generally improving economic outlook.

FIGURE 2 JOB SECURITY, PERCENTAGE OF HOUSEHOLDS

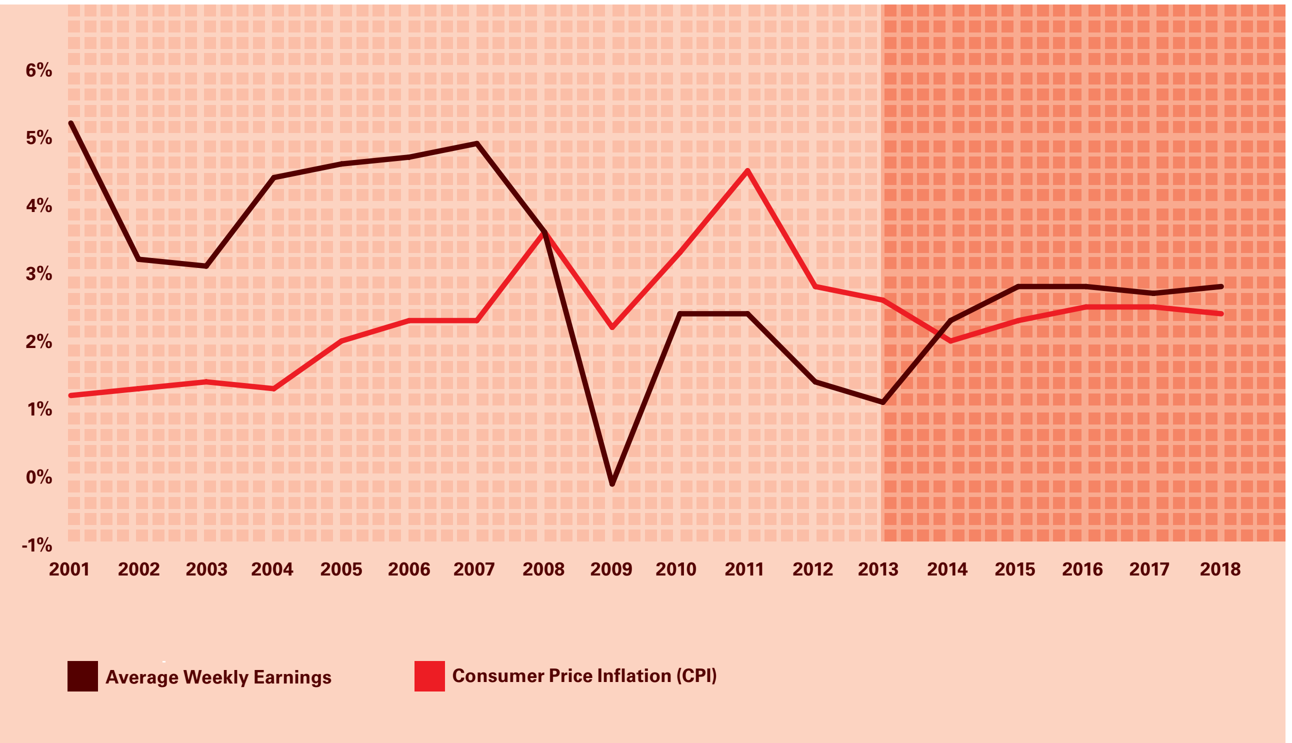


Source: Legal & General Deadline to the Breadline research via TNS Global

High levels of unemployment are likely to limit people's ability to negotiate for higher pay, keeping earnings growth down to subdued levels. This is evident in the latest data, which shows annual wage growth was just 0.9% in the three months to November. This is well below the 2.0% rate of consumer price index inflation seen in December, suggesting household incomes are falling in real terms and placing living standards under pressure. Going forward, however, a stabilisation of job security may start to provide people with a more solid platform from which to revisit pay negotiations.

This combined effect is illustrated in Figure 3 which compares earnings growth to the rate of consumer price index inflation. Since the latter half of 2007, earnings have been outstripped by the rising cost of living. A recovering economy in 2014 may see earnings rise above consumer prices, but the difference between the two is likely to be minimal. Households on the whole look set for a number of years, where earnings just about keep pace with rising costs.

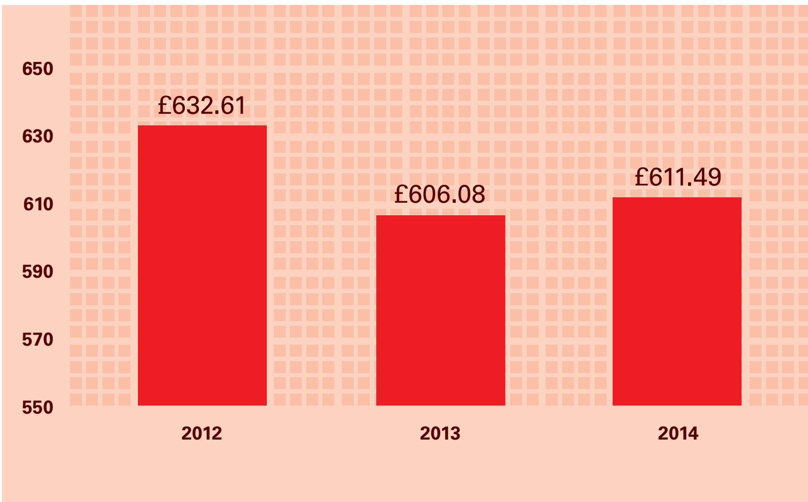
FIGURE 3 AVERAGE EARNINGS AND CONSUMER PRICE INDEX, ANNUAL PERCENTAGE CHANGE



Source: ONS, Cebr forecast

Household discretionary incomes have fallen compared to 2012. On average households, reported that their monthly discretionary income – the income left over after taxes and essential spending – had fallen by nearly £27 compared to 2012. However, the view for the next 12 months has become more optimistic: households in November expected their monthly discretionary income to increase by £5.40, representing a 0.9% increase in discretionary income.

FIGURE 4 MONTHLY DISCRETIONARY INCOME, £ PER HOUSEHOLD[1]



Source: Legal & General Deadline to the Breadline research via TNS Global

[1]These estimates are based on responses to the question, "How much of your monthly household income is left after paying tax, national insurance, housing costs, loan repayments and bills?"

2.

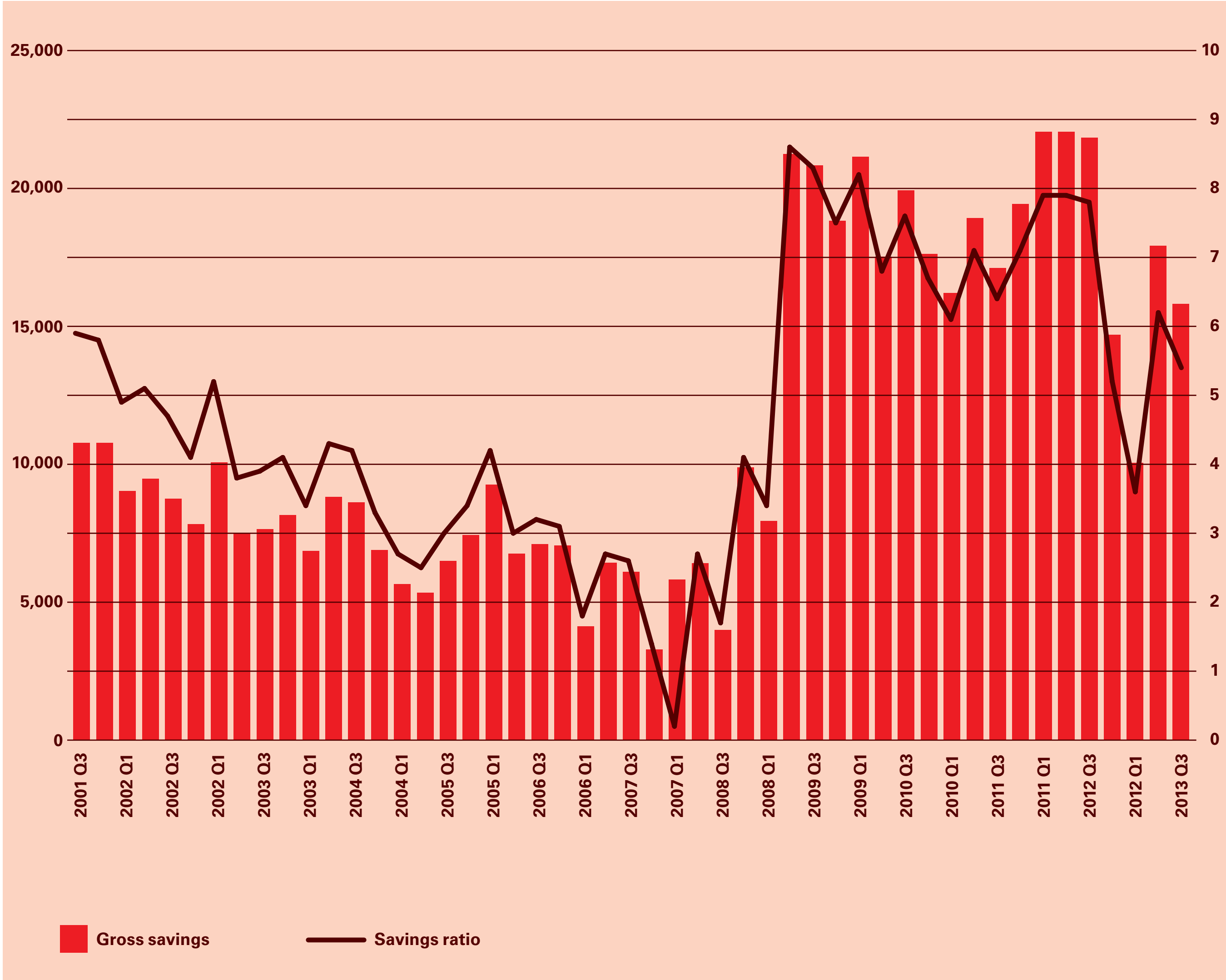
SAVINGS.

Three out of ten people still have no safety net.

Saving is a key aspect of any economy's performance. Savings represent the resources we have to draw on for future consumption and investment and can provide a buffer during times of crisis. Following the financial crisis and ensuing credit crunch in 2008, households have responded by increasing the amount they save. This is highlighted in Figure 5 below, which shows how much households are saving in gross terms – i.e. excluding debt repayments – on a quarterly basis.

In the second quarter of 2013, households saved approximately £16.9 billion, representing a significant increase from the first quarter of 2008 when gross saving turned negative as households borrowed to spend more than they received in income. Since the first quarter of 2008, quarterly gross saving has averaged £16.1 billion, more than double the pre-financial crisis average of £7.5 billion, as households look to cut back on spending and reduce their outstanding debts.

