



Institute
and Faculty
of Actuaries

Building Financial Resilience for Households in the Private Rented Sector

A cost-benefit analysis of changing the current
Universal Credit rules for private renters

by K. Brolly, F. Fan, F. Murphy, R. Purcell*, N. Reilly, R.
Walsh, A. Woods.

This report has been produced as a collaboration between the Institute & Faculty of Actuaries and Building Resilient Household Group. It contains research commissioned by the Building Resilient Household Group and performed by Hymans Robertson.

1 July 2020

Disclaimer; The views expressed in this publication are those of invited contributors and not necessarily those of the Institute and Faculty of Actuaries. The Institute and Faculty of Actuaries do not endorse any of the views stated, nor any claims or representations made in this publication and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this publication. The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this publication be reproduced without the written permission of the Institute and Faculty of Actuaries.

Reliances and limitations

In preparing this report the authors have relied, without independent verification, on the accuracy and completeness of information from publicly available sources, including Stat-Xplore and publications from the UK government. A full list of data sources can be found in Appendix 1 – Data Sources.

Actuarial professional standards

The Financial Reporting Council sets out technical actuarial standards for members of the Institute & Faculty of Actuaries (IFoA). This report is subject to and complies with the following standard:

Technical Actuarial Standard 100: Principles for Technical Actuarial Work

In addition, the IFoA sets professional standards for its members. This report has been prepared having due regard to the requirements of APS X2: Review of Actuarial Work. This report is subject to and complies with the requirements for peer review set out in APS X2.

Abstract

This report considers the financial resilience of individuals in private rented accommodation, and how this could be improved in the event of unexpected drops in income due to ill health. It considers how financial resilience can be improved by extending the disregard in the Universal Credit (UC) system, currently applied to Income Protection (IP) and Family Income Benefit (FIB) payments paid to cover housing costs in the form of a mortgage payment, to all housing costs.

The report includes a cost-benefit analysis, performed at the beginning of 2020, on the estimated impact of changing the current UC rules for private renters so that there is parity with the way UC treats insurance payments to mortgage holders. The analysis is intended to look at the costs to the State of making this change, as well as the potential savings e.g. greater incentive for renters to take out insurance.

The analysis suggests that making this change could create cost savings for government over time while providing tenants with the opportunity - already afforded to mortgage-holders - to protect their basic human need for secure housing.

This report has been produced as a collaboration between the Institute & Faculty of Actuaries (IFoA) and Building Resilient Household Group. It contains research commissioned by the Building Resilient Household Group and performed by Hymans Robertson.

Correspondence details

*Correspondence to: Richard Purcell, Hymans Robertson, One London Wall, London, EC2Y 5EA, UK.
E-mail: richard.purcell@hymans.co.uk

Contents

Forward by IFoA Health & Care Board	Page 4
Forward by Building Resilient Housing Group	Page 5
1. Executive Summary	Page 7
2. Data	Page 8
3. Cost-benefit analysis of making policy decision today	Page 9
4. Scenario & sensitivity analysis	Page 18
5. Appendix 1 – Data sources	Page 22
6. Appendix 2 – Consumer Price Inflation and projection	Page 25
7. Appendix 3 – Assumptions	Page 26
8. Appendix 4 - Glossary of terms	Page 28

Forward by Institute & Faculty of Actuaries (IFoA) Health & Care Board

Income protection offers consumers protection against unexpected illness or accidents and the financial hardship this may bring. For a known outgoing, it provides consumers with the certainty that they will continue to receive regular income payments during a period of incapacity. It traditionally also includes a range of benefits aimed at getting claimants back to work. Such products help individuals to protect their livelihoods and to build financial resilience in an uncertain world.

However, due to a problematic interaction with the state benefits system, some renters may find that Income Protection does not enable them to keep a roof over their head. This report describes the problem and suggests a solution.

The private rental sector, which continues to grow in the UK, traditionally has lower levels of financial resilience. Amending the rules as proposed in this report would be a step in the right direction to addressing this. The COVID-19 crisis has highlighted the pressing need to support many in our society to become more resilient to financial shocks.

We welcome this report and the actuarial analysis contained within it. It identifies the significant societal benefit that can be achieved by affording to renters the opportunity - already available to owner-occupiers - to use Income Protection to ensure their housing costs are fully met when sickness or accident strikes. Making this change will mean all consumers can have the clarity and peace of mind that Income Protection affords, making it a more attractive offering. In addition to promoting uptake of Income Protection, the clarity achieved will have the likely flow on effects of enabling advisors to advise with more certainty, and drive providers to design products aimed at helping this market segment. Beyond the societal benefit, the analysis identifies the potential savings the state would enjoy as a result of the proposed reforms. We encourage the Government to use this analysis as a starting point for more detailed consideration of this important issue.

Forward by Building Resilient Housing Group

This year's Covid-19 outbreak has shown that many households lack the financial resilience to cope with an interruption in regular income – a theme highlighted in the BRHG's 2016 report Building Resilient Households, and further developed in the recent report of the Financial Resilience Task Force.

It has also demonstrated that housing tenure plays a key role in how well people are able to withstand a financial shock. The Resolution Foundation's report of May 2020 found that:

- Renters – especially private renters - are more likely to experience material deprivation during Covid;
- Renters are less able than owner-occupiers to be able to reduce their housing costs;
- Over a third of renters (37%) who have claimed Universal Credit (UC) since the start of the Covid outbreak have been unable to cover their housing costs in full or in part – this despite the Govt having temporarily increased Local Housing Allowances Rates (LHAs) included in UC for renters.

As Government and society start to turn their thoughts to a post-Covid future, there is a clear and urgent case to develop policies which will help renters be more resilient to income shocks. This is no minority interest – the majority of households aged under 35 are now renters.

This report focuses in on one area where speedy improvements could be made without incurring significant costs to the taxpayer, namely the interaction between state benefits and private insurance policies for renters. It explores the case for amending UC rules on payouts from such policies, enabling renters to benefit from insurance payouts – something which owner-occupiers are already able to do.

The problem of rent shortfalls in the private rented sector

Around a fifth of British households now live in privately rented housing. People under 35 are now more likely to be private renters than owner occupiers.

Most renters have no need for state benefits. But those with low incomes – or those facing an income shock e.g. through sickness or job loss may need to claim UC.

When they do so, the support they can receive towards their rent is restricted to LHAs. These are pegged well below the average rent for the area and were frozen in 2016 until 2020 while private rental costs have risen steadily. A growing gap has been created by this system between the rent households have to pay and the amount of benefit they receive for that purpose.

