Protection

Learning Outcome 3

By the end of this learning material you will be able to demonstrate an understanding of the role and limitation of State Benefits and state/local authority funded solutions for financial protection.

3 Introduction

It is important to consider what – if any – State Benefits may be available as State Benefits may reduce the amount of financial provision needed for sickness, retirement and death.

However the low level of payments that could be received reinforces the need for personal financial protection provision to maintain the standard of living wanted.

The skill of a Financial Adviser should be used to uncover

- What money is wanted in the event of ill-health/retirement/death
- What money would be available from all sources i.e. Personal provision, employer benefits, state provision
- Identify the gap and outline this to the customer
- Discuss and agree the most suitable protection products available to plug the gap
- Obtain the customer's commitment to putting the plan in place.

There are many social security benefits paid by the UK government – full details can be found at.

https://www.gov.uk/browse/benefits

This chapter deals with the main benefits and gives a summary of eligibility and details

3.1 Range and limitations of benefits

Most social security benefits paid by the UK government are paid by the Department of Work and Pensions (DWP).

Eligibility for benefits may be because of

- the recipients age
- the individual's state of health
- the individual's employment status or level of income

In this text – we will look at the main benefits and the conditions which have to be met to receive the benefit.   This will include examining

- If the benefit is means tested or not
- If the benefit is dependent on National Insurance contributions or not
- Other limitations applicable

It is important that the Financial Adviser has a good understanding of the main State Benefits and how these would apply and affect the customer's financial situation – now and in the future.

Income Support

Income Support is extra money someone may be able to get if:

- they have no income or a low income
- they are working less than 16 hours a week
- haven't signed on as unemployed

To qualify for Income Support they must fall under the eligibility criteria:

- be between 16 and State Pension age
- be pregnant, a carer, a lone parent with a child under 5 or, in some cases, unable to work because they're sick or disabled
- be on a low income
- work less than 16 hours a week (and their partner works no more than 24 hours a week)
- live in England, Scotland and Wales - there are different rules for Northern Ireland
- the amount paid depends on their personal circumstances, from a minimum of £57.90 up to £114.85. Extra benefit may be paid for pensioners, disabled and lone parents with a disabled child.

Claimants don't need a permanent address, e.g. you can still claim if you sleep rough or live in a hostel or care home.

They might still qualify if they do unpaid volunteer work or go on parental or paternity leave. Also, they qualify if they're age 19 or younger, in full-time secondary education (including A levels) and one of the following:

- a parent
- not living with a parent or someone acting as a parent
- a refugee learning English

They can also qualify up until the age of 21 if they're one of the above, are orphaned or estranged from their parents and enrolled in education.

Usually, they won't qualify if they:

- have savings above £16,000
- need permission to enter the UK
- get Jobseeker's Allowance or Employment and Support Allowance
- are a young person being looked after by a local authority

Other details

- Not dependent on NIC
- Capital above £6,000 reduces the level of benefit payable
- Income support is not usually taxable
- It is means tested – the total income coming into the household would be considered – and this would include Social Security benefits
- The level of benefit can be adjusted to help meet the costs of mortgage interest and some other housing costs not covered by housing benefit
- Successful application for Income Support can also let the applicant get help with the costs of NHS treatments, rent and other outgoings.

Jobseeker’s Allowance (JSA)

There are 2 types of Jobseeker’s Allowance (JSA) to support people while they look for work (Contribution Based JSA and Income based JSA)

You can only get contribution-based JSA for 182 days (approximately 6 months). After this, you may be able to get income-based JSA

Jobcentre Plus will work out the type applicable and how much tax will be charged. JSA does not affect Child Benefit or child tax credit

- Students, under-18s and those over state pension age are not normally eligible
- Applicants must be able to demonstrate they are fit for and available for work.
- They must be “actively seeking employment” and have a jobseekers agreement and working less than 16 hours a week (this may require them to go to a Jobcentre Plus Office every 2 weeks)
- The benefit is dependent on sufficient NICs having been made in the last 2 years
- It is not means tested for the first 6 months
- After 6 months, the amount payable will be affected by the applicant’s level of capital (must have less than £16,000 to be eligible)
- Income-based jobseeker’s allowance may be available for those who have not made sufficient National Insurance contributions
- 2016/17 basic weekly rates are:

  Contributions based;
    - £57.90 per week when aged 18 – 24
    - £73.10 per week 25 years and over

  Income based;
    - From £57.90 per week for a single person under 25 to
    - £114.85 per week for couples (both over 18).

