WAKE-UP CALL.

Without an income how long would your savings last? It may come as a shock but if the main breadwinner died suddenly or was off work due to long-term sickness, critical illness or injury, people in the UK would have just 18 days, on average, before the money ran out. This is worse than our 2012 Deadline to the Breadline findings. See how the stark reality compares to people's perception inside our 2013 report.

EVERY
DAY
MATTERS.®

Legal & General

CONTENTS

FOREWORD.

Welcome to Legal & General's Deadline to the Breadline Report 2013.

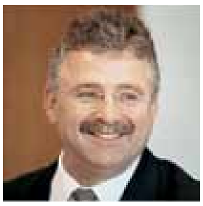
As we publish our second Deadline to the Breadline Report, it's clear that the financial situation for most UK families remains very difficult. Regardless of whether the UK is technically in recession or not, the nation's economic recovery is still struggling to gather momentum, as weak demand in the Euro area, a fiscal squeeze at home, and rising unemployment continue to weigh heavily on the economy.

As a result, UK households are clearly under a great deal of pressure; earnings are being squeezed and saving is difficult. Moreover, our report reveals that almost 8% of people are unable to find a job, with little improvement expected in the years ahead. Moreover, public sector job cuts and a generally weak economic environment, are expected to keep unemployment above 7% until at least 2017.

In order to understand how these conditions are affecting the financial stability of people in the UK, our Deadline to the Breadline report once again looks at household savings and expenditure, to gauge how prepared they are for unforeseen events, and to measure how long a household's savings could sustain their current levels of spending before they have exhausted their Deadline to the Breadline.

In this latest 2013 report, our findings reveal that the average household in the UK now has a Deadline to the Breadline of just 18 days, which is even less than the 19 days we found in 2012. It's a wake-up call to think that within three weeks of a family or individual losing their usual sources of income, the average UK household will be reliant upon state benefits, and friends and family alone for financial support. This is a startling figure, and yet easy to explain. Our research shows that UK households have seen their disposable incomes fall by just under 4% compared to a year earlier, while disposable incomes are expected to fall by a further 1.5% over the coming year. As a result, the amount that families are able to save has also fallen: 37% of households now report having no savings at all, and a similar number (35%) have no strategy in place for dealing with a sudden change to their income, so for these people their Deadline to the Breadline is potentially tomorrow.

Along with figures like these, our second report once again looks at earnings and disposable income, savings and some new areas including unemployment. It concludes with an interesting discussion on households' attitudes towards insurance and saving. As we continue to track the financial health of the nation's households, one thing is clear: individuals and families across the UK all have a Deadline to the Breadline, irrespective of their job, home or lifestyle – even high earners who are often high spenders can have a deadline. As a result, now more than ever, we believe it's crucial to help consumers to understand the importance of protecting their lifestyle and doing something now to improve their financial security, before that wake-up call proves too late.



John Pollock,
Protection and Savings,
Legal & General

EXECUTIVE SUMMARY.

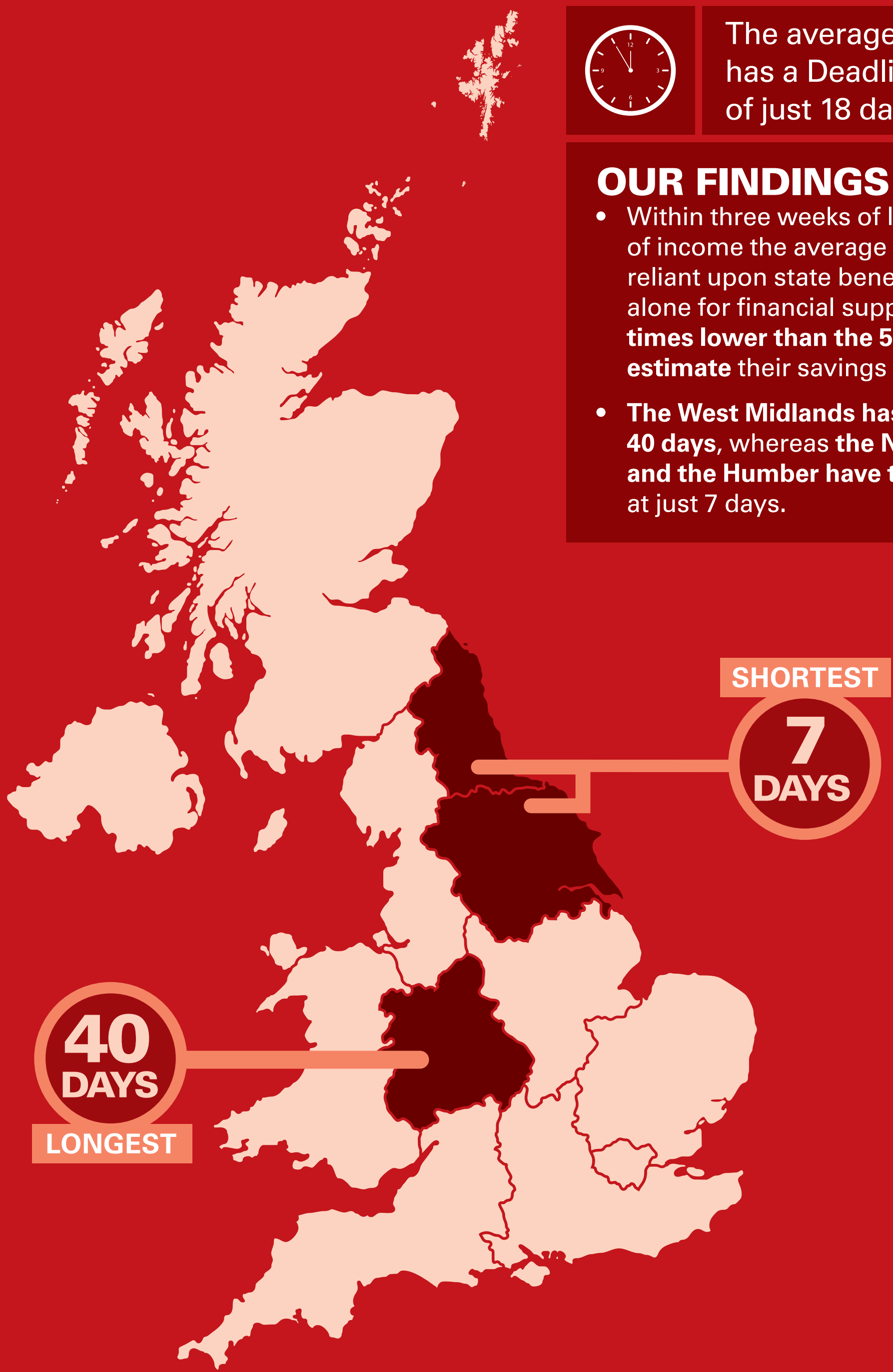
Income shocks can hit households hard and many are not well prepared to deal with the consequences.

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 2,478 people weighted to represent the UK adult population in March 2013.

The average household in the UK has a Deadline to the Breadline of just 18 days.

OUR FINDINGS

- Within three weeks of losing their usual sources of income the average UK household will be reliant upon state benefits, and friends and family alone for financial support – this is **over three times lower than the 57 days that households estimate** their savings will last.
- **The West Midlands has the longest Deadline at 40 days**, whereas **the North East and Yorkshire and the Humber have the shortest Deadline**, at just 7 days.



37% of households have no savings so they could be on the breadline tomorrow!

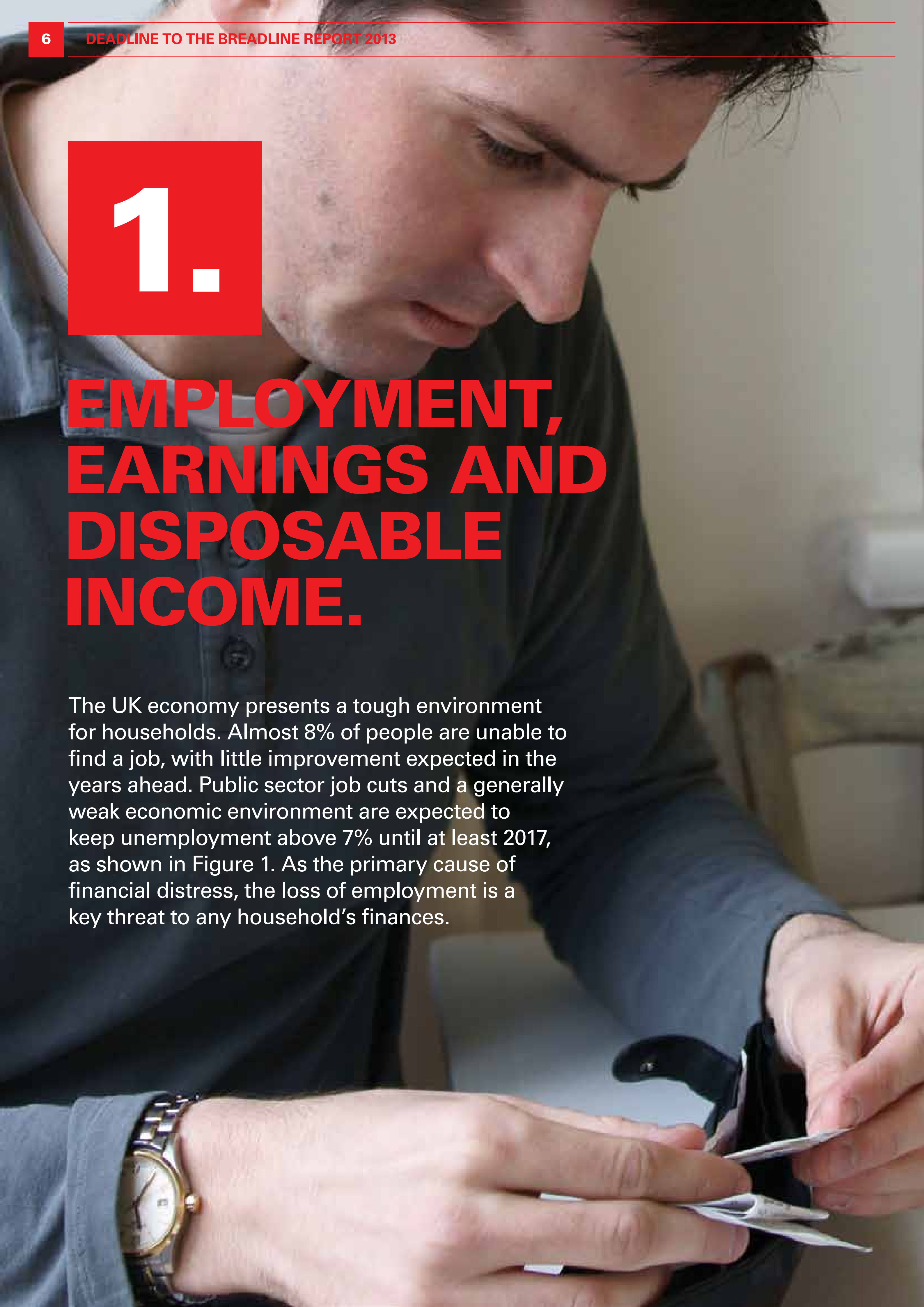
- **41% of households use savings for protection**, making this the most common strategy used by households to deal with unforeseen financial shocks. But this is not an option available to many households, as **37% of households report having no savings at all, so for these people their Deadline to the Breadline could be zero in a financial emergency.**
- Strikingly, **35 % of households have no strategy in place** at all for dealing with a shock to their income, while **60% of households say that they would not expect to receive any financial support from friends or family**. Even those who do expect to get support are **only likely to receive enough to cover £155 or 10.9% of their monthly essential spending.**