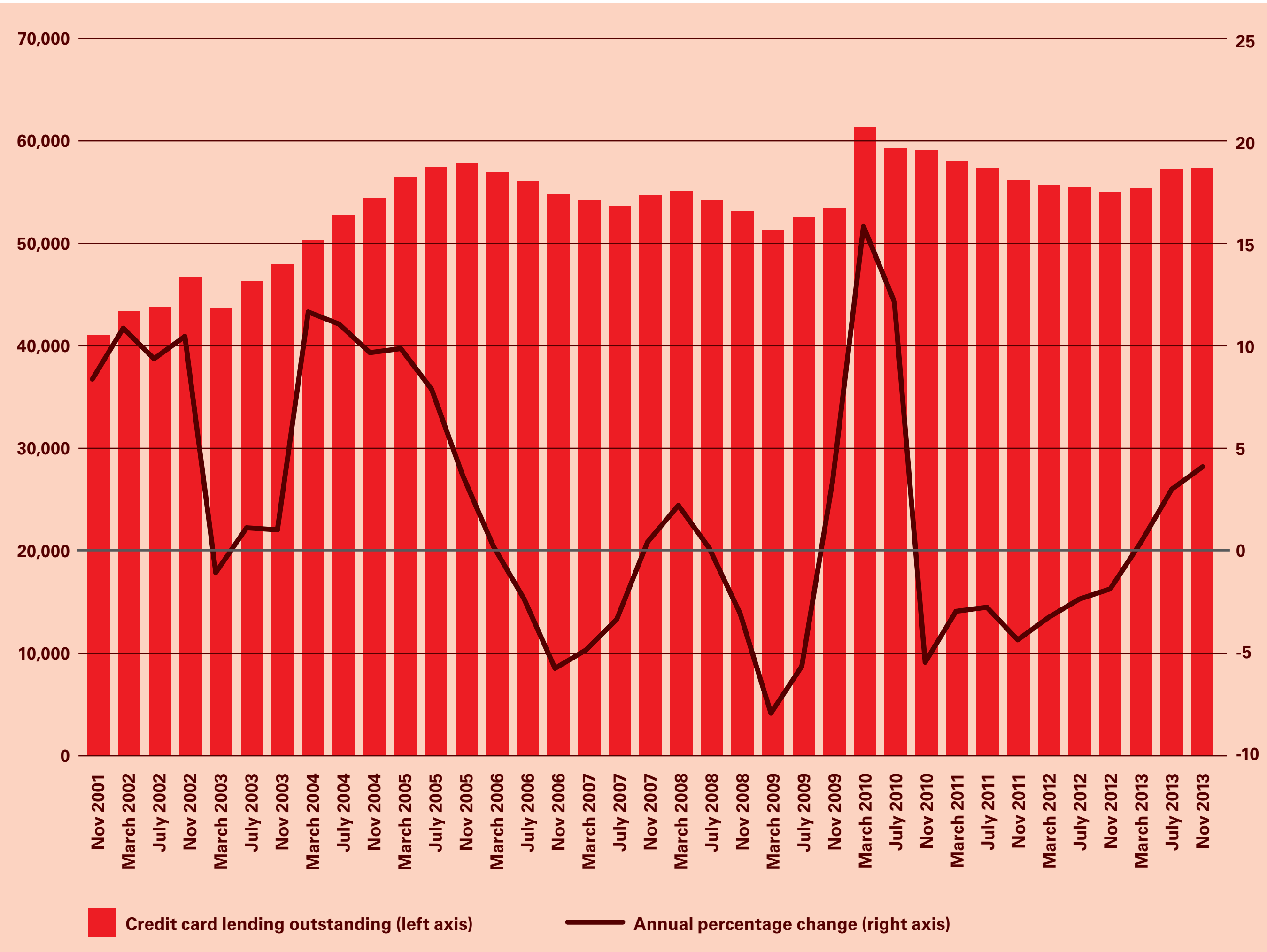
FIGURE 5 QUARTERLY GROSS HOUSEHOLD SAVINGS, £ MILLIONS AND PERCENTAGE OF TOTAL INCOME



Source: Office for National Statistics (ONS)

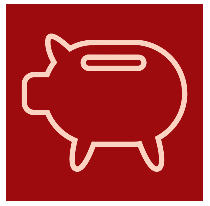
There is evidence that households are beginning to save less, however. After peaking at 8.3% in 2009, the proportion of income that households save fell back to 5.4% the third quarter of 2013 – growing confidence in the wider economy appears to be spurring some consumers to relax the purse strings a little more and spend rather than save. This is also reflected in the amount that households are borrowing. After consistent year on year declines in net credit card debt since November 2010, the stock of this unsecured lending began increasing once more in April 2013 and by November 2013 was rising at an annual rate of 4.1%, as highlighted in Figure 6.

FIGURE 6 STOCK OF NET CREDIT CARD DEBIT, £ MILLIONS AND ANNUAL PERCENTAGE CHANGE



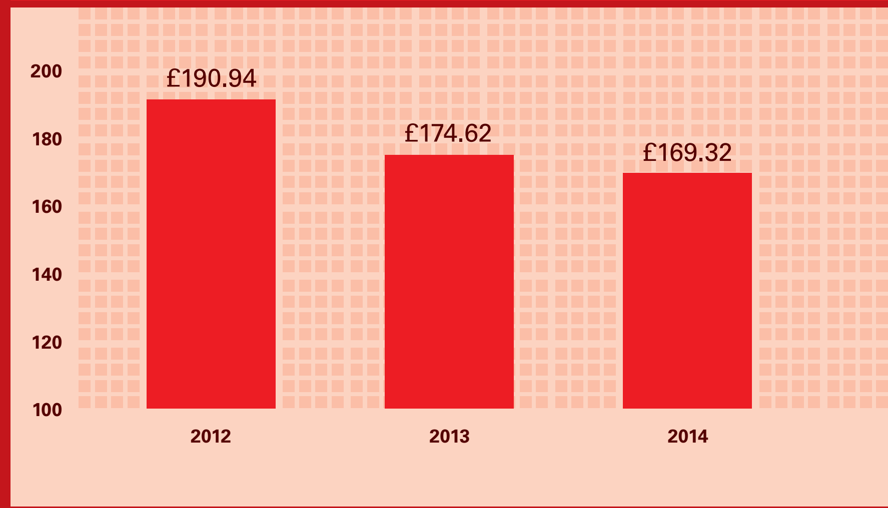
Source: Office for National Statistics (ONS)

Low interest rates and falling real incomes, as highlighted previously, offer some insight into why households may opt to save less of their incomes. With money not going as far and savings offering poor returns, households have less means to save and less incentive to do so. Nevertheless, households report that they are still saving £175 each month, contributing to increased savings buffers. This average has increased due to more people starting to have some savings. However, as highlighted in Figure 7, the average UK household now estimates that their monthly saving is £16.30 lower than a year earlier, with this expected to fall by a further £5.30 over the next 12 months.



£1,010
average UK savings.

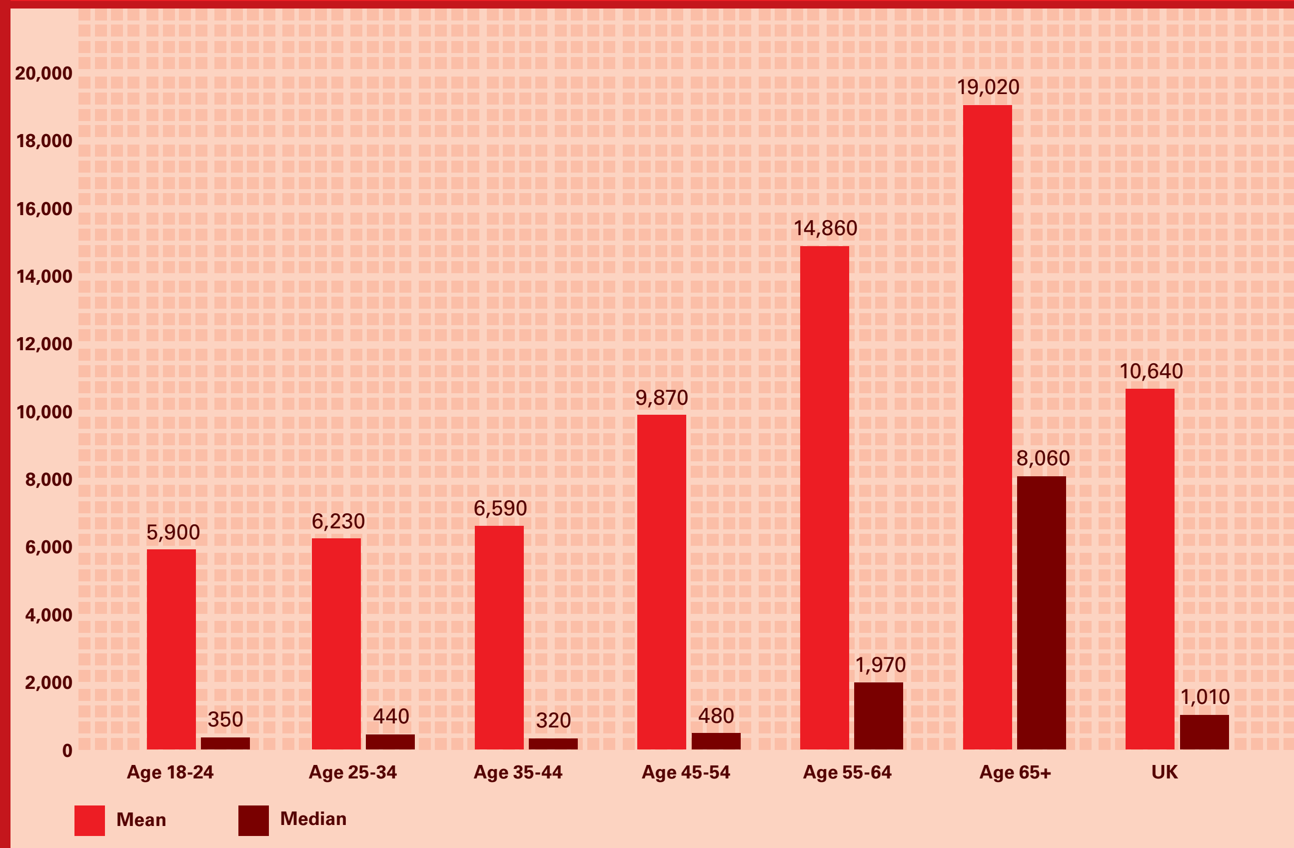
FIGURE 7 CHANGES IN REPORTED MONTHLY SAVING, £ PER HOUSEHOLD



Source: Legal & General Deadline to the Breadline research via TNS Global

The amount a household is able to save increases with earnings, which tend to increase with age. Figure 8 demonstrates how a household's savings increases with the age of the primary income earner. A household with a primary income earner aged 65 or over has on average £13,000 more held in savings and investments compared to a household where the primary income earner is aged between 18 and 24 years old.