- If they are receiving Universal Credit that cannot bet income-based JSA at the same time, but can apply for ‘new style’ JSA (which works in the same way as contributions based JSA) although any payments received will be deducted from their Universal Credit payment.

Child Benefit

You get Child Benefit if you’re responsible for a child under 16 (or under 20 if they stay in approved education or training).
Child Benefit is a tax-free payment unless the claimant or partner has an individual income of more than £50,000

Only one person can get Child Benefit for a child

- It is payable as a flat rate weekly amount for each child
  - First child - £20.70
  - Second and each subsequent child - £13.70
- The payment is tax free if income is below £50,000 – see 'High Income Child Benefit charge' below
- Paid 4 weekly
- Non-contributory
- Not means tested
- If the parent has delayed claiming this benefit – then the claim can be back-dated for up to 3 months.
- Payment of this benefit is not affected by any other benefits the parent may be entitled to.

High Income Child Benefit charge

Individuals will be affected by the High Income Child Benefit charge if during a tax year any of the following applies:

- they have an individual income of more than £50,000 and are entitled to receive Child Benefit
- they have an individual income of more than £50,000 and live (or have lived) with a partner who's entitled to receive Child Benefit
- both they and their partner have an income of more than £50,000 per year, they have the higher income and one of them is entitled to receive Child Benefit

An individual will also be affected if during a tax year they have an individual income of more than £50,000 and both of the following apply:

- someone else is entitled to receive Child Benefit for a child who lives with them
- they're entitled because they contribute at least an equivalent amount of Child Benefit towards the child's upkeep, for example pocket money or clothes
- It doesn't matter if the child that is living with them is not their own child.

The individual's income used will generally be their income before tax and deduction of ''Personal Allowance', after gift aid payments and pension contributions.

The charge is 1% of the amount of child benefit for every £100 of income that exceeds £50,000 of income.

Bereavement Payment

NB: This only applies of the spouse/civil partner died before 6 April 2017. Where the death occurred on or after this date, they may be entitled to Bereavement Support Payment instead.

This is a tax free lump sum payment of £2,000 made to the surviving spouse or civil partner.

- The deceased must have made sufficient NICs or their death was caused by their job
- The recipient needs to be under State Pension Age or the deceased must not have been entitled to state pension benefits at the date of death

Bereavement Allowance (previously known as Widow's Pension)

NB: This only applies of the spouse/civil partner died before 6 April 2017. Where the death occurred on or after this date, they may be entitled to Bereavement Support Payment instead.

- Taxable weekly benefit payable for 52 weeks for surviving spouse or civil partner.
- Can only be claimed by someone aged 45 or over
- The full rate is £113.70 per week for someone aged 55 or over at the time of death (2016/17)
- The amount payable is reduced for someone aged under 55
- Between 54 and 45 there is a partial payment varying between £105.74 per week and £34.11 per week (2016/17).
- Bereavement benefits stop on remarriage or cohabitation. They will also stop on reaching State Pension Age.
- All eligible widows and widowers receive the bereavement payment – but if they are under 45 and have no dependent children – then no other bereavement benefits will be payable.
- Entitlement depends on NIC record of the deceased spouse

Widowed Parent's Allowance

NB: This only applies of the spouse/civil partner died before 6 April 2017.