DISPOSABLE INCOME IS FALLING.

3.9% = £21
on average per month

- **Households have seen their disposable incomes fall by 3.9%**, or £21 per month compared to a year earlier, while **disposable incomes are expected to fall by a further 1.5%**, £8 per month, over the coming year.
- **Households report that the amount they are able to save has fallen by 10%**, or £16 per month compared to a year earlier and over the next 12 months **savings are expected to fall by a further 4%**, or £5 per month.

The body of this report deals with these issues in more detail looking firstly at employment, earnings and disposable income, before examining household savings and the Deadline to the Breadline. The report concludes with a discussion of household's attitudes towards insurance and saving.

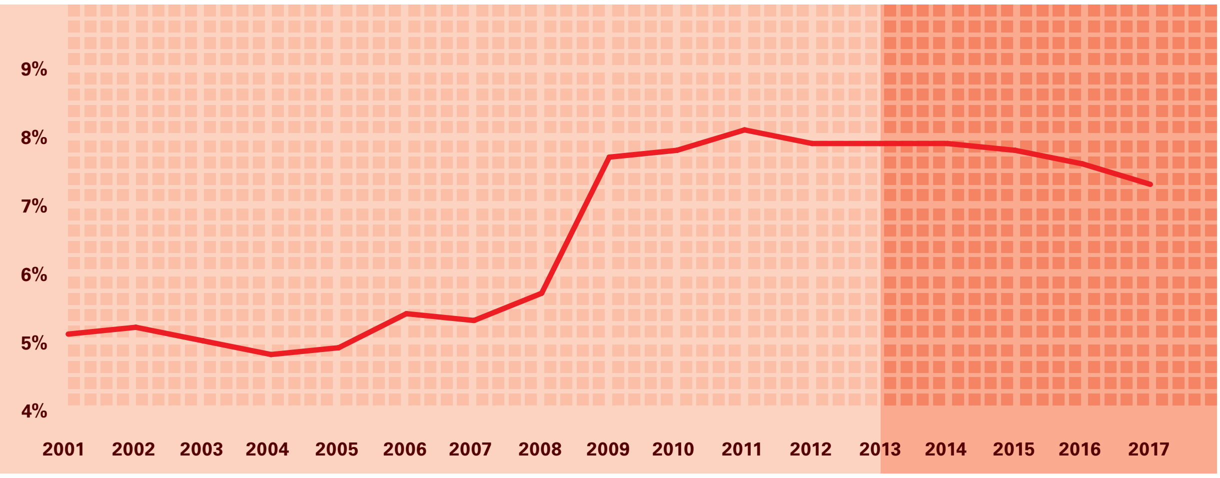


1.

EMPLOYMENT, EARNINGS AND DISPOSABLE INCOME.

The UK economy presents a tough environment for households. Almost 8% of people are unable to find a job, with little improvement expected in the years ahead. Public sector job cuts and a generally weak economic environment are expected to keep unemployment above 7% until at least 2017, as shown in Figure 1. As the primary cause of financial distress, the loss of employment is a key threat to any household's finances.

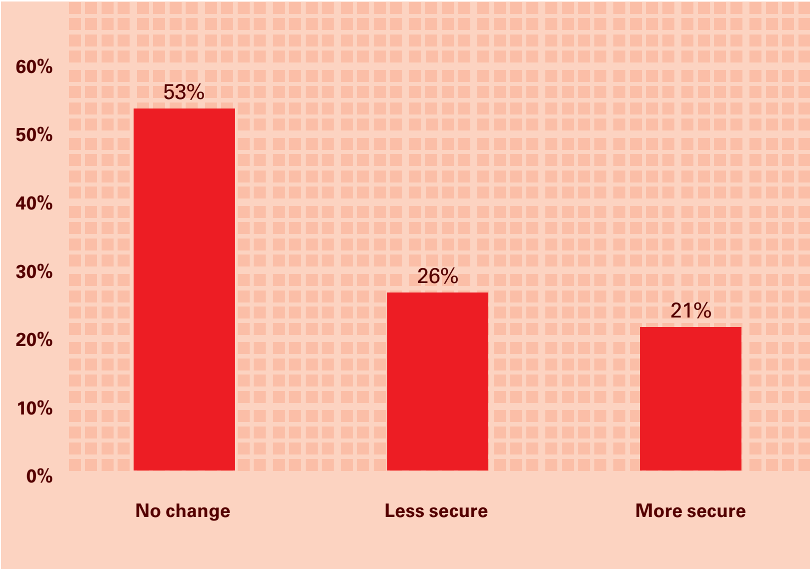
FIGURE 1 UK UNEMPLOYMENT RATE



Source: Office for National Statistics, Cebr forecast

Households are well aware of the difficulties of finding secure employment in the current economic environment. As shown in Figure 2, a quarter of all respondents to the survey felt less secure in their current employment than a year previously. Encouragingly though, over half of all respondents suggested they were just as secure in their employment, while 21% reported feeling more secure. Overall then, households seem to feel that things are improving – the worst of the financial crisis may yet be behind us.

FIGURE 2 SECURITY OF CURRENT EMPLOYMENT COMPARED TO A YEAR EARLIER, PERCENTAGE OF RESPONDENTS



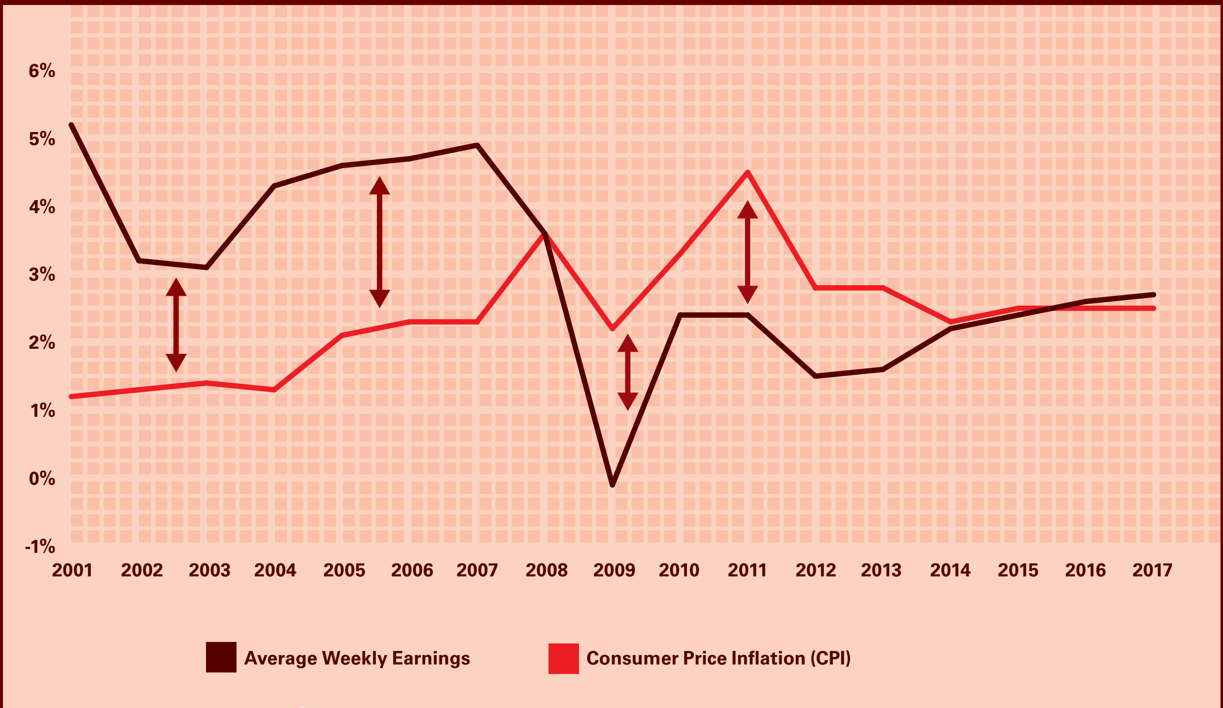
Source: Legal & General Deadline to the Breadline research via TNS Global

ELEVATED UNEMPLOYMENT keeps competition for jobs high, providing employers more choice over who they take on. This reduces the scope for employees to negotiate higher pay and therefore places downward pressure on earnings growth. The effects of this are easy to see; between 2001 and 2008, earnings increased at an average annual rate of 4.2 %, but since 2008 earnings have increased by just 1.5 % on average.

