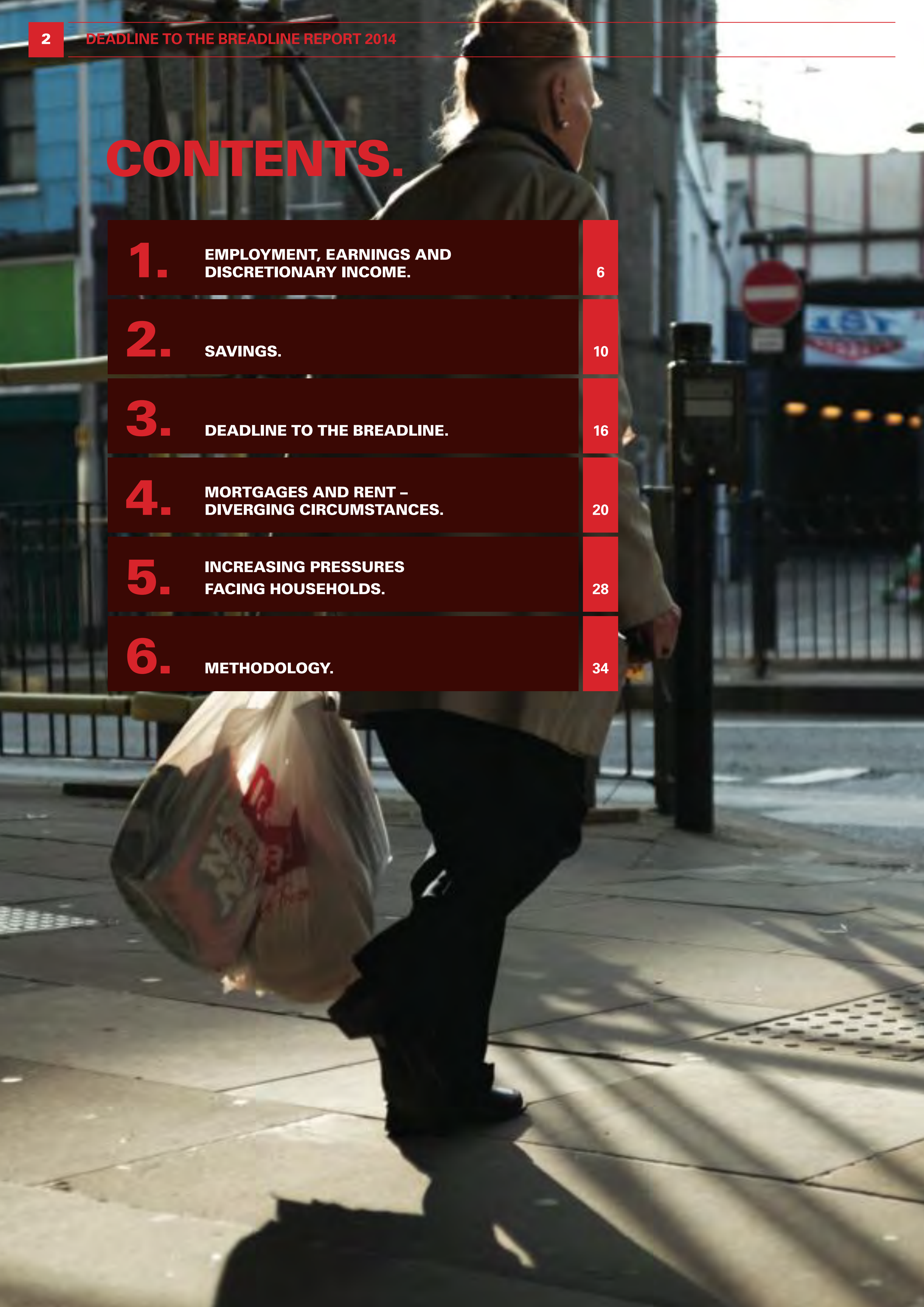
ON THE BRINK.

Our latest report shows that if a household's income suffers an unexpected shock and suddenly stops, people in the UK would have just 29 days, on average, before their money would run out. This is a slight improvement since our last report, yet it shows the stark reality that many people across the UK are facing. With new financial pressures gathering on the horizon, now is the time for UK households to think about improving their financial security and helping to protect their future.

EVERY DAY MATTERS.®

Legal & General



CONTENTS.

FOREWORD.

Welcome to our fourth Deadline to the Breadline report.

In order to understand how the UK's economic outlook is affecting the financial stability of the average household, this fourth edition of our Deadline to the Breadline report again looks at how prepared UK families are for a sudden shock to their income.

As before, we have measured how long a household's current savings would 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 29 days, which is up slightly from 26 days earlier in 2014.

Although this improvement is certainly welcome, it is largely because savings buffers have increased since these figures were last calculated in November 2013. Whilst this has helped extend the overall UK deadline, the harsh reality is that many households are still only weeks away from becoming reliant upon friends, family and the state for support following a sudden loss of income. In addition, this deadline is much shorter than most households think, with the average household believing that they could last 77 days after losing their usual source of income – more than two and a half times the actual figure. As a result, even though many people admit to being concerned about the rising cost of living and the potential for falling incomes over the next 12 months, the proportion of households with no strategy in place to cope with financial hardship has actually increased to 36%, compared to 35% in our previous report.

With next year's general election on the horizon and housing pressures forming one of the primary concerns for families, we have chosen to include a new dimension in this edition of Deadline to the Breadline looking at the different levels of risk facing different types of households. Worryingly households with a mortgage have a deadline of just 22 days compared to just two days for households living in private rented accommodation. Households living in rented Local Authority or Housing Association properties report having no savings on average, resulting in a deadline of zero, meaning they could potentially be on the breadline tomorrow.

**DUNCAN FINCH,
EXECUTIVE MANAGING DIRECTOR, INSURANCE
LEGAL & GENERAL ASSURANCE SOCIETY**

At the same time, new economic challenges are fast approaching. The majority of households expect interest rates to rise either by the end of 2014 or in 2015, which is likely to put additional strain on family finances. In fact, a 2% rise in mortgage interest rates would move the typical household with a mortgage one day closer to the breadline. Even a 1% rise would mean households would no longer be able to save each month and would have to change their spending habits, or rely on existing savings, to make ends meet. Yet many don't know how. According to our research, the proportion of people who don't know what they would cut back on to cope with a shock to their finances actually rose to 26% in July – 5% higher than in our previous report.

Sadly, ignoring these risks won't make them go away. Whilst it is heartening to see an improvement in our overall deadline figure, this is clearly not the time to be burying our heads in the sand. Talk of the economic recovery and an increase in consumer confidence could lead many people to revert back to their old habits when now really is the time to think about protecting their future. With new financial pressures already gathering on the horizon, UK households need to take urgent action now – not only to protect their current lifestyle, but also to help secure their financial security for the future.

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 July 2014 survey of 4,886 people weighted to represent the UK adult population.

OUR FINDINGS

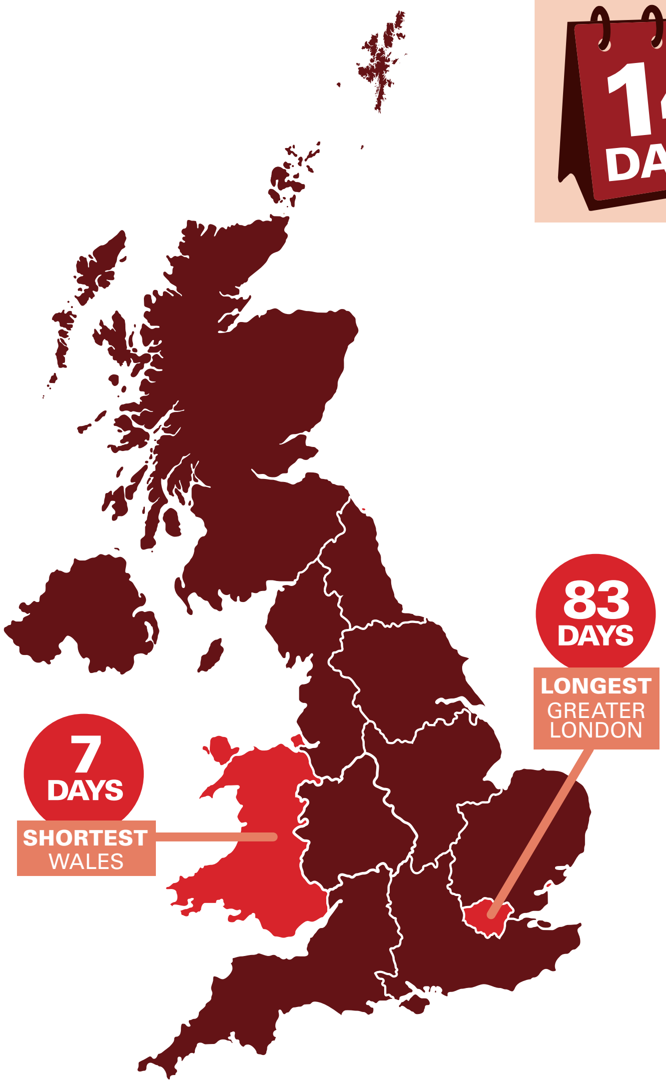
29 DAYS

DEADLINE TO THE BREADLINE.

The average household in the UK now has a Deadline to the Breadline of 29 days, up from 26 days in November 2013.

This rise is because savings buffers have generally increased, particularly for households with younger primary income earners (18-24 years) whose deadlines has increased by 90%. This means that the **typical household's savings will last just under one month** before the household is left reliant upon friends and family and state support. **This is less than half of household's optimistic expectations that their savings could last for 77 days.**

DAYS TO DEADLINE BY REGION.



WORKING FAMILIES.

14 DAYS

For the majority of working age families (18-64 year olds) the Deadline has increased slightly to 14 days.

IMPACT OF RISING MORTGAGE INTEREST RATES

▲ **2% rise** would move the typical household with a mortgage one day closer to the breadline.

▲ **1% rise** would mean households would no longer be able to save each month and would have to change their spending habits, or rely on existing savings, to make ends meet.

IT WON'T HAPPEN TO ME!

Yet **50%** of people know someone who has suffered a serious illness or injury.

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

60% OF HOUSEHOLDS

either don't know what to expect or expect nothing from the government in terms of financial help for their family if they fell ill. 79% had no idea or expected no government support in the event of their death.

This highlights why it is crucial to help consumers understand the importance of doing something now to improve their financial security.

12 YEARS 9 MONTHS.

Households are saving £177 per month on average but it would take almost 12 years 9 months to save one years average UK, gross salary of £27,000*.

*Office National Statistics Annual Hours and Earnings Survey 2013

DEADLINE TO THE BREADLINE BY HOUSEHOLD TYPE:

Outright homeowner	Homeowner with mortgage	Privately rented	Local Authority/ Housing Association
426 DAYS	22 DAYS	2 DAYS	0 DAYS

The average UK household has **£1,205** in savings.

36% of households have no strategy in place to cope with financial hardship compared to 35% in November 2013.

Households are slightly more positive – they now expect monthly discretionary incomes to rise by £11.31 over the next 12 months, while their views of job security have improved slightly compared to 2 months ago.

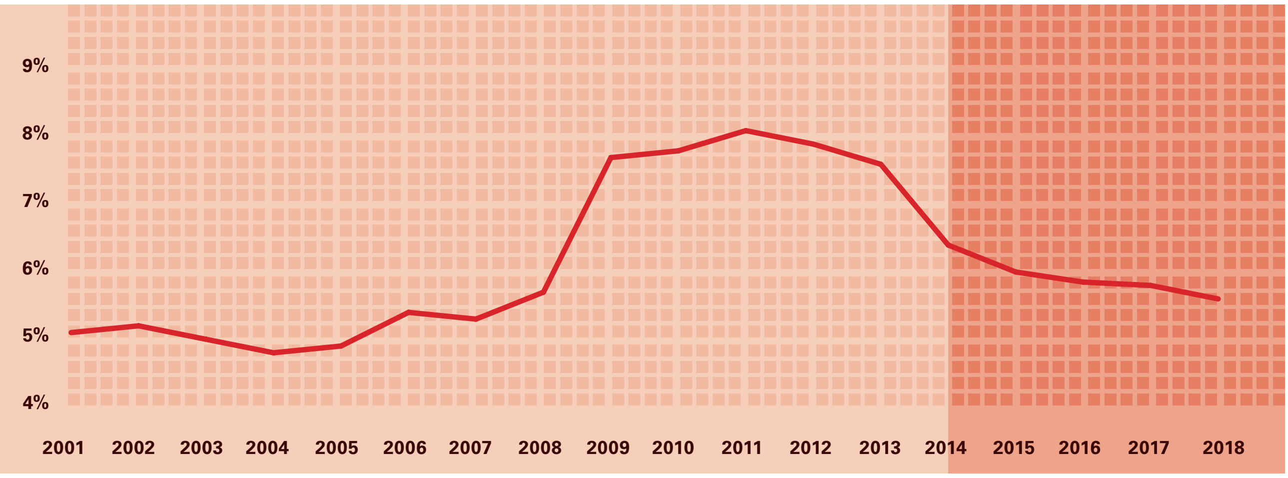
1.

EMPLOYMENT, EARNINGS AND DISCRETIONARY INCOME.

The UK economy is expected to grow by 3.0% over the course of 2014, the strongest annual growth since the financial crisis began in late 2007.

However, business and consumer confidence have levelled off in recent months after reaching the highest levels since the recent crisis, aided by a strong employment market and a pickup in the housing market. The unemployment rate fell to 6.4% in the second quarter of this year, reflecting employment growth of just over 820,000 in the last twelve months. However, there remains a significant gap in the employment market – there are over 1.3 million people in the UK who would like to work more hours than they currently do[1], while earnings growth has been persistently weak. Without sustained improvements in these areas, in combination with reduced unemployment, households face a struggle when attempting to strengthen their financial positions.