- Taxable benefit payable to surviving spouse or civil partner provided the deceased had made sufficient NICs (or their death was caused by their job)
- Recipient must have a child for whom they are receiving child benefit
- Can also be payable if claimant is pregnant and their husband has died, or they're pregnant after fertility treatment and their civil partner has died
- The benefit has a basic maximum payment of £113.70 per week (2016/17) plus an allowance for each dependent child and a possible additional SERPS/S2P pension, each dependent on the NIC record of the deceased
- Allowance stops on remarriage /civil partnership or cohabitation
- Must be below state pension age to qualify.

Widowed Parent's Allowance, Bereavement Allowance and Bereavement payment has been replaced with a single Bereavement Support Payment.

Bereavement Support Payment.

This can apply, where a person's spouse or civil partner dies on or after 6 April 2017, where the deceased died as a result of a work related accident or disease or had paid national insurance contributions for at least 25 weeks, To be eligible to claim the claimant must be under state pension age, living in an EEA country, Switzerland or Gibraltar and not in prison.

An initial lump sum payment is made, followed by up to 18 monthly payments as follows;

Circumstances	First payment	Monthly payment
The claimant has children under 20 in full-time education	£3,500	£350
The claimant does not has children under 20 in full-time education	£2,500	£100

Although a claim can be made up to 21 months after the death, unless it is made within 3 months, the payment will reduce.

Any payment does not affect any other benefits received by the claimant for the first 1 year.

Carer's Allowance

- Carer's Allowance is to help the carer look after someone with substantial caring needs.
- The carer doesn't have to be related to, or live with, the person they care for
- They need to be aged 16 or over and spend at least 35 hours a week caring for the person concerned
- Taxable weekly benefit
- The payment is £62.70 per week in tax year 2017/18
- Carer must be in Great Britain when you claim - there are some exceptions, e.g. members and family members of the Armed Forces
- Carer must have been in Great Britain for at least 2 of the last 3 years are habitually resident in the UK, Ireland, Isle of Man or the Channel Islands
- are not subject to immigration control (unless they're a sponsored immigrant) There are some exceptions to these conditions if you're living in another EEA country
- not means tested

Also, the person being cared for needs to meet these conditions:

The person you care for must get one of these benefits:

- Attendance Allowance
- Disability Living Allowance - the middle or highest care rate
- Personal Independence Payment (PIP) – daily living component

- Constant Attendance Allowance at or above the normal maximum rate with an Industrial Injuries Disablement Benefit
- Constant Attendance Allowance at the basic (full day) rate with a War Disablement Pension
- Armed Forces Independence Payment (AFIP)

Someone may not get Carer's allowance if any of the following apply:

- They're in full-time education, and studying for 21 hours a week or more (this includes supervised study and things like coursework and experiments, not just time spent with a tutor)
- They earn more than £110 a week (after tax)
- They get one of the benefits listed below:-
    - Bereavement Support Payment
    - contribution-based Employment and Support Allowance
    - contribution-based Jobseeker's Allowance
    - Incapacity Benefit
    - Industrial Death Benefit
    - Maternity Allowance
    - Severe Disablement Allowance
    - State Pension
    - training allowance
    - Unemployability Supplement – paid with Industrial Injuries Disablement Benefit or War Pension
    - War Widow's or Widower's Pension
    - Widowed Mother's Allowance or Widowed parent's allowance
    - Widow's Pension

Statutory Sick Pay (SSP)

This benefit is paid to an employee and the self employed are not eligible. The employee must earn enough to pay Class 1 National Insurance Contributions.

- The employee will normally receive SSP if they are unable to work due to sickness for at least 4 or more days in a row
- The benefit is not means tested
- SSP is paid by the Employer for up to 28 weeks
- SSP is taxed as earned income
- The employee must pay Class 1 National Insurance contributions on the payments
- The rate of SSP for tax year 2017/18 is £89.35 per week.
- The employee must earn at least £113 per week gross to qualify (2017/18).
- The benefit is payable for up to 28 weeks.
- After 28 weeks – if the employee is still sick they can then claim Employment & Support Allowance (which has replaced incapacity benefit)

Employment and Support Allowance (ESA)

Employment Support Allowance replaced incapacity benefits.
You can apply for ESA if you're employed, self-employed or unemployed.

