Evidence to the Work and Pensions Committee on its rolling inquiry into Universal Credit- Income Shocks

Universal Credit Reform to ensure low income families can become more resilient in the event of sickness

The Issue

The Association of Financial Mutuals (AFM) is concerned that the current situation- whereby only earned income is subject to a disregard (and taper) for qualification for Universal Credit, depending on income level- means that families who purchase insurance to cover them in the event of sickness will have any payments from their insurance deducted from their Universal Credit entitlement on a pound for pound basis. This means that people who decide to protect themselves are disadvantaged compared to those who choose not to. Many of these families find it difficult to save for a rainy day and even if they do, such savings will not support them in the medium to long-term if they are too ill to work.

We urge the Select Committee to look into this issue and if they agree, to **call on the Government to make an amendment to the Universal Credit regulations to allow such families to keep in full a disregarded reasonable weekly/ monthly sum**, with the rest subject to a taper.

We are also concerned that, unlike with mortgages where we understand from officials that insurance can provide an alternative to Support for Mortgage Interest (SMI) or the new loan system, no such option is currently available to tenants who may wish to insure themselves to maintain their tenancy if it is subject to the housing support cap or the bedroom tax. Providing such an alternative for tenants will require some exploration to make it practical and we will be taking this forward. However, in the meantime, we would welcome any views the Select Committee might have on this issue.

About the Association of Financial Mutuals

We represent insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff.

The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.

Background

The AFM are supported on the issue of income shocks by Richard Walsh and Alan Woods, Fellows of SAMI Consulting, who have also been working with the support of the CII and a number of insurers. **I attach as evidence their report on resilient households which was launched at the same time as the Green Paper "Improving Lives – Work, Health and Disability", alongside AFM's own response to that Paper. Also attached is a report from the New Policy Institute on the detail of the interactions between Universal Credit and income protection insurance.**

Why income shocks are important

Each year almost two million people suffer a prolonged sickness absence from work. This usually leads to a sudden and significant fall in household income. Many working age people lack the financial resilience to weather the storm:

- 40% have savings of less than £100; and only 1 in 10 is covered by income protection insurance.
- Only one mortgage-holder in 20 has mortgage payment protection insurance.
- State benefits help but cannot fill the gap, since housing payments are often restricted and other regular outgoings (such as debt payments) are not covered.
- Later this year, welfare reforms mean that support for mortgage interest will be withdrawn and replace by loans
- The roll-out of universal credit means that disregards on income protection against housing benefit and child tax credits will be withdrawn and income protection will be taken into account on a £ for £ basis.
- Three out of four private sector workers either works for an SME or is self-employed – so may lack access to employer-provided help.
- Research by AFM members amongst new customers indicates they generally have a poor understanding of the welfare state and limited- if any- access to advice on insurance unless they are high net worth.

This lack of resilience can lead to serious financial hardship and to further health problems, leading in turn to further sickness absence, debt, employment problems and with a growing reliance on health services.

Universal Credit/ Income Protection Insurance interactions

We would like the Universal Credit rules to be amended so that people who make provision for themselves through income protection insurance are not penalised £ for £ for doing so.

Discussions with DWP officials appear to be making progress on support for mortgages such that if people buy income protection to cover their mortgage, and it is paid direct to the creditor, this cash will not be taken into account against their income support or Universal Credit – although they will of course not be entitled to a loan.

On rent, we would like to see a similar arrangement – currently, under Universal Credit, if a household were to cover their rent and that cover was more than the amount they would get from the State (for example because of housing support caps or the bedroom tax), the balance would be deducted from their living expenses. This is clearly unfair and makes it pointless for financial mutuals to offer such a product as their customers may be worse or no better off having the product. This makes it impossible for many people to protect themselves against eviction or poverty.

And finally on living expenses, in our view income protection could have a vital role in keeping low income households out of poverty. One can imagine a system where say the first £50 or £100 a week of income protection would be fully disregarded and any cover above that would be subject to the earned income disregard. Such treatment would make a huge difference for many households and would have no impact on encouraging them to return to work – as the amounts are small and in line with the rules on earned income. Currently, we have a real problem with people seeking to support themselves with low levels of income protection as they may find they are no better off having purchased the product.

Many AFM members focus on providing income protection to people on low income and the self-employed, for whom these problems are magnified. Hence, a disregard of payment received from an income protection policy would produce a significant incentive for the self-employed to take more responsibility.

The role of the Single Financial Guidance Body

As an aside we note the passage of the Financial Guidance and Claims Bill through Parliament. We support the Bill and would like MPs to emphasise to the Government how important it is **for the new Single Financial Guidance Body to act to improve the ability of members of the public to plan for and address sudden variations in income.**

When the Bill was passing through the House of Lords Baroness Drake tabled an amendment to give the new body a specific statutory objective to improve the ability of members of the public to plan for and address sudden variations in income. In response Baroness Buscombe said:

"…as part of its objective to increase the financial capability of members of the public, the body should help to build individuals' ability to deal with such income shocks.

"We also know that there is a gap between the number of people experiencing unexpected events and those who have a plan in place to safeguard their finances… That is why we have provided that the new body should have the money guidance function, giving it a duty to provide information and guidance designed to enhance people's understanding and knowledge of financial matters, and their ability to manage their own

financial affairs. The Government would therefore expect that the duty proposed by the noble Baroness's amendment would inherently be addressed by the money guidance function."

While we welcome the assurance from Baroness Buscombe, we would like to hear more specific assurances that:

- The Government will give the new body a specific target or direction to help people be better prepared for income shocks; and
- The population's preparedness for income shocks will be regularly assessed so that progress can be measured.

This is important because:

- It is vital that the SFGB use its independence and authority to communicate the need for people to plan for income shocks, to signpost them to services and provide information and tools to help the public understand the risk and how to plan for it, and to cope when it hits.
- The SFGB is likely to be subject to many pressures and ideas about priorities and initiatives. These will come from many sources including financial services, third sector organisations, and media. Having clear targets and measures will help the SFGB focus on its core task – of which one central element is to improve the financial resilience of UK households.
- Improving resilience should be as much about households protecting against financial crisis through insurance and saving, as it is about teaching them how to manage better once in the grips of such a crisis. The target we propose will ensure that help to people with managing crisis situations does not crowd out the 'preventive' work needed to help people plan for the future and build more resilience.

Conclusion

We hope you find this contribution to the debate on Universal Credit and the need for the regulations to support, rather than penalise, families who take steps to insure themselves against sickness absence. If you would like us to appear before the Committee we would be very happy to do so.

Martin Shaw

Chief Executive, Association of Financial Mutuals

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