FIGURE 1 UK UNEMPLOYMENT RATE



Source: Office for National Statistics, Cebr forecast

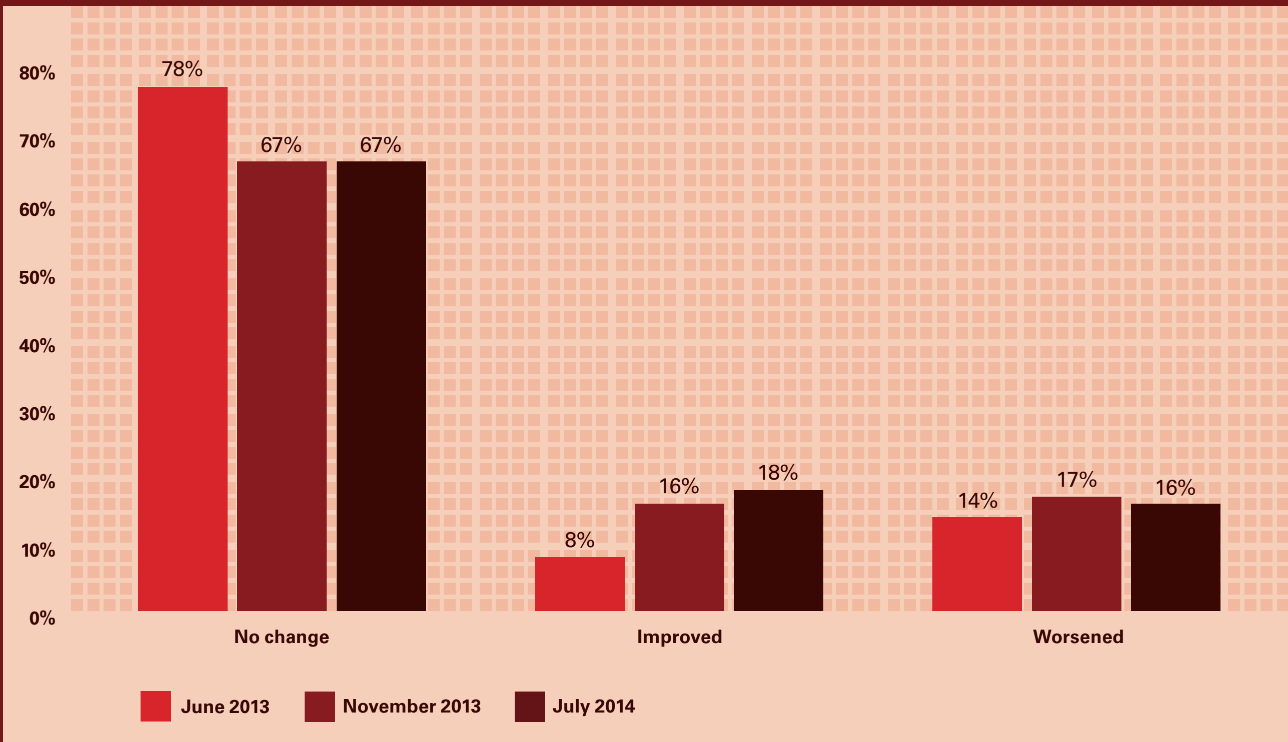
1.3 million people in the UK would like to work more hours than they currently do in order to make ends meet.

[1]ONS labour market statistics, August 2014 release. The figure is the number of persons who are working part-time because they could not find full-time employment.

A MORE POSITIVE OUTLOOK

Households feel marginally more positive about their employment prospects compared with a year ago, with 18% feeling more optimistic about their job prospects than a year ago, compared to 16% who felt less optimistic, and 67% reporting no change, as Figure 2 illustrates. This increase in workers' perceptions of their employment prospects has been accompanied by gradual increases in the labour force participation rate (defined as the proportion of persons 16+ either in employment, or actively looking for work). This measure reached 63.8% in the second quarter of 2014, supported by rises among all age groups when compared to a year ago. The number of younger people (aged 18-24 age group) rose strongly, up 0.7% over the year, reflecting the general trend of increasing confidence in the opportunities available within the employment market.

FIGURE 2 EMPLOYMENT PROSPECTS, PERCENTAGE OF HOUSEHOLDS

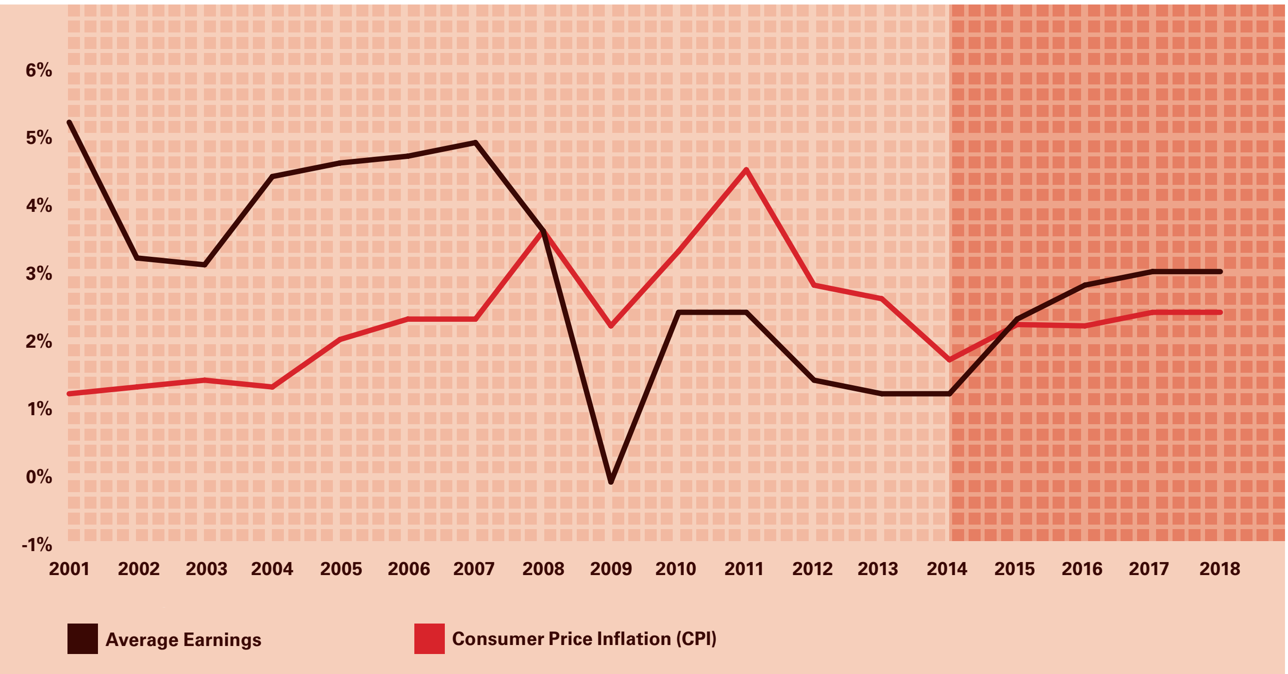


Source: Legal & General Deadline to the Breadline research via TNS Global

AND POTENTIAL RISE IN INCOME

With unemployment having sharply declined, the ability of workers to negotiate for higher pay is expected to increase in the coming months. However, income growth has remained weak despite the rapid increase in jobs, remaining well below the rate of inflation. This continues the pattern of falling real incomes seen since 2008. Looking further ahead, with the UK economy's recovery continuing and unemployment expected to fall further, Cebr forecasts annual growth in average earnings will exceed consumer price index inflation in 2015, as shown in Figure 3. This would represent the first rise in real incomes (on an annual basis) since 2007.

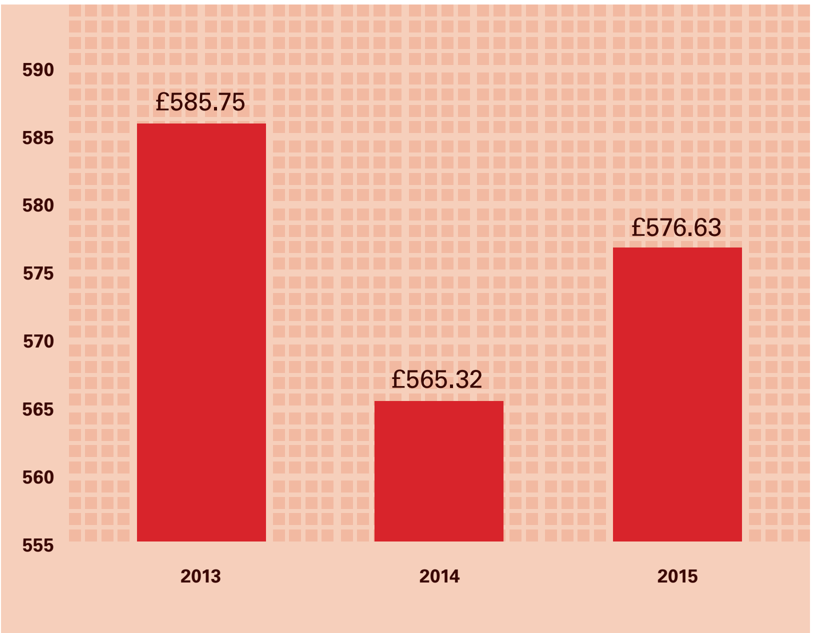
FIGURE 3 AVERAGE EARNINGS AND CONSUMER PRICE INDEX, ANNUAL PERCENTAGE CHANGE



Source: ONS, Cebr forecast

These falling real earnings are reflected in the discretionary incomes of households, which have declined compared to last year. In 2014 on average, households reported that their monthly discretionary incomes – the income which remains after taxes and essential spending – had fallen £20.43 compared to 12 months ago. This fall is steeper than households' expectations reported in July 2013, which were consistent with a £7.54 decline during 2014. However, Figure 4 illustrates that households are more optimistic about 2015, expecting a £11.31 rise in their monthly discretionary incomes, equivalent to a 2.0% rise.

FIGURE 4 MONTHLY DISCRETIONARY INCOME, £ PER AVERAGE HOUSEHOLD[2]



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

[2]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.

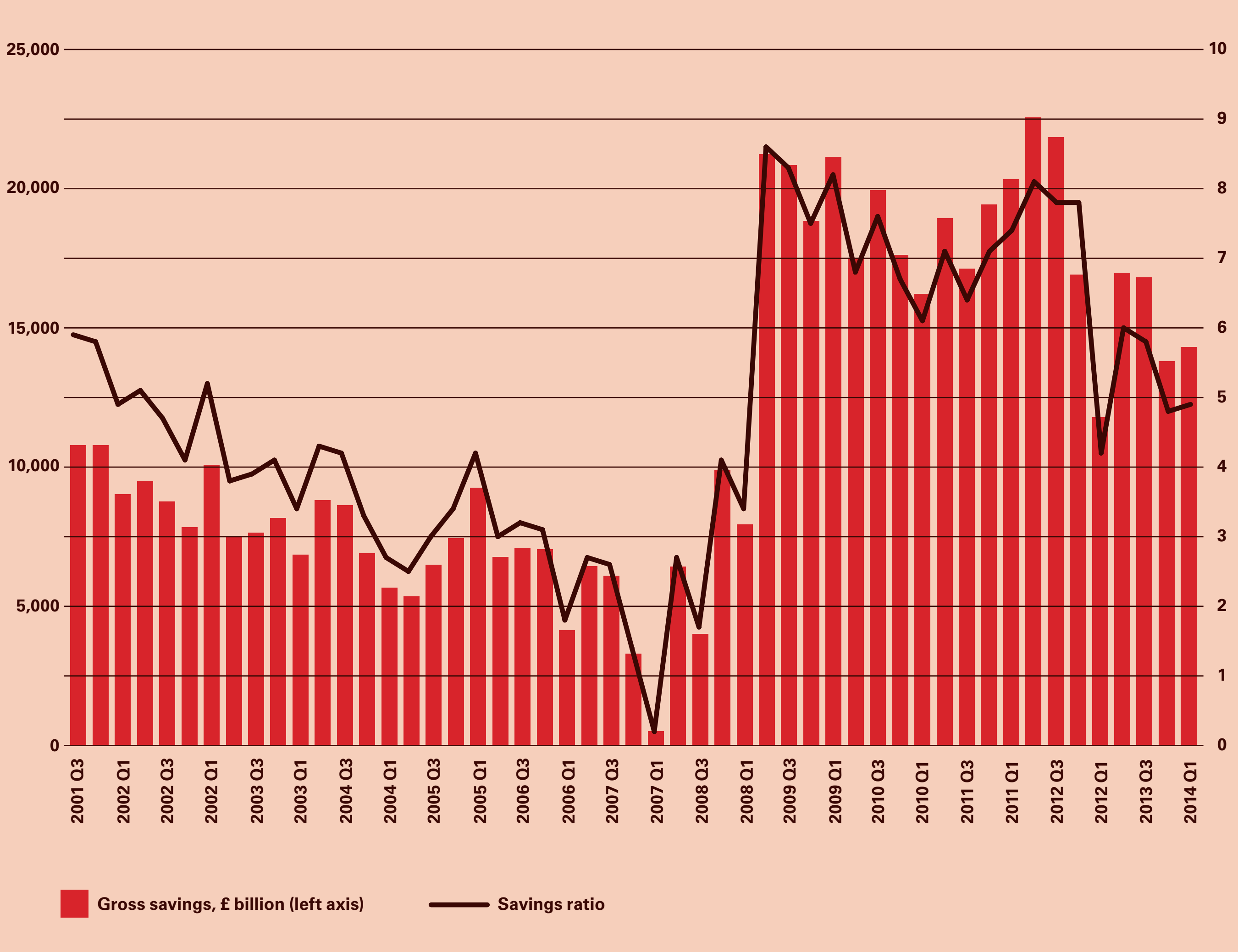
£1,205
average UK savings.

A THIRD OF PEOPLE STILL HAVE NO SAFETY NET.

Savings are a key aspect of economic activity, representing the resources available to draw upon and acting as a buffer during times of crisis. Following the financial crisis and ensuing credit crunch in 2007-2008, households responded by increasing the amount they save, seen in the sharp increase in household savings pre- and post-Q1 2008. This is highlighted in Figure 5 below, which shows how much UK households have saved in gross terms – i.e. excluding debt repayments – on a quarterly basis.