The rent gap

The gap is very variable. In most of London and some other UK hotspots the gap can be very large indeed. Figures from Shelter show a wide range in the average monthly gap; Hounslow (£437); Cambridge (£531); Bristol (£217); Milton Keynes (£148) and York (£107). But even where the gap is more modest the compound effect of having to find additional money for rent each month is seriously eroding household resilience.

Some renters are able to cover this gap from savings (usually only possible for a short period, if at all) and a small minority address the issue by moving somewhere cheaper. But for many the consequence is problem debt. In 2017, data from the Residents Landlord Association shows that 38% of private landlords experienced UC tenants going into rent arrears. 3 out of 10 of those going into arrears were evicted. Homelessness has grown by 40% in the past five years.

The costs arising from people being unable to meet their rent are widespread:

- Government and Local Authority expenditure on temporary accommodation
- Short-term emotional disruption. In the longer-term, the health and social consequences of homelessness can be significant, particularly on families with children, adding further burdens upon the state through the NHS and education systems.
- The social burden on families caused by relocation – often well away from their original homes.
- The consequences of problem debt
- Interruption of income for private landlords – many of whom may rely on rent for their retirement income.

Our proposed reform

This report looks at how the interaction between state welfare and private insurance products could be improved to help reduce the number of families facing this rent gap.

Under the current Universal Credit rules, renters who receive income from insurance policies (such as Income Protection – a product providing sickness cover) are unable to use any of that money to cover the rent gap. Instead it simply reduces their UC entitlement. This means that it is effectively impossible to insure against facing a rent gap while on UC.

This contrasts with the situation for owner-occupiers. Any insurance payments they receive to cover their mortgage are completely ignored in UC. While insurance payments are taken into account for those seeking a state loan to cover their mortgage, people with insurance are unlikely to need such a loan. So they are able to insure against facing a housing costs gap.

We asked Hymans Robertson to model a policy change under which the first portion of any insurance payout would be used to cover any rent gap faced by a UC claimant. The remaining portion would then be taken into account against overall UC entitlement. This would mean that both the individual claimant and the Government would benefit from the fact that an insurance policy had been purchased.

Making this change would bring the treatment of rental households in line with the treatment of owner-occupied housing costs (mortgages), in turn providing more people with the opportunity to protect their basic human need for secure housing.

While a rule change to allow such equalisation and access to insurance will not resolve all problems, it could have a significant impact on the resilience of private rental sector households.

1 Executive Summary

This report analyses the estimated impact to government spending of the BRHG proposals to help tenants ensure they are able to pay their rent in full if they become ill and need to rely on Universal Credit (UC). It examines the impact of changing the rules for calculating the UC benefits payable so that the amount paid by a relevant insurance policy (includes Income Protection and Family Income Benefit) will be deducted from the actual rent payable by the tenant (gross rent) rather than the housing benefit (net rent). For the purposes of our analysis we assume IP and FIB are treated the same, and so will just refer to IP hereafter. This analysis is also focused on England, Wales and Scotland where there is sufficient public data available to complete the analysis. The savings and costs should be extrapolated to provide an estimate for the whole of the United Kingdom, including Northern Ireland.

By making these proposed changes, the analysis suggests that although there is likely to be a small short-term cost to government, over time it is anticipated that the policy change will encourage more renters to take out cover for the gap between gross and net rent, giving them the ability to protect their basic human need for secure housing. This in turn is expected to lead to savings to government spending in the medium term.

The key findings are:

- **Short term cost to government:** If the proposed policy is implemented, and there is a resulting small short-term increase in take up of IP (by 0.5% from 2.0% to 2.5%), the net cost to the State would be around £8.9m per year. Full details on the approach are included in section 4.
- **Future savings for government:** It is anticipated that following a change in policy, there would be greater certainty over the interaction between IP and UC, encouraging more advisers to discuss IP with renters. Allowing for a small marginal rise in take up of IP to 3% in 5 years' time, and allowing for expected increases in renter numbers, it would take the State past break-even point to create **savings** of £8.3m per year. This would rise further to £43m if 4% held IP, and savings of £151m if 7.12% held IP in 5 years' time (7.12% is the approximate ownership level of individual IP amongst homeowners). More details are in the sensitivity analysis in section 4.
- **The cost of no action:** However, if there is no policy change, the existing interaction between UC and IP could lead to more uncertainty in the market, and a decline in IP amongst renters (say from 2% to 1.5%). In this scenario, the failure to make the proposed policy change could lead to public spending increasing to £43.8m each year in the medium term – further details are in paragraph 4.6.
- **Variability of results:** In deriving these costs, several assumptions have been made. To understand the significance of some of the key assumptions, sensitivity analysis has been performed in section 5. It shows that the initial costs to the state would increase from £8.9m to £14.4m if the initial average rental gap increased by 20%. Similarly, the costs would decrease to £3.4m if the gap decreased by 20%. The sensitivity analysis also shows that costs would increase from £8.9m to £19.4m if initial ownership of IP is 1% higher than assumed in the base case (i.e. 3% hold IP instead of 2%). Similarly, it shows savings of £1.7m if 1% hold IP rather than 2%.

2 Data

2.1 Data source

The analysis in this report is based on the data obtained from publicly available information. The record of data sources for each step in this analysis is listed in Appendix 1 (and referenced by the numbers given in square brackets at each point they are used in this report).

2.2 Checks on data

We have checked that data has been obtained accurately from the listed source. We have also checked the reasonableness of data obtained, although we have not fully verified any data from external sources.

2.3 Data amendments

Where data included monetary amounts (e.g. spending) which was incurred prior to the year of 2019, we rolled up the amounts by Consumer Price Inflation to 2019. The record of Consumer Price Inflation is listed in Appendix 2.

3 Cost-benefit analysis of making policy change today

To estimate the costs and benefits to the State of making this policy change, we will break the calculation down into the following stages:

Stages	Description
A	The cost to the State of disregarding insurance covering the gap between gross and net rent when assessing UC benefits payable (i.e. the amount paid by the insurance policy will be deducted from the actual rent payable (gross rent) rather than the UC housing allowance entitlement (net rent)), assuming no change in the number of renters with IP.
B	The cost to the State of disregarding the gap between gross and net rent, assuming more renters were to take out IP following this change.
C	The savings made by the State because of fewer renters going into arrears and requiring support through preventative action or temporary accommodation due to this change.
D	The savings made by the State because of the additional renters who take out IP at a level equal to or greater than their rent and will therefore not qualify for any housing benefit at all.