You might be transferred to ESA if you've been claiming other benefits like Income Support or Incapacity Benefit

- ESA was introduced for new applicants from October 2008

- Existing incapacity benefit recipients started to be moved onto ESA from October 2010.

SSP continues to be paid for the first 28 weeks for employed people – after which they are entitled to claim ESA. Employment Support Allowance stops at state pension age.

After 28 weeks SSP the employed person will then be assessed for ESA. The self employed enter the ESA assessment period after 3 days sickness.

There are 2 phases of Employment Support Allowance:

Financial support (2017/18)

First 13 weeks Under 25 £57.90 per week
First 13 weeks 25 or over £73.10 per week
From 14 weeks Work Related Activity Group Up to £109.65 per week
From 14 weeks Support Group Up to £109.65 per week

Claims made after 27 October 2008 – Employment Support Allowance

Employment Support Allowance came into force for new claims made from 27/10/2008. Existing claimants continue to receive incapacity benefit until the phased introduction of ESA is completed for them.

- A 13 week assessment phase starts once a claim is made. During the assessment phase the applicant is paid the allowance (as above)
- Lower rates apply to under 25s (as above)
- Higher rates apply to couples and those on income related ESA.
- This initial assessment phase can be extended if it is not possible to complete the assessment during the 13 weeks if for example the applicant is too ill to attend for a face to face assessment.
- In these circumstances, if appropriate the main rate of benefit will be backdated to the start of the 14th week so the applicant doesn't lose out.
- The assessment is conducted by a state appointed doctor or other health professional. The applicant's own doctor is not permitted to carry out the assessment
- An initial "limited Capability for work questionnaire" is completed and this then leads on to a "work capability assessment" which is used to determine eligibility for employment and support allowance
- If the applicant is able to do some work – a "work focused health-related assessment" is conducted and this will determine what work they can do and what support they will require.
- People who are terminally ill are fast tracked into the support group. This can also apply to certain other groups.

The Support Group

- This group is unable to work and they receive up to £109.65 from week 14 – or more than this is they are receiving income-related benefits.

- Support Group individuals don't have to go to interviews, but can ask to talk to a personal adviser if they want to. Individuals are usually in this group if their illness or disability severely limits what they can do

The Work Related Activity Group

- This group will receive support to help them get back into work
- They have to go to regular interviews with an adviser. The adviser can help with things like job goals, improving skills, work-related issues
- The ESA can be reduced if they don't go to interviews or do work-related activity as agreed with their adviser
- They will receive up to £73.10 from week 14. They could get more if they have no other income, qualify for income related ESA and have a partner
- Income related ESA depends on having made sufficient NI contributions or having low household income or less than £16,000 capital.

Extra Premiums

- People who qualify for the income-related part of ESA may also receive enhanced disability premiums, severe disability premium, carer premium and pensioner premium.
- Housing costs may also be payable as part of the income related benefit.

Most recipients of ESA (around 90%) will enter the work-related activity group and will be required to take part in work-related activity. Penalties may apply if they do not take part in this. The remaining 10% - who have more severe health conditions will go into the support group. They will not have to take part in work-related activity unless they want to.

Applicants in the work-related activity group must engage in mandatory work-focused interviews – this starts from week 8 of their claim. It the applicant does not take part – then sanctions can be applied. For the first 4 weeks, the work-related activity component is reduced by half – and after 4 weeks it is removed completely.

Website

The ESA system is complex and works on the principle that it is better for people to work than not to work.

There is a dedicated website about ESA and this is available on

https://www.gov.uk/employment-support-allowance/overview

Claims before 27 October 2008

Incapacity Benefit is to help if you couldn't work because of an illness or disability

Incapacity Benefit has been replaced with Employment and Support Allowance (ESA) - Jobcentre Plus will review Incapacity Benefit claims to see if someone is capable of work or eligible for ESA

Because some claimants suffer from long term ill health – some current claimants will still be claiming incapacity benefit rather than the new ESA.