SLOW EARNINGS GROWTH alone, while unlikely to be desirable from a household's perspective, is not a problem in itself. But when the cost of living is rising at a faster rate, this means that people are worse off in real terms. Since 2008, as illustrated in Figure 3, this is precisely the situation in which many people in the UK will have found themselves. Households are effectively having to do more with less each year, as the price of the goods and services they buy increases by more than the amount of money they have to spend.

WITH GROWTH IN THE ECONOMY remaining weak and elevated unemployment expected to continue, earnings are expected to fall in real terms until 2016. This means that households are not likely to start seeing their spending power increase for another three years.

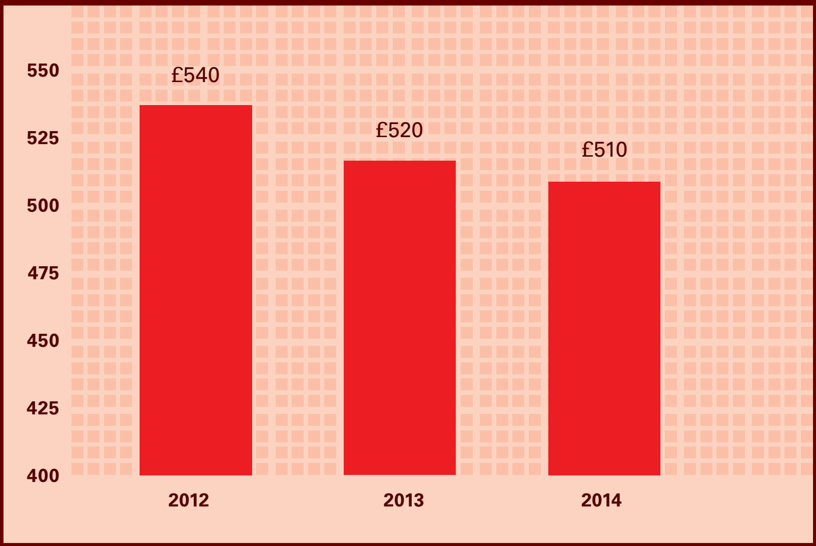
FIGURE 3 AVERAGE WEEKLY EARNINGS AND CONSUMER PRICE INFLATION, ANNUAL PERCENTAGE CHANGE



Source: Office for National Statistics, Cebr forecast

This bleak earnings picture has filtered through into the expectations of households. On average, households reported that their monthly disposable income – the income left over after taxes and essential spending – had fallen by £21 compared to 2012 and were expecting this to fall by a further £8 next year. Such falls in disposable income leave households with less money to set aside for unforeseen events, placing them in a more vulnerable position.

FIGURE 4 HOUSEHOLD MONTHLY DISPOSABLE INCOME, £, AVERAGE (MEAN) SURVEY RESPONSES[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.

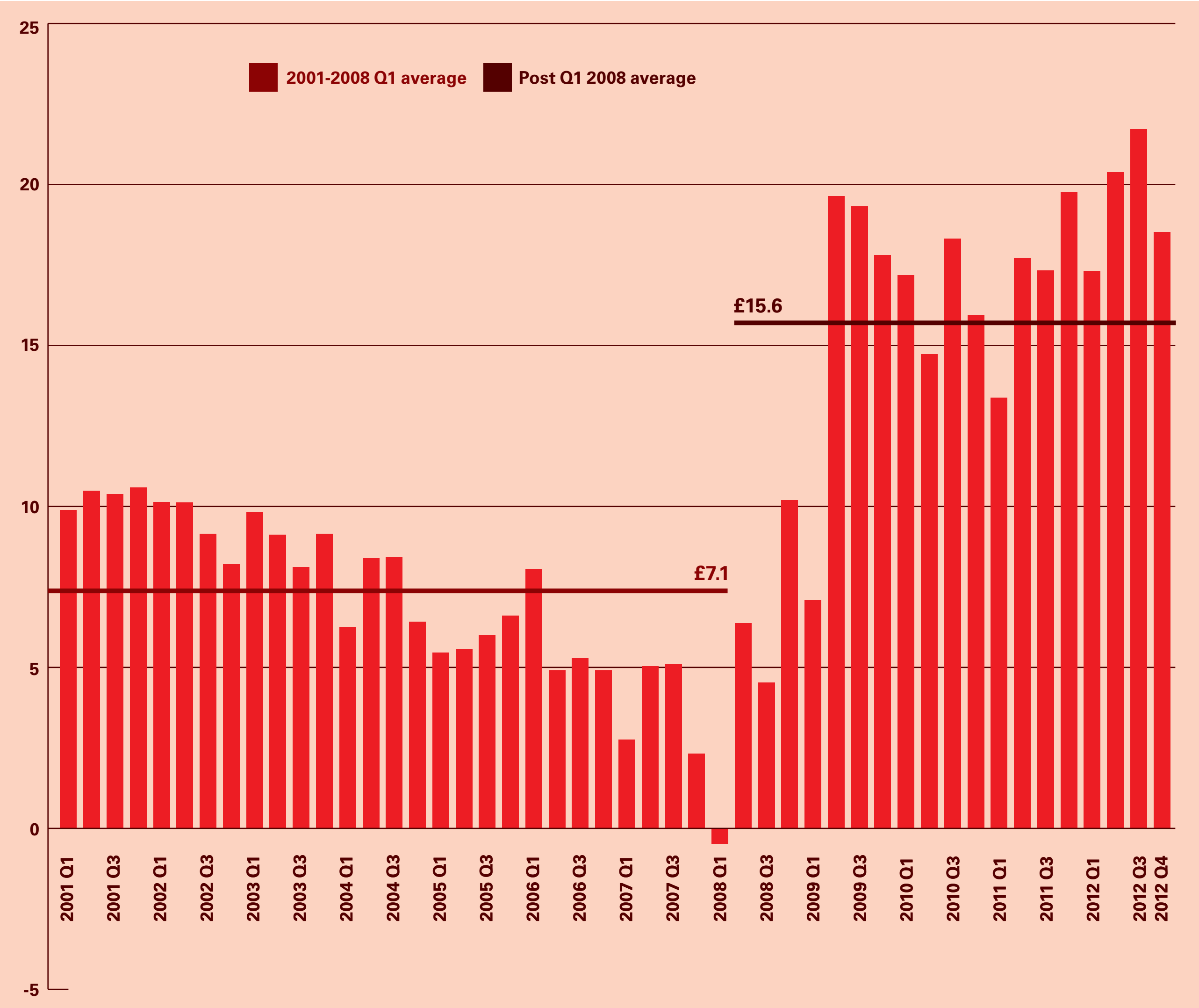
SAVINGS – MILLIONS STILL LIVING WITHOUT A SAFETY NET.

NEARLY FOUR OUT OF TEN PEOPLE IN THE UK don't have any savings in case of an emergency. With the average savings just £660.

Savings represent the resources that households set aside to support their future spending. Higher saving today enables more consumption in future and provides a safety net during times of crisis. Since 2008, households have responded to a weak economic environment and tighter credit conditions 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 final quarter of 2012, households saved approximately £18.5 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 £15.6 billion, more than double the previous average of £7.1 billion, as households look to cut back on spending and reduce their outstanding debts.

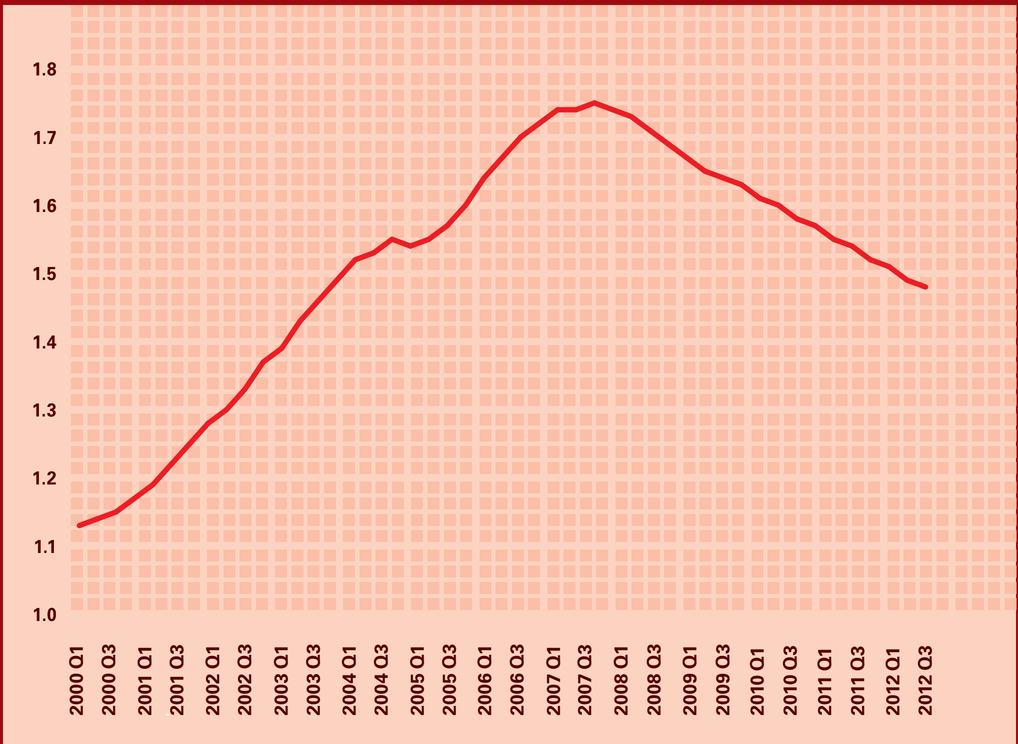
FIGURE 5 QUARTERLY GROSS HOUSEHOLD SAVINGS, £ BILLIONS



Source: Office for National Statistics

The effect of this increase in saving has seen households reduce their liabilities – mainly mortgage and credit card debt – compared to their annual after tax income. At the peak in the first quarter of 2008, households owed £1.75 in financial liabilities for every £1 they received in after income. This has steadily declined in each subsequent quarter, leaving households now owing around £1.48 in financial liabilities for every £1 of disposable income.