The net cost (saving) to the government can then be estimated as the sum of = $A + B - C - D$.

3.1 Stage A

To estimate the cost to the State of disregarding the gap between the gross and net rent (and assuming no change in the number of renters with IP), we have analysed the average gap between gross and net rents for each type of household, for each region, and scaled up by the number of households of each type across all regions. This will then be multiplied by the number of renters who are estimated to currently hold IP.

3.1.1 Average rental gap by region and household type

To calculate the average rental gap for each region we started by looking at data for the net rent, i.e. the Local Housing Allowance (LHA) amount paid [1]. Using government data, it is possible to break down the average weekly LHA paid to each type of household (e.g. one bed room (shared), one bedroom (self-contained), two-bedroom, three-bedroom, four-bedroom and five-bedroom) for each of the 152 Broad Rental Market Areas (BRMAs) across England [1]. We have aggregated these up into 9 broad regions across the UK to determine the net rent for each household type in a given region.

For each region we are also able to obtain from the Valuation Office Agency (VOA) the average market rent (gross rent) for each property type [2]. Subtracting the net rent from the gross rent, we can determine the average rental gap for each household type for each region. This is summarised in Figure 1 below.

Figure 1 – Average monthly rental gap by household type (measured by number of bedrooms entitlement) and region

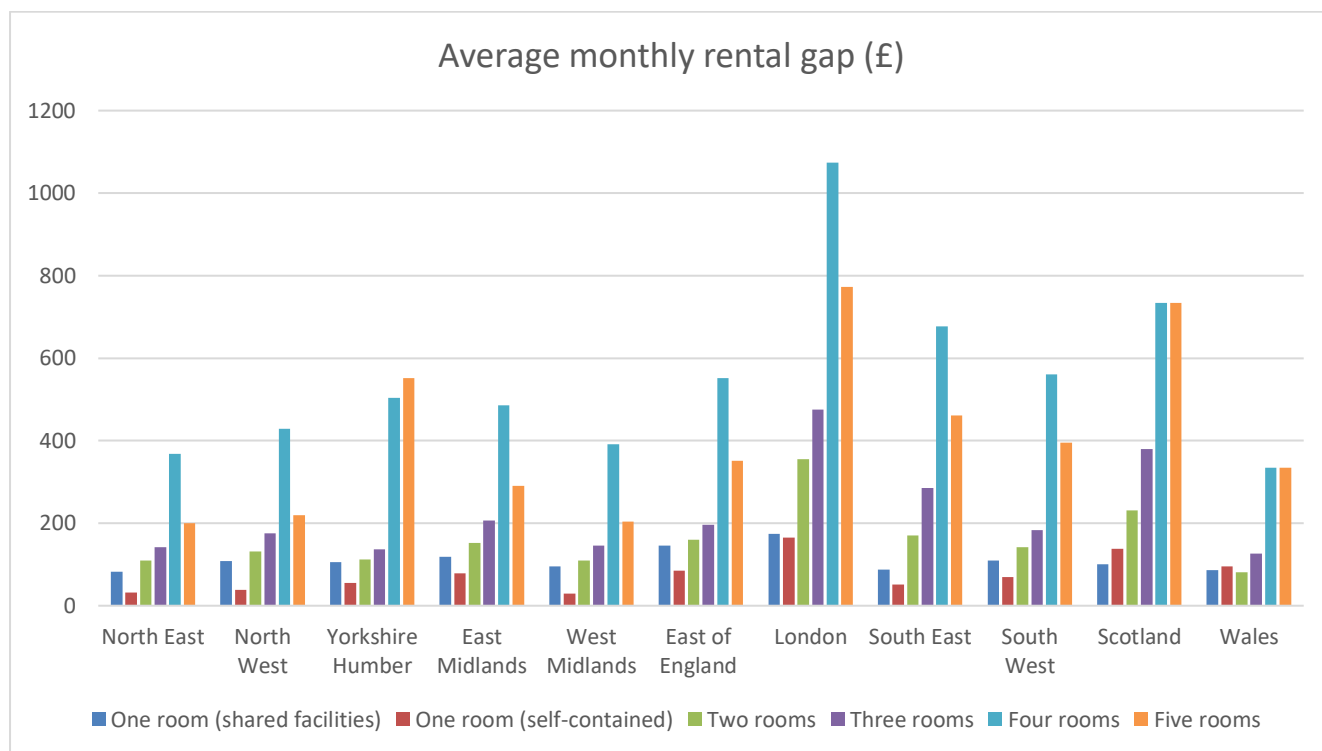


Figure 1 shows the average monthly rental gap for each household type (measured by number of bedroom entitlement) in each region. The biggest gap for all household types is seen in London. A single person who is entitled to one-bedroom with shared accommodation, will receive LHA of £425 per month, and their actual rent payable will be £600 per month on average, resulting an average rental gap of £175 per month. This gap increases to nearly £400 per month for two-bedroom households, and over £1,000 per month for four-bedroom households. Some of the smallest gaps are seen in the North East, West Midlands and Wales.

In taking this approach, several assumptions have been made:

- **Variations in the rental gap:** The above approach means that, on average, we assume all households have a rental gap. In fact, some will not have a rental gap at all. Others will have a much larger rental gap.
- **Distribution of BRMA:** In calculating the average LHA for a given region, we have aggregated data across the more localised BRMA. In doing so we have assumed that each BRMA has similar number of households.
- **Scotland, Wales & Northern Ireland:** For Scotland and Wales, data for LHA for 5 bedrooms was not publicly available. We have assumed the rental gap for 5 bedrooms were the same as 4 bedrooms. Universal Credit full service roll-out in Northern Ireland was completed in December 2018 and the available data was insufficient for this analysis. Therefore, Northern Ireland was excluded from this analysis.
- **Non-dependants:** For each non-dependant in the household, e.g. adult child or elderly relative, the LHA will be decreased by £73.9 each week. This has been factored into the calculation by reducing the average LHA by the average number of dependants in each household type. On average, there is approximately 1 non-dependant for every 5 households

claiming UC housing allowance. It means the average weekly LHA is reduced by approximately £9 [3].

- **Benefit caps:** UC benefits are subject to a benefit cap which varies according to the number of people in a household and location. Where benefits are capped, the rental gap, as defined above, would increase. However, in the UK, only around 1.5% of claimants have benefits capped, so the capping mechanism bears a negligible impact on the calculation results. We have therefore assumed that no benefit cap applies. This also means the results are slightly more prudent.

Now the average rental gap has been determined, we need to multiply by the number of households in each category to estimate the overall rental gap.

