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**ROYAL LONDON POLICY  
PAPER**

**1. The “living together penalty”**

## ABOUT ROYAL LONDON POLICY PAPERS

The Royal London Policy Paper series was established in 2016 to provide commentary, analysis and thought-leadership in areas relevant to Royal London Group and its customers. As the UK’s largest mutual provider of life, pensions and protection our aim is to serve our members and promote consumer-focused policy. Through these policy papers we aim to cover a range of topics and hope that they will stimulate debate and help to improve the process of policy formation and regulation. We would welcome feedback on the contents of this report which can be sent to Steve Webb, Director of Policy at Royal London at [steve.webb@royallondon.com](mailto:steve.webb@royallondon.com)

## THE “LIVING TOGETHER PENALTY”

### Executive Summary

Elements of the UK social security system have failed to keep pace with social change. When the National Insurance system was designed in the 1940s, entitlement to benefit following the death of a partner was restricted to married women. At the turn of the 21<sup>st</sup> Century entitlement was extended to widowers, and shortly thereafter to civil partnerships. But the system continues to ignore cohabiting couples, despite the fact that six million people in the UK are now cohabiting, double the number just two decades earlier.

As a result of this omission, when one person in a cohabiting couple dies, their surviving partner is not entitled to a lump sum Bereavement Payment, a weekly Bereavement Allowance or a weekly Widowed Parent’s Allowance<sup>1</sup>. In this paper we have estimated the cost of these rules – the ‘living together penalty’ – at around £82 million each year. A typical older bereaved person could miss out on around £7,800 in benefit, whilst a younger bereaved parent could lose over £25,000.

Given the complexity of the benefit system, it may be that many cohabiting couples - who are contributing exactly the same National Insurance Contributions as everyone else – may only find out when their partner dies that they are not entitled to any National Insurance benefits.

Some parts of the benefits system do recognise cohabitation. Income-related benefits such as Housing Benefit or Universal Credit treat cohabiting couples as a single unit. The combined income and savings of both partners are taken into account and benefit is payable only if the combined income of the household falls below a certain threshold. The irony of this situation is that the earnings of a cohabiting partner can deprive their partner from claiming some means-tested benefits while they are still alive, but after death the National Insurance contributions of the late partner do not bring any entitlement to bereavement benefits.

The purpose of this report is two-fold. First, to highlight and quantify the anomalies in the National Insurance benefits system which act to the detriment of cohabiting couples. We hope that policy-makers will acknowledge that bereavement benefits have evolved as society has changed and will consider ways of including the growing numbers of cohabiting couples within the scope of the system of National Insurance benefits. Second, we want to alert couples who live together to the fact that, in the event of bereavement, they would unfortunately receive less financial support than they may have been expecting. In particular, we find that a large part of the ‘living together penalty’ applies to couples with dependent children, and it is especially important that cohabiting parents are aware of the (lack of) social security provision for families in their position.

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<sup>1</sup> The different types of bereavement benefits are described in Section 1.

## **1. The current system of bereavement benefits**

The system of bereavement benefits was substantially reformed in 2001 to take account of the need to include widowers as well as widows within the scope of the system. It was extended again following the creation of Civil Partnerships in 2005. Further major reforms are set to be implemented with effect from April 2017. In this section we describe the system as it applies at time of writing (early 2016) but the same issues will apply under the post April 2017 regime.

There are three main National Insurance benefits for people of working age<sup>2</sup> who are bereaved. The following provides a summary of the key features of each benefit, but more details on rules of eligibility can be found at [www.gov.uk](http://www.gov.uk).

### **a) Bereavement Payment**

This is a lump sum payment of £2,000 payable to a person of working age who loses a spouse or civil partner.

### **b) Bereavement Allowance**

This is a weekly benefit payable for one year following a death and focused on older claimants. The full rate of benefit (currently £112.55 per week) is payable to those aged between 55 and state pension age, with the rate reduced on a sliding scale down to the age of 45 (where the rate is currently £33.77 per week). No payments are made to those who are under 45 at the time of bereavement.