In the first quarter of 2014, households saved approximately £14.2 billion, which was almost double the quarterly average recorded between 2001 and 2008 Q1 (£7.5 billion). However, there is evidence that households are beginning to return to old habits, with saving as a proportion of disposable income falling significantly compared to the period immediately after the financial crisis. Gross household saving in the first quarter of 2014 was equivalent to 4.9% of disposable incomes, slightly higher than in Q4 2013, but representing a large drop compared to a peak of 8.6% in Q2 2009. This is consistent with the increase in consumer confidence, returning to its early 2007 levels and relaxing consumers' purse strings.

FIGURE 5 QUARTERLY GROSS HOUSEHOLD SAVINGS, £'S BILLIONS (CURRENT PRICES) AND PERCENTAGE OF TOTAL DISPOSABLE INCOME

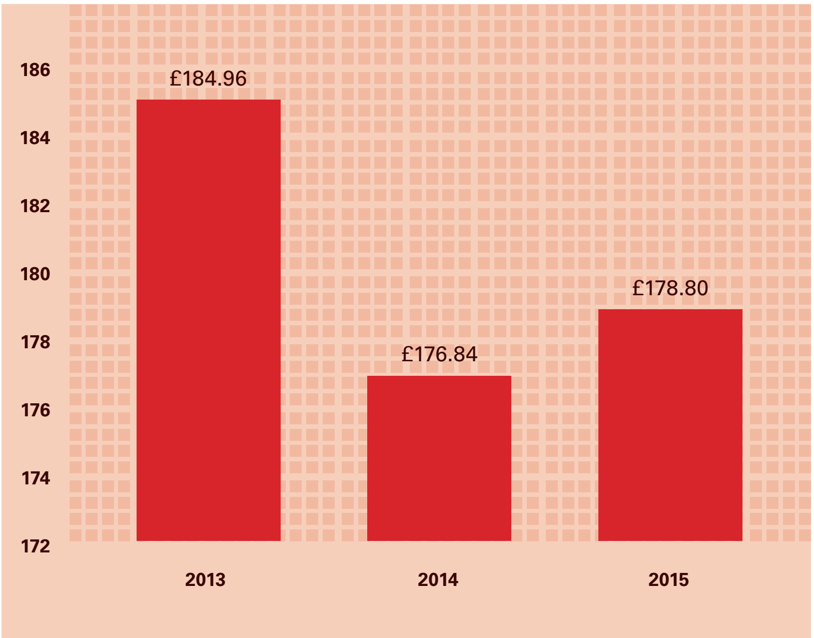


Source: Office for National Statistics

SAVINGS ARE STILL DOWN

Rock-bottom interest rates, coupled with falling real incomes as explored in the previous section, offer further insight as to why households may be choosing to save less of their incomes. Nevertheless, households report that they are still saving £177 each month, however as highlighted in Figure 6, households are saving £8.12 less per month on average in 2014 compared with last year, but are expecting to save marginally more – £1.96 per month – in 2015. The improvement in households' perceptions of their employment prospects, together with their expected growth in discretionary incomes, are consistent with these expectations for increased monthly savings.

FIGURE 6 CHANGES IN MONTHLY SAVINGS OF AVERAGE HOUSEHOLD, £

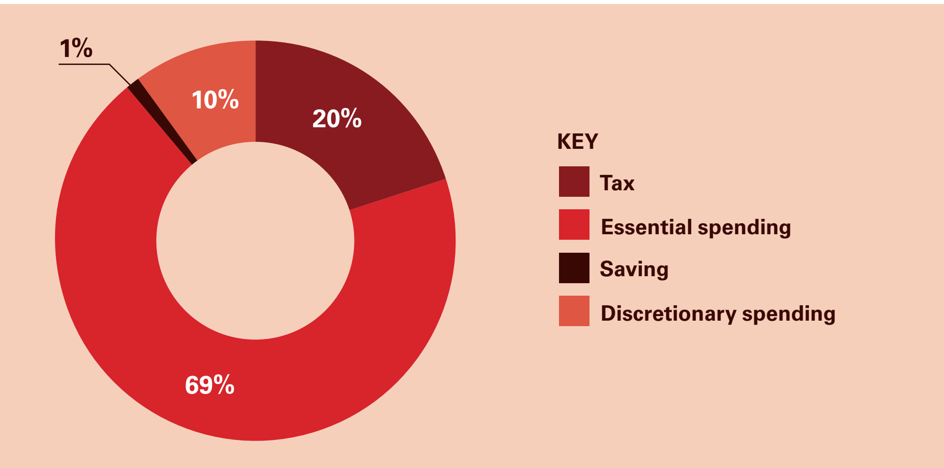


Source: Legal & General Deadline to the Breadline research via TNS Global

Other than savings, household income generally finds its way into one of three main categories; tax payments, essential spending and discretionary spending. Figure 7 illustrates the relative size of each of these elements for the typical (median) UK household.[3]

Essential spending, which includes housing costs such as rent and mortgage payments, utility bills and loan repayments, makes up by far the largest proportion of expenditure, at 69%. Tax payments account for around 20% of pre-tax income, while discretionary spending represents 10%. This leaves just 1% of pre-tax income set aside as savings for the typical UK household.

FIGURE 7 DISTRIBUTION OF HOUSEHOLD PRE-TAX INCOME



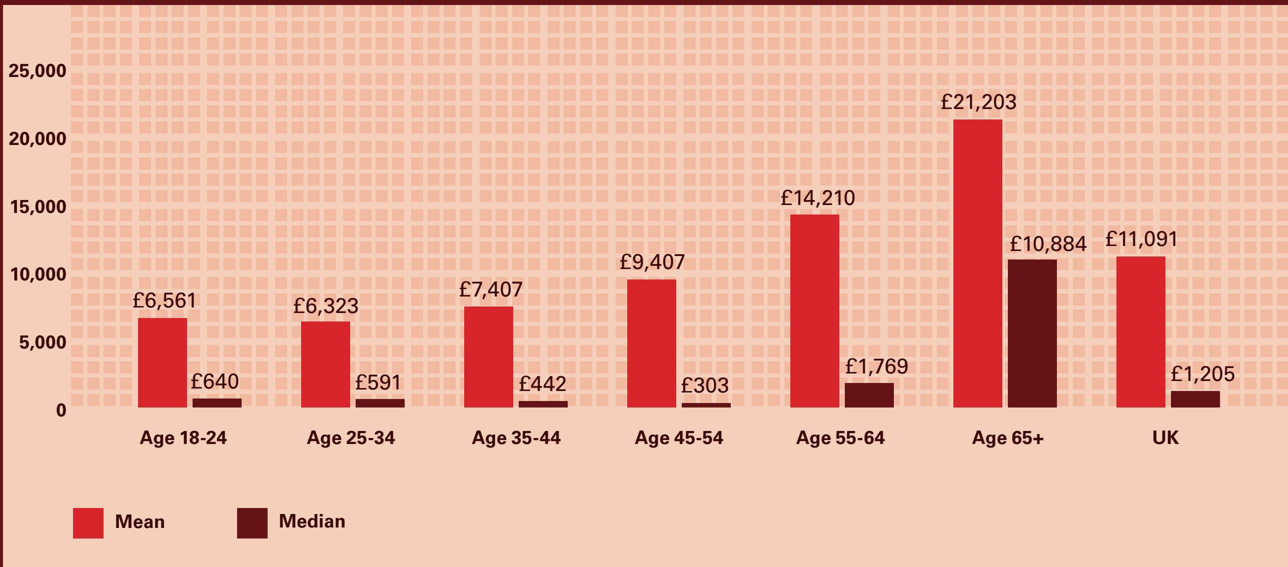
Source: Legal & General Deadline to the Breadline research via TNS Global

[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 can be understood as the middle value in a sequence of values ordered from largest to smallest.

OLDER EARNERS HAVE HIGHER SAVINGS

The amount a household is able to save tends to increase with earnings, which in turn tend to increase with age. Figure 8 demonstrates how households' mean savings increase with the age of the primary income earner. Households with a primary income earner aged 65 or over have, on average, £14,643 more held in savings and investments compared to a household where the primary income earner is aged 18-24. The average UK household has £1,205 in savings. This is an increase of £195 compared to our previous survey. The differences between the mean and median figures highlight the distortionary effects which high savers have on the simple average. The significantly lower median figures indicate that a high proportion of households have very little savings, while a small proportion have a very large amount of savings.

FIGURE 8 HOUSEHOLD SAVINGS AND INVESTMENTS BY AGE OF PRIMARY INCOME EARNER, £ AVERAGES AS OF NOVEMBER 2013 – JULY 2014



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

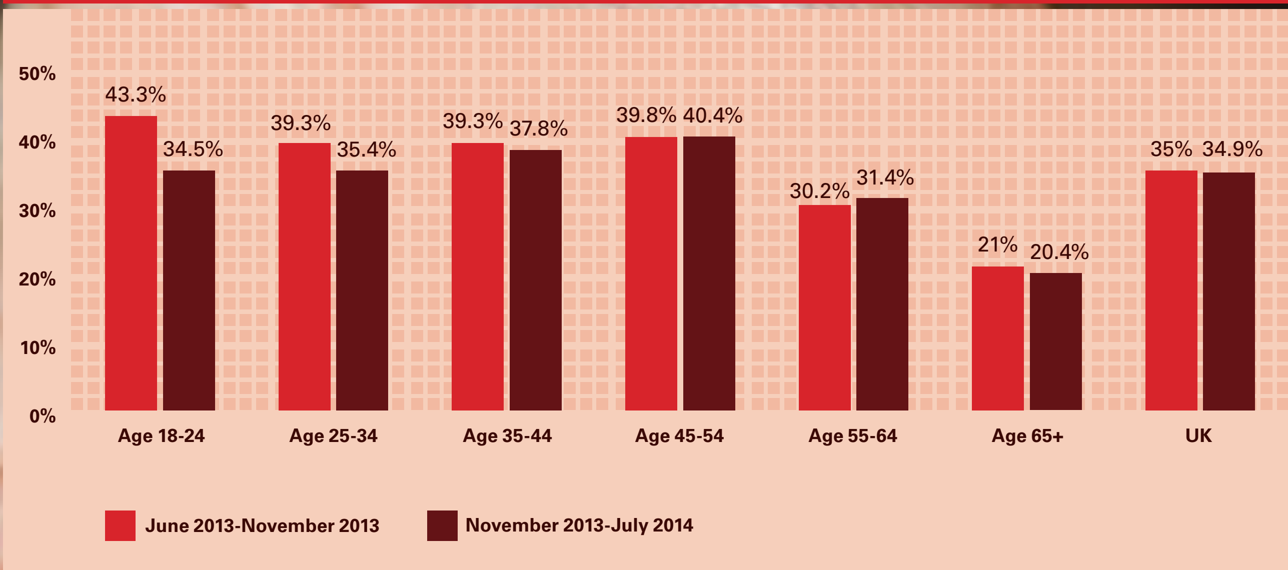
Even though monthly savings have fallen this year, households are still saving £177 each month on average, while the proportion of younger households (with primary income earners aged 18 to 24) with no savings has declined, supporting an increase in the typical UK household's Deadline.

Figure 9 below sets out the proportion of households, by age group, who report having no savings. When taking into account all households, the proportion with no savings (35%) has been stable, when compared to the previous edition of this survey.

However, there are significant variations between age groups. Households with the youngest primary earners (18-24 and 25-34 year olds) now have more savings. However, households with primary earners aged 45-54 and 55-64 saw the proportion without savings rise over the same period, by 0.6% and 1.2%s, respectively.

Employment market developments among different age groups provide insights into the developments over this period. Over-65s have seen employment levels increase robustly, rising by 8% over the last 12 months, whilst the number of employed 18-24 year olds has grown by 6.1% over the same period. Coupled with the number of unemployed 18-24 year olds declining sharply (by 22.1%), these improvements are consistent with the observed decreases in the proportion of households without any savings.

FIGURE 9 PERCENTAGE OF UK HOUSEHOLDS WITH NO SAVINGS, BY AGE OF PRIMARY INCOME EARNER

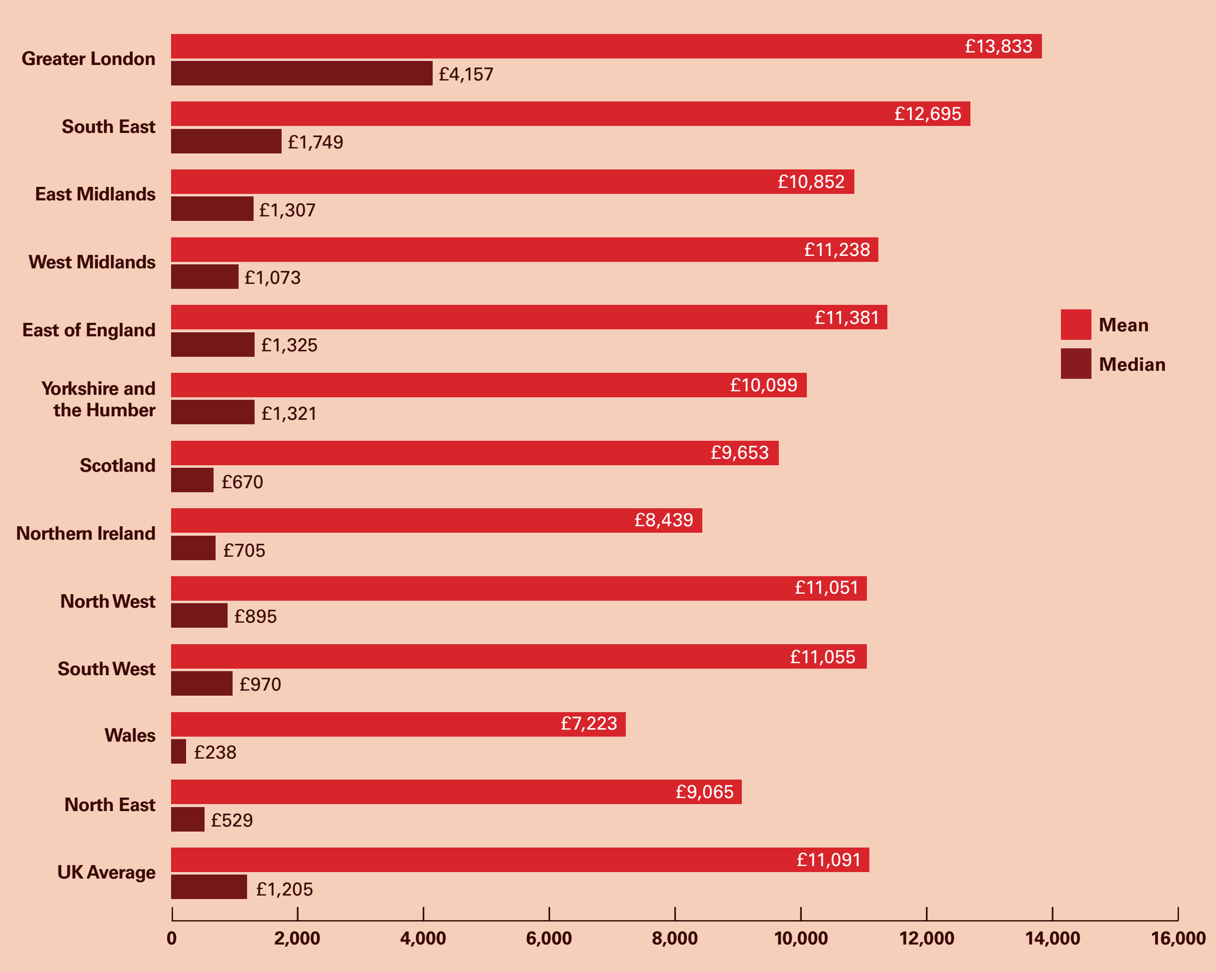


Source: Legal & General Deadline to the Breadline research via TNS Global

WIDE VARIATIONS IN SAVINGS ARE EVIDENT ACROSS THE UK

Figure 10 illustrates the mean and median levels of savings and investments held by households in the UK's constituent nations and regions. Greater London has by far the highest level of average savings on both measures, whilst Wales has the lowest savings levels in the UK.