3.1.2 Number of households by region

We obtained the number of claimants for UC with housing entitlement in private rented sector split by regions and household family type [4]. There are 4 family types: single person without a child dependant, couple without a child dependant, single person with child dependant(s) and couple with child dependant(s). Figure 2 shows the number of UC housing allowance claimants in each region and family type.

Figure 2 – Number of UC housing allowance claimants in each region and family type, Source: DWP, Stat- Xplore

UC with housing benefit region / family type (thousand)											
Family Type	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland
Single, no child dependant	15.7	33.4	21.0	12.1	16.9	15.5	32.5	23.7	20.7	11.0	13.5
Single, with child dependant(s)	10.9	33.2	18.5	11.5	16.0	15.0	27.9	21.1	16.0	8.6	10.6
Couple, no child dependant	1.5	3.1	2.2	1.5	1.7	1.7	2.7	2.3	2.0	1.2	1.3
Couple, with child dependant(s)	3.9	11.4	7.3	5.5	7.3	6.9	13.7	10.0	8.2	3.4	3.8
Total	31.9	81.0	49.0	30.7	41.9	39.0	76.9	57.1	46.9	24.2	29.1

Given the number of household's data is grouped by family type (e.g. single, no child dependant) rather than number of bedroom entitlement (e.g. One bedroom (shared facilities)), we need to map the groupings. To do this we have obtained, for each family type, the distribution across the number of bedrooms entitlement. This has been done using data from the DWP for the old Housing Benefit (the

legacy benefit system) [4] shown in Figure 3. This has been used to gauge the split of UC housing allowance claimants due to a lack of data availability for the new benefit system.

In doing this, a couple of assumptions have been made:

- The proportion of 5 bedrooms is negligible, and so not included.
- The distribution is the same for each region.

Figure 3 –Distribution of the number of bedrooms entitlement for each family type, Source: DWP, Stat- Xplore

Family Type/ Number of bedrooms entitlement	1 room (shared facilities)	1 room (self- contained)	2 rooms	3 rooms	4 rooms
Single, no child dependant	13%	76%	9%	2%	1%
Single with child dependant(s)	0%	0%	57%	32%	10%
Couple, no child dependant	3%	74%	15%	6%	2%
Couple with child dependant(s)	0%	0%	37%	41%	22%

Next we multiplied the number of UC housing allowance claimants in each family type and region (Figure 2) by the distribution of the number of bedrooms entitlement for each family type (Figure 3), to obtain a two-way table of the number of UC claimants for each region and by the number of bedrooms entitlement, as shown in Figure 4.

Figure 4 – Number of UC housing allowance households split in region and number of bedrooms

	Number of households claiming UC housing allowance (thousand)				
	Shared accommodation	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms
North East	2.1	13.1	9.3	5.5	2.1
North West	4.4	27.7	26.6	16.2	6.1
Yorkshire and The Humber	2.8	17.6	15.5	9.5	3.6
East Midlands	1.6	10.4	9.9	6.3	2.5
West Midlands	2.2	14.1	13.6	8.6	3.4
East of England	2.0	13.0	12.8	8.1	3.2
London	4.3	26.8	24.4	15.4	6.1

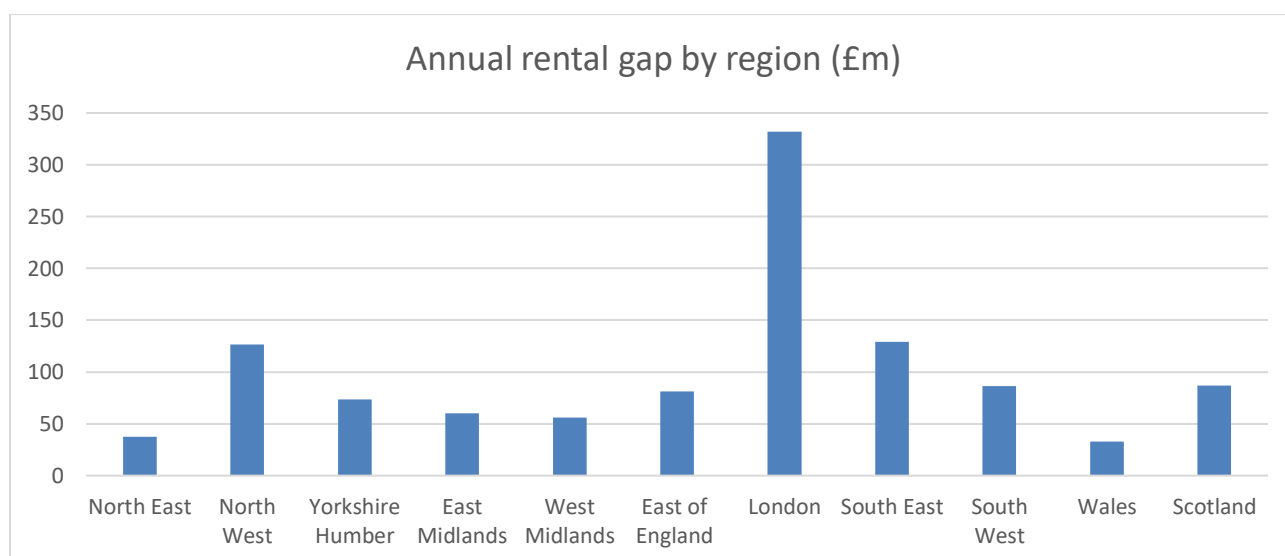
South East	3.1	19.7	18.2	11.5	4.5
South West	2.7	17.2	14.3	9.0	3.6
Wales	1.5	9.3	7.4	4.5	1.7
Scotland	1.8	11.2	8.8	5.3	2.0

In total there are 507,000 households claiming UC with housing allowance in the private rental sector. This is split between 454,000 in England, 24,000 in Wales and 29,000 in Scotland.

3.1.3 Aggregated annual rental gap

To determine the total annual rental gap, we have scaled up the average monthly rental gap (shown in Figure 1) by 12, and then multiplied through by the number of households in each region (shown in Figure 4). The total annual rental gap for each region is shown in Figure 5 below.

Figure 5 – Total annual rental gap by region



London has the biggest gap of £332m, due to the big gap amount and largest number of claimants in London. Summing across all the regions, the total annual rental gap in the England, Scotland and Wales is £1.1bn.

To estimate the cost to the State of disregarding the gap between the gross and net rent (and assuming no change in the number of renters with IP), we then need to multiply the total annual rental gap by the number of renters who are estimated to currently hold IP. According to the Financial Lives study by the Financial Conduct Authority [5], 4% of UK adults currently have IP. Amongst renters, this falls to 2%.