Disability Living Allowance (DLA)

Personal Independence Payment (PIP) started to replace Disability Living Allowance (DLA) from 8 April 2013 for people aged 16 to 64 with a health condition or disability

New claims for DLA can only be made by people under the age of 16.

Claimants could get between £22.00 and £141.10 a week to help with the extra costs caused by a disability if they're aged under 65.

Disability Living Allowance (DLA) is paid at different rates depending on the level of help needed. It may be necessary to carry out an assessment to work out what people need.

For new claims from 10 June 2013, (other than by young people, as above) the Personal Independence Payment will replace DLA

The main points:
Tax free benefit for under 65s who need personal care, help in moving about or both.

The allowance comprises a care component and a mobility component. Recipients may get one component or both.

Care Component – payable at 1 of 3 levels (2017/18)

1. Highest rate - £83.10 per week
2. Middle rate - £55.65 per week
3. Lowest rate - £22.00 per week

Mobility Component – payable at either a higher rate or a lower rate (2017/18)

1. Higher rate - £58.00 per week
2. Lower rate - £22.00 per week

Important points for this benefit

- The claimant must satisfy the criteria for 3 months and be likely to do so for a further 6 months
- Once entitlement is proven – the benefit is paid for as long as the condition persists
- It is based on disability - not on financial ability to pay or NIC record
- Tax free
- Payment of the care element is suspended if the claimant is admitted to hospital or a care home financed by the state or local government for more than 4 weeks.

- The terminally ill will qualify without having to meet the 3 month rule

There is a difference to this allowance in Scotland.

- Individuals who received free personal care or local authority assistance will stop receiving DLA after 4 weeks.
- This does not apply to people who receive nursing care or people who self fund.

Personal Independence Payment (PIP)

Personal Independence Payment (PIP) started to replace Disability Living Allowance (DLA) from 8 April 2013 for people aged 16 to 64.

Claimants can get between £22.00 and £141.10 a week to help with the extra costs caused by a disability if they're aged under 65.

It is paid at different rates depending on the level of help needed. It may be necessary to carry out an assessment to work out what people need.

The main points:
Tax free benefit for under 65s who need personal care, help in moving about or both.

It is available to those who have a long term health condition or disability and have difficulties with 'activities of daily living' and/or mobility.

The allowance comprises a daily living component and a mobility component. Recipients may get one component or both.

Daily Living Component (2017/18)

4. Standard rate - £55.65 per week
5. Enhanced rate - £83.10 per week

Mobility Component (2017/18)

3. Standard rate - £22.00 per week
4. Enhanced rate - £58.00 per week

Important points for this benefit

- The claimant must satisfy the criteria for 3 months and be likely to do so for a further 6 months
- Once entitlement is proven – the benefit is paid for as long as the condition persists, although regular assessments may take place
- It is based on disability - not on financial ability to pay or NIC record
- Tax free
- Payment can be suspended if the claimant is admitted to hospital or a care home financed by the state or local government for more than 4 weeks.
- The terminally ill will qualify without having to meet the 3 month rule

Attendance Allowance

- To help with personal care because someone is physically or mentally disabled and aged 65 or over.
- 2 levels of benefit are payable
    - Higher rate - £83.10 if help or supervision needed throughout both day and night, or person is terminally ill (2017/18)
    - Lower rate - £55.65 Frequent help or constant supervision during the day, **or** supervision at night (2016/17)

Important points for this benefit

- Tax free
- Not means tested
- Paid in addition to other benefits
- Not paid if applicant is in an NHS hospital or local authority funded home

Attendance allowance is generally ignored when assessing for income support or jobseeker's allowance – but it stops after 4 weeks for all local authority funded care home residents.