FIGURE 10 MEAN AND MEDIAN UK HOUSEHOLD SAVINGS AND INVESTMENTS, BY REGION, £'S



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

3.

DEADLINE TO THE BREADLINE.

UK households are still under pressure: earnings growth has been weak and trailed inflation for most of the past few years, while unemployment remains elevated relative to the pre-crisis years. 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.

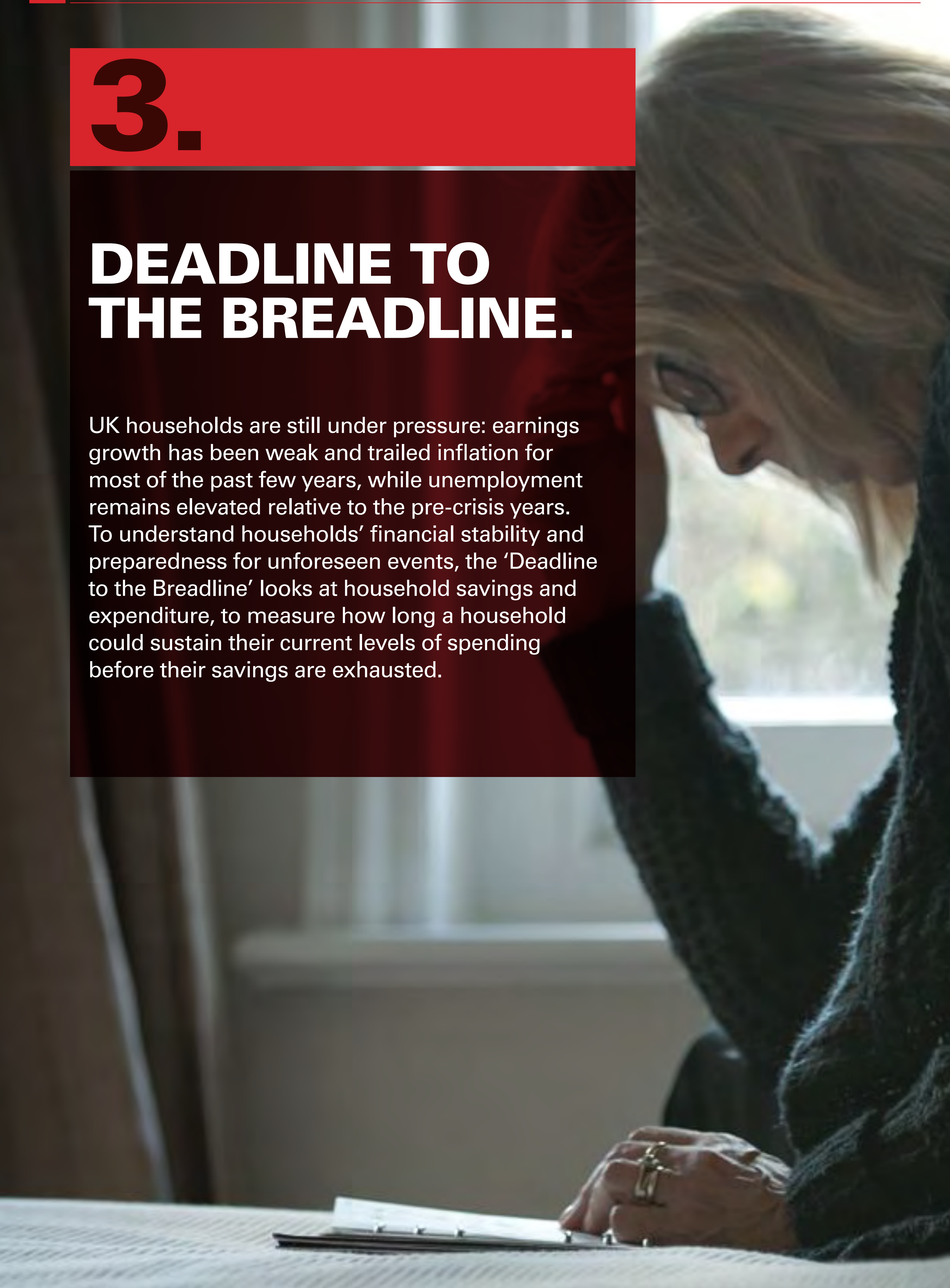


Figure 11 illustrates that the average household in the UK has a Deadline of 29 days. This means that in just over four weeks of losing their usual sources of income, unless they have some other strategy to mitigate financial hardship, the average UK household will be reliant upon state benefits and friends and family alone for financial support during their financial hardship.

In comparison to the previous edition of this report, the Deadline for the UK has increased by 3 days. This is because savings buffers have generally increased, particularly for households with younger primary income earners (18-24 year olds) whose Deadline has increased by 90%. This has helped extend the overall UK deadline.

There are again substantial differences between regions across the UK, however, with Greater London still having the longest Deadline, estimated at 83 days. Meanwhile Wales has the shortest Deadline, suggesting that, following a loss of income, the average Welsh household has savings which would last just 7 days before the household became dependent upon state benefits, or friends and family, for financial support.

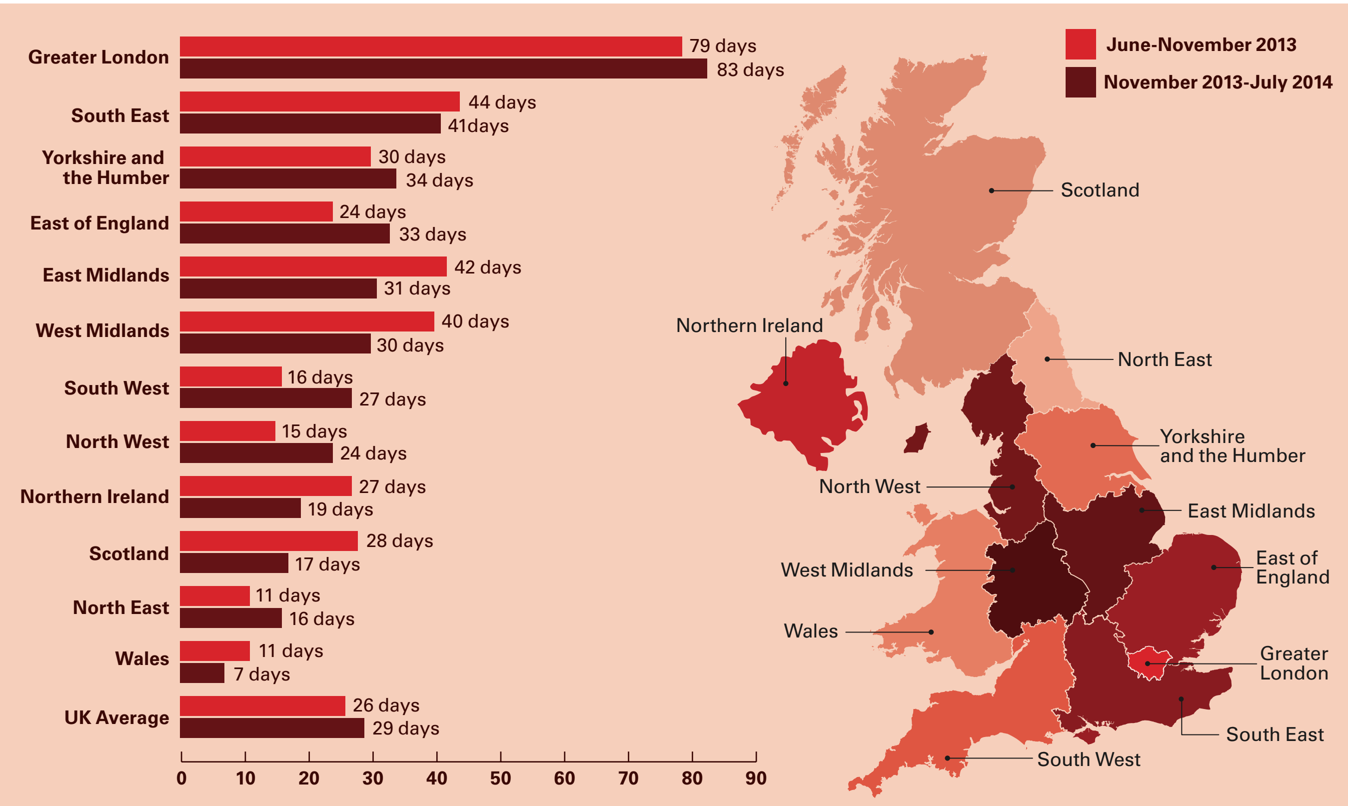
Some of the drivers of these changes can be understood through examining regional employment market developments over the time period.

Unfortunately in Wales their Deadline has fallen by 4 days (equivalent to a 40.2% decrease), and they have also experienced the weakest employment performance of the UK's regions. Between November 2013 and June 2014 (the latest month for which regional employment market statistics are available), the number of employed persons fell by 2.7%, or 37,800.

Scotland saw the second-largest Deadline decline to 11 days (relative to a 38.3% fall). Over the period since November 2013, the number of unemployed persons in Scotland has been broadly flat, even as the UK's unemployment rate dived by 0.8%. A similar picture is observed in the West Midlands, which saw the number of unemployed people fall by just 5.2%, well below the UK average of 10.5%. These relatively weaker regional employment statistics provide some insight into the most recent Deadline movements.

Meanwhile, the three regions which saw the most robust employment growth over this period – the North East, the South West and Greater London – all saw noticeable increases in their Deadlines.

FIGURE 11 DEADLINE TO THE BREADLINE BY REGION

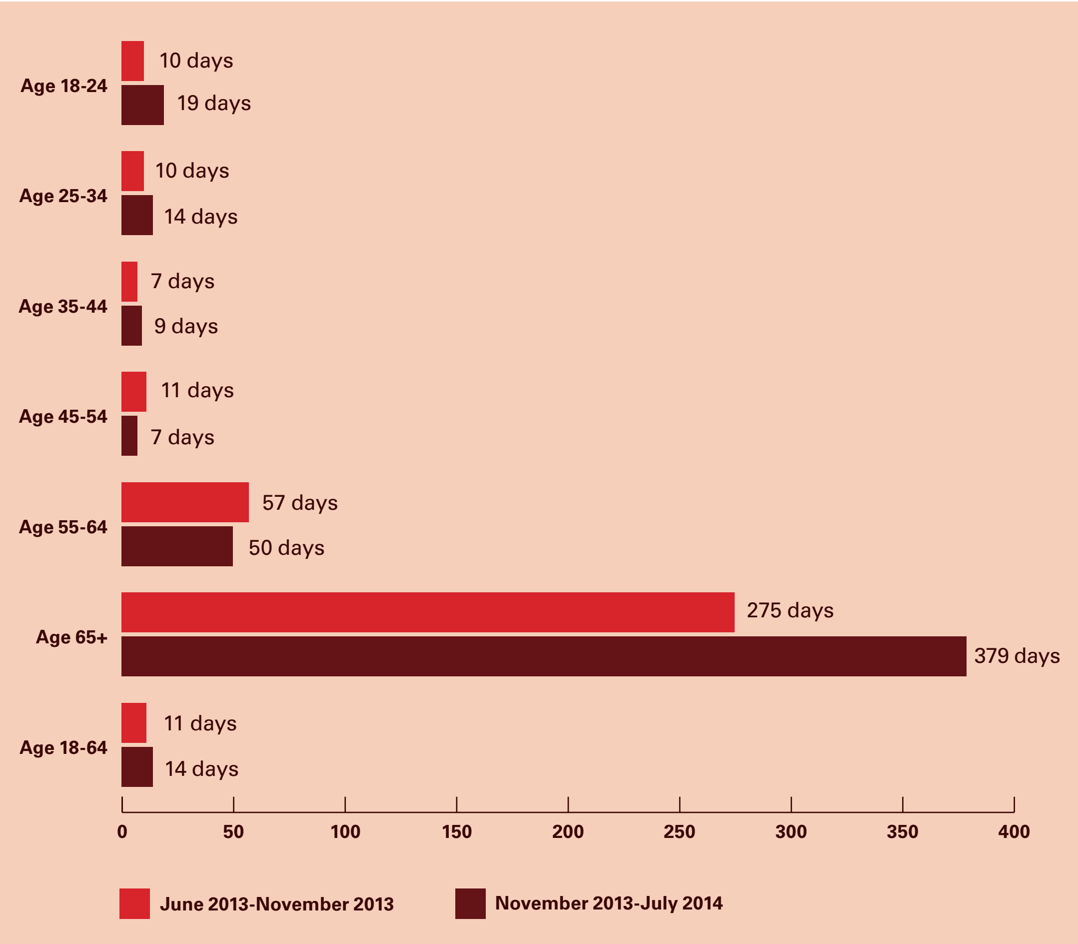


Source: Legal & General Deadline to the Breadline research via TNS Global

There is also huge variation in the estimated Deadline according to age, as shown in Figure 12. As the age of the household's primary income earner increases, the households appear better prepared for an adverse shock to their income. The over 65s' Deadline has improved further since the previous edition of this report, reaching 379 days. This improvement has been supported not only by increased levels of savings, but also by increases in the state pension and more people working past retirement age.