Using this information, the annual cost to the State is estimated to be £1.1bn x 2% = **£22 m**

3.2 Stage B

In this next stage, we estimate the cost to the State if more renters were to take out IP today, due to this change. By making the proposed policy change, more renters may be encouraged to take out cover for their rental gap. We expect this number to be low to start with and grow gradually over time. We estimate, based on discussions with insurers, that an additional 0.5% of privately renting households may take up IP policies in the short term. This would increase the cost to the State. The additional cost would be £1.1bn x 0.5% = **£5.5m**

3.3 Stage C

In Stage C we estimate the savings made by the State as a result of fewer renters going into arrears and requiring support through preventative action or temporary accommodation.

This requires us to analyse the potential savings that the government could make as a result of renters having IP and therefore not requiring any temporary accommodation or preventative support in the event of becoming ill and unable to work.

Figure 6 shows the total spending made by the governments of England, Scotland and Wales on preventative action and temporary accommodation. Data obtained on temporary accommodation spending for Scotland and Wales, and preventative action spending obtained for Scotland were from 2016 and 2017 [6]. They have been inflated to 2018 using the Consumer Price Index stated in Appendix 2. Data for England is already for the year 2017/18 and preventative action for Wales is from 2019 [7].

Figure 6 - State spending on temporary accommodation and preventative action

State Spending (£m)	England	Scotland	Wales	Total
Temporary Accommodation	997.0	136.2	9.4	1,142.6
Preventative Action	317.7	184.6	164.6	666.9

3.3.1 Temporary accommodation

To estimate the potential savings on temporary accommodation spending, we will first look at the various causes of homelessness, which gives rise to people requiring temporary accommodation from their local authority, and the extent to which having IP could have prevented them requiring temporary accommodation in the event of illness and being unable to work.

According to a recent report on homelessness [8], the main drivers of homelessness are; relationship breakdown, parents no longer willing or able to house their children, or an Assured Shorthold Tenancy (AST) coming to an end. While illness and loss of income may be a contributory factor in relationship breakdown or parents being unable to support their children, we will ignore the prospect of such cases in our analysis. Instead we will focus on just the cases where temporary accommodation is required due to an AST coming to an end. The above report shows that 32% of all people going into temporary accommodation in 2016/17, did so as a result of their AST coming to an end. However, not all of these will be due to renters going into rent arrears as a result of illness.

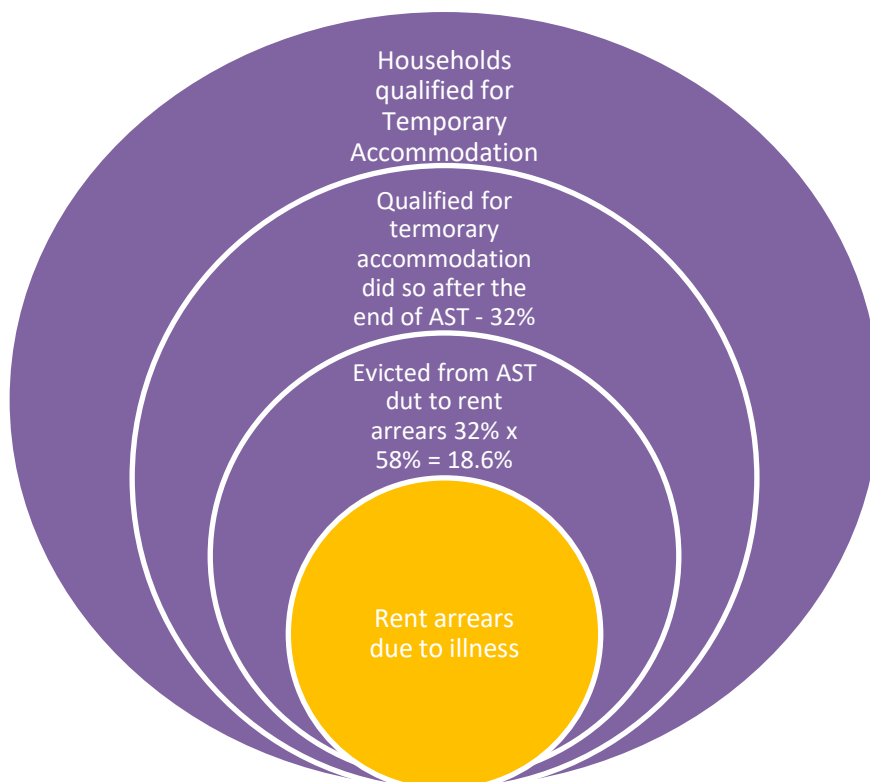
We know that 58% of landlords state that an eviction was due to rent arrears [9]. We therefore estimate that 18.6% (= 58% x 32%) of renters end up in temporary accommodation due to rent arrears from AST.

We also know that 20% of rent arrears in the private rental sector is due to sickness, according to the Building Resilient Households Group's report in the Private Rental Sector [10]. This means that 3.7% (= 18.6% x 20%) of all people going into temporary accommodation would have benefited from having some IP in place. This is shown in yellow in Figure 7.

As shown in Figure 6, State spending in England, Scotland and Wales is a total of £1.14 billion per year on temporary accommodation. If we multiply this spending by the proportion of households living in temporary accommodation due to rent arrears and illness (3.7%), then we estimate that the

potential savings on temporary accommodation spending in the UK as a result of having IP could be £42.2m.

Figure 7 – Illustration of calculation taken on Temporary Accommodation



3.3.2 Preventative actions

To estimate the potential savings on preventative action spending, we take a similar approach to that for temporary accommodation. Spending on preventative actions is for people who may potentially become homeless, and a proportion of this spending is for households which fall into rent arrears due to loss of income.

According to Models of Homelessness Prevention published by Homeless link [11], services to prevent homelessness include tenancy support, domestic violence support, family mediation and other types of service such as debt management. However, it is noted that not all preventative services are provided to renters. Among all the preventative services, 'Enhanced' housing advice (49.2%) aimed at helping households to gain access to, or retain tenancies, often includes liaison with private landlords; rent deposit or other schemes (9.5%) helps access private rented tenancies, and tenancy sustainment (33.3%) aims to help vulnerable tenants to retain their tenancies. These 3 types of tenancy related prevention services sums to be 92% of the service. However, more than one type of preventive service can be applied to one household. For example, one household can receive both 'Enhanced' housing advice and help with rent deposit. To allow for this overlap of services, we assumed of 75% of tenancy related service were related to renters.