FIGURE 8 HOUSEHOLD SAVINGS AND INVESTMENTS BY AGE OF PRIMARY INCOME EARNER, £ AVERAGES OVER JUNE-NOVEMBER 2013



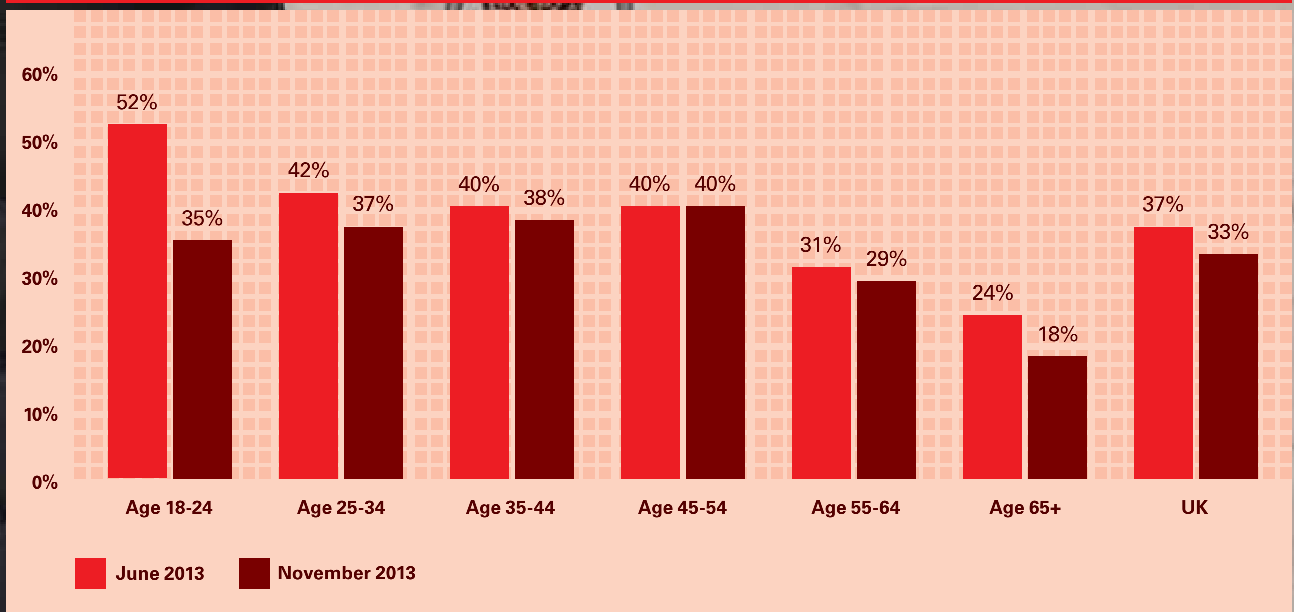
Source: Legal & General Deadline to the Breadline research via TNS Global

MEAN VERSUS MEDIAN

The difference between the mean and median figures[2] highlights the distortionary effects which high savers have on the simple average. The median figures are lower due to the fact that a high proportion of households have very little savings, while a small proportion have a very large amount of savings. This is illustrated in Figure 9, which shows the proportion of households with no savings by age.

Since June 2013, the proportion of households reporting that they have no savings has started to come down. In November, 33% of households were found to have no savings, compared to 37% in June. The largest reduction has been seen in the 18-24 age group, which fell from 52% down to 35% as more people start to save a little. The 45-54 age bracket was the only group not to see a reduction in the percentage of households with no savings. This suggests that while overall saving may be coming down, people at the lower end of the savings spectrum have started to create some rainy day funds and they now have at least some financial cushion.

FIGURE 9 PERCENTAGE OF HOUSEHOLDS WITH NO SAVINGS BY AGE



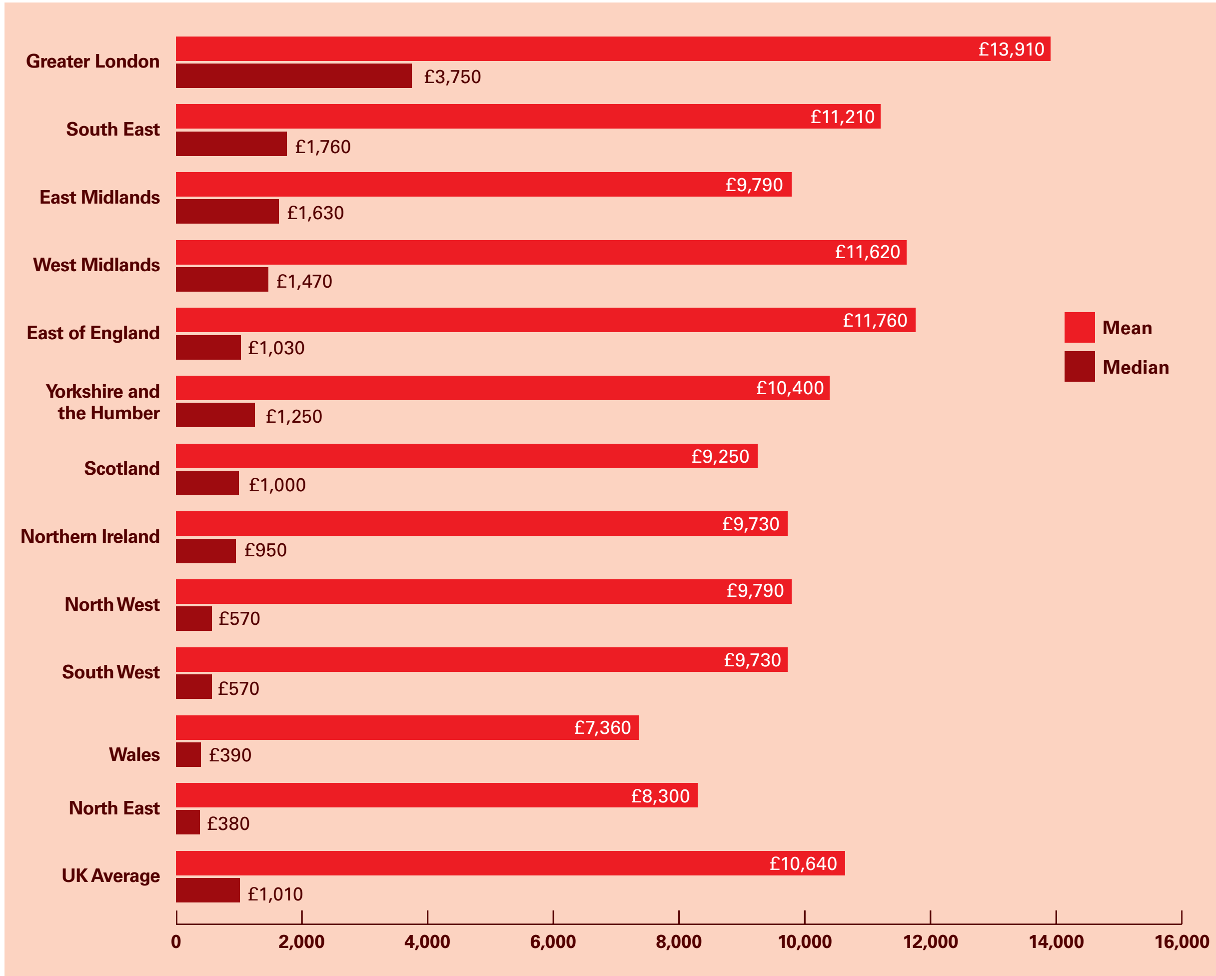
Source: Legal & General Deadline to the Breadline research via TNS Global

[2]Median figures are used here to remove the distortionary effects of high savings figures, particularly associated with high income earners – by doing so these figures are likely to be more representative of a typical UK household. The median is calculated as the middle person in a sequence of values ordered from largest to smallest.

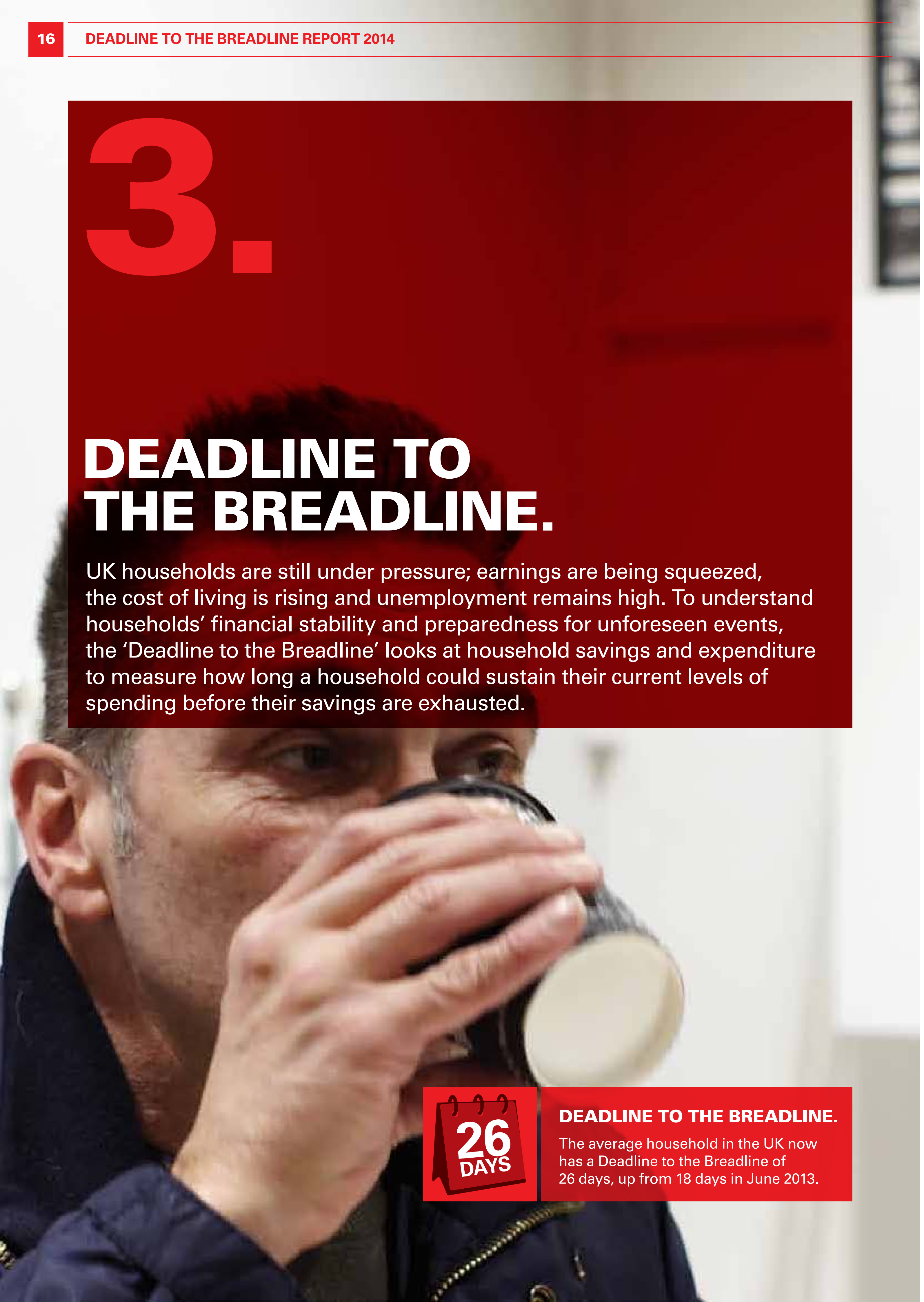
WIDE VARIATIONS IN SAVINGS ARE EVIDENT ACROSS THE UK

Figure 10 shows mean and median levels of savings held by households in the regions and countries that make up the UK. On both measures, households in London have by far the highest level of average savings. Median savings were found to be lowest in Wales and the North East, while households in Wales also have the lowest mean level of savings.

FIGURE 10 HOUSEHOLD SAVINGS AND INVESTMENTS BY REGION, £, AVERAGES OVER JUNE-NOVEMBER 2013



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis



3.

DEADLINE TO THE BREADLINE.