FIGURE 6 RATIO OF HOUSEHOLD LIABILITIES TO INCOME

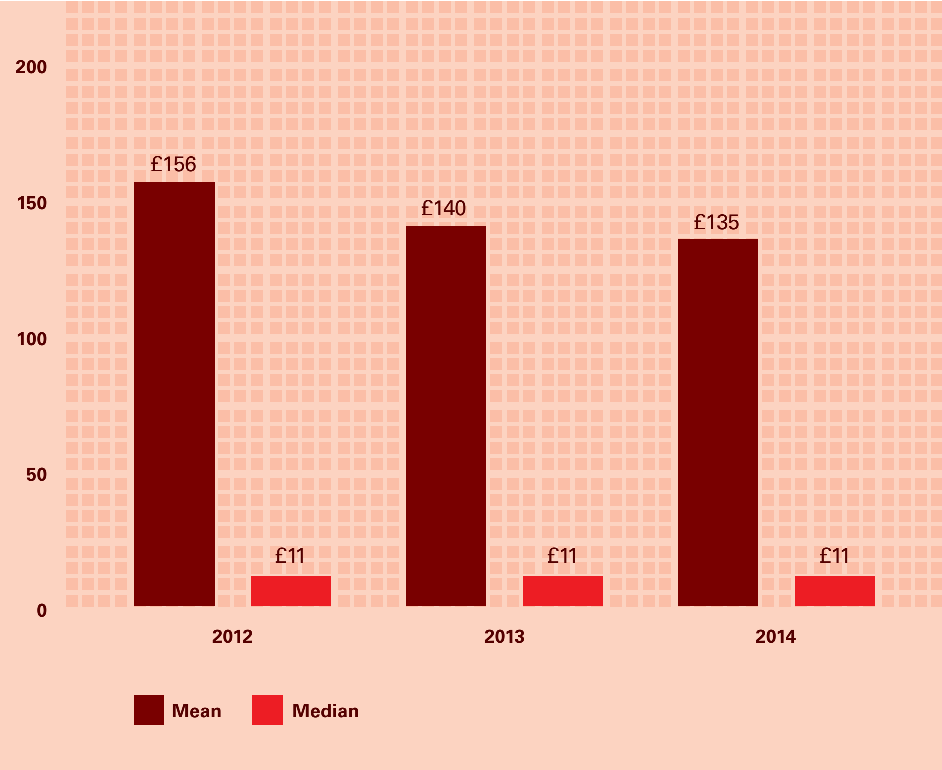


Source: Office for National Statistics

Despite these increases in savings and a relative reduction in financial liabilities, the UK offers an environment which is on the whole, hostile towards saving. As discussed previously, incomes are being squeezed by rising inflation/prices which continue to outstrip earnings growth. This means that households are being left with less money to spend in real terms, which is likely to reduce the amount they are able to set aside in savings. Meanwhile, our current very low interest rates provide savers with an extremely low return on any money which they do manage to set aside, reducing the incentive to save.

Households appear to be responding to these economic factors, as the average household surveyed expected to be saving £21 a month less each month by 2014 compared to 2012, as shown in Figure 7. Over this period this means that the average household will have reduced their monthly savings by 13%. The figures show that the typical man on the street (or median[2]) saves much less than the high earners/savers who drag up the average (or mean) monthly household savings figures. This indicates that the large savings of the minority of households (or mean), disguise the fact that many households are saving very little each month.

FIGURE 7 HOUSEHOLD MONTHLY SAVINGS – AVERAGE SURVEY RESPONSES

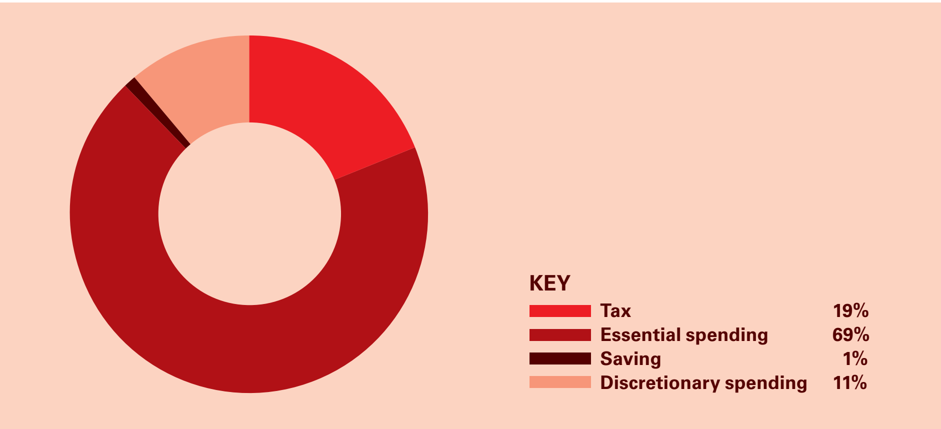


Source Legal & General Deadline to the Breadline research via TNS Global

Other than savings, household income generally finds its way into one of three main categories; tax payments, essential spending and discretionary spending. Figure 8 illustrates the relative size of each of these elements for the typical UK household, based on the median[3] responses to the survey.

Essential spending, which includes housing costs such as rent and mortgage payments, but also utility bills and loan repayments, makes up by far the largest proportion of expenditure, at 69%. Tax payments account for around 19% of pre-tax income, while discretionary spending represents 11%. This leaves just 1% of pre-tax income set aside as savings in the typical UK household.

FIGURE 8 DISTRIBUTION OF HOUSEHOLD PRE-TAX INCOME – MEDIAN SURVEY RESPONSES

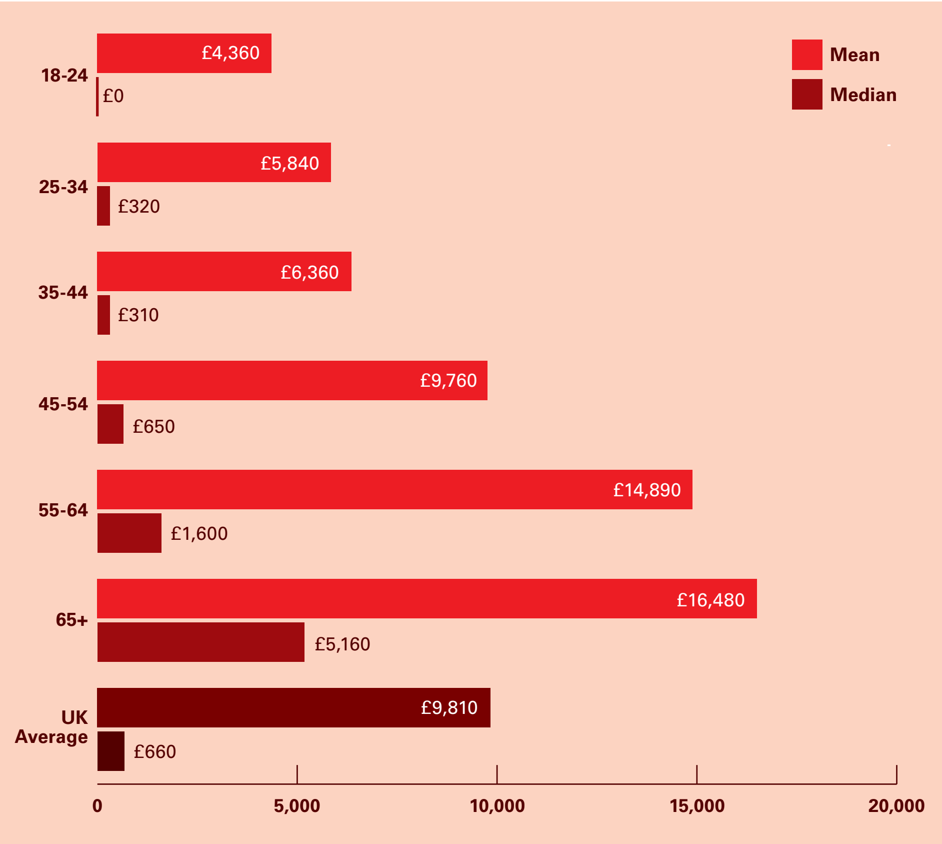


Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

[2,3] 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.

The amount a household is able to save increases with earnings, which tend to increase with age. Figure 9 demonstrates how a household's savings increases with the age of the residents. A household with residents aged 65 and over has on average £12,000 more held in savings and investments compared to a household where the residents are aged between 18 and 24 years old.

FIGURE 9 HOUSEHOLD SAVINGS AND INVESTMENTS BY AGE, £



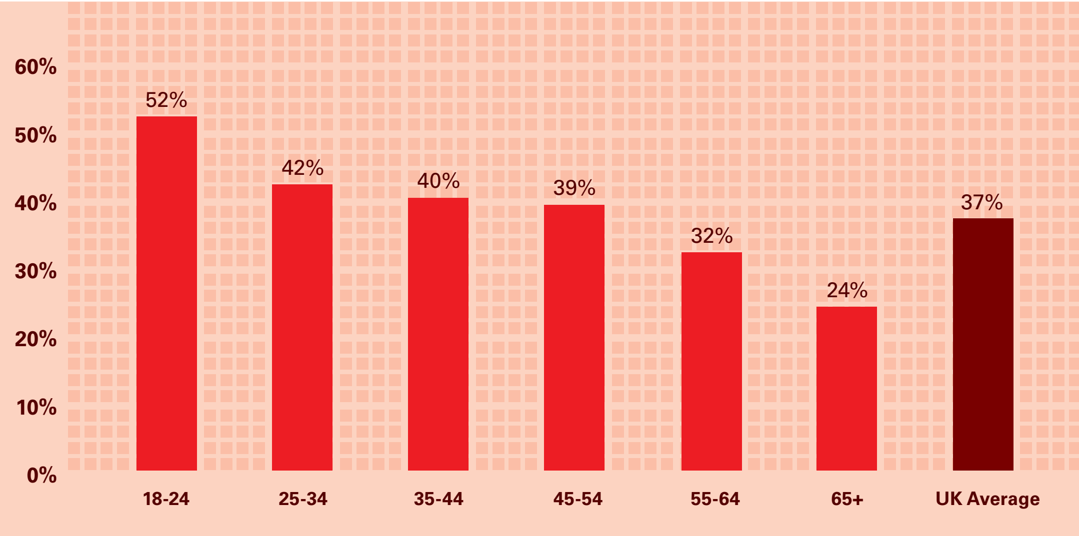
Source: Legal & General Deadline to the Breadline research via TNS Global

MEAN VERSUS MEDIAN

The difference between the mean and median figures[4] 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 10, which shows the proportion of households with no savings by age. Strikingly, 37% of people surveyed have no savings at all and while the proportion falls with increasing age, about a quarter of over 65s still report having no savings.