We also note that not all renters requiring preventative services are as a result of illness and being unable to perform their own job. To adjust for this we found that 36% of renters state their reason for falling into rent arrears is loss of income, such as redundancy or illness, according to the research from Citizens Advice Scotland [12]. We have assumed the same proportion will apply to England and Wales.

We also assumed within households who lose their income, 20% of these were due to illness, as assumed in the Temporary Accommodation calculations above.

Even those who are unable to perform their own job due to illness, many of whom will have a back-up plan, including using savings or moving in with relatives. According to Hymans Robertson own consumer research, in the event of being unable to work due to illness, 17% of respondents stated they would not know what to do, and it is this group that is assumed to require access to preventative services.

This suggests that 0.84% ($=75\% \times 92\% \times 36\% \times 20\% \times 17\%$) of all renters requiring preventative action would have benefited from having some IP in place. This is shown in yellow in Figure 8.

As shown in **Figure 6**, England, Scotland and Wales spend £666.9m per year on preventative actions.

If we multiply this spending by the proportion of households benefiting from preventative action due to rent arrears and illness (0.84%), then we estimate that the potential savings on temporary accommodation spending in the UK as a result of having IP could be **£5.5m**.

Figure 8 – Illustration for preventative action calculation



3.3.3 Savings on temporary accommodation and preventative actions

To estimate the savings made by the State as a result of fewer renters going into arrears and requiring support through preventative action or temporary accommodation, we can sum the two figures above. This gives us £48m ($=£42.4+£5.6m$). However, this is the amount saved if all renters

had IP. Adjusting for the fact we expect 2.5% of renters to have IP in the short term, then the total potential savings on preventative actions and temporary accommodation combined is **£1.2m**.

3.4 Stage D - Savings made by the State because of renters taking out more cover

In stage A and B, we have assumed that households would take up IP/FIB to cover the shortfall of state benefit and rent. In stage D, we assume that households will choose to cover their entire gross rent. If renters take up IP/FIB to cover their gross rent, in the event of losing income, the insurance company will make payments to cover their entire rent. The State will make more savings because they will pay out less UC housing benefit.

In this final stage we estimate the savings made by the State because of the additional renters who take out IP at a level equal to or greater than their rent and who will not qualify for any housing benefit at all.

In this case, we need to estimate the total value of rent that is covered by the additional renters taking out IP. Starting with the total annual spending on rent, we can refer to the total LHA spending calculated in stage A, at £3.5bn.

We also estimate 0.5% of households will take up IP to cover their rent, this means the State will pay out 0.5% less on UC housing allowance. The savings to the State would therefore be £3.5bn x 0.5% = **£17.5m**.

3.5 Summary of cost benefit analysis of making policy change today

To calculate the cost to the State of making the policy change today, we aggregate the result of stage A and stage B and subtract the results of stage C and stage D in Figure 9: Annual cost to the State. This results in an estimated net annual cost to the State of £8.9m. Figure 9 also shows the total spending by government or total rent paid to provide some context of the overall scale of the costs / savings.

Figure 9: Annual cost to the State

Stage	Amount (£m)	Total spending / rent paid (£m)	Description of spending / rent paid
A	£22.0	£1,102.2	Total annual rental gap for England, Scotland and Wales
B	£5.5	£1,102.2	Total annual rental gap for England, Scotland and Wales
C	£1.2	£1,809.5	Total annual spending on temporary accommodation and preventative actions
D	£17.5	£3,494.3	Total annual spending on UC housing benefit
Total (=A+B-C-D)	£8.9		

4 Scenario & sensitivity analysis

We have performed scenario and sensitivity analyses on the key assumptions to get a better understanding of the drivers of the result. Each of these key assumptions are considered individually in the following sections.

4.1 Sensitivity 1: 20% increase in initial rental gap

One of the key assumptions in our analysis is the average rental gap, which varies by household type and region. In some regions, the rental gaps are small. For example, self-contained one bedroom in North East have a monthly gap of £31.6, and a small change can have a relatively big impact. In this sensitivity we have increased the rental gap in Stage A by 20% to test the impact of rental gap to the cost to the state. All other calculations remained unchanged. The cost to state of difference between gross rent payable and UC housing benefit has increased from £22m to £26.5m.

In Stage B, the cost to the state due to the additional proportion of households assumed to take up IP/FIB would increase from £5.5m to £6.6m. Stage C and D remain unchanged because they are irrelevant to rental gap.

The total cost to the State increases from £8.9m in the base case to **£14.4m**.

4.2 Sensitivity 2: 20% decrease in initial rental gap

A sensitivity was also performed decreasing the initial rental gap by 20%. As expected, this has the opposite effect to Sensitivity 1, and the total cost to the State decreases from £8.9m in the base case to **£3.4m**.

4.3 Sensitivity 3: Increase in initial IP/FIB ownership of +1% (from 2% to 3%)

Another key assumption is the proportion of renters already assumed to hold IP. We have assumed 2% of private renters currently have protection policies, based on the financial lives research from the FCA. Research by Hymans Robertson suggested that this proportion could be higher. A sensitivity run was performed on 3% of renters having IP/FIB protection.

Costs in Stage A and savings in Stage C have increased by one third following the change, Stage B and D remained unchanged. Cost to the State in Stage A has increased from £22m to £33.1m due to more IP policyholders facing a rental gap. Savings in Stage C have increased from £1.2m to £1.7m due to the fact that more households are assumed to receive insurance payments in the event of losing income due to illness.

The total cost to the state rises from £8.9 to **£19.4m** in this sensitivity.

4.4 Sensitivity 4: Decrease in initial IP/FIB ownership of -1% (from 2% to 1%)

A sensitivity was also performed decreasing the initial IP ownership rate from 2% to 1%. As expected, this has the opposite effect to Sensitivity 3, and the total cost to the State of £8.9m in the base case becomes a small saving of **£1.7m**.

4.5 5-year scenario

The cost benefit analysis performed above looks at the short-term impact of making the proposed policy change. Over time though, we can expect the industry to more widely promote the benefits of protection to renters, leading to greater take-up. We also know that there are likely to be more renters, which will change the overall picture. In this scenario we look at what the cost-benefit analysis might look like in 5 years' time following the policy change, allowing for expected growth in the uptake of IP as well as the number of households in the UK (and therefore the number of UC claimants), and the proportion of households renting.

4.5.1 Stage A

In 2019, there are 27.8m households in the England, Wales and Scotland. However, the number of households is projected to increase to 28.9m in 2024.