UK households are still under pressure; earnings are being squeezed, the cost of living is rising and unemployment remains high. To understand households' financial stability and preparedness for unforeseen events, the 'Deadline to the Breadline' looks at household savings and expenditure to measure how long a household could sustain their current levels of spending before their savings are exhausted.

26 DAYS

DEADLINE TO THE BREADLINE.

The average household in the UK now has a Deadline to the Breadline of 26 days, up from 18 days in June 2013.

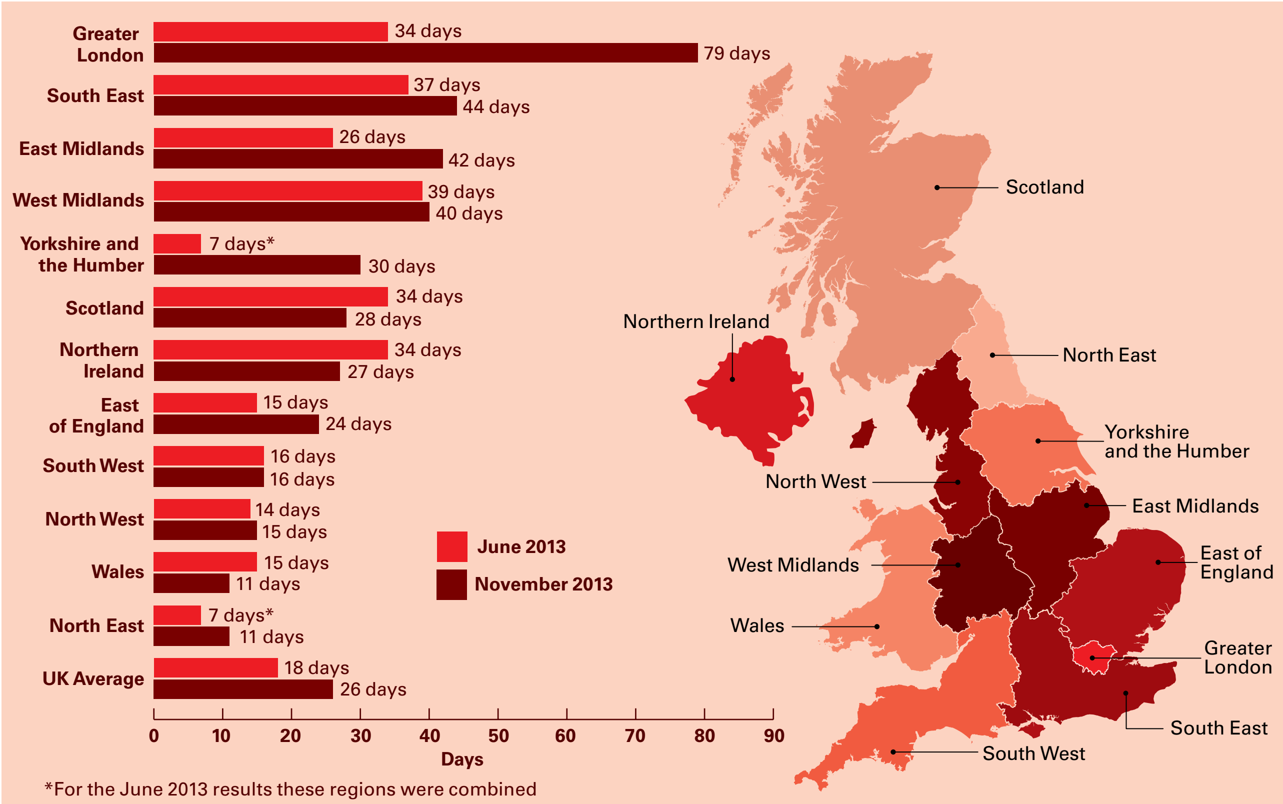
The figures show that, based on median estimates, the average household in the UK has a Deadline of just 26 days. This means that within four weeks of losing their usual sources of income, unless they have some other strategy to mitigate financial hardship, the average UK household will be reliant upon state benefits and friends and family alone for financial support. Furthermore, nearly half of all UK households would not even last this long and worse if we look at the majority of working age families in the 18-64 age-group, the deadline drops to 11 days.

The overall UK figures show that the Deadline to the Breadline is just over one week longer, on average, compared to our previous June 2013 report findings of 18 days. This is partly due to the new savings buffers built up by households who previously had no savings – particularly those with younger primary income earners – while the increasing employment levels of the over 65s appear to have contributed to a major boost in their savings levels.

Figure 11 illustrates the variation across the UK. In contrast to the June 2013 report, Greater London has shot ahead to achieve the highest deadline. This change has been driven by a dramatic increase in median savings in the region, which has pushed the deadline out to 79 days. Increased savings have also boosted the South East of England into second place, with a deadline of 44 days, while the East and West Midlands both perform strongly, with deadlines of 42 days and 40 days respectively. Wales and the North East have the lowest deadline, of just 11 days.

While in general there were improvements across the UK, the figures highlight the breadth of the disparities which exist, as London and the South East's economies pull away from the rest of the UK. It's a fact economic growth in the UK continues to be led by the South of England. This is evident in the disparity between house price growth across the UK. The latest data from the Office for National Statistics show that prices in London are increasing by 9.4% on an annual basis, with prices in the South East up by 4.0%. By comparison, prices in the rest of the UK are growing at just 1.4%.[3]

FIGURE 11 DEADLINE TO THE BREADLINE BY REGION[4]



*For the June 2013 results these regions were combined

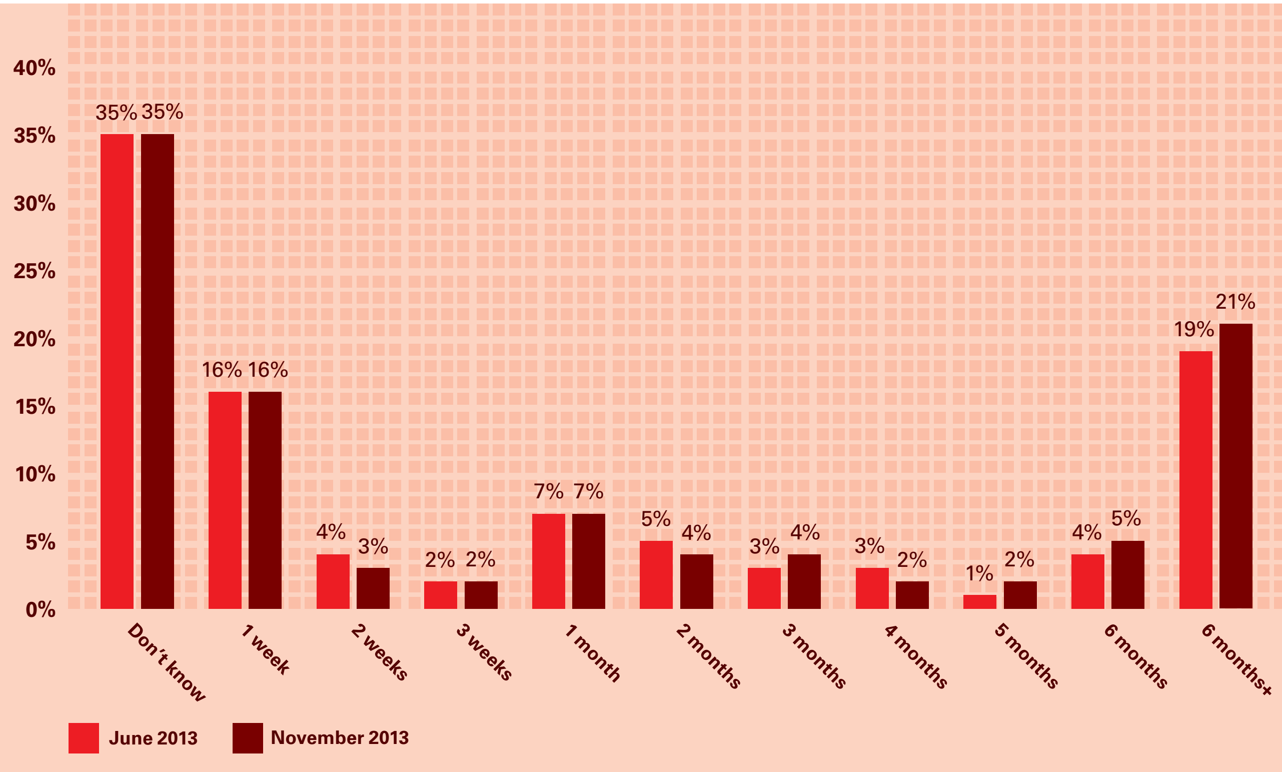
Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

[3]Mix-adjusted house prices growth for the year to September, taken from ONS House Price Index, November 2013.

[4]Note that November figures reflect the average between surveys conducted between March and October, providing a representative picture for 2013 as a whole and smoothing any regional volatility between survey periods.

The **overall Deadline figure of 26 days** sits in stark contrast to households' more optimistic estimates of how long their savings could last. On average, **UK households estimate that they could get by on their savings for 72 days** – nearly three times what our estimates show, reflecting the fact that more people believe their savings could last for longer than ever before. Meanwhile, as illustrated in Figure 12, 35% of households still confess to having no idea how long their savings would last.

FIGURE 12 HOUSEHOLDS' ESTIMATES OF HOW LONG THEY CAN GET BY ON SAVINGS AT CURRENT EXPENDITURE

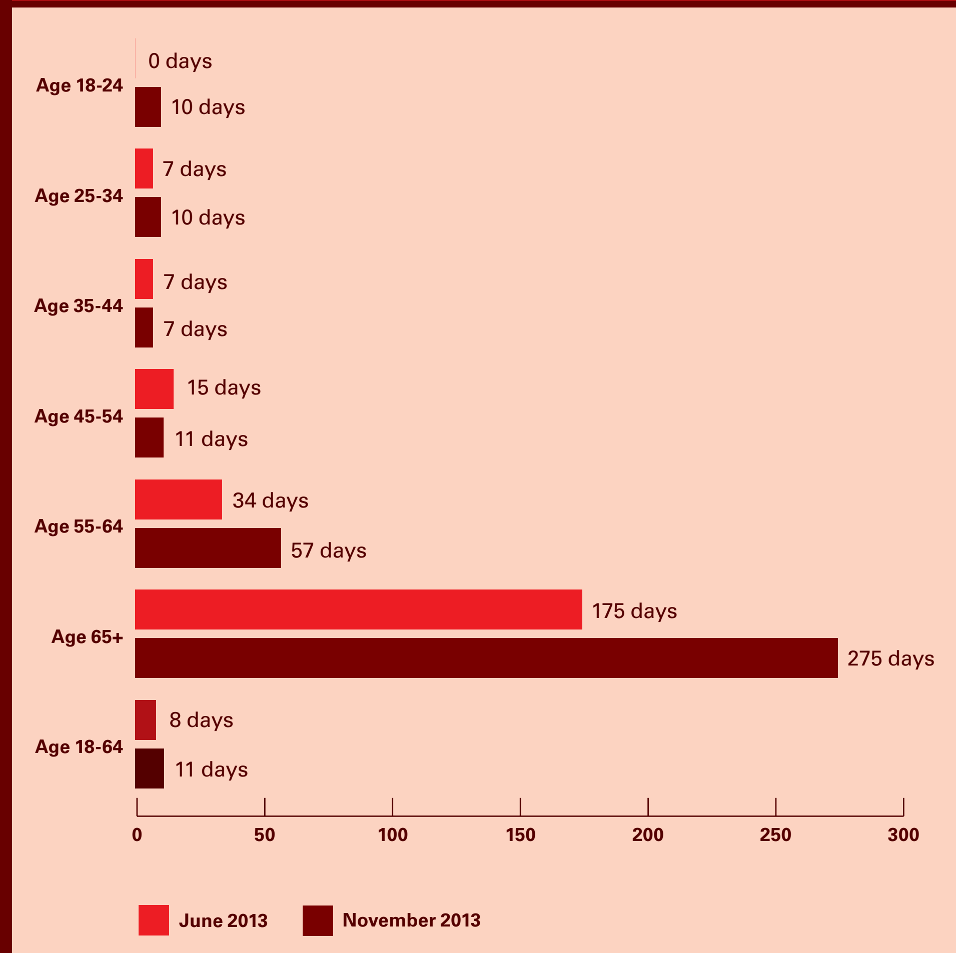


Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

There is also huge variation in the estimated Deadline according to age, as shown in Figure 13. This reflects the much greater accumulation of savings by older people as discussed earlier. The older the primary income earner of a household is, the better prepared the household appears to be for an adverse shock to their income. There has been a sharp increase in the deadline estimated for the over 65s. A dramatic increase in reported savings in this age bracket, following double digit employment growth for the over 65s, has helped push the estimated deadline to just over nine months.