Special rules apply for the terminally ill and they will receive the higher rate of allowance.

People who make personal arrangements for residential care can continue to received the attendance allowance

In Scotland - people who get free personal care or L.A. assistance will stop receiving Attendance Allowance after 4 weeks – but this does not apply to those who get nursing care or people who self fund.

State Pensions

The Pre April 2016 state pension system is made up of 4 parts

1. Basic state pension
2. Graduated State Pension
3. State earnings related pension scheme (SERPS)
4. State second pension (S2P)

In addition – there is pension credit.

Basic State Pension

- Most people in the UK could claim Basic State Pension
- Payment used to start at 60 for females and 65 for males
- The age at which people will now be able to receive a state pension has changed – and continues to change.

- Full details are available at https://www.gov.uk/browse/working/state-pension

State Pension Age

Current state pension age:

- 65 is the current state pension age for men born before 6 December 1953

- For women born after 5 April 1950 but before 6 December 1953 – the state pension age is between 60 and 65.

Increase in State Pension age to 66

Under the Pensions Act 2011 women's state pension age started to increase more quickly to 65 between 2016 and November 2018.

From December 2018 the state pension age for both men and women will start to increase to reach 66 in October 2020.

The changes will affect:

- Women born on or after 6 April 1953 (in respect of the acceleration of increasing the state pension age to 65)
- Men born on or after 6 December 1953 (in respect of the increasing pension age to 66)

Changes to the State Pension

The government has introduced a flat rate (single-tier) State Pension for people reaching state pension age on or after 6 April 2016 and will raise the state pension age from 66 to 67 gradually between 2026 and 2028.
Parliament will have to agree any further changes to the state pension age before they become law.

Flat rate State Pension

The new flat rate (single-tier) pension was introduced from April 2016.
Current pensioners and everyone reaching State Pension age before the introduction of the single-tier pension will continue to receive their State Pension in line with existing rules.

The single-tier pension will replace the State Second Pension, contracting-out and outdated additions, such as the Category D pension and the Age Addition. The Savings Credit element of Pension Credit will also close to pensioners who reach State Pension age after the introduction of the single-tier pension.

The new pension makes it easier for people to understand what they need to save for their retirement. It will also support the introduction of automatic enrolment into workplace pensions which was introduced in October 2012

The single-tier pension will be set at £159.55 per week, above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee, £159.35 per week for a single pensioner in 2017/18).

The single tier state pension currently increases in payment under the same "triple lock guarantee" that applies to the basic state pension i.e. by the greater of CPI, average earnings or 2.5% pa.t

Closing the Second Sate Pension

Closing the State Second Pension is an important part of the single-tier reforms. Contracting out of the State Second Pension for Defined Benefit schemes in the UK will therefore come to an end.

Contracting out meant giving up entitlement to the State Second Pension in return for a broadly similar occupational pension and a lower National Insurance (NI) rate for employer and employee.

Under the single-tier proposals, all employees will pay the same rate of National Insurance and become entitled to State Pension in the same way. The State Pension system will be significantly simpler as a result

Qualifying years

The single-tier pension requires 35 qualifying years of National Insurance contributions (NICs) or credits for the full amount.

There is also a minimum qualifying period of 10 qualifying years.
Those with less than 35 qualifying years but more than the minimum qualifying period will receive a proportionally smaller single-tier amount.

The Government has put in place transitional arrangements to recognise people's National Insurance contribution records before the implementation date.

Inheritance and deferral

The new pension will be based on individual qualification, without the facility to inherit or derive entitlement to the State Pension from the National Insurance record of a spouse or civil partner (although there will be some limited transitional arrangements).

It continues to allow people to defer (put off) claiming their State Pension and receive a higher weekly State Pension in return.