[4]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.

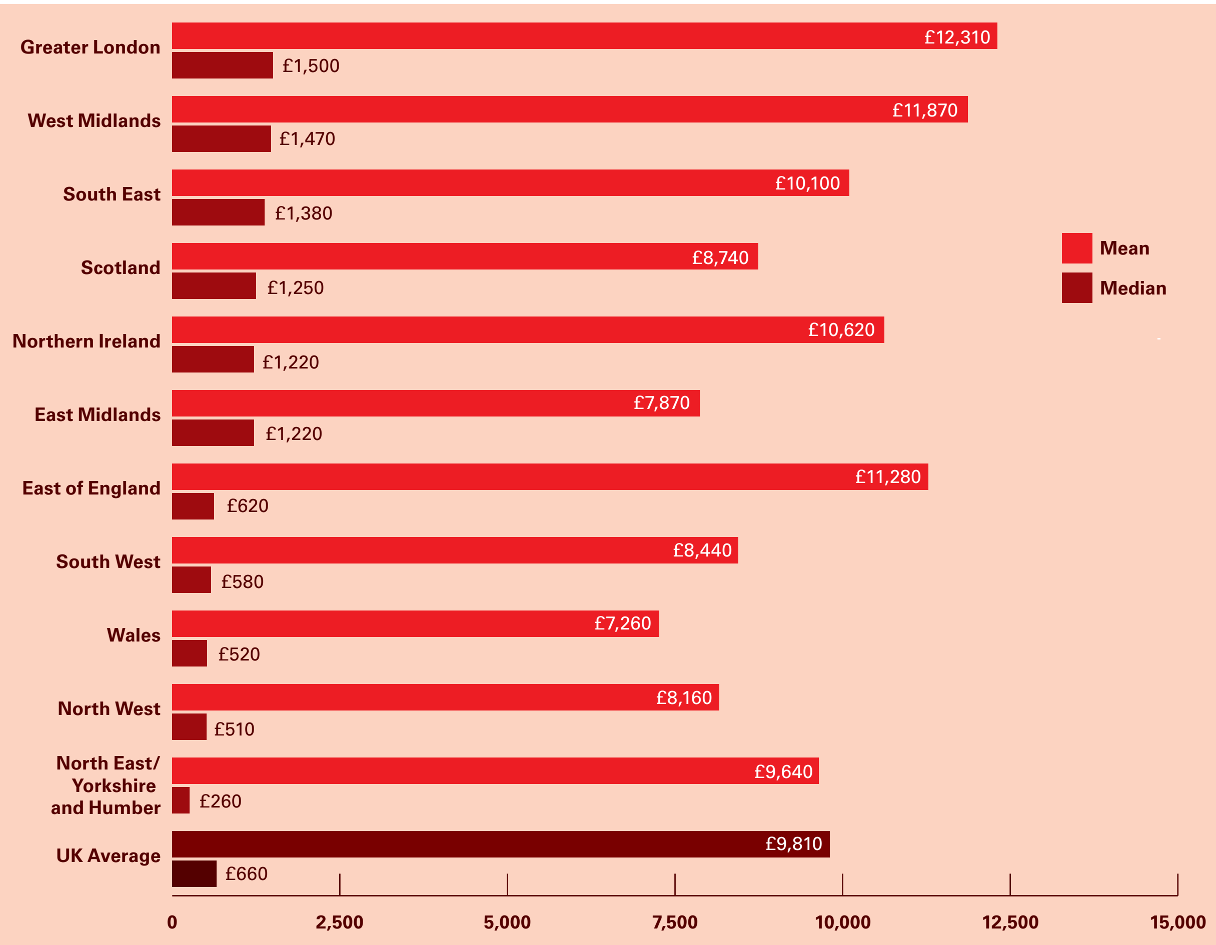
FIGURE 10 PERCENTAGE OF HOUSEHOLDS WITH NO SAVINGS BY AGE



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

Aside from variations between different age groups, there are also significant disparities in saving between regions. Figure 11 shows mean and median levels of savings held by households across the UK. On both measures of savings, households in London have by far the highest level of average savings of those surveyed. Median savings are lowest in the North East and Yorkshire and the Humber, while households in Wales are estimated to have the lowest mean level of savings.

FIGURE 11 HOUSEHOLD SAVINGS AND INVESTMENTS BY REGION, £



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

3.

DEADLINE TO THE BREADLINE.

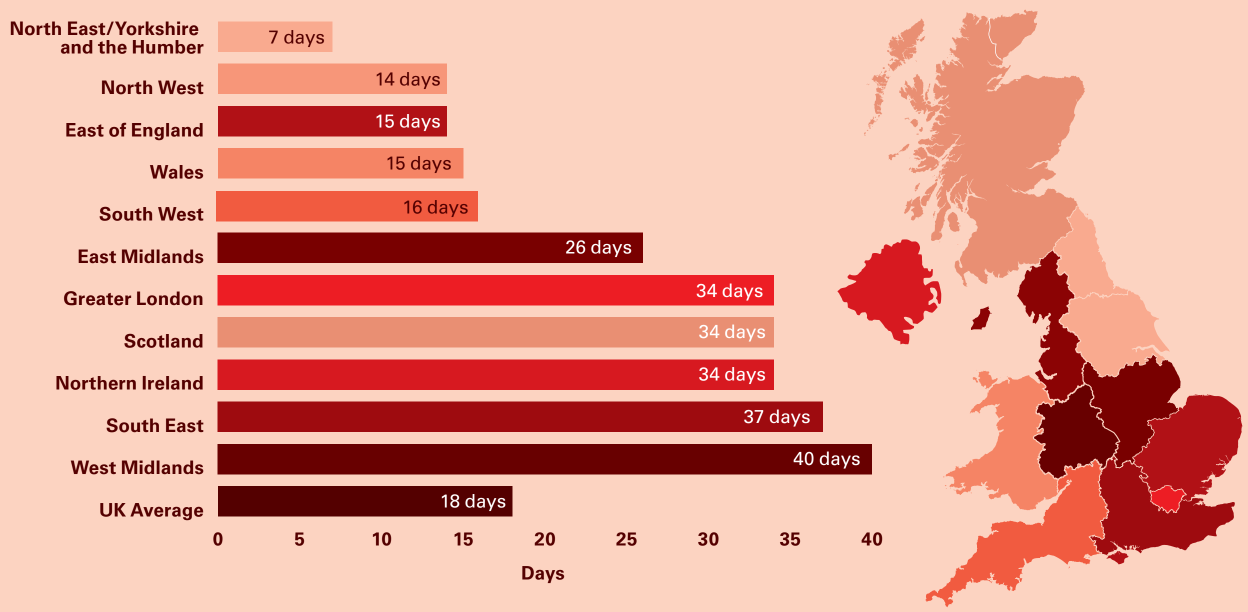
As we have seen in the earlier analysis, UK households are under pressure; earnings are being squeezed, unemployment remains high and saving is difficult. In order to understand how the conditions facing households are affecting their financial stability and their preparedness for unforeseen events, the Deadline to the Breadline looks at household savings and expenditure to measure how long a household's savings could sustain their current levels of spending before they are exhausted.

The figures show that, based on median estimates, the average household in the UK has a Deadline of 18 days. This means that within three 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.

The figures indicate that the Deadline to the Breadline is shorter by 1 day, on average, compared to our research conducted in 2012 for Great Britain. Furthermore, the Deadline looks set to shorten further, as households are expecting to see both their disposable incomes and their savings fall in the year ahead. Figure 12 illustrates how the figures vary across the UK.

In contrast to the previous report, the West Midlands has the highest Deadline to the Breadline of 40 days, driven by higher reported household savings in the region[5]. Households in Greater London, where median savings levels are estimated to be highest, also has a relatively high Deadline, of 34 days, while households in the North East and Yorkshire and the Humber are estimated to have the shortest Deadline, of just 7 days.

FIGURE 12 DEADLINE TO THE BREADLINE BY REGION



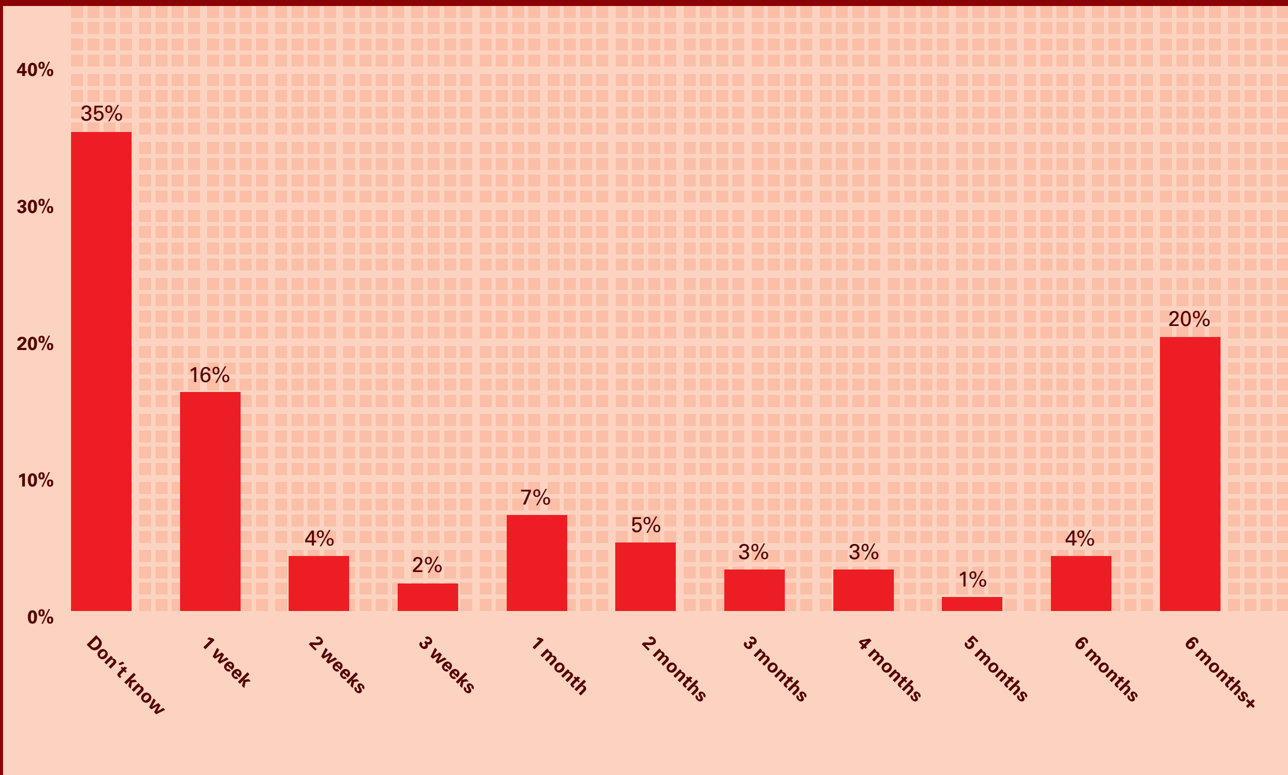
Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