Excluding the over 65s, the graph highlights the picture facing the majority of working age families and households. Within the 18-64 age range, households could expect to become reliant on state benefits and friends and family within just 11 days or 264 hours of losing their usual sources of income.

FIGURE 13 DEADLINE TO THE BREADLINE BY AGE[5]



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

[5]Note that November figures reflect the average between surveys conducted between March and October, providing a representative picture for 2013 as a whole and smoothing any volatility between survey periods.

4.

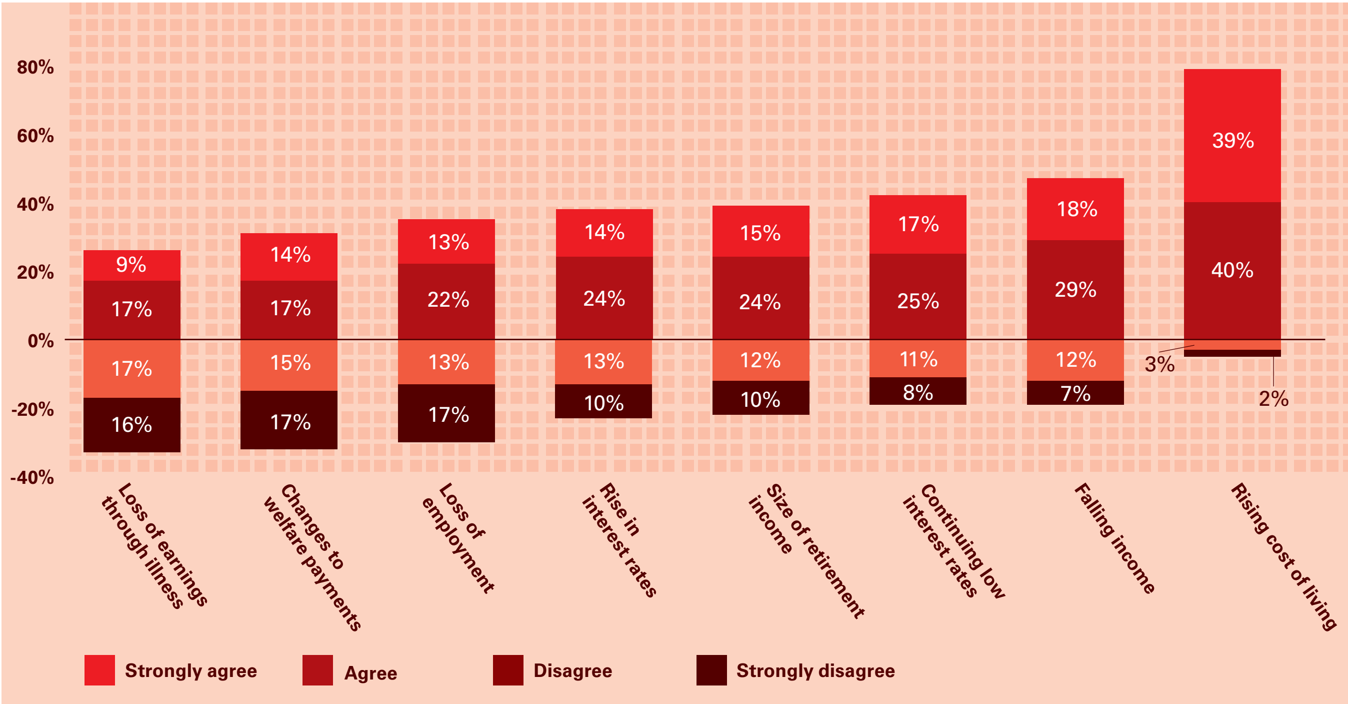
INCREASING PRESSURES FACING HOUSEHOLDS.

The rising cost of living and falling incomes are the highest concerns facing households today. With 35% of households still having no plans in place to deal with a sudden unforeseen shock to their income.

To take a more detailed look at the economic circumstances facing households, this section draws on households' views of the greatest concerns as they perceive them and highlights how well households appear to be prepared to deal with these challenges. Figure 14 provides households' ranking of eight different concerns facing them over the next 12 months.

The most commonly cited concern by far for the next year is the rising cost of living. Four fifths of households either agreed or strongly agreed that living costs represent a key concern over the coming year. Given the recent announcements of near double digit utility price rises and significant food price inflation, it is easy to see why rising costs are the top household worry. Falling incomes, low interest rates and the size of retirement income were also key considerations for many households. Households were least worried about future potential issues such as losing earnings through illness, or about changes to the welfare system – 17% strongly disagreed that this was of concern to their household. Overall households' concerns appear to be led by making ends meet with longer term and more uncertain issues slipping down the priority order.

FIGURE 14 HOUSEHOLDS' RATING OF SELECTED RISKS OVER THE NEXT 12 MONTHS, PERCENTAGE OF HOUSEHOLDS



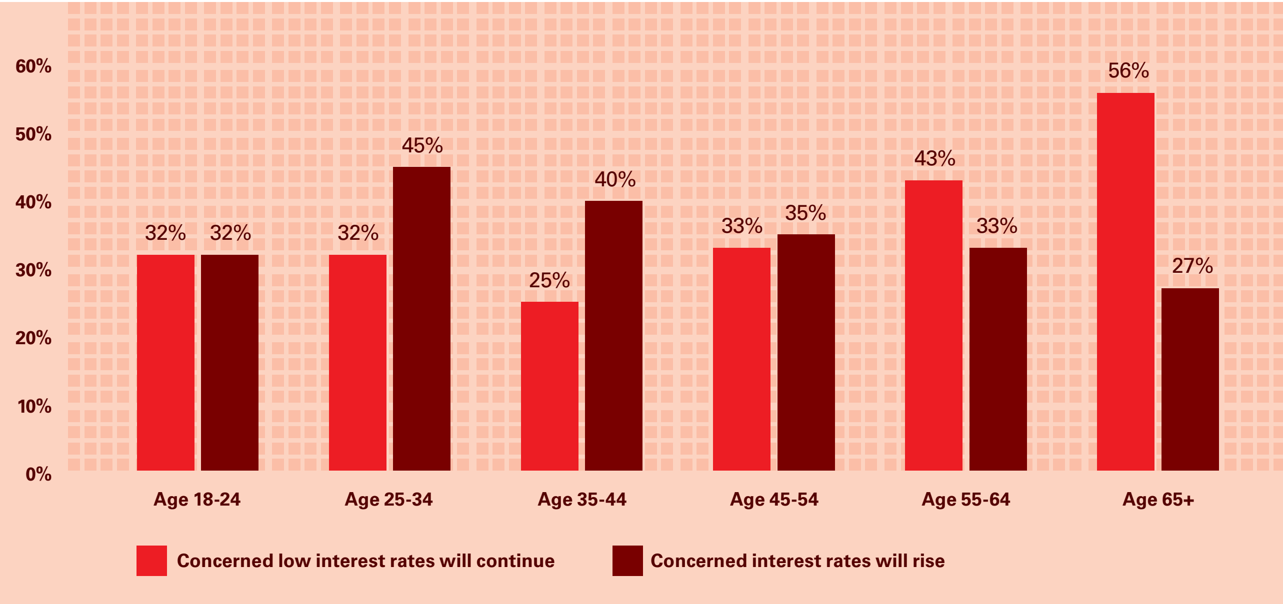
Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

THE MOST COMMON CONCERN OF HOUSEHOLDS IS THE RISING COST OF LIVING.

As highlighted in Figure 15, concern that low interest rates will continue, increases sharply with age, while concern that interest rates will rise, generally diminishes with age – although there is a slight dip in concern for the 35-44 year olds. This illustrates the key differences facing different generations; 25-44 year olds are much more likely to be starting out on the property ladder, making low interest rates extremely beneficial.

Conversely, older households, who are likely to be closer to paying off their mortgage and focused on maximising retirement income, would benefit from higher savings interest rates. Some 46% of households who agreed that rising interest rates were a source of concern over the next 12 months were homeowners who still had a mortgage outstanding on their property.

FIGURE 15 HOUSEHOLDS' VIEWS OF INTEREST RATES, PERCENTAGE OF HOUSEHOLDS



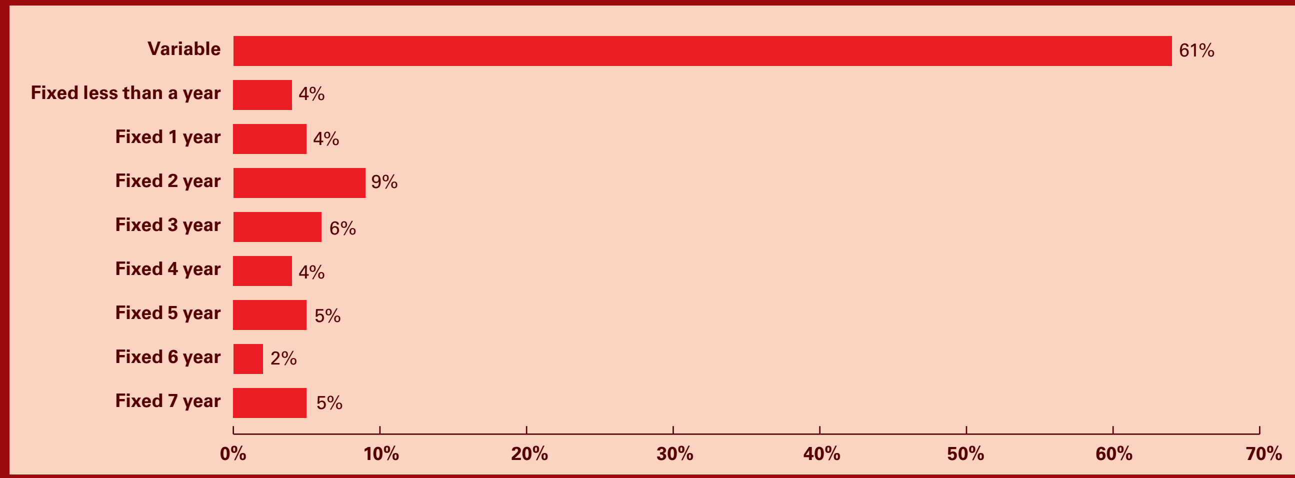
Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

One way to assess the exposure of households to a rise in the interest rate is to look at the proportion of households who hold a mortgage on which the payments could change quickly following a rise in the base rate of interest, as set by the Bank of England. These would be households with a mortgage on which interest is currently charged at a standard variable or tracker rate or which has a relatively low period of fixed interest payments remaining before it becomes variable, or fixed once more at a new interest rate.