It is no longer possible to receive deferred State Pension as a lump-sum payment

Changes to the State Pension age

- people born between 6 April 1960 and 5 March 1961 will reach State Pension age between 66 and 67
- people born on or after 6 March 1961 will reach State Pension age when they're 67 or older

There is a state pension age calculator available at:
https://www.gov.uk/calculate-state-pension

The current amount of old style basic state pension an individual will receive depends on their NI contribution record

- Class 1 contributions for employees
- Class 2 and 4 for the Self- Employed. Class 4 contributions contribute to the common fund from which pension payments are made
- Class 3 (voluntary contributions) for people who want to build up entitlement but who do not make class 1 or class 2 contributions
- Contribution Credits are granted to those who do not make NI contributions because they are in receipt of unemployment benefit, incapacity benefit, severe disablement allowance or payments for approved training. These credits are treated as they were NI contributions.
- A married woman may be able to claim a reduced level of basic state pension on the basis of NI contributions made by her husband.

State Pension is

- Taxable – but paid gross
- Not means tested
- Not affected by receipt of other social security benefits

The current maximum level of basic state pension is £122.30 per week (2017/18)

If you're not eligible for a basic State Pension or not getting the full amount, you might be able to qualify for 'top up' by an extra £73.30 (2017/18) through your spouse's or civil partner's National Insurance contributions if:

- you have both reached State Pension age
- your spouse or civil partner qualifies for some basic State Pension (even if they haven't claimed it)
- your wife or civil partner was born after 6 April 1950 (married men and civil partners only)

Pension Increases

The basic State Pension increases every year by whichever is the highest:

- earnings - the average percentage growth in wages (in Great Britain)
- prices - the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI)
- 2.5%

This is known as the triple lock guarantee

Pension payments are generally uprated each April

The measure of price inflation for the 2011 increase was the RPI, but since 2012 the CPI (Consumer Price Index) is the index used instead of RPI.

CPI was the basis of increases to all other state pensions from 2011.

Who would have been eligible for Additional State Pension?

The additional state pension is provided by the Government. The intention is to provide extra money in addition to the Basic State Pension.

There is no fixed amount for the Additional State Pension.

How much you get depends on:
- how many years of National Insurance contributions you have
- your earnings
- whether you've contracted out of the scheme

You may have been contributing to or receiving credits towards additional State Pension if you were below State Pension age and you were:

- employed and earning over the lower earnings limit of £5,824 a year (in 2015 to 2016)
- looking after children under 12 and claiming Child Benefit
- caring for a sick or disabled person more than 20 hours a week and claiming Carer's Credit
- working as a registered foster carer and claiming Carer's Credit
- receiving certain other benefits due to illness or disability

You were not eligible if you were:

- employed and earning less than £5,824 per year in the 2015/16 tax year
- self-employed
- unemployed
- in full-time training

Further information can be found on https://www.gov.uk/additional-state-pension/eligibility

State Earnings Related Pension Scheme (SERPS)

Employees (not the self employed) may have entitlement to benefits from SERPS.

- This was a top up state pension scheme whereby employees made contributions via their class 1 NICs and received (taxable) benefits from the state pension age, which operated between 1978 and 2002
- An employer's occupational scheme could contract its members out of SERPS which means that scheme members did not accrue SERPS benefits
- Any contributions made prior to contracting out were preserved
- Individual employees used to be able to contract themselves out of SERPS by using an "appropriate personal pension" scheme. This enabled the scheme member to receive "Protected Rights" benefits instead of SERPS. Minimum contributions to the scheme were made by DWP
- Up until 2000 – the maximum SERPS pension was 25% of the individual's average middle band earnings over 20 years.
- For people retiring after then – the benefit gradually reduces to 20% of the individual's average middle earnings over the whole of their working life.
- Earnings figures are adjusted to allow for inflation
- SERPS was replaced by the State Second Pension on 6 April 2002

State Second Pension (S2P)

S2P replaced SERPS from April 2002. Any benefits already built up with SERPS remained – but no new benefits could be accrued in SERPS. S2P was not available to the self-employed.