Amongst working age households (18-64s), there has been a general improvement in financial security. The Deadline for these households increased from 11 days to 14 days. This reflects the reduction in households reporting having no savings, as described within section 2. However, among the 55-64 age bracket, Deadlines fell slightly as the proportion of households with no savings within these age brackets increased. This may reflect an improvement in consumer confidence throughout the economy, driven in particular by the recovery of the housing market. With households feeling more secure and the value of their main asset rising, households with a primary income earner within this age bracket may feel more comfortable with dipping into their savings to fund their spending, contributing to a fall in their Deadlines.

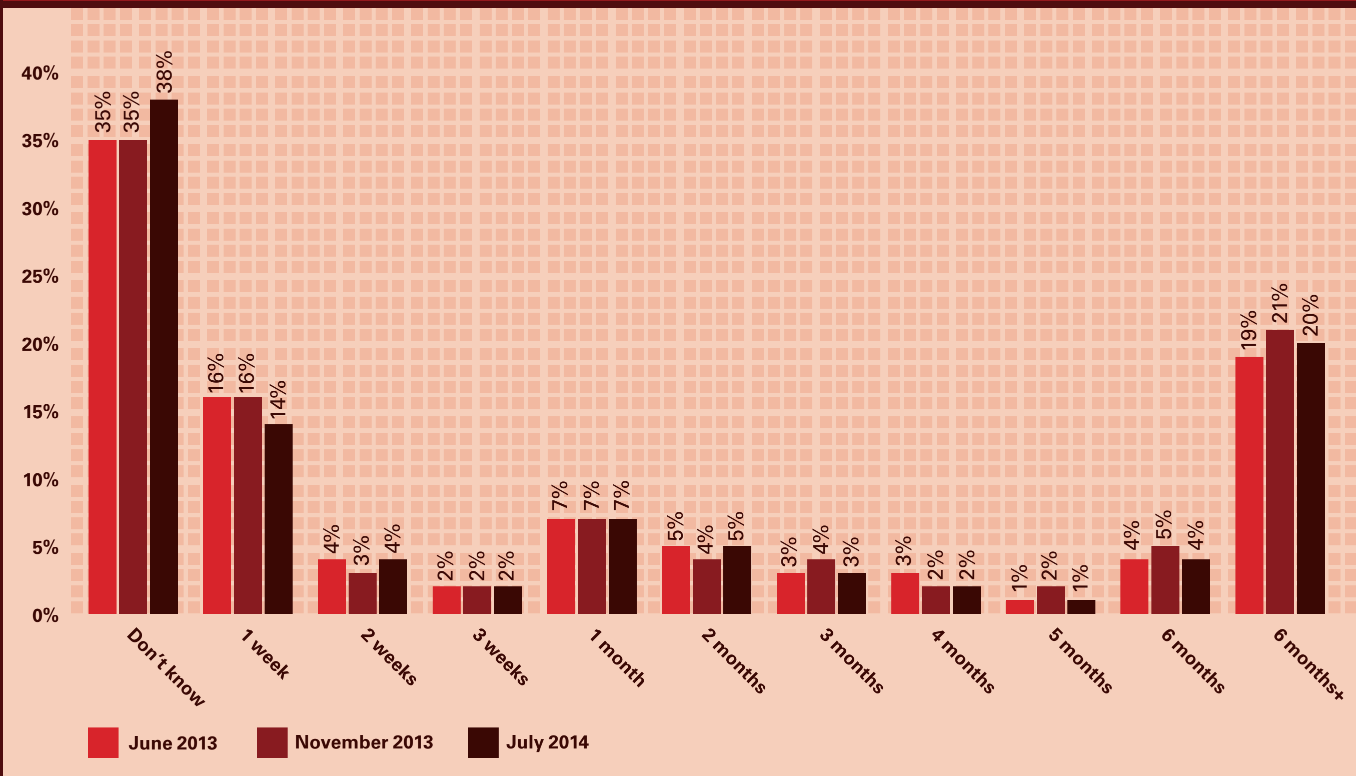
FIGURE 12 DEADLINE TO THE BREADLINE BY AGE



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

The overall Deadline figure of 29 days contrasts sharply with households' more optimistic expectations of how long they would be able to rely on their savings. On average, UK households estimate that they could get by on their savings for 77 days – more than double 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 13, 38% of households still report having no idea how long their savings would last.

FIGURE 13 HOUSEHOLD'S 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

4.

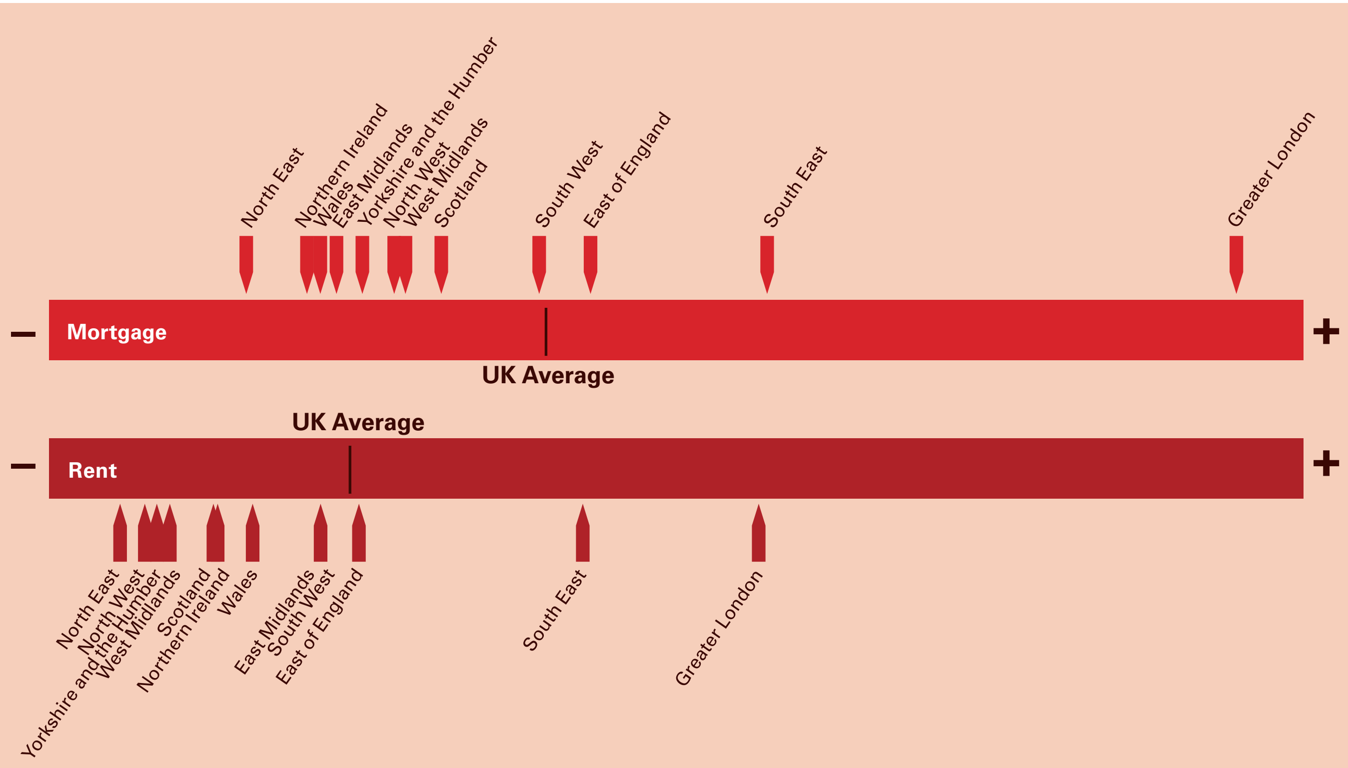
MORTGAGES AND RENTS – DIVERGING CIRCUMSTANCES.

With the UK's economic recovery well under way and the housing market picking up strongly, this section of the report examines how the recovery is affecting different types of household. To explore this, we consider the different challenges facing homeowners, with and without mortgages, compared to people living in rented accommodation.

In general, the monthly costs facing households living in rented accommodation are lower than those paying off a mortgage debt, as illustrated in Figure 14. On average, across the UK, households reported mortgage costs as being 17% higher than rental costs. Both mortgage and rental costs are higher in Greater London, with rents in Greater London reported as being 36% higher and mortgages 52% higher than the rest of the UK. By contrast, mortgage and rental costs were lowest in the North East.

Within the regions and countries of the UK, mortgage and rental costs generally move together, meaning that higher mortgage costs in one region also imply higher rental costs. There are some exceptions to this pattern, however. For example, mortgage costs are higher in Yorkshire than in the East Midlands, while rental costs are much lower. This can be explained in part by the differences in the housing stock being rented. A higher proportion of local authority or housing association stock (which are generally associated with lower priced rents) would bring the average reported rental costs for the region down.

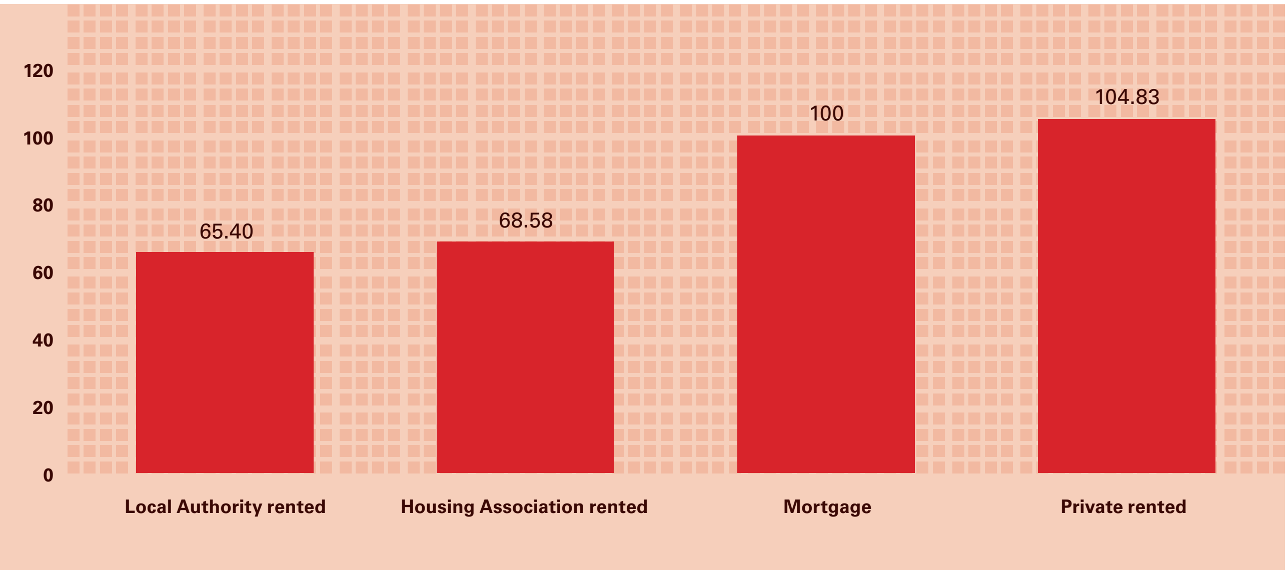
FIGURE 14 MONTHLY RENTAL AND MORTGAGE COSTS PER HOUSEHOLD ACROSS THE UK. REGIONS ARE POSITIONED ACCORDINGLY AGAINST THE UK AVERAGE.



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

The differences in these rental costs are illustrated in Figure 15 below. On average, households reported local authority rents as being the lowest, with monthly costs some 35% lower than the typical mortgage, while private rents were highest, costing 5% more on average than the typical mortgage. Therefore, while rents appear less expensive than mortgages on average, monthly costs for private renters appear to be higher than mortgage repayment costs.