Figure 16 illustrates the distribution of mortgages according to their type. Based on this evidence, at least 61% of mortgage holders have a high degree of exposure to interest rate rises, since they currently hold variable rate mortgages.

Add to these those fixed by 1 year or less and it becomes easy to see why 38% of all households (regardless of mortgage status) are concerned about the prospect of rising interest rates.

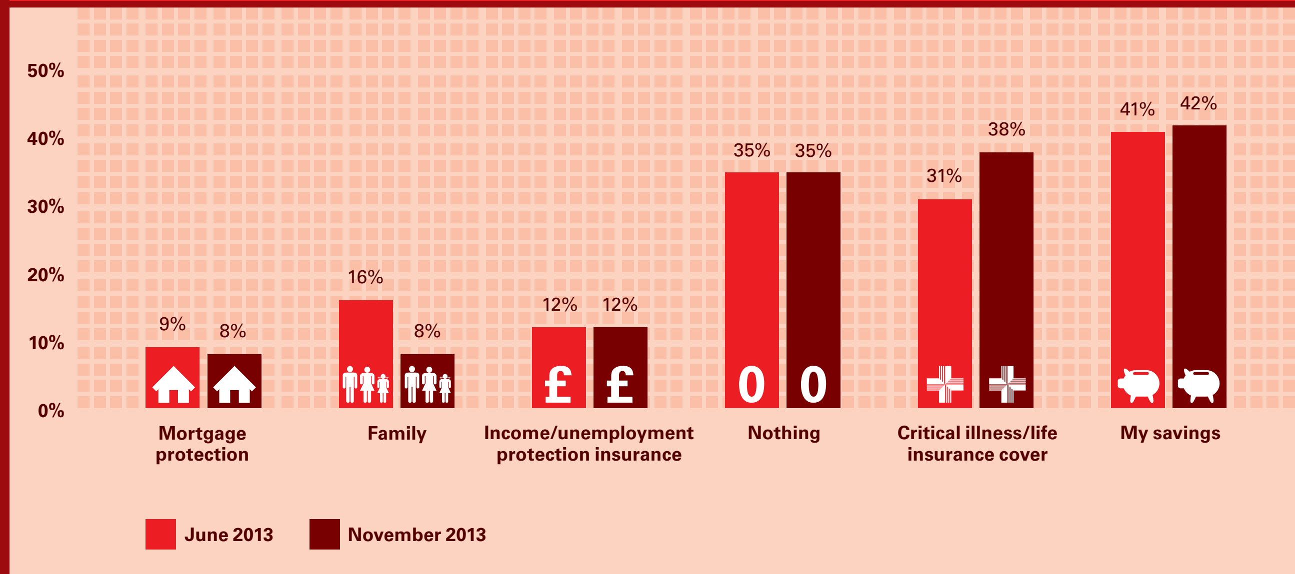
FIGURE 16 PERCENTAGE OF HOUSEHOLDS WITH A MORTGAGE, BY MORTGAGE TYPE



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Despite their concerns, **35% of households still have no plans in place to deal with an unforeseen shock to their income**. As Figure 17 illustrates, savings still remain by far the most popular method for dealing with sudden changes in circumstances, with 42% of households using this as their back up plan. The number of people relying on friends and family fell sharply in November, with just 8% suggesting this would be their back up plan, down from 16% in June. Encouragingly more people are taking responsibility for their finances, as the number of people with life and critical Illness Cover has started to rise. In contrast to the exposure of variable mortgages to rising interest rates – which the households we surveyed expect to happen in 2014 or 2015 – just 8% of households have taken out mortgage protection insurance, compared to the 14% of households we surveyed who have the highest exposure to rising interest rates, based on the fixed interest period remaining on their mortgage.

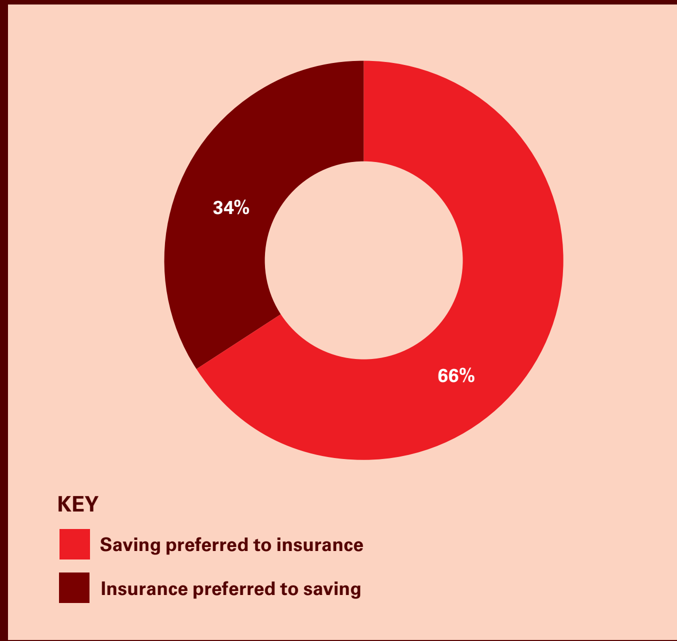
FIGURE 17 FINANCIAL HARDSHIP STRATEGIES USED BY HOUSEHOLDS, PERCENTAGE OF HOUSEHOLDS



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Savings also appear to have become more popular as a means of protection against unforeseen events compared to insurance. In November, 66% of people indicated that they would rather save up for a rainy day than take out insurance to protect themselves, compared to 54% in June. This change in attitudes would appear to reflect the increased savings buffer that many households appear to have built up over the same time period. Based on the current levels of savings of £175 per month, however, it would still take the average UK (mean) household nearly 13 years to save up enough money to cover their annual gross salary, of £27,000. This highlights the importance of having both savings and insurance for good financial planning, as insurance can help protect income and loved ones immediately, whereas savings can take a long time to build enough money to rely on.

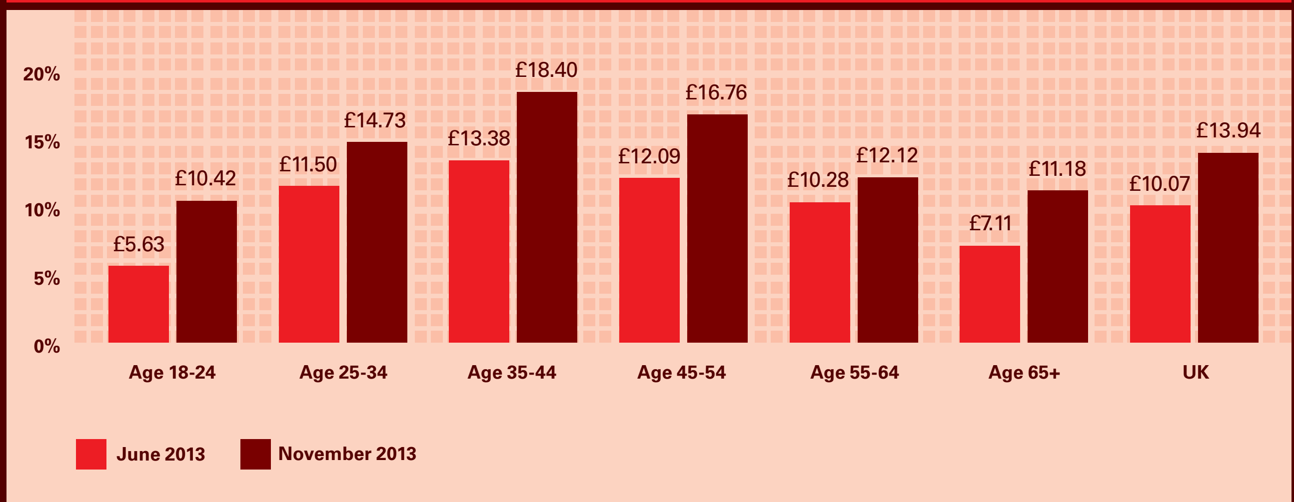
FIGURE 18 INSURANCE AND SAVINGS PREFERENCE, PERCENTAGE OF HOUSEHOLDS



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Despite this shift in preferences and the accumulation of greater savings, the amount households spend on insuring their current way of life and helping to protect their futures has also seen an increase across all household demographics. The average household now spends approximately £14 each month on insurance, up from £10 in June. 35-44 year olds are making the most of insurance to safeguard themselves, spending the greatest amount on this protection, estimated at £18.

FIGURE 19 HOUSEHOLD MONTHLY EXPENDITURE ON INSURANCE, £ BY AGE OF PRIMARY INCOME EARNER

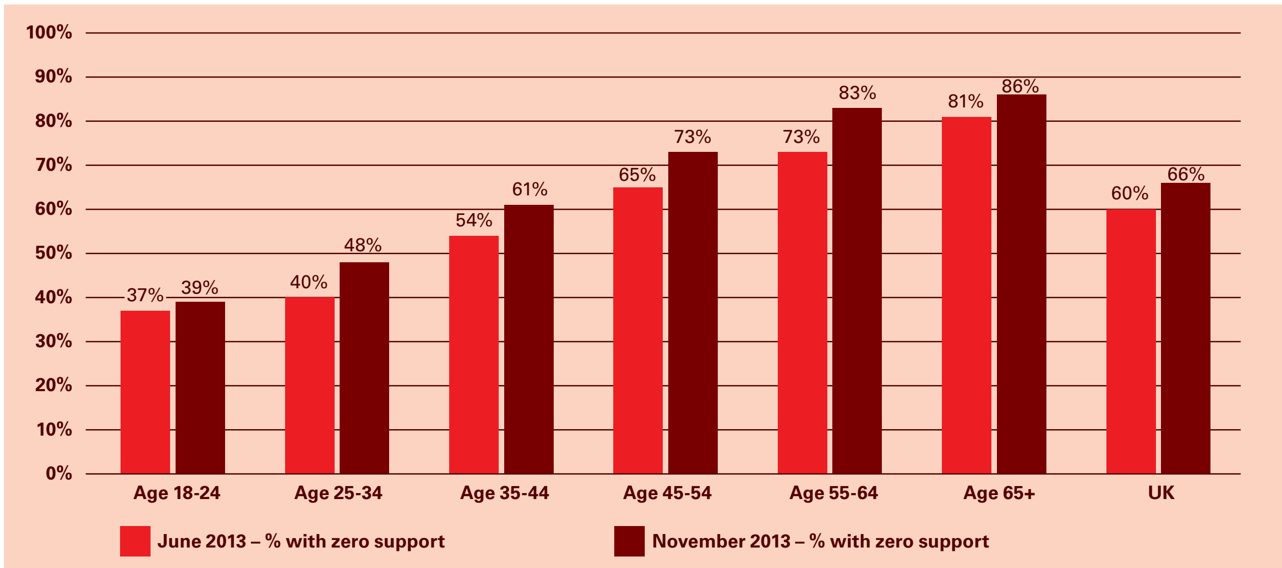


Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Across all age groups, households now indicate that the amount of financial support they would expect to receive from friends and family has fallen. On average, households would now expect £107 of financial support each month, compared to £155 previously. This would contribute to just 6% of the average (mean) household's typical monthly outgoings of £1,783. Furthermore, the proportion of people who would expect zero financial support has increased across all age groups, except the 18-24s, reaching an average of 66% across all households up from 60%.