According to Family Resources Survey from DWP [13], in 2018, 19% of UK households are renting and this rate has an increasing trend. We have assumed this number increased to 21% by end of 2019, this is equivalent of c.5.8m households. Research of a projection from English Housing Survey [14] shows that by 2025, a quarter of households will privately rent. In other words, 7.2m households will be renting in 5 years.

Amongst renters, it's estimated that 9% of them are currently claiming UC housing benefit, using the current number of UC housing allowance claimants divided by the number of private renters. Assuming this proportion stays the same until 2024, there will be c.630,000 privately rented households claiming UC housing allowance, this is translated in a 24% increase in number of claimants.

Figure 10 – Number of households, renters and UC claimants

Year	Number of households (m)	Proportion of private renter	Number of private renting households(m)	Number of private rented households claiming UC (m)	Proportion of UC claimant (UC Claimant/renters)
2019	27.8	21%	5.3	0.51	8.7%
2024	28.9	25%	7.2	0.63	8.7%

If the UC housing allowance increases at the same rate as actual rents, and the rental gap remains effectively frozen for the next 5 years, and the number of claimants increases as expected, the total annual gap will increase to c£1.36bn. The cost to the State for stage A will increase to £1.36bn x 2% = **£27.4m**

4.5.2 Stage B

Over the next 5 years we expect that the take up of IP amongst renters to reach a similar level to that amongst all households.

We estimate that 7.12% of all households in the UK will have an individual IP policy. This is derived as follows. There are 1.79m new sales of underwritten protection policies each year, of which 0.15m or 8.3% are IP, according to Swiss Re [15]. We assume that a similar proportion of in-force protection policies are IP. Based on data from the ABI we know that there are currently 23.7m protection policies in force [16]. So 1.97m individual IP policies in-force. We also know that there are approximately 27.6m households [17]. This means that 7.12% of households have at least one individual IP policy.

Therefore, in this 5-year scenario, we assume an additional 5.12% (= 7.12% - 2%) have IP as a result of the proposed policy change, meaning that that the same proportion of renters have an individual IP policy as homeowners do today. Taking into account the additional 24% increase in number of claimants, as at section 5.5.1. the estimated savings to the State in 5 years' time will be £1.1bn x 5.12% x (1+ 24%) = **£70.1m**

4.5.3 Stage C

Assuming no change in government spending levels on preventative action and temporary accommodation, we assume the estimated savings will grow to reflect the increased take-up of IP to 7.12%. Therefore, the savings in 5 years' time will be **£3.4m** (= £48m x 7.12%).

4.5.4 Stage D

In 5 years, we assume LHA will inflate with Consumer Price Index (CPI)¹⁷ at 2% a year, and there will be 24% more renters. In addition, we assume the proportion of renters with IP will reach 7.12% as assumed in section 5.5.2. This will take the savings to the State to **£245.3m** (= £3.5bn x (1+2%)⁵ x 7.12% x (1+24%).

Therefore, we expect savings of **£151.3m** (= -£27.4m - £70.1m + £3.4m + £245.3m) will be made to the State in 5 years.

4.6 No policy changes

If there is no policy change, then it is expected that the current interaction between UC and IP may lead to a decline in IP amongst renters (say from 2% to 1.5%). This would lead to an increase in costs, which are captured in Stage B and Stage D. This could increase the costs to the state to **£43.8m**.

4.7 Summary of sensitivity and scenario analysis

Table 11 shows the result for each sensitivity run, compared with the base run.

Table 11: Comparison of costs (savings) for Base and Sensitivities (£m)

Stage	Base run	Sens 1: 20% uplift in initial rental gap	Sens 2: 20% decrease in initial rental gap	Sens 3: Increase in initial IP/FIB ownership of +1%	Sens 4: Decrease in initial IP/FIB ownership of -1%
A	£22.0	£26.5	£17.6	£33.1	£11.0
B	£5.5	£6.6	£4.4	£5.5	£5.5
C	£1.2	£1.2	£1.2	£1.7	£0.7
D	£17.5	£17.5	£17.5	£17.5	£17.5
Total (=A+B-C-D)	£8.9	£14.4	£3.4	£19.4	(£1.7)

Table 12 shows the 5-year scenarios, with the proportion of people assumed to hold IP at the end of the 5-year period shown in brackets, varying from 2.5% in the base run to 7.12% (the approximate ownership level of IP amongst homeowners) in the last scenario. It also shows the no policy change scenario, where take up of IP is assumed to fall to 1.5%.

Table 12: Comparison of costs (savings) for Base and 5-year and no policy change scenarios (£m)

Stage	Base (2.5%)	5-year scenario (4%)	5-year scenario (7.12%)	No policy
-------	----------------	-------------------------	----------------------------	-----------

	5-year scenario (3%)				change (1.5%)
A	£22.0	£27.4	£27.4	£27.4	£27.4
B	£5.5	£13.7	£27.4	£70.1	(£6.8)
C	£1.2	£1.4	£1.9	£3.4	£0.7
D	£17.5	£47.9	£95.8	£243.3	(£24.0)
Total (=A+B-C-D)	£8.9	(£8.3)	(£43.0)	(£151.3)	£43.8m

Appendix 1 – Data sources

The main source of data for stage A and Stage D calculation are from Stat-Xplore and Government statistics data as listed below:

	Data description	Source
1. Local Housing Allowance rates	England	https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2019-to-march-2020
	Scotland	https://www.gov.scot/publications/local-housing-allowance-rates-2019-2020/
	Wales	https://gov.wales/local-housing-allowance-lha-rates-april-2018-march-2019
	BRMA split	https://data.gov.uk/dataset/81a61cf3-ccad-4ba2-8945-74a2e6cbe4f9/broad-rental-market-areas-brma
2. Valuation Office Agency market rent	England	https://www.gov.uk/guidance/valuation-office-agency-and-housing-allowance
	Scotland	https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2018/11/private-sector-rent-statistics-2010-2018/documents/00543368-pdf/00543368-pdf/govscot%3Adocument/00543368.pdf
	Wales	https://statswales.gov.wales/Catalogue/Housing/Private-Sector-Rents
3. Universal Credit	UC claimants, family type vs region, number of non-dependants	Stat- Xplore
4. Housing benefit	Claimants by entitled number of bedrooms vs region, and by family type vs bed entitlement	Stat- Xplore
5. IP proportion	FCA proportion of IP	https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf
6. Temporary Accommodation spending	England	http://researchbriefings.files.parliament.uk/documents/SN02110/SN02110.pdf
	Scotland	https://theferret.scot/councils-half-billion-temporary-accommodation/
	Wales	https://www.walesonline.co.uk/news/wales-news/wales-housing-crisis-leaves-councils-14370392