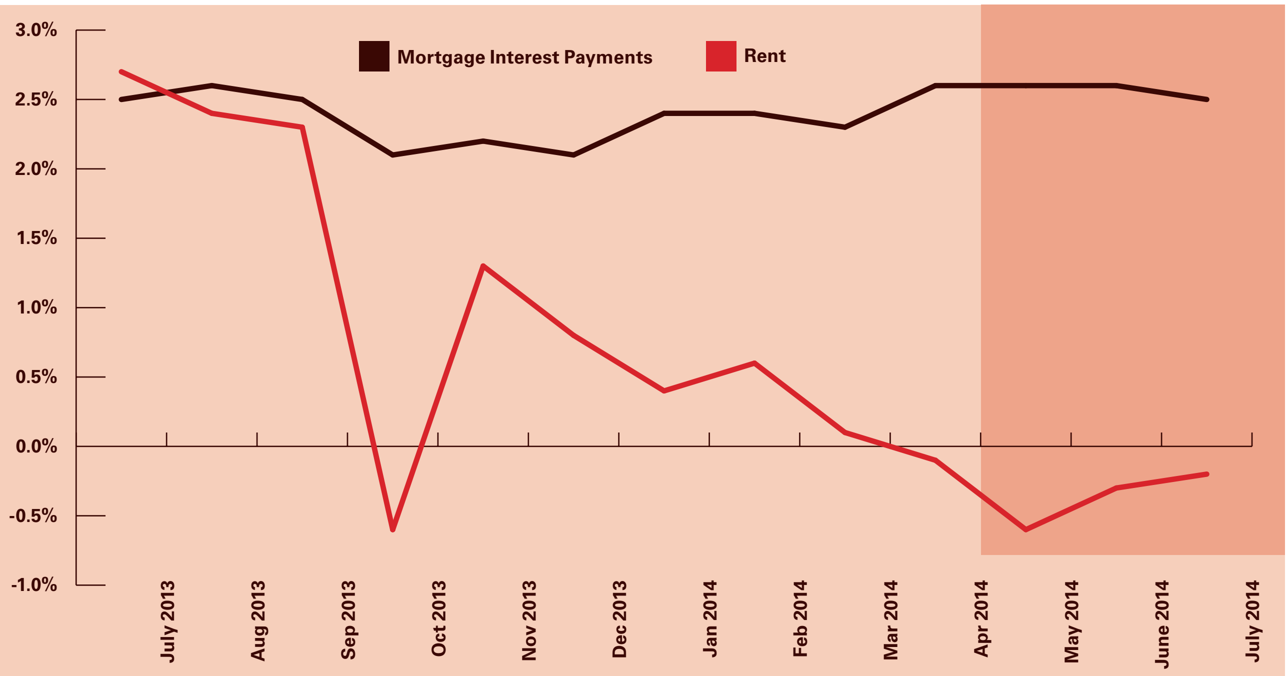
FIGURE 15 DIFFERENCES IN MONTHLY RENTAL AND MORTGAGE COSTS BY HOUSEHOLD TYPE – AVERAGE MORTGAGE INDEXED TO 100



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

There may be some respite on the horizon for private renters, however, as rental costs appear to be declining in the UK overall. As shown in Figure 16, growth in rental costs has slowed sharply since the end of 2013, and have been falling, on a year on year basis, since April 2014. Meanwhile, the costs of mortgage interest payments have been increasing steadily, rising by 2.5% year on year in July 2014.

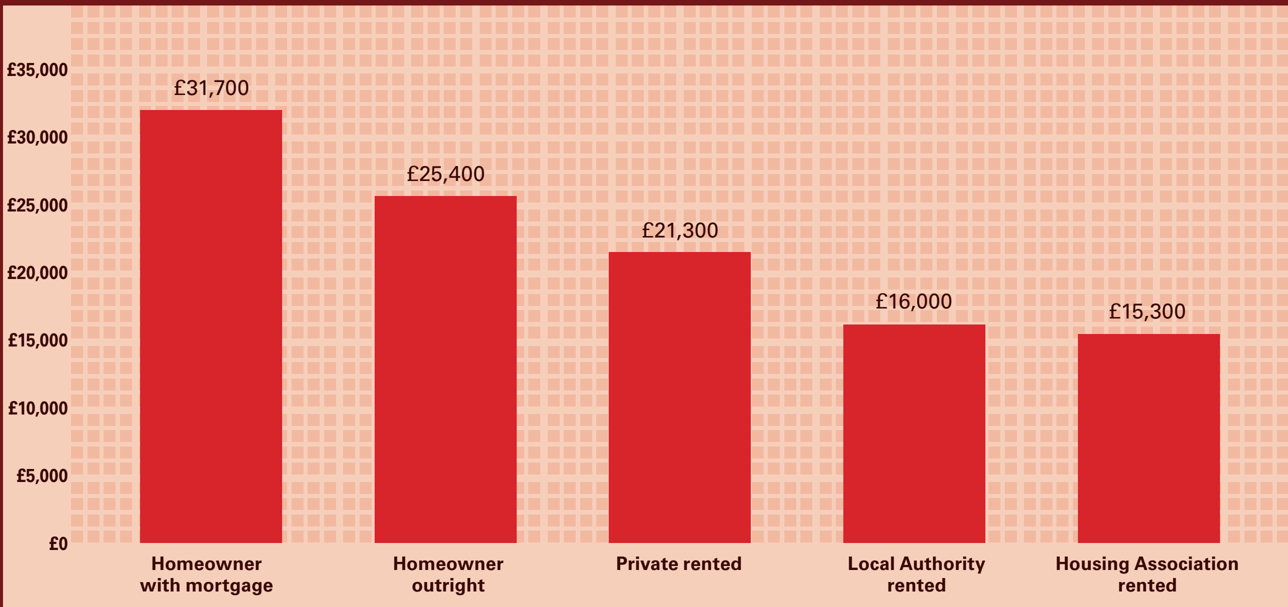
FIGURE 16 MORTGAGE INTEREST PAYMENTS AND RENT COSTS, ANNUAL PERCENTAGE CHANGE



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

In addition to the cost advantage that homeowners generally have over households in the private rental market, homeowners also enjoy higher income levels. As illustrated in Figure 17, outright homeowners have the highest incomes, estimated at £31,700, compared to £25,400 for homeowners with a mortgage. Both are significantly higher than the £21,300 incomes of households living in private rented accommodation, which is in turn much greater than the incomes of households living in rented local authority and housing association properties.

FIGURE 17 MEDIAN ANNUAL HOUSEHOLD PRE-TAX INCOME BY HOUSEHOLD TYPE, £ THOUSANDS

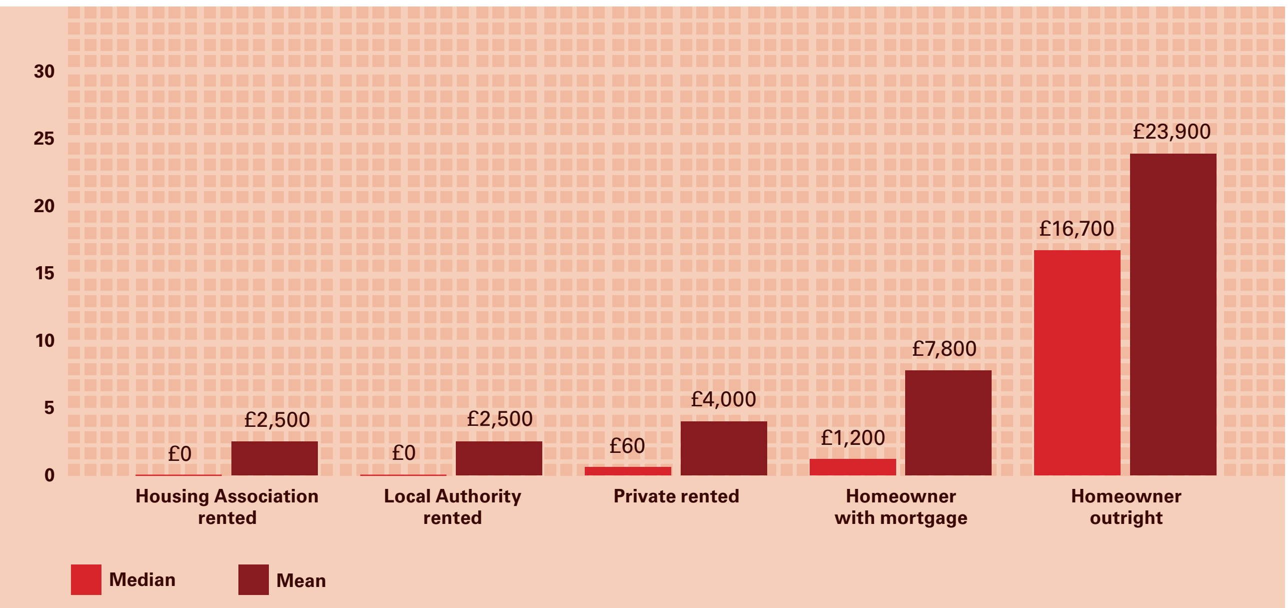


Source: Legal & General Deadline to the Breadline research via TNS Global

These differences in incomes and housing costs are evident in the amount of savings that these different households are able to set aside. Homeowners have significantly higher levels of savings, compared to households living in rented accommodation.

As illustrated in Figure 18, outright homeowners have £23,900 in savings on (mean) average, while the median homeowner reported savings of £16,700. This compares to households living in private rented accommodation, where mean savings were much lower, at £4,000, while median savings (which are more reflective of the typical household) were just £60. Households living in rented housing association or local authority provided accommodation had considerably lower levels of savings, highlighting their far more precarious financial positions. In both housing types cases (mean) average savings were £2,500, while the median household had no savings to draw on.

FIGURE 18 AVERAGE HOUSEHOLD SAVINGS BY HOUSEHOLD TYPE, £ THOUSANDS



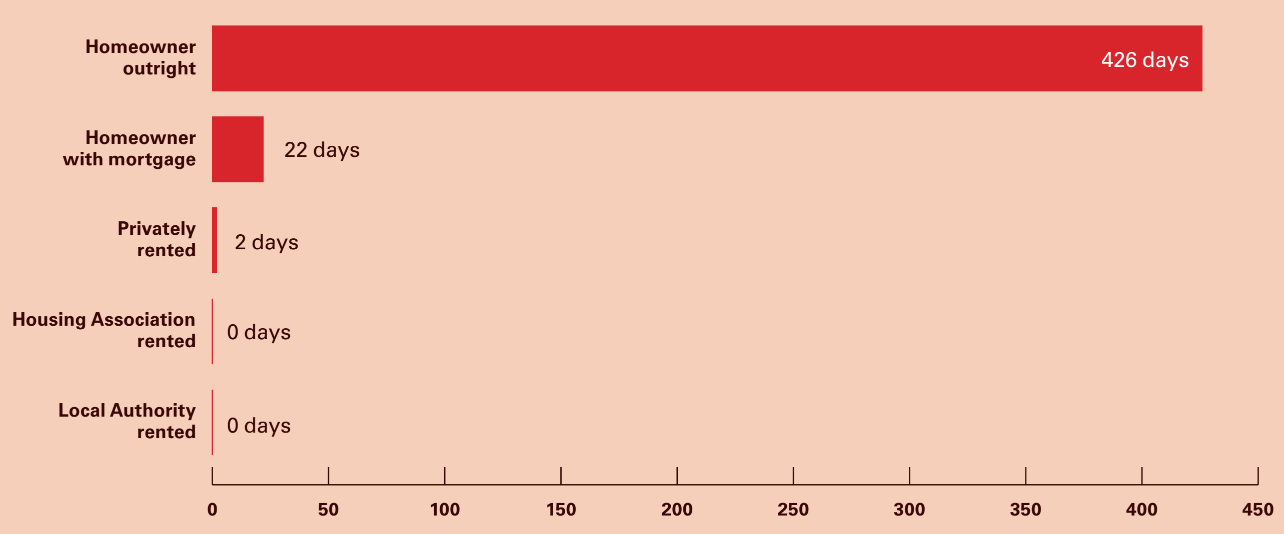
Source: Legal & General Deadline to the Breadline research via TNS Global

These hugely divergent savings figures highlight the precarious financial situation of many households: particularly given 16.7% of households are living in private rented accommodation, while 17.6% are living in local authority or housing association provided rental property[4]. For households who are currently renting privately, lower incomes combined with higher housing costs make saving a deposit for a house purchase and moving towards a financially secure position extremely challenging. These dynamics are reflected within the Deadline to the Breadline estimates by household type, as shown in Figure 19.

Outright homeowners have by far the longest Deadline. Given their current levels of expenditure and savings, the typical outright homeowner could sustain their current levels of spending for well over a year (426 days) following a loss of income. This falls considerably for homeowners with a mortgage, for whom the Deadline is somewhat lower, at 22 days. But for renters, the picture is much less secure. The typical household living in private rented accommodation could sustain their typical spending for just 2 days, based on reported median savings and expenditures. Meanwhile, households living in rented housing association and local authority housing, where over 50% of households reported zero savings, are constantly on the verge of the Breadline.

[4]2011 England and Wales census, accessed via NOMIS.

FIGURE 19 DEADLINE TO THE BREADLINE BY HOUSEHOLD TYPE



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

These financial positions are reflected in the kinds of people who seek credit from organisations such as online payday loan companies. As illustrated in Table 1, 60% of those that seek loans from home credit groups are social tenants, particularly women. Social tenants also make up 39% of those who seek credit from pawnbrokers and 35% of all those that request loans from a retail payday loan company.[5]

This large proportion of social tenants and those on low incomes relying heavily on pay day loans points to a wider problem in the economy, that many are still enduring financial hardship and struggling to meet the rising costs of living.

TABLE 1 – Differences between credit users, percentage of customers by type of customer

	HOME CREDIT	PAWNBROKER	RETAIL PAYDAY LOANS	ONLINE PAYDAY LOANS
Gender	**Mostly Women**	**Mostly women**	**Even mix of men and women**	**Mostly men**
Social tenant	60%	39%	35%	19%
On a low income[6]	72%	70%	46%	31%
Aged under 30	13%	28%	32%	37%

Source: The impact on business and consumers of a cap on the total cost of credit, University of Bristol 2013

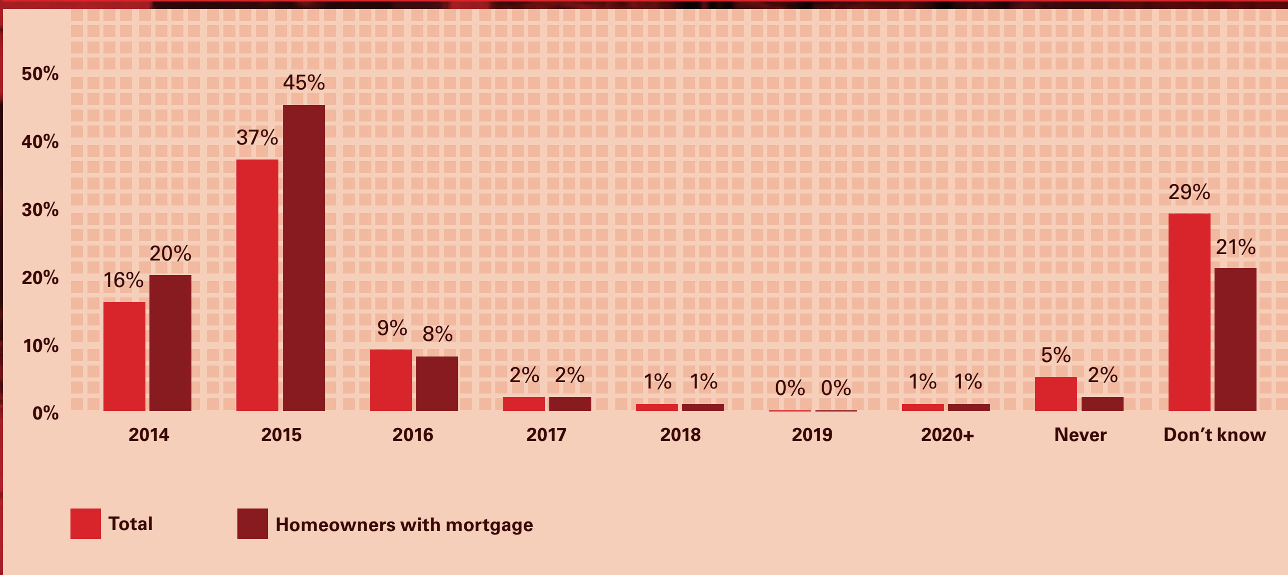
[5]The impact on business and consumers of a cap on the total cost of credit, Personal finance research centre, University of Bristol, 2013

[6]Survey respondents were categorised as being 'on low income' if they or their partner had no earned income, or they received working tax credit or pension credit.