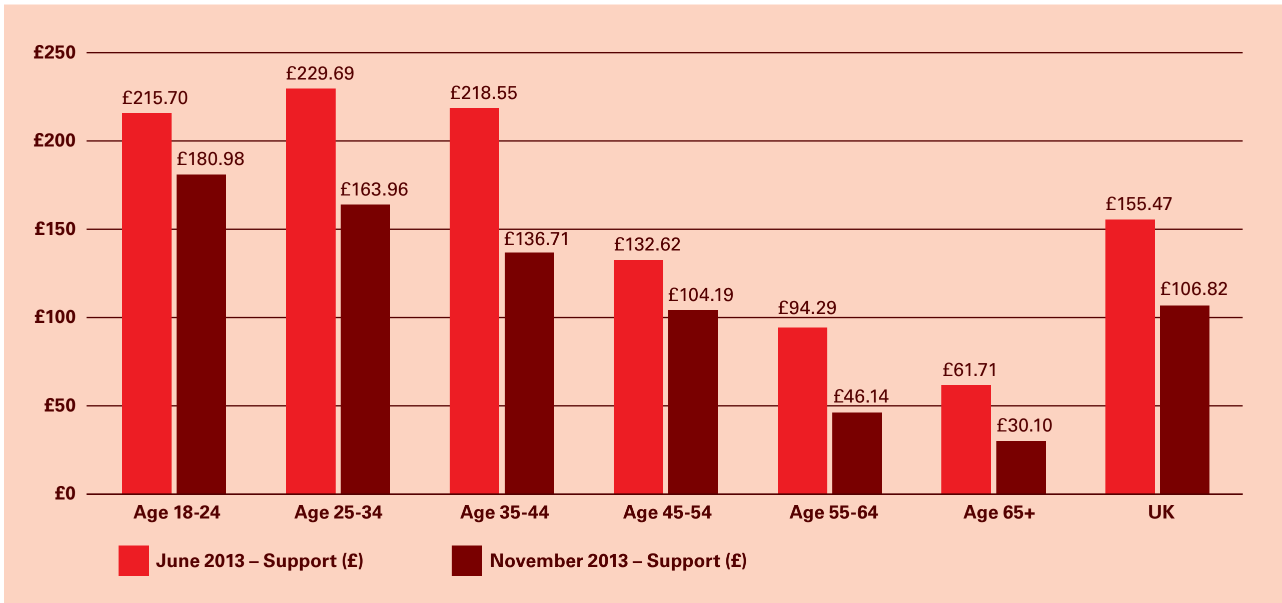
The improving picture we can see in overall levels of savings, job security and discretionary income may simply reflect the fact that households now feel more able to cope with an unforeseen event and are therefore expecting to rely less heavily on their family and friends.

FIGURE 20A PERCENTAGE OF HOUSEHOLDS WHO WOULD EXPECT TO RECEIVE NO SUPPORT FROM FRIENDS AND FAMILY



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

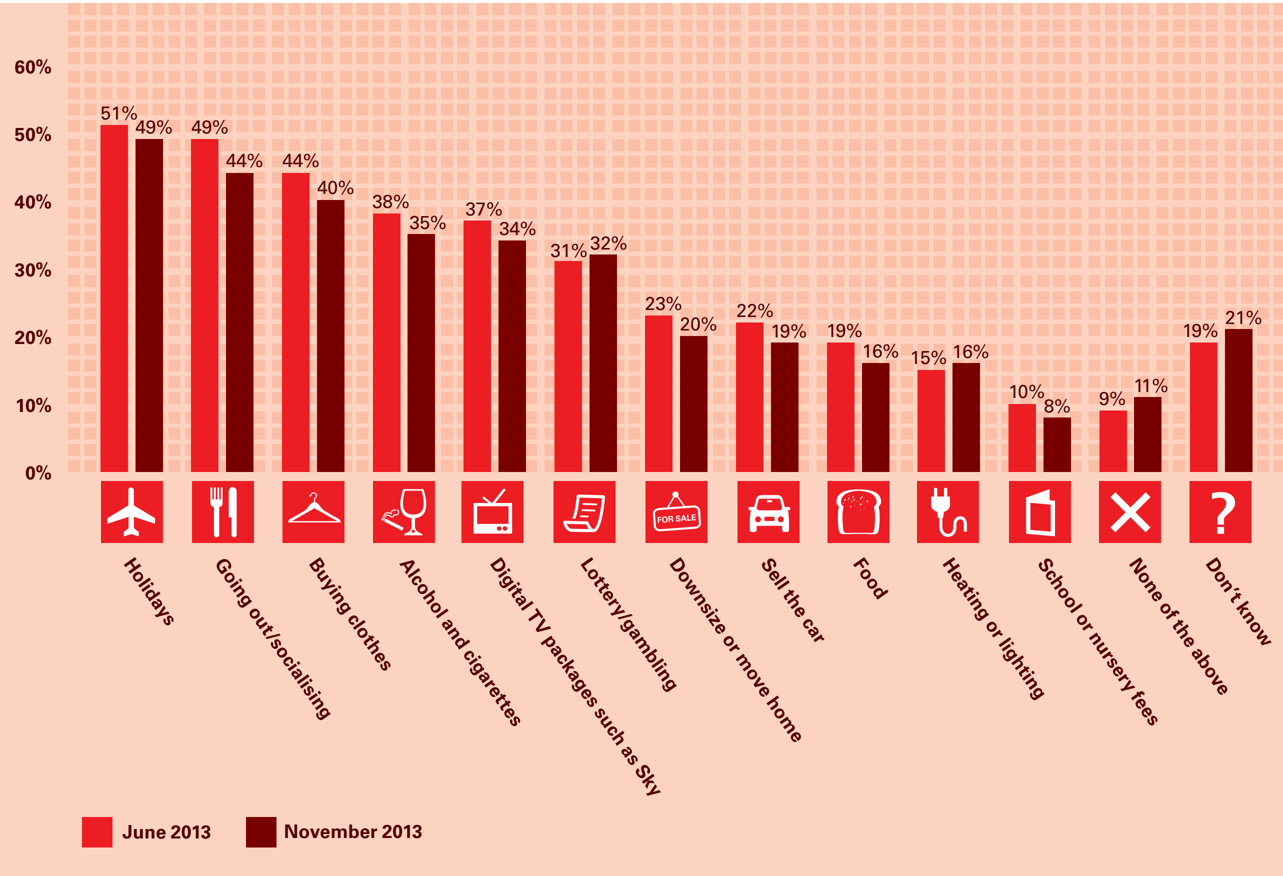
FIGURE 20B MONTHLY SUPPORT FROM FRIENDS AND FAMILY IN £



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Just as households' back-up plans have not changed significantly since June, apart from a reduced reliance on family and friends, the sacrifices that households are prepared to make have remained broadly the same. Holidays are the first things to be cut when times become difficult, as indicated by 49% of households. Going out isn't far behind, however, with 44% suggesting they would cut back on social activities when times get difficult. The proportion of people who don't know what they would be likely to cut back on picked up slightly in November, reaching 21% compared to 19% in June.

FIGURE 21 SACRIFICES HOUSEHOLDS ARE WILLING TO MAKE, PERCENTAGE OF HOUSEHOLDS



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analys

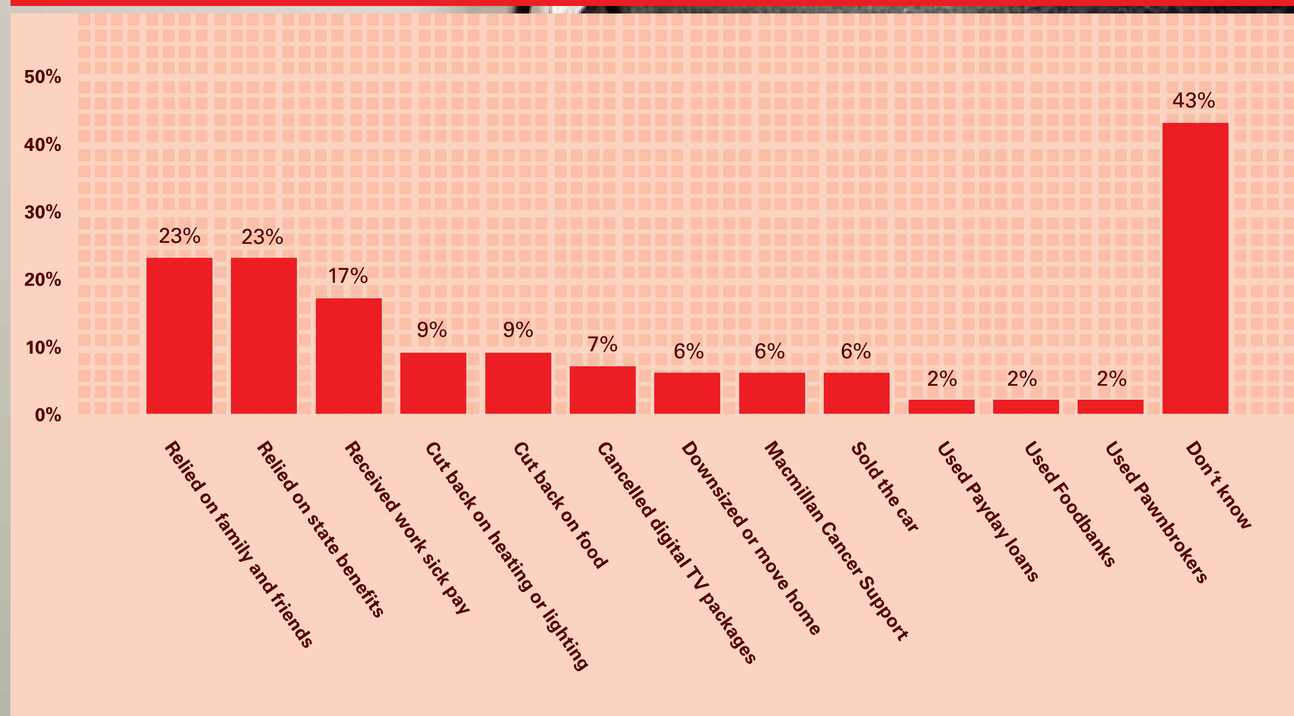
45% of people said they knew someone who had suffered from serious injury or illness.

Many people have already seen first hand how an unforeseen event can impact upon someone else's life; **45% of people said they knew someone who had suffered from serious injury or illness**. As shown in Figure 22, these people were supported financially in a wide variety of ways. The most common sources of financial support were friends and family and state benefit payments, which both helped at least 23% of people. This high reliance on family and friends sits in stark contrast to people's perceived backup plans, which showed just 8% of people expect to draw on them for financial support.

