Adverse Impact — the starting point

A study to estimate the baseline financial impact of a premature death in a defined British family unit (Adverse Life-event Financial Impact)

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SUMMARY

If one adult partner in a family dies prematurely, the impact is often that the surviving partner is unable to maintain their former standard of living. Indeed, a proportion will find it difficult to manage at all.

This report assesses the most basic likely financial impact of premature death on a defined British family unit – covering **only** essential household spending and mortgage payments.

In reality, the impact of an early death in the family has much wider repercussions, especially around childcare, standard of living, leisure possibilities, and much more.

However, this study serves to show how even the basics are difficult to afford for a two-child family unit with average outgoings and average earnings.

Moreover, the cost of living is rising. Inflation and elevated interest rates are also putting major financial pressure on British households.

Yet only 30-35% of UK adults have life insurance cover to protect their loved ones in the tragic event of their premature death.

Meanwhile, excess deaths in the UK have remained elevated compared to the five-year average, affecting all ages, not just the elderly.

The study's Adverse Life-event Financial Impact (ALFI) model estimates the **basic** ten-year impact (using 2022-23 data) to be over £190,000 (£19,000 per year) – a hard-to-afford unaffordable extra outlay when compared to the median UK take-home pay of less than £28,000[1].

Rising cost of living

The cost of living has escalated, despite recent reductions in inflation from their extreme peaks. The longer-term picture of inflation volatility remains to be seen, but the fact that these peaks have been experienced at all has already had its effect on British citizens and families. As reported by the BBC[2], food inflation remains high, a particular burden on families. Moreover, the effect persists, even when inflation rates fall. As the same report notes, "Lower inflation doesn't mean prices fall. It just means they rise less quickly."

The nation is therefore feeling a squeeze that won't diminish any time soon. A survey from the Building Societies Association last year illustrated where the nation is feeling the pinch. It notes that over half of Britons were reducing their energy use (54%) and almost a third (31%) were planning to cut back on essentials such as food and clothing. Also, around a half of those questioned were cutting back on non-essentials and four in ten people (41%) were shopping around to find better prices. One in five (21%) confessed they were concerned about rising interest rates and nearly a third (32%) were worried about being able to save for the future[3].

The abiding nature of this issue is confirmed by regular outputs from the Office of National Statistics (ONS)[4], whose recent bulletin noted, "When asked about what people are doing because of the increases in the cost of living, around two-thirds (67%) said they were spending less on non-essentials, half (50%) of all adults were shopping around more, and more than 4 in 10 (45%) were spending less on food shopping and essentials[5]."

Elevated interest rates and mortgage costs

One continuing financial pressure on British lives is the fact that underlying interest rates have risen very rapidly, increasing the cost of money for us all. And they're likely to stay that way for a good while. In 2023, the Bank of England made a policy statement that interest rates needed to stay "sufficiently high for sufficiently long" to have their desired effect of cooling inflation. In addition, the Bank's Chief Economist said he'd prefer a 'Table Mountain' profile for rates (elevated, but steady for a while) over a 'Matterhorn' (sudden peaks and troughs)[6].

For people and families with a mortgage, this has a major impact. According to a report in the Guardian in Summer 2023[7], "A household with a £500,000 tracker mortgage with 20 years to go will find that their monthly payments increase… Back in December 2021, their mortgage was costing £2,356 a month, meaning their annual bill has gone up by more than £15,000 in just over a year and a half."

If, as predicted, rates remain around their current level for the medium-term, that added financial burden will also continue. Even if they fall somewhat, households still have to adjust to considerably higher mortgage costs compared to those experienced in the period since 2009.

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A low savings nation

Put all these hikes in the cost of living together, along with their likelihood of continuing for a good few years and beyond, and the strain on family finances becomes very clear indeed.

In addition, the picture is also highly polarised. A report by the Equality Trust[8] tells us that last year, incomes for the poorest 14 million people fell by 7.5%, whilst incomes for the richest fifth saw a 7.8% increase. Households in the bottom 20% of the population had on average an equivalised disposable income of £13,218, whilst the top 20% had £83,687. The poorest fifth of society has only 8% of the total income, whereas the top fifth has 36%.

One other factor needs to be taken into account. We live in a country typified by low savings rates. The UK savings rate (as a percentage of gross income) is just under two thirds of the European average[9]. So if a British household on an average income gets into difficulties, then the savings buffer is usually much lower than in our fellow European nations.

All this affects 'resilience'. Research by the Financial Conduct Authority (FCA) in 2022[10] suggests that around 30% of people in the UK have no savings at all. The report notes that 12.9 million UK adults had low financial resilience – 1 in 4 (24%) of all UK adults. It clarifies, "These are people who are in financial difficulty, or who could quickly find themselves in difficulty if they suffer a financial shock, because, for example, they have little to no savings or are heavily burdened by their domestic bills or credit commitments." Moreover, the trend is worsening, with over a million more adults falling into the 'low financial resilience' category than two years previously.

Linking the FCA report findings to our earlier description of cost-of-living increases, the report adds, "There are some signs too… that many more people than those we describe as having low

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financial resilience are not well prepared for considerable increases in the cost of living. For example, 24.0 million UK adults (45%) were already finding it somewhat of a burden to keep up with their domestic bills and credit commitments. And half of this group didn't have savings to cover 3 months of expenses, which many experts recommend as a buffer[11]."

Premature death, family impact and life insurance

Imagine then, the impact on already strained family finances of the tragedy of a premature death of one partner. For many, what were already tight financial circumstances now become insupportable.

Moreover, death rates in recent times have remained higher than they were before the pandemic ("excess deaths"), according to ONS data[12]. Nor is this simply an issue for the elderly. Analysing figures from ONS[13] also shows around one sixth of deaths occur in people under 65 years of age.