### **c) Widowed Parent’s Allowance**

This is a weekly benefit payable to parents with dependent children at the time of bereavement. The weekly rate is £112.55 and benefit can continue for as long as the bereaved parent is in receipt of child benefit for one or more child.

Some recipients of Bereavement Allowance receive an earnings-related pension on top, and a small number of people are still receiving payments of benefits under the ‘legacy’ (ie pre 2001) system. The following table shows estimated expenditure on these benefits in 2016/17:

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<sup>2</sup> Different and more limited benefits apply to those over state pension age. Because the numbers of cohabiting couples above state pension age are relatively low (though growing) and because entitlements to derived benefits for pensioners will be substantially scaled back in April 2016, we have not included this group in the current analysis.

<b>Category of Benefit</b>	<b>Annual Expenditure (£m, 2016/17)</b>
Bereavement Payment	90
Bereavement Allowance	100
Widowed Parent's Allowance	270
Earnings-related additions	40
Pre-2001 benefits	60
<b>TOTAL</b>	<b>560</b>

Source: Page 6, Final Impact Assessment, 2014 Pensions Act, DWP. Published April 2013

Those who are bereaved may also be entitled to other help through the social security system if their bereavement results in them being on a low income and having low amounts of savings. They may be entitled to means-tested benefits such as Income Support or the new Universal Credit, and they may also qualify for help with rent and/or council tax. However, income from other sources such as earnings or pensions may reduce their entitlement, and even relatively modest amounts of capital may disqualify them from entitlement altogether.

## **2. Calculating the ‘living together penalty’**

In this section we take each of the main National Insurance benefits and make a rough estimate of how much would have been paid to bereaved members of working-age cohabiting couples if they were treated in the same way as married couples.

### **a) Bereavement Payment**

The Office for National Statistics (ONS) publishes the number of deaths each year broken down by age group and gender<sup>3</sup>. In addition, estimates are available of the family circumstances of individuals broken down by age and gender. By combining these two data sources we can provide approximate estimates of the number of deaths of working age married and cohabiting people. This enables us to scale the £90m expenditure figure for Bereavement Payments (which go only to married couples) to work out how much cohabiting couples would have received.

To give an example, ONS figures show that in 2014 there were around 1.9 million men in the 30-34 age group. Of these, around 1,500 died during the course of the year, a death rate of 0.08%. We also know that in this age group there were roughly 0.8 million married men and 0.5 million cohabiting men. Applying these death rates to the (unrounded) data, we calculate that there were around 633 deaths of married men in this age group and around 398 deaths of cohabiting men.

We repeated this process for all age groups under pension age and for both men and women, and concluded that the number of deaths of people in cohabiting couples is around 17% of the number of deaths of married people.

If the Government spends around £90m on Bereavement Payments for married couples, it seems reasonable to assume that cohabiting couples would have received around 17% of this amount, or roughly £15m if they had been entitled to benefit.

### **b) Bereavement Allowance**

Bereavement Allowance is received mainly by older people of working age, where cohabitation rates tend to be lower. Nonetheless, the exclusion of cohabiting couples from this benefit still costs them a significant sum.

To estimate the amount foregone, we can first look at Department for Work and Pensions (DWP) administrative data on the number of people that received Bereavement Allowance. All of these people

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<sup>3</sup> To be precise, we have used readily available ONS data for England & Wales for living arrangements and death rates, but have then applied the resultant ratios to the gross expenditure figures for Great Britain as a whole.

would have been married or in a civil partnership. The average person in receipt of Bereavement Allowance is in their late 50s, more likely to be female and we know from our analysis in the previous section that the number of deaths among cohabiting couples in this age group is around 11% of the number for married couples.

Given that the Government spends around £100m per year on Bereavement Allowances, we can assume that cohabiting couples have missed out on around £11m per year through their ineligibility for this benefit.