THE UK NOW HAS A DEADLINE TO THE BREADLINE OF JUST 18 DAYS ON AVERAGE, TO KEEP THE BILLS PAID IN THE EVENT OF A FINANCIAL DISASTER.

[5]Note that variations in the sample at the regional level can cause some volatility in these estimates

The overall Deadline figure of 18 days sits in stark contrast to household's more optimistic estimates of how long their savings could last. On average, UK households estimate that they could get by on their savings for 57 days – over three times what our findings show. Meanwhile, as Figure 13 shows, 35% of households confess to having no idea how long their savings would last.

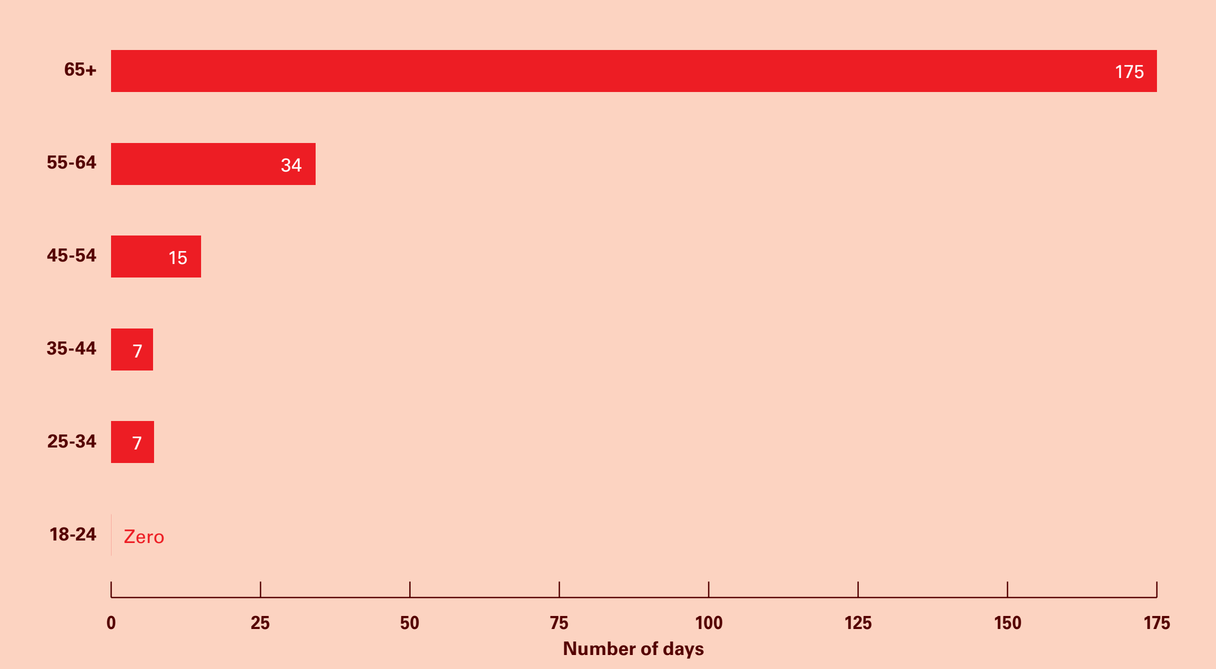
FIGURE 13 HOUSEHOLDS' ESTIMATES OF HOW LONG THEY CAN GET BY ON SAVINGS AT CURRENT EXPENDITURE



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

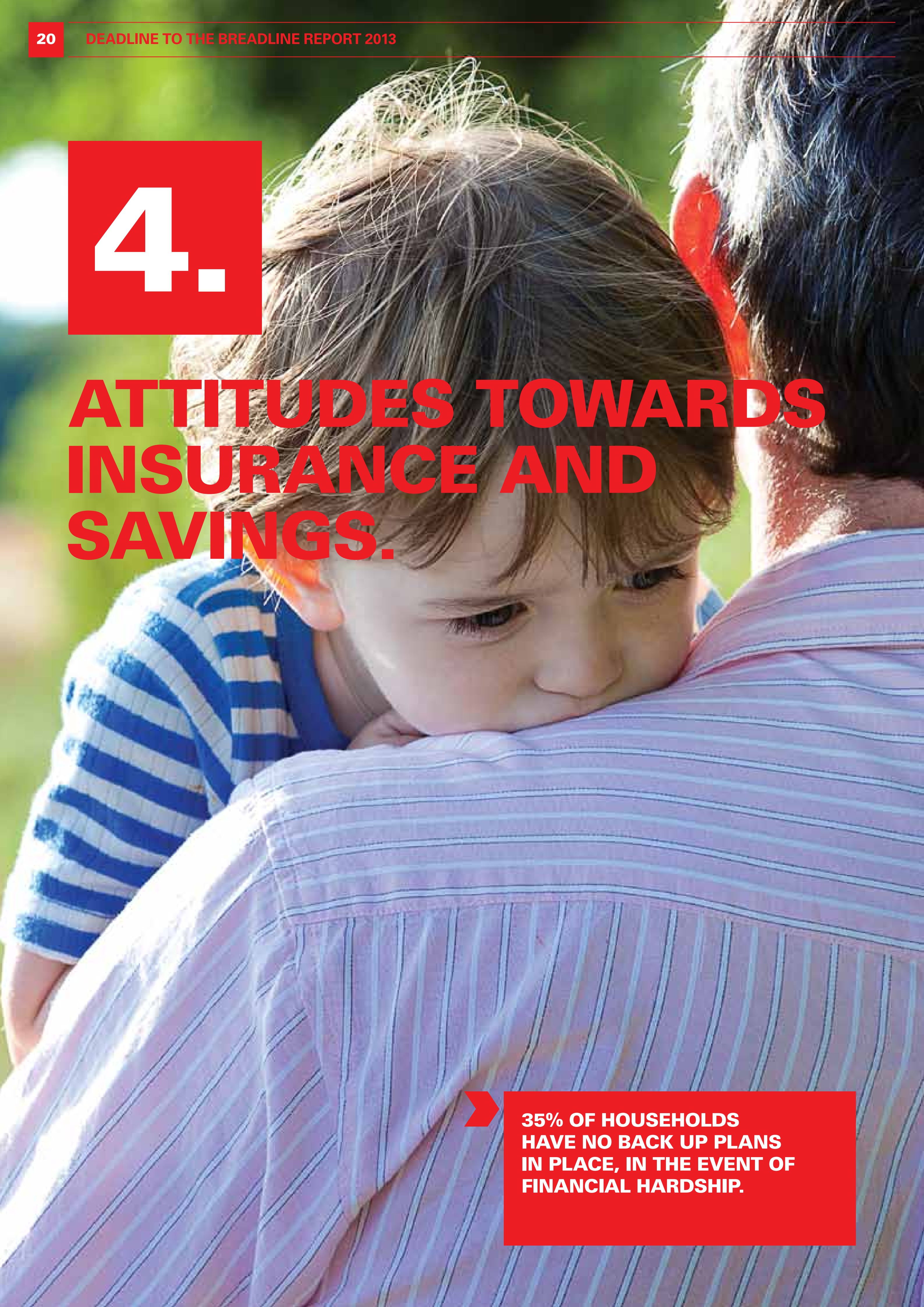
There is a huge variation in the estimated Deadline according to age, as shown in Figure 14. This reflects the much greater accumulation of savings by older people discussed earlier. The older people are, the better prepared they appear to be for an adverse shock to their income.

FIGURE 14 DEADLINE TO THE BREADLINE BY AGE



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

IT'S SHOCKING TO FIND OUT THAT MOST 25-44 YEARS OLDS ONLY HAVE ENOUGH MONEY PUT BY TO SURVIVE FOR SEVEN DAYS IN THE EVENT OF A FINANCIAL DISASTER.



4.

ATTITUDES TOWARDS INSURANCE AND SAVINGS.