For homeowners with mortgages, the financial security of the household can be much more dependent upon interest rate fluctuations. This is particularly true of households with variable rate mortgages, or those close to the end of their fixed interest rate period. On the whole, as illustrated within Figure 20, households expect interest rates to rise this year or in 2015.

Notably, households with mortgages are less likely to indicate that they “don’t know” when the Bank of England is likely to raise interest rates. This proportion is 21% for households with mortgages, compared with 29% of households overall. This would suggest that households with mortgages are slightly more informed about economic and financial conditions than the typical household. This makes sense given the clear incentive for them to keep up with events that could affect their financial stability.

FIGURE 20 HOUSEHOLD EXPECTATIONS FOR WHEN THE BANK OF ENGLAND WILL RAISE INTEREST RATES, PERCENTAGE OF HOUSEHOLDS



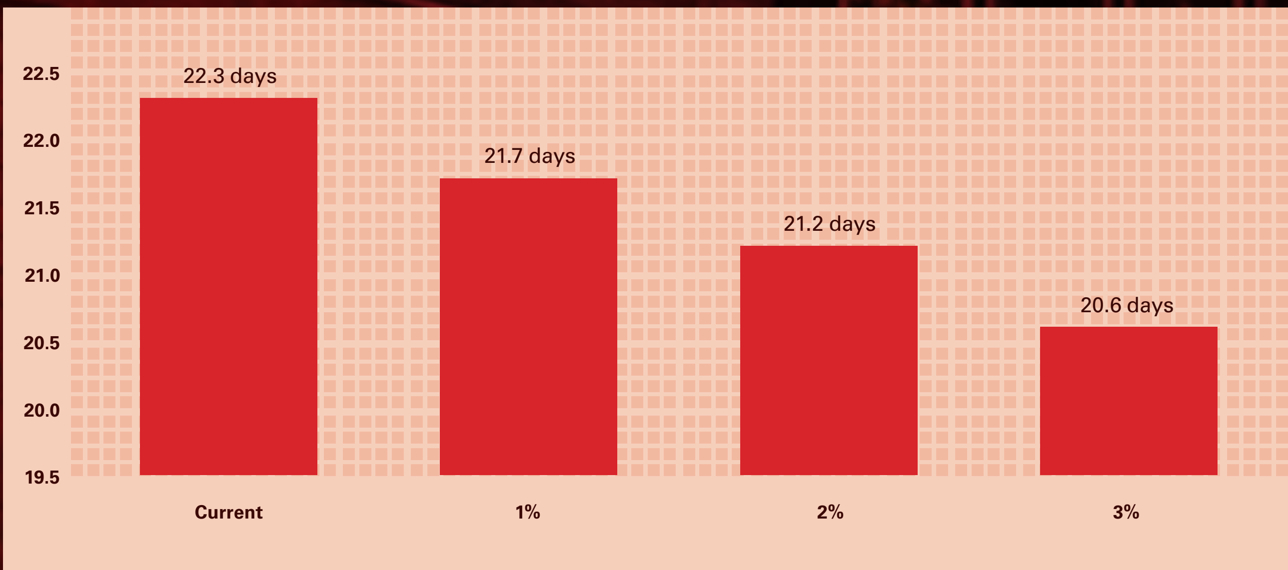
Source: Legal & General Deadline to the Breadline research via TNS Global

Given these expectations for a relatively imminent rise in interest rates, we investigated the impact that a rise in interest rates could be expected to have on the financial security of households with mortgages. Figure 21 below illustrates the expected impacts upon households' Deadlines, as a result of a 1%, 2% and 3% increase in mortgage interest rates.

As interest rates rise, the length of time that mortgaged households' savings can sustain their expenditures falls. For a mortgage interest rate rise of 3%, the deadline falls from its current level of 22.3 days down to 20.6 days, reflecting the rising costs of repayments.

In addition, our analysis suggests that a mere 1% rise in mortgage interest rates could raise repayments costs sufficiently resulting in households no longer being able to save each month. This means that, without changes to their spending habits, as interest rates rise many households could start to chip away at their existing savings (the most popular back up plan, as illustrated later in Figure 23) in order to meet higher mortgage costs.

FIGURE 21 IMPACT OF RISING MORTGAGE INTEREST RATES ON HOUSEHOLDS WITH MORTGAGES DEADLINE TO THE BREADLINE (Scenarios refer to percentage increases in mortgage interest rates)



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

A 2% RISE IN MORTGAGE INTEREST rates would move the typical household with a mortgage one day closer to the breadline, and even a 1% rise would push their monthly savings into negative territory unless they change their spending habits.

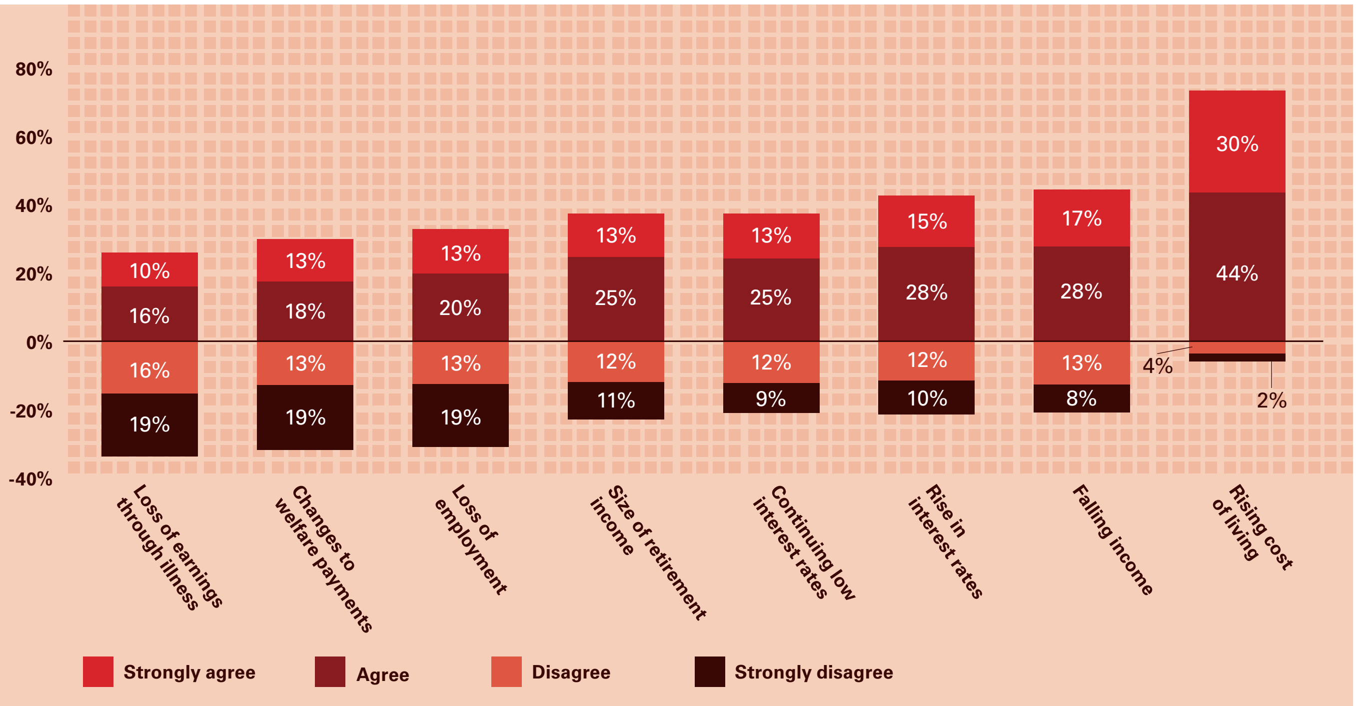
5.

INCREASING PRESSURES FACING HOUSEHOLDS.

The following section looks at the economic pressures facing households, by examining households' concerns and highlighting how well-prepared they appear to be to deal with these challenges.

Figure 22 below provides household's ranking of eight different concerns facing them over the next 12 months. Rising living costs over the next year are by far the most commonly-cited concern. Almost three quarters of people either agreed or strongly agreed that living costs represent a key concern over the coming 12 months. Falling incomes, rising interest rates and the size of retirement income were also key considerations for many households. Households were least worried about loss of earnings through illness and changes to welfare payments – with 19.3% strongly disagreeing that this was of concern to their household.

FIGURE 22 HOUSEHOLDS' RATING OF SELECTED RISKS OVER THE NEXT 12 MONTHS, PERCENTAGE OF HOUSEHOLDS



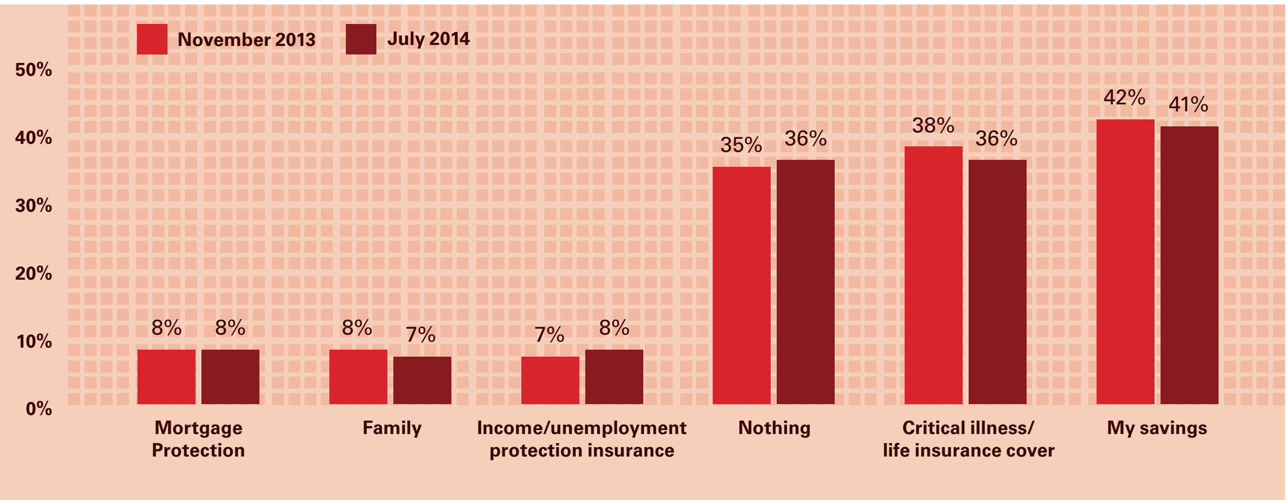
Source: Legal & General Deadline to the Breadline research via TNS Global

Preparing for LOSS OF EARNINGS THROUGH ILLNESS does not yet appear to have moved up household's agendas, even though many have CONCERNS over the RISING COSTS OF LIVING, and the potential for FALLING INCOMES in the 12 months ahead.

Savings remain by far the most popular method for dealing with sudden changes in circumstances, with 41% of households using this as protection, as shown in Figure 23. Surprisingly, there has been a slight decline in the number of households taking action to help protect their finances, represented by a 2% fall in the number of households having critical illness and life insurance cover. However there has been a 1% increase in the number of households having income protection cover. Meanwhile, the number of households taking out mortgage protection insurance has remained the same at just 8% – this despite the majority of households expecting interest rates to rise before the end of 2015.

Preparing for unforeseen events does not appear to have moved up households' agendas, even in light of the concerns highlighted above. The proportion of households with no strategy in place to cope with financial hardship increased to 36% in July, compared to 35% in November 2013.

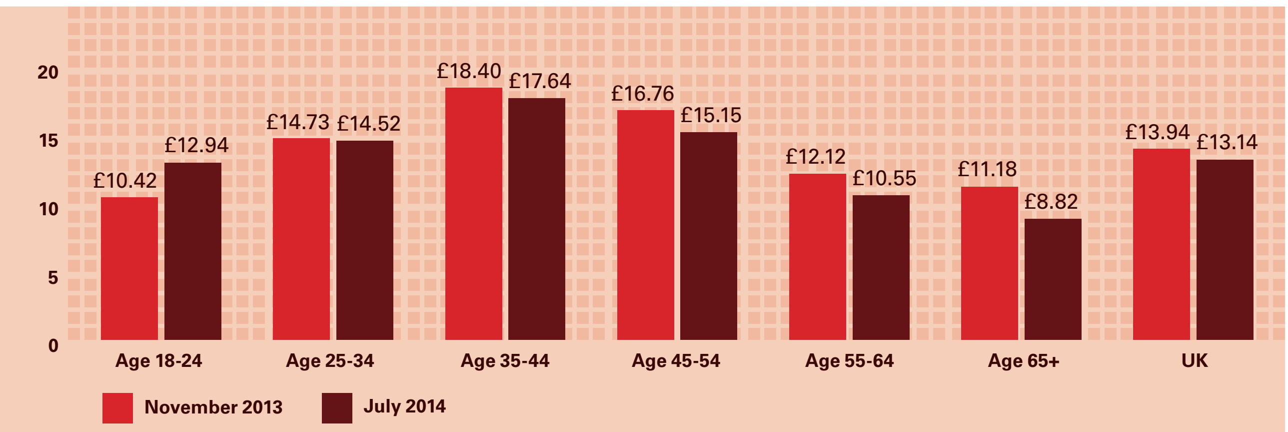
FIGURE 23 FINANCIAL HARDSHIP STRATEGIES USED BY HOUSEHOLDS, PERCENTAGE OF HOUSEHOLDS



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

As shown in Figure 24, the amount that households spend on helping to protect their current way of life and helping to protect their futures has fallen slightly across all demographics, apart from the 18-24 age group. This youngest demographic group, which has also shifted its preferences to accumulate greater savings, is the only to group to have increased spending on insurance, from £10.42 to £12.94. The average UK household has marginally reduced the amount it spends on insurance, from £13.94 to £13.14.