### c) Widowed Parent’s Allowance

This is the largest National Insurance bereavement benefit, with an Exchequer cost of around £270m per year. Data from the DWP shows that the average recipient of this benefit is currently a woman in her late 40s. If we assume that the couple were roughly the same age, then the relevant death rate to use would be for men in this age group<sup>4</sup>.

We estimate that the proportion of deaths of cohabiting men in this age group is just over 20% of the number of deaths of married men. Applying this proportion to the total spend on this benefit, we estimate that widowed parents and their children missed out on around £56m in Widowed Parents Allowance because of the current rules.

### d) Totals

The following table summarises these results:

#### **Estimated loss of bereavement related benefits to cohabiting couples**

	<b>Amount lost (£m pa)</b>
Bereavement Payment	15
Bereavement Allowance	11
Widowed Parent’s Allowance	56
<b>TOTAL</b>	<b>82</b>

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<sup>4</sup> In reality, the typical recipient of WPA will have been claiming for around 4 years on average, so her claim may have begun in her early 40s.

e) Impact on Individuals

The amount lost by any individual will depend on their personal circumstances:

- A bereaved person with no dependent children aged 45 or above will receive the Bereavement Allowance. Benefit is payable for a maximum of one year and most recipients are aged 55 or above and therefore receive the full rate of payment. A full year of benefit at £112.55 per week, plus a £2,000 bereavement support payment, would result in a loss of just over **£7,800**;
- A bereaved person with dependent children would receive benefit at £112.55 per week, and the typical duration of receipt to date of current recipients of Widowed Parents’ Allowance is around four years. Including the lump sum payment, a bereaved parent could therefore miss out on an average of over **£25,400** compared with a married person in the same situation.

### **3. How robust are these estimates?**

In the absence of a single data source for death rates for the whole of Great Britain by marital status (including cohabitation), age and gender, we have made a number of simplifying assumptions. For example, we have assumed that in any given age and gender group, the death rate for people in married and cohabiting couples will be in proportion to each other. Whilst this seems a reasonable working assumption, we do not know this to be true.

It is also true that the total figure of £82m is a gross figure, and bereaved people from cohabiting couples might receive income-related benefits which might in part compensate for ineligibility to National Insurance benefits. On the other hand, our figure might be an under-estimate of the ‘living-together penalty’ as we have excluded those over state pension age from our analysis.

Most reassuring of all, our number is very close to the DWP’s own recent estimates of the answer to a closely related question.

Responding to a recommendation from the independent Social Security Advisory Committee to the suggestion that cohabiting couples might be included in the scope of National Insurance bereavement benefits going forward, the DWP said:

*“Extending the eligibility to BSP [Bereavement Support Payments] to unmarried couples would increase spend by an estimated £300m over the first four years of the reform.”<sup>5</sup>*

Whilst this is a projection of the cost of including cohabiting couples within the new system of bereavement support which starts in April 2017, the DWP figure of £75m per year is strikingly close to our estimate of just over £80m for the current system. This suggests that our estimates form a sound basis for debate and discussion, though we would, of course, welcome any further estimates by the DWP.

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<sup>5</sup> Social Security Advisory Committee report on Bereavement benefit Reform: Government Response, DWP, 23 November 2015, para 22. (<https://www.gov.uk/government/publications/government-response-ssac-report-on-bereavement-benefit-reform>)

#### **4. Conclusions**

It is clear that members of working age cohabiting couples are collectively missing out on significant amounts of money at a time of real need. Of the £82m ‘living together penalty’ that we have identified, more than half is among bereaved parents with dependent children, which ought presumably to be a source of considerable concern.

It is welcome that the system of National Insurance bereavement benefits has been modernised to reflect the changing nature of society since it was designed in the 1940s. But with 6 million people living in cohabiting couples and the number rising every year, the exclusion of such couples from the National Insurance system looks increasingly indefensible. Given that members of cohabiting couples pay the same National Insurance as everyone else, and given that the DWP already has processes in place for defining who counts as a member of a cohabiting couple, it is difficult to see any justification for the continuation of this discriminatory system.