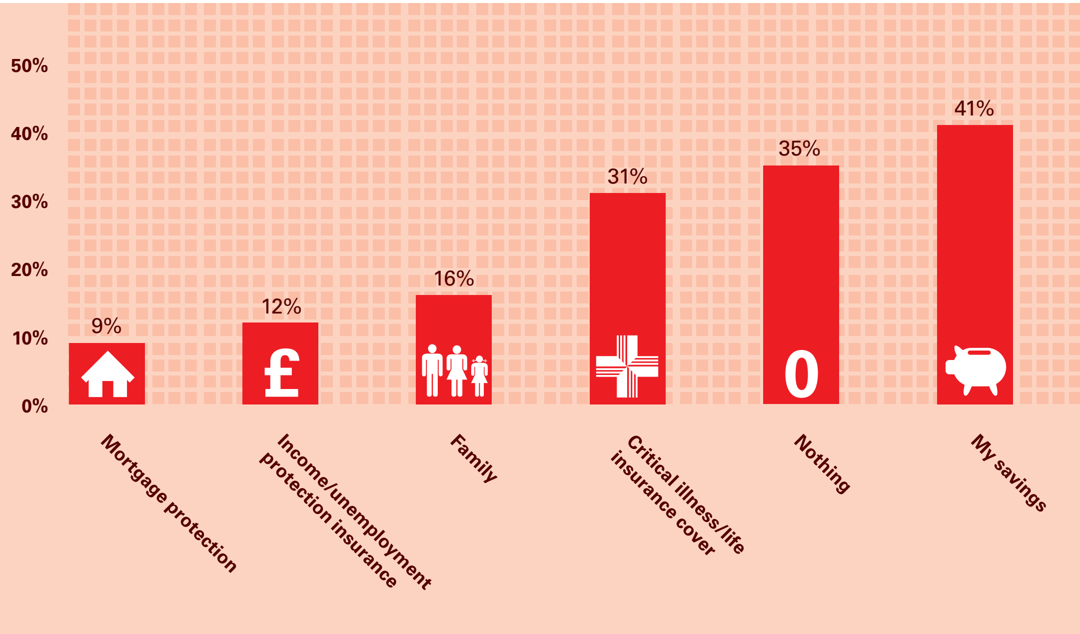
35% OF HOUSEHOLDS HAVE NO BACK UP PLANS IN PLACE, IN THE EVENT OF FINANCIAL HARDSHIP.

In the event that there is a shock to a household's income through an unforeseen event such as illness, redundancy, or even death, our research suggests that over a third of households would not be able to rely on even a small amount of savings to maintain their standard of living. These households would therefore be left dependent solely on the state, unless they have some other source of financial protection.

In this edition of the Deadline to the Breadline we have sought the opinions of households regarding the strategies they have in place to help cope with financial hardship. Some of the strategies that households have adopted are shown in Figure 15.

The most commonly used strategy by far is saving, with 41% of households suggesting this is how they would cope with a shock to their income. The next largest proactive strategy, used by 31% of households, is to take out critical illness or life insurance cover. The alarming fact is that 35% of households reported having no strategy in place whatsoever for dealing with financial hardship.

FIGURE 15 FINANCIAL HARDSHIP STRATEGIES USED BY HOUSEHOLDS, PERCENTAGE OF SURVEY RESPONDENTS

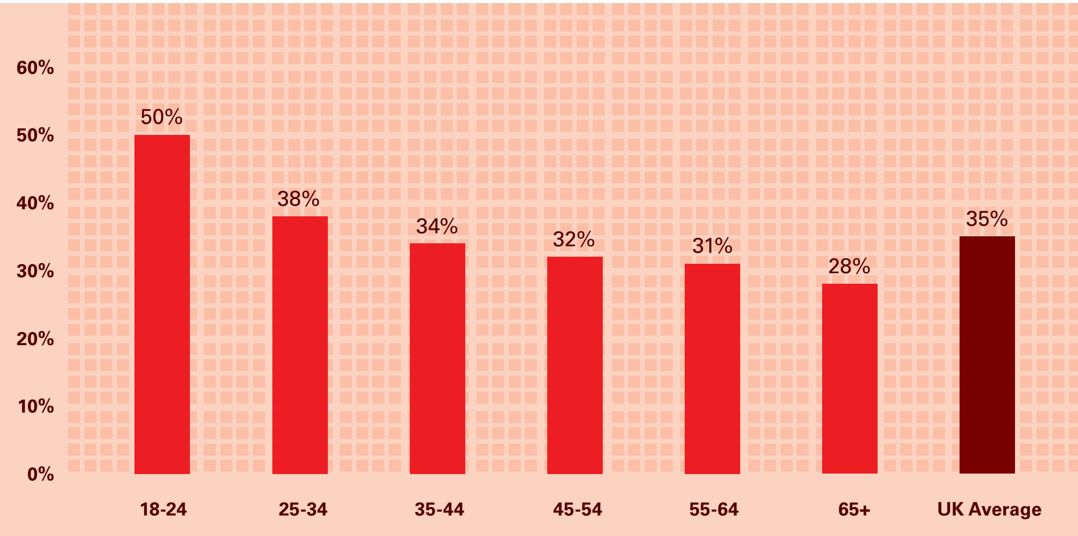


Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

Our research suggests that as people get older they are much more likely to have made some preparations for dealing with financial hardship. Figure 16 shows that only 28% of over 65s have no back-up plans in place, compared to 50% of 18 to 24 year olds.

As the UK population becomes structurally older and national income becomes increasingly stretched by the demands placed on it by an ageing population, it is likely that younger people will have to adapt to saving more and being generally more financially prepared. This by no means represents an easy transition – for younger people, who tend to have lower earning power and therefore lower disposable income, saving is sometimes simply not an option.

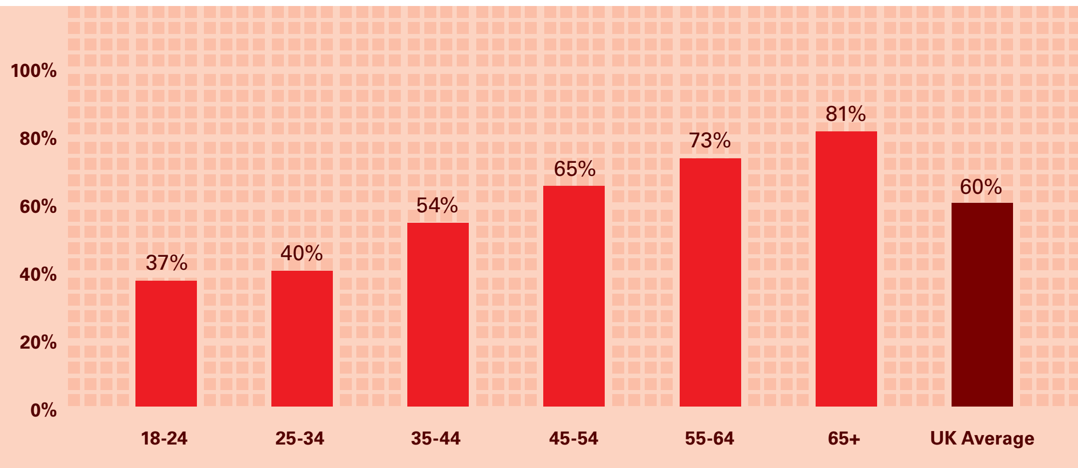
FIGURE 16 PERCENTAGE OF PEOPLE WITH NO BACK-UP PLANS BY AGE



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

Part of the explanation for the higher readiness of older households may lie in their lower capacity to depend on friends and family for support. As shown in Figure 17, over 80% of over 65s would expect to receive no financial support from friends and family following a shock to their income, while just 37% of 18 to 24 year olds would expect to receive no support. The transition from having people you can depend on to being depended upon by others, is likely be a key factor in driving increased financial responsibility.

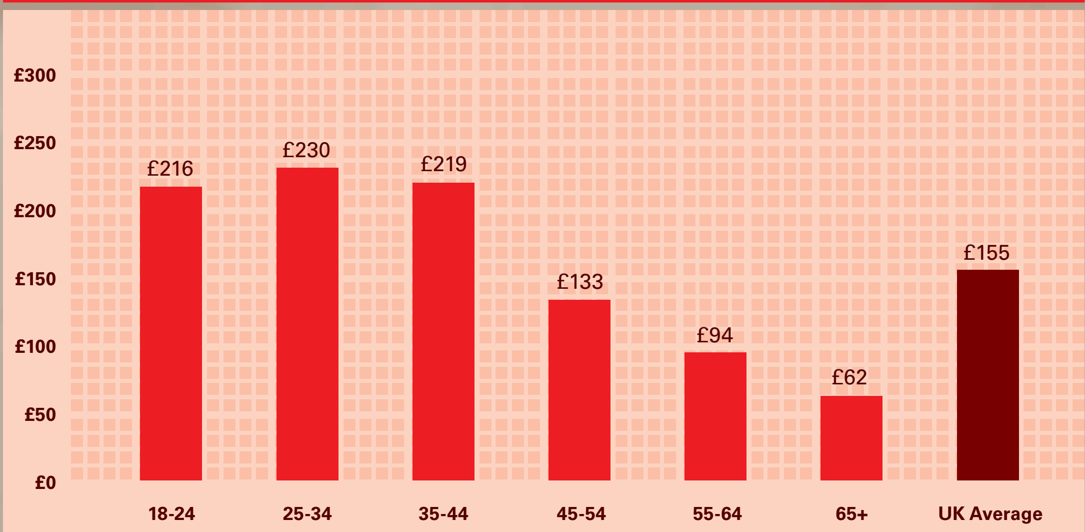
FIGURE 17 PERCENTAGE OF HOUSEHOLDS WHO WOULD EXPECT TO RECEIVE NO SUPPORT FROM FRIENDS AND FAMILY



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

Even those people who are able to get some support from friends and family may find that it does not cover a great deal of their monthly outgoings. As shown in Figure 18, on average support from family and friends is estimated to cover just 10.9% of essential spending, with the proportion covered falling to just 5.2% for over 65s.