Sick pay from work was the next most common source of support, used by at least 17% of people. In many cases people have sacrificed some of their usual spending; cutting back on heating, lighting and food was reported by at least 9% of people. But most frequently, people didn't really know how others had coped financially, as reported by 43% of people. Research from Macmillan Cancer Support shows that by 2030 four million people will be living with or beyond cancer. That represents a doubling in the number of survivors in less than 20 years which is fantastic news, but shows the importance of more people putting plans in place to help protect their income now against the financial burden of a serious or life threatening illness.

It would take the average (mean) UK household just under 13 years (12 years 10 months) to save up enough money to cover their annual gross salary of £27,000.

FIGURE 22 FINANCIAL COPING MECHANISMS USED BY SOMEONE SUFFERING FROM SERIOUS INJURY OR ILLNESS, PERCENTAGE OF HOUSEHOLDS



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

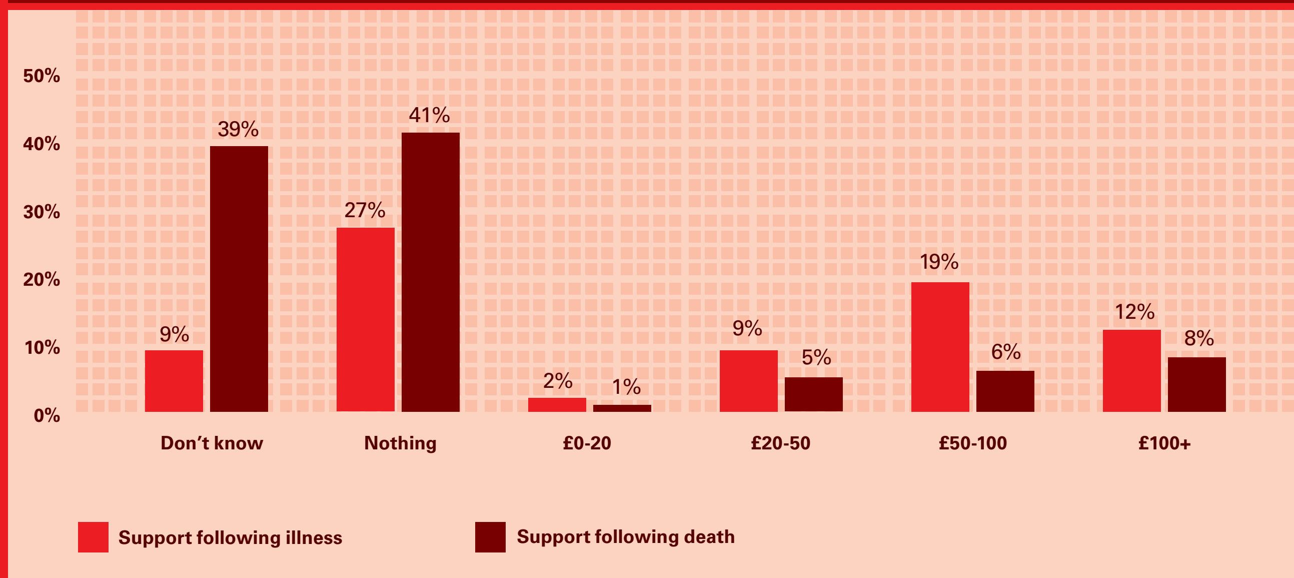
There appears to be some confusion among households in relation to the government support they may be entitled to, were they to fall on hard times. 9% of households don't know how much support would be available to them if they were unable to work through illness, and 39% don't know how much support is available to their family in the event of their death. On average, people expected to receive weekly support of £59 each week following illness and for their family to receive £47 each week in financial support in the event of their death. The fact that 80% of people don't know what might be available or expect nothing for their loved ones in the event of their death, is worrying when we know the average weekly household spend is £362. Plus new research by Demos and Macmillan Cancer Support has found that a cancer diagnosis can cost an individual an average of £570[6] a month. This cost of cancer is made up of increased costs, such as travelling to and from hospital, higher energy bills or having to give up work or reduce their hours. This highlights the importance of financial planning now, rather than finding out when it is too late.

The actual support which a typical household could expect to receive is likely to differ considerably from these estimates. Should an individual be unable to work due to illness, they would be expected to receive £86.70 each week, for up to 28 weeks, in the form of statutory sick pay* – much higher than the £59 that people believe they would be entitled to. In the event of a death in the family, the household may be entitled to a one-off bereavement payment of £2,000, in addition to widowed parents allowance of £108.30 each week, providing the claimant is under the state pension age. Again these allowances would greatly exceed the weekly £47 that households indicated they could be entitled to – although they still fall short of the £362[7] that the typical (median) household spends each week. Plus, with future increases in most state benefits capped to 1% a year by the government, this will make it more difficult for people to stretch their benefits to cover the rising cost of living.

*Correct as at 23/01/2014.

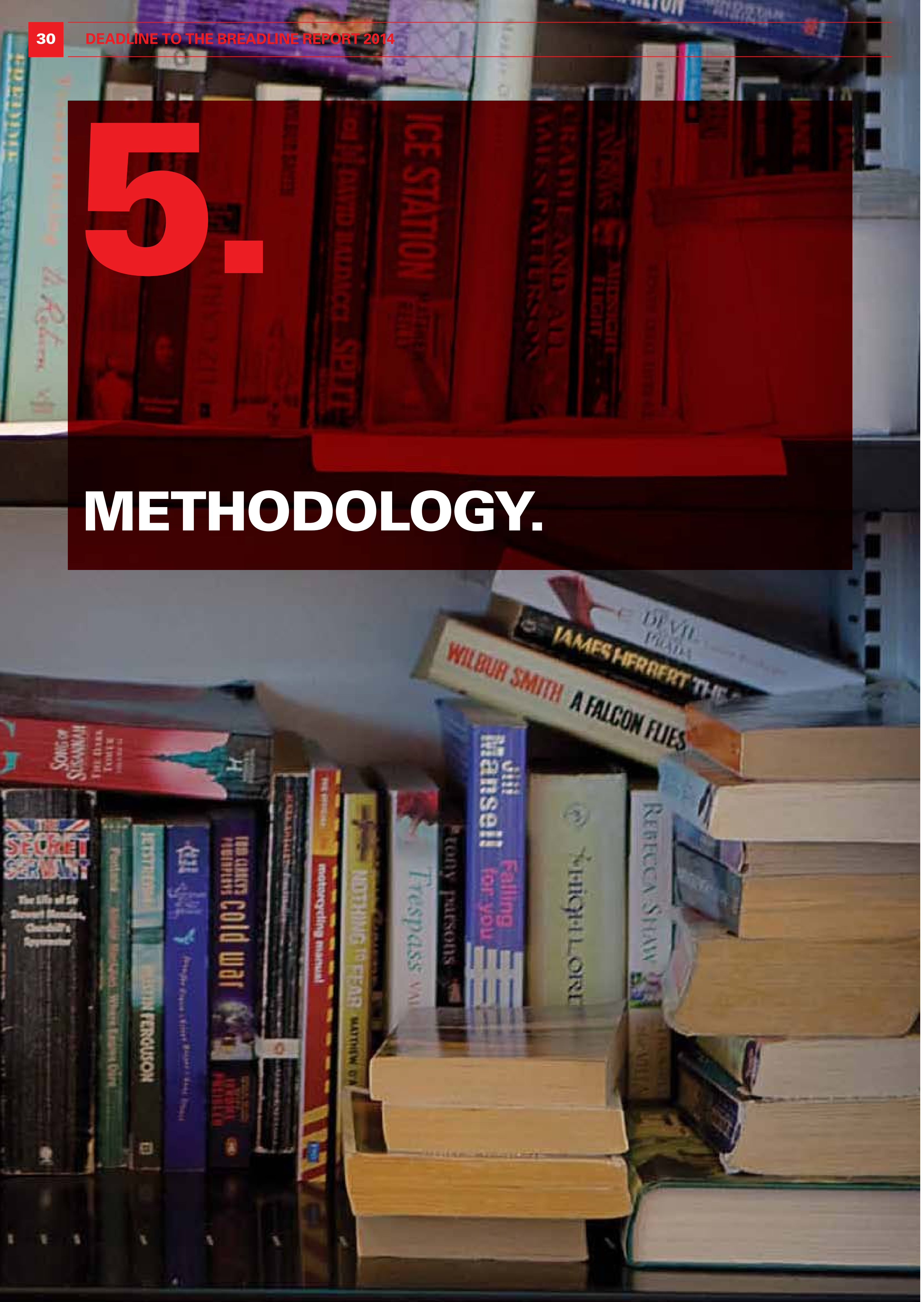
"80% of households either don't know what to expect or expect nothing from the government in terms of financial help for their family in the event of their death."

FIGURE 23 HOUSEHOLD EXPECTATIONS OF GOVERNMENT SUPPORT PER WEEK FOLLOWING ILLNESS OR DEATH, PERCENTAGE OF HOUSEHOLDS



Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

[6]Paying the Price, Report by Max Wind-Cowie and Jo Salter, www.demos.co.uk
[7]Average of typical median household expenditure calculated from TNS surveys conducted in March and October 2013.



5. METHODOLOGY.

The data on which this research is based was collected by specialist market research company TNS Global. Surveys were carried out between the 7th and the 14th of March 2013 in which 2,478 respondents answered 18 questions and sub-questions, with further surveys carried out between the 3rd and 14th of October 2013 in which 5,068 respondents answered 19 questions and sub-questions.

In order to ensure that the sample allows inferences to the general UK population, the answers for some respondents were given a higher or lower weight, reflecting their over- or under-representation compared to the general population, according to several characteristics. The characteristics according to which responses were re-weighted are:

- Age
- Gender
- UK region
- Household size
- Age at which education ended
- Social grade

ANALYSIS

Our economic forecasts and detailed analysis were undertaken with the help of the Centre for Economics and Business Research Ltd (Cebr), who for 20 years has supplied independent economic forecasting and analysis to hundreds of private firms and public organisations. www.cebr.com

INDICATOR

The measures for incomes, savings and expenditures are drawn directly from the survey, with the weighted averages based on mid-points for the answer ranges and the end-points at the same distance as that between the previous two points.

The Deadline to the Breadline headline indicator is computed as:

'Savings' / ('Typical expenditure' – 'Emergency income')

'Savings' is the median weighted answer to the question: "How much do you and your household currently have in total in savings and investments?"

'Typical Expenditure' is defined as 'After-tax income' less 'saving', where;

A) 'After-tax income' is the median weighted answer to the question: "How much is your annual household income before tax?" less tax. It is assumed that the pre-tax income is taxable at standard rates of income tax of early 2013; and

B) 'Saving' is the median weighted answer to the question: "How much of your personal and household's income would you say is saved each month?"

C) 'Emergency income' is given by the sum of statutory sick pay (equal to £86.70* per week), or state pension (£110.15 per week).

Throughout the analysis **discretionary income** refers to the household income left after paying tax, national insurance, housing costs, loan repayments and bills.

Sources: Paying the Price
www.demos.co.uk

Further details on survey design and computation methods as well as summary statistics are available on request.

Any of the findings in this report, may be used if sourced as Legal & General's Deadline to the Breadline Report 2014.

*Rates correct as at January 2014.

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