Surprisingly, even though road traffic accidents by contrast only account for 0.5% of deaths[14], vehicle insurance is mandatory, whereas life insurance is left up to the individual to decide. As a result of being left up to individual discretion (bearing in mind that estimates vary), life insurance cover is held by only 30-35% of the population[15]. This is low, even when one takes into consideration that 70% of adults are 59 years old or less (where there is a greater likelihood of having a family and/or needy dependents).

The impact of premature death is potentially crippling in several ways:

- **Paying for essentials (food, clothing, utilities)**
- **Paying for children and their needs**
- **Paying for childcare in order to continue working**
- **Paying a mortgage**

Even in a family where both partners were equal earners, the removal of one income often makes the continued cost of living for the survivor unaffordable on their earnings alone. Add to this the fact that many households have little or no savings, and the situation rapidly becomes critical.

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ALFI

In order to support people's ability to assess their own situation and consider what level of life insurance might be adequate to protect the survivor and children should their partner die, Beagle Street commissioned an objective estimate from research organisation MindMetre.

Entitled the **Adverse Life-event Financial Impact model**, or **ALFI**, this estimate drew on various high quality datasets[16] to provide a financial impact assessment for the various regions of Britain. Regional variations reflected differences in income and cost-of-living, depending on where someone lives in the country.

It should be stressed that ALFI calculates the very basic starting point for the financial impact that the surviving partner will have to shoulder. This comprises basic household spending, plus mortgage payments. In reality, the impact of a partner's premature death is usually much wider, imposing additional childcare needs for instance, and severely curtailing leisure pursuits that can be so important to a person's mental well-being. So ALFI should be taken as the basic starting point, from which to assess what the wider impact of a premature death might be.

EQUAL EARNERS MODEL	TOTAL ALFI 2022-23 (10 year financial impact)
WALES	**£ 147,858**
SCOTLAND	**£ 153,631**
North East	£ 130,160
North West	£ 159,197
Yorkshire & Humber	£ 154,068
East Midlands	£ 171,343
West Midlands	£ 173,615
East of England	£ 207,008
London	£ 261,754
South East	£ 227,559
South West	£ 190,092
GREAT BRITAIN	**£ 195,475**

ALFI is built on the basis of the following 'defined family structure':

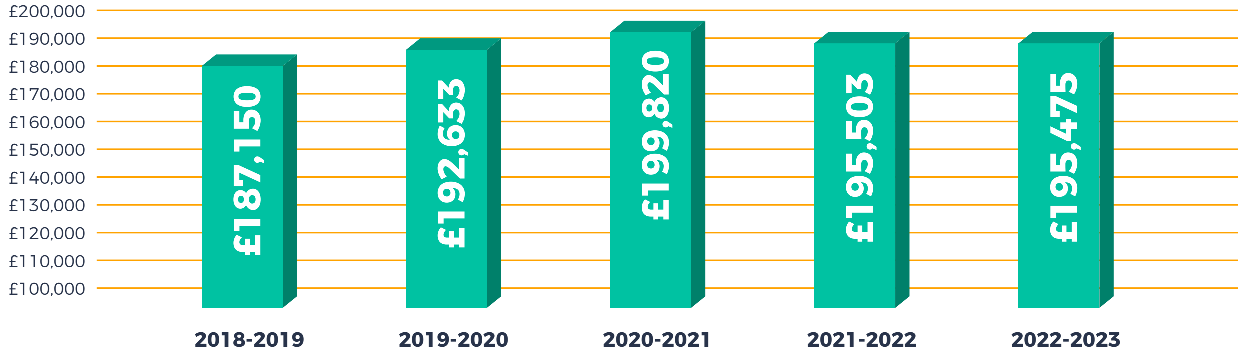
- **Two partners as household parents with two children**
- **Partners earn equal salary**
- **Covering ten years until children achieve adulthood**

On this basis, the ALFI model generates the following financial impact figures around Great Britain. These figures are intended as a rough guide to help people assess a suitable level of cover to protect them and their family against the premature death of their partner.

When examined over the last five years, ALFI has remained fairly consistent – a reflection of trends in house prices (and therefore mortgage debt) as well as reined in household spending which has resulted from increases in the cost of living. These trends are well attested by a variety of authoritative sources[17]. However, given the rising cost of living and cost of borrowing, the increasing burden on British households should not be downplayed.

Many more British households could benefit from life insurance to mitigate the risk of falling into financial distress should an unexpected death occur.

ALFI - Great Britain | Five Year Trend



Key Takeaways

By estimating the financial impact of the premature death of a partner, following the clear parameters of the ALFI model, this short study serves to provide an illustration of the potentially devastating effects on surviving family.

ALFI is a starting point for the most basic financial impact of a premature death, which in reality may be much higher to cope with the additional costs of running a family as a single, bereaved person.

Each family unit's exact circumstances are, of course, different. However, it remains the case that many more British households could benefit from life insurance to mitigate the risk of falling into financial distress should an unexpected death occur.

The cost of life insurance is not high for those most exposed to risk. Based on a 30 year old non-smoker, £200k of decreasing term cover for a 20-year term would typically cost around £6 a month[18]. To help families avoid the financial distress that can often follow the premature death of a partner, it is to be hoped that wider awareness of the sheer scale of that distress will inspire greater take-up in Britain.

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16 Methodology: Average outstanding mortgage debt for mortgage period years 10-20 was combined with average family expenditure over the same period. Each individual adult partner's contribution to maintaining this expenditure was calculated based on the assumption of equal earnings. This sum was taken to represent the absolute basic cost of living expenditure over the period which would have to be replaced if one adult in a defined family were to prematurely die.
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