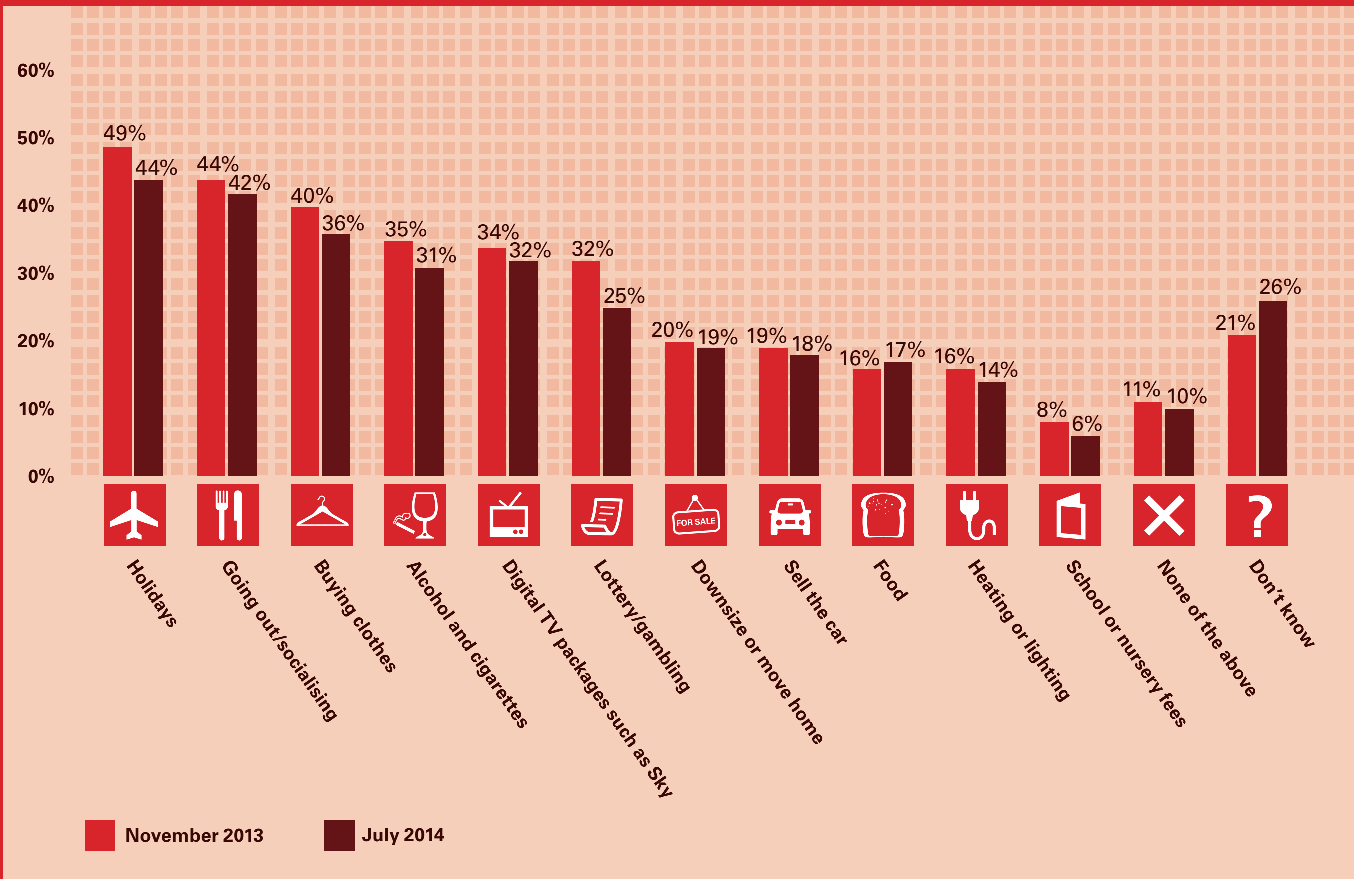
FIGURE 24 HOUSEHOLD MONTHLY EXPENDITURE ON INSURANCE, £ BY AGE OF PRIMARY INCOME EARNER



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

Figure 25 illustrates the sacrifices that households are prepared to make to cope with a shock to their finances, which have remained broadly the same since the last report in November 2013. Holidays are still the first things to be cut during times of hardship, as indicated by 44% of households. 42% of households suggest they would cut back on social activities when times get difficult, followed by 40% who would cut back on buying clothes. However, uncertainty appears to be on the increase also – the proportion of people who don't know what they would likely cut back on rose by 5% in July, reaching 26% compared to 21% in November 2013.

FIGURE 25 SACRIFICES HOUSEHOLDS ARE WILLING TO MAKE, PERCENTAGE OF HOUSEHOLDS



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

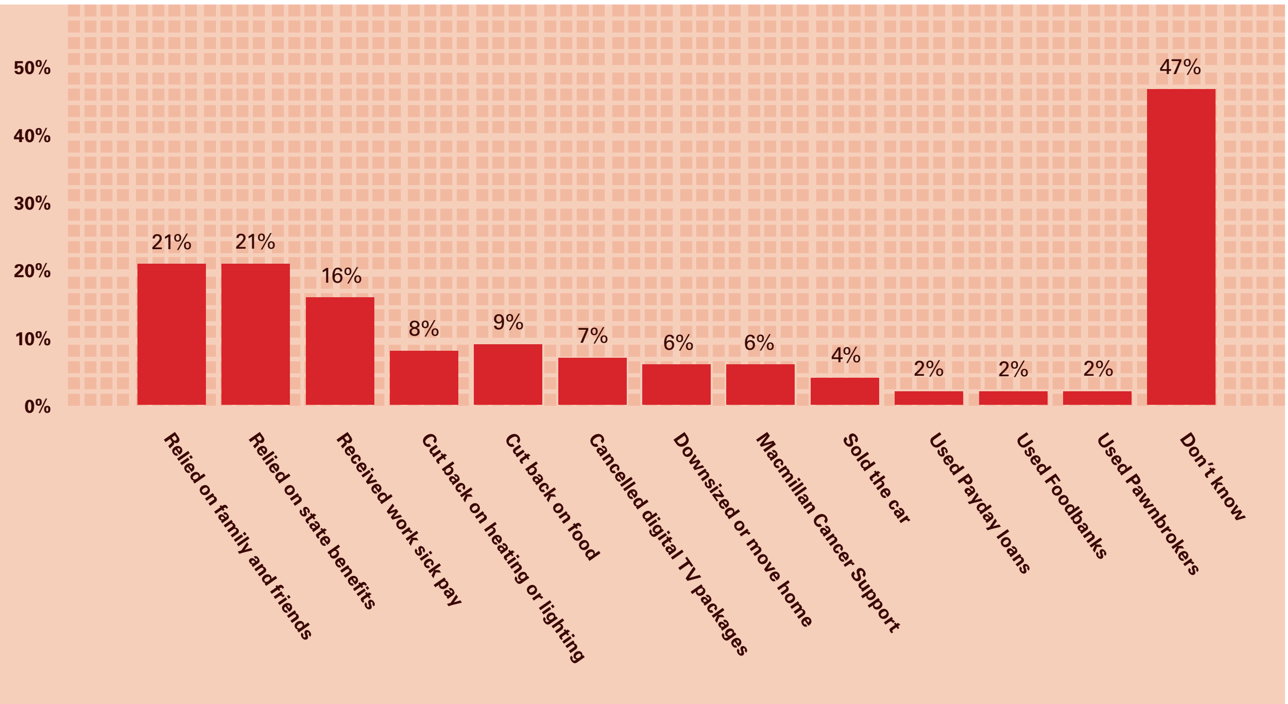
Many households (50%) said they knew someone who had suffered from serious injury or illness, highlighting the large number of people who has seen first hand the impact an unforeseen event can have upon someone else's life. As shown in Figure 26, these people were supported financially in a variety of different ways. The most common source of financial support is family and friends and state benefits, which 21% of people indicated was their main source of help, a fall of 2% since November last year. This reliance on family and friends sits in stark contrast to people's perceptions of their own backup plans, in which just 7% of people would expect to lean on them for financial support.

In many cases people have sacrificed some of their usual spending; cutting back on heating and lighting and food. Almost half of households (47%) didn't know how others had coped financially.

50% OF PEOPLE said they knew someone who had suffered FROM SERIOUS ILLNESS OR INJURY.

Recent research by Macmillan Cancer Research found that one in three people living with cancer experienced a loss of income, on average £860[7] a month, as a result of their diagnosis. Costs associated with living with cancer include travel costs to and from hospital appointments, increased household energy bills and additional clothing costs. Many people find they have to stop working or reduce their hours. With more than one in three people in the UK developing some form of cancer in their lifetime, it highlights the importance of financial planning and putting plans in place to help protect their income against the financial hardship of a serious or life threatening illness.

FIGURE 26 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

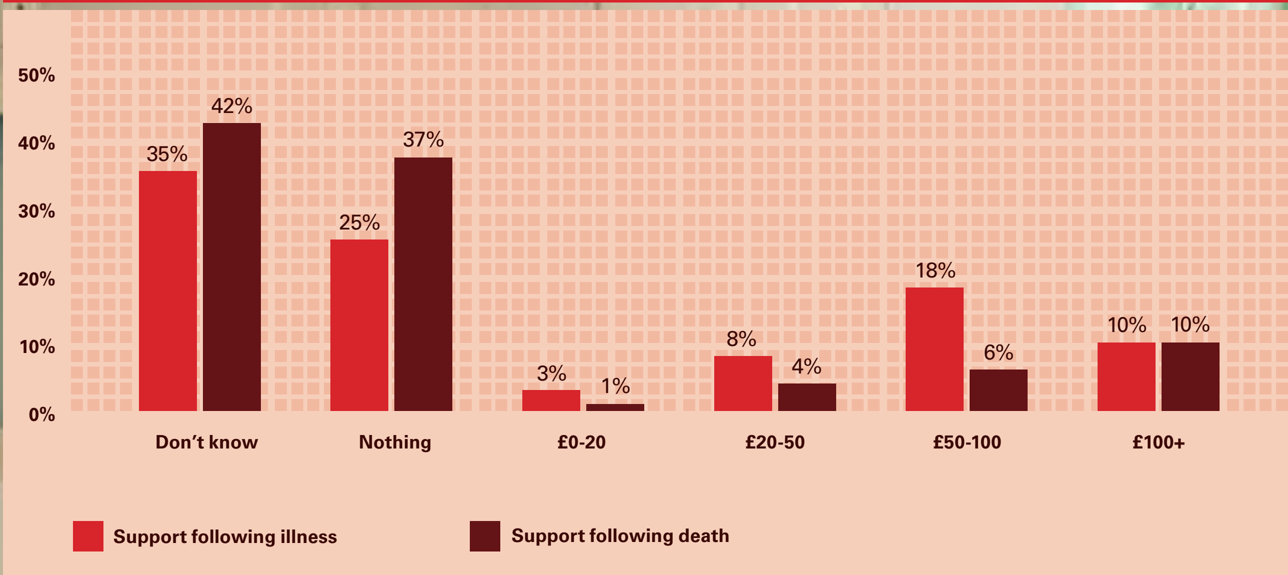
A number of households appear to have limited knowledge of the government support they may be entitled to if they were to fall into financial hardship. As highlighted in Figure 27, 35% of households don't know what state benefits would be available to them if they were unable to work through illness, and 42% don't know what support could be available to their family in the event of their death. On average, people expect to receive £58.88 each week in the event of illness and £47.71 each week in financial support for their family in the event of their death.

More than **one in three** people in the UK develop some form of cancer in their lifetime.

[7]Macmillan Cancer Support – Cancer's hidden price tag – *Revealing the costs behind the illness.*

The actual support that households could expect to receive is quite different from these estimates. If an individual should fall ill, they would be expected to receive a statutory sick pay[8] of £87.55 per week, for up to 28 weeks. In the event of death in the family, the household may be entitled to a one off bereavement payment of £2,000, in addition to widowed parent's allowance of £111.20 a week, providing the claimant is under the state pension age. These allowances would greatly exceed the weekly estimates that households indicated they would be entitled to; however, these sums would fall well short of the £381 that the typical (median) household spends each week[9]. Plus with future increases in most state benefits capped to 1% a year by the government until 2016, people in such distress may find it more difficult to stretch their benefits to cover the rising cost of living.

FIGURE 27 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

[8]Correct as at 23/01/2014

[9]This expenditure figure is based on median household responses to the July 2013 TNS survey

6.

METHODOLOGY.

SURVEY

The data on which this research is based were collected by specialist market research company TNS Global. The latest survey was conducted between the 10th and 24th of July 2014 in which 4,886 respondents answered 19 questions and sub-questions. The previous surveys were carried out between the 7th and the 14th of March 2013 in which 2,478 respondents answered 18 questions and sub-questions. A further survey was 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 £87.55* per week), or state pension (£113.10 per week).

Throughout the analysis **discretionary 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 November 2014.

*Rates correct as at January 2014.

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