7. Preventative Action spending	England	http://researchbriefings.files.parliament.uk/documents/SN02110/SN02110.pdf
	Scotland - Cost per person	http://scotlandinstitute.com/wp-content/uploads/2016/05/Housing-Costs-Poverty-and-Homelessness-in-Scotland.pdf
	Scotland - Number of preventative actions made 2015	https://scotland.shelter.org.uk/_data/assets/pdf_file/0009/1217691/Homelessness_and_Housing_Options_in_Scotland_2015_FINAL.pdf/nocache
	Wales	https://gov.wales/sites/default/files/publications/2018-10/draft-budget-2019-2020-detailed-proposals.pdf
8. National Audit Office – drivers of homelessness	Proportion of households in TA whose stated reason for loss of last settled home was end of assured shorthold tenancy (AST)	https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf
9. English Private landlord survey 2018 – reasons for eviction	Reason for eviction is rent arrears	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf
10. Reasons for rent arrears	Proportion of households in rent arrears due to sickness	Report received from BRHG
11. Homeless link: Preventing homelessness before it begins	Preventative action for tenancy support	https://www.homeless.org.uk/sites/default/files/site-attachments/Prevention%20research%202018.pdf
12. Citizen Advice Scotland	Rent arrears due to loss of income	https://www.cas.org.uk/system/files/publications/rent_arrears_oct_2018.pdf
13. Family Resources Survey from DWP	Proportion of privately renters	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/791271/family-resources-survey-2017-18.pdf

14. English Housing Survey	Future proportion of renters	https://www.theguardian.com/money/2015/jul/22/pwc-report-generation-rent-to-grow-over-next-decade
15. Swiss Re term and health report	Number of protection new sales	Term and health report – Swiss Re
16. ABI	Number of protection policies in force	https://www.abi.org.uk/globalassets/files/publications/public/key-facts/abi-key-facts-2017.pdf
17. ONS	Current Number of households	https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2018
18. CPI	CPI projection	https://www.statista.com/statistics/374754/consumer-price-index-cpi-forecast/

Appendix 2 – Consumer Price Inflation and projection

Year	2016	2017	2018	2019
CPI Inflation	0.2%	1.9%	3.0%	1.8%

Year	2019	2020	2021	2022	2023
CPI inflation projection	2%	2%	2.1%	2.1%	2%

Appendix 3 – Assumptions

Stage A:

- Each BRMA in the region carries equal weight.
- Non LHA claimants in Housing Benefit do not have a shortfall because they should be paying less rent than LHA rate.
- Assumed distribution of family type and their room entitlement on UC is the same as on HB
- Assumed distribution of room entitlement and no. of non-dependents on UC is the same as on HB
- Assumed average number of non-dependents is the same throughout each region.

Stage B:

- Assumed that the current proportion of in force IP policies is the same as new sales in 2018.
- The proportion of UC housing allowance claimants over total renters does not change from 2019 to 2024.
- An increase of UC claimants has a positive correlation to the increase in the number of households taking up IP/FIB cover.

Stage C:

- Even distribution of proportions, landlords, costs of Temporary Accommodation, people with income protection
- Assumed that the proportion of people in Temporary Accommodation due to rent arrears is stable year on year
- No one leaves an AST by choice without first finding somewhere else to live - will lead to an underestimate of households in Temporary Accommodation due to being unable to pay rent
- Each landlord/agent only removed one household currently in Temporary Accommodation - will lead to an underestimate of households in Temporary Accommodation due to being unable to pay rent
- Assumed that people who go into rent arrears due to illness are eligible for income protection to kick in - will lead to an overestimate?
- Households in Temporary Accommodation due to loss of AST due to rent arrears declared it as loss of AST not rent arrears - will lead to an overestimate of households in TA due to being unable to pay rent
- All houses with income protection would be completely helped by proposed changes - potential overestimate
- No synergies from providing temporary accommodation, so cost of Temporary Accommodation for government increases linearly as number of households in Temporary Accommodation increases - will lead to an overestimate in the cost savings

- Assumed the proportion of rent arrears due to financial difficulties for private renters are the same for England, Scotland and Wales.
- Assumed that the proportion of landlords who evict someone for rent arrears and for otherwise is stable year on year.
- Assumed that the proportion of people in rent arrears due to illness is stable year on year.

Stage D:

- Additional take up rate that covers full amount of rent
- The amount of LHA stays unchanged for 5 years, and the number of claimants increase as the same rate as number of renters.

Appendix 4 - Glossary of terms

Acronym	Definition	Description
UC	Universal Credit	Universal Credit is a benefit payment for people in or out of work. It replaces some of the benefits and tax credits including Housing Benefit.
IP	Income Protection	Income Protection Insurance is an insurance policy, paying benefits to policyholders who are incapacitated and hence unable to work due to illness or accident.
FIB	Family Income Benefit	Family Income Benefit Cover will pay out monthly benefits from the date it accepts the claim until the end of the policy term. It could pay out on death, diagnosis of terminal illness or critical illness. In this report we refer FIB to pay out on diagnosis of critical illness.
BRMA	Broad Rental Market Area	A BRMA is where a person could reasonably be expected to live take into account access to facilities and services.
LHA	Local Housing Allowance	The maximum amount of housing benefit one can receive living in that area with that housing entitlement. Local housing allowance rates are based on the cheapest 30% of privately rented properties in your local area
VOA	Valuation Office Agency	The Valuation Office Agency (VOA) gives the government the valuations and property advice needed to support taxation and benefits



Institute and Faculty of Actuaries

London

7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP
Tel: +44 (0) 20 7632 2100 · Fax: +44 (0) 20 7632 2111

Edinburgh

Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA
Tel: +44 (0) 131 240 1300 · Fax +44 (0) 131 240 1311

Oxford

1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD
Tel: +44 (0) 1865 268 200 · Fax: +44 (0) 1865 268 211

Beijing

6/F · Tower 2 · Prosper Centre · 5 Guanghua Road · Chaoyang District · Beijing · China 1000020
Tel: +86 (10) 8573 1000

Hong Kong

2202 Tower Two · Lippo Centre · 89 Queensway · Hong Kong
Tel: +11 (0) 852 2147 9418 · Fax: +11 (0) 852 2147 2497

Singapore

163 Tras Street · #07-05 Lian Huat Building · Singapore · 079024
Tel: +65 6717 2955

www.actuaries.org.uk

© 2019 Institute and Faculty of Actuaries