FIGURE 18 MONTHLY SUPPORT FROM FRIENDS AND FAMILY IN £

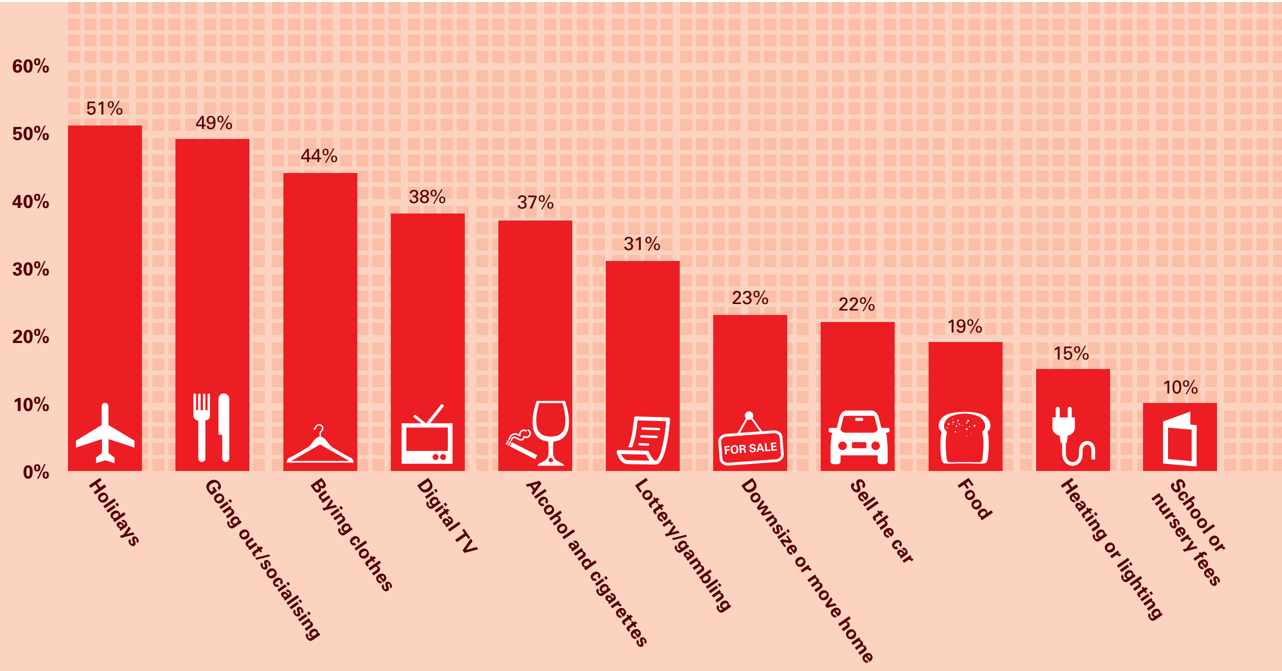


Source: Legal & General Deadline to the Breadline research via TNS Global

The priority which households attach to different items of expenditure is illustrated clearly in Figure 19, which shows the items which households would cut back on, or sacrifice completely, following a shock to their income. The most common target for making savings was on holiday spending, with just over half of households – 51% – suggesting they would have to cut back on holiday costs.

Interestingly, 23% of households suggested downsizing or moving home as a way of saving money while 22% suggested they would sell their car. Worryingly 19% would cut back on food and 15% on heating or lighting. Whereas only 10% of households felt they could make savings on school or nursery fees.

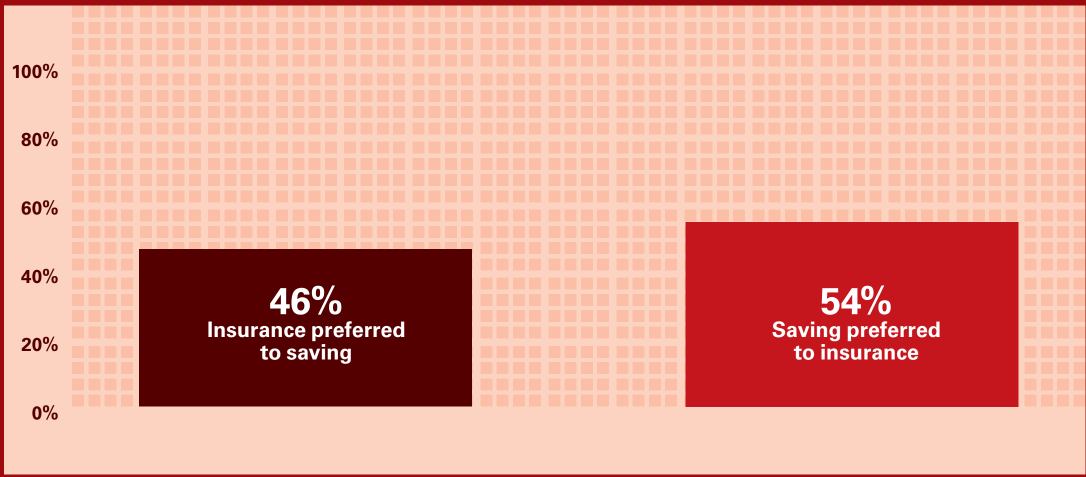
FIGURE 19 SACRIFICED EXPENDITURES, PERCENTAGE OF RESPONDENTS



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

Overall, households reported a relatively balanced opinion on whether it was better to save or insure against unforeseen income shocks. As shown in Figure 20, 54% of households demonstrated a preference for saving, compared to 46% who preferred to insure. While saving can provide more flexibility than insurance in some respects – savings are free to be spent on other items if they are not needed to cover unforeseen events or lost income – it takes much longer to build up savings than to buy insurance coverage for financial security, which could explain why so many people prefer to insure.

FIGURE 20 ATTITUDES TOWARDS PREPARING FOR UNFORESEEN EVENTS

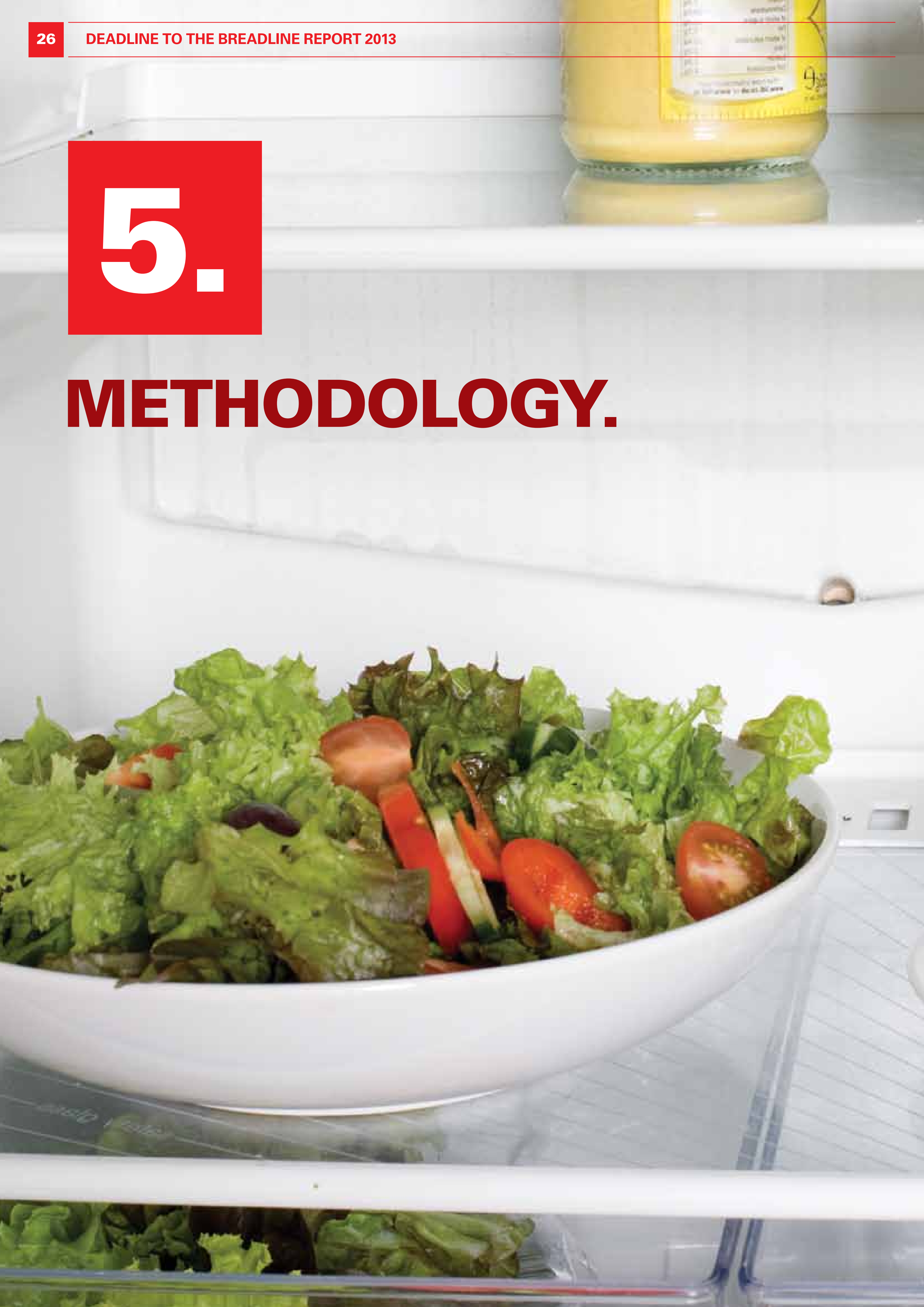


Source: Legal & General Deadline to the Breadline research via TNS Global, Cebr analysis

ITS NO SURPRISE PEOPLE WOULD SACRIFICE THEIR HOLIDAY IF THERE WAS A SHOCK TO THEIR INCOME, BUT CUTTING BACK ON REAL ESSENTIALS LIKE FOOD, HEATING OR LIGHTING SHOWS REALITY OF HOW PEOPLE WOULD TRY TO MAKE ENDS MEET.

5.

METHODOLOGY.



SURVEY

The data on which this research is based was collected by specialist market research company TNS Global. A survey was carried out between the 7th and the 14th of March in which 2,478 respondents answered 18 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 income would you say is saved each month?"

'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 disposable income refers to the household income left after paying tax, national insurance, housing costs, loan repayments and bills.

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 June 2013.

*Rates correct as at April 2013.

www.legalandgeneral.com

Legal & General Partnership Services Limited.
Registered in England No. 5045000.
Authorised and regulated by the Financial Conduct Authority.
Legal & General Assurance Society Limited.
Registered in England No. 166055.
Authorised by the Prudential Regulation Authority and regulated
by the Financial Conduct Authority and the Prudential Regulation Authority.
We are members of the Association of British Insurers.

Registered office for both firms: One Coleman Street, London EC2R 5AA

W13612 06/13