S2P was introduced in 2 phases

1. From 6/4/2002 – S2P which was designed to be an earnings related scheme provided benefits which were roughly equivalent to those under SERPS. People with moderate to low earnings will accrue more benefits under S2P than they would have done with SERPS
2. The initial plan for S2P was for it to move to a flat rate scheme after Stakeholder pensions had been established. This was meant to happen in April 2006/April 2007. However, slow earnings growth has meant that the crossover point may not have been reached until 2040.

Stage 1

From 6 April 2002 to 5 April 2010 – the basic structure of S2P was

- It was assumed a full working life in the new scheme
- For low earners – the accrual rate was double that of SERPS i.e. 40%
- For mid range earners – the accrual rate was half of SERPS i.e. 10%
- For higher earners – the accrual rate equaled SERPS i.e. 20%

Stage 2

The basic structure to S2P changed from 6 April 2010 (assuming a full working life in the new scheme)

- In Stage 1 – there were 3 accrual bands.

- In Stage 2 – there were 2 accrual bands.

Earnings	Tax Year 2015/2016	S2P accrual rate
Lower Earnings Limit (LEL)	£ 5824	
Low Earnings Threshold (LET)	£ 15,300	Between 2010 and 2012 an accrual rate of 4.5% on earnings between LEL and LET. Those earning below the LET (but above the LEL) are treated as if they had earned the LET. From 2012, a flat rate amount, £93.60 in 2015/2016.
Upper Accrual Point (UAP)	£40,040	10% of earnings between LET and UAP

- Earnings above the Upper Accrual Point are ignored for S2P calculation purposes

- The Upper Accrual Point was frozen at £40,040 and the aim was for the Lower Earnings Threshold to keep rising – with the aim of having a single accrual rate in the future.

- S2P aimed to support lower paid people i.e. those earning less than £ 15,300 in 2015/16

- As long as people earned at least the Lower Earnings Limit (£ 5,824) in the 2015/16 tax year they are treated as if they earned the Lower Earnings Threshold (£ 15,300) for S2P calculations

- Registered carers will be credited with S2P benefits – just as if they had an income of £15,300

State Pension Credit (SPC)

- Introduced in October 2003 to replace the Minimum Income Guarantee (MIG)
- Paid to pensioners. The actual amount received depends on the pensioner's age, their total income and what savings they have

State Pension Credit aims to give someone who has saved a bit extra rather than penalising them.

SPC has 2 components

Guarantee Credit

- This is the part that replaces MIG and it is intended to provide a minimum level of income for those who have reached State Pension Age.

- In year 2017/18, a ‘top-up’ payment can be made to ensure that the level of income reaches the minimum guaranteed payment of £159.35 for a single person and £243.25 for a couple.

Savings Credit

- This is paid from age 65 to people who reached State Pension Age before 6 April 2016.Savings credit is awarded at the rate of 60p per £1 of income above £137.35 for a single person and £218.42 for a couple up to the Guarantee Credit ceiling.(2017/18)
- The ceiling is £13.20 for a single person or £14.90 for a couple (2017/18)
- Above the Guarantee Credit ceiling – it is withdrawn at a rate of 40p per £ of income

Depending on the pensioner’s income position – it is possible to receive both elements, or only Savings Credit.

If the pensioner has income from savings or a private pension – as well as receiving Guarantee Credit they could also get Savings Credit subject to the limits above.

Total income which is tested is income from all sources plus assumed income from savings of £1 per week for every £500 (or part £500) of savings above £10,000. This figure is increased to £10,000 for those in residential care or a nursing home.

Those who reach state pension age on or after 6 April 2016 will not qualify for Savings Credit unless their partner reached state pension age before then.

State Dependant’s Pensions

- Bereavement Allowance and Widowed Parent’s allowance can be considered as “dependant’s pensions”
- A widow who is over state pension age may be able to claim a basic state pension. The flat rate pension would only be available if the widow has paid adequate NI contributions
- Since April 2010 a widower can claim a basic state pension based on his late wife’s contributions
- A widow who is over state pension age when her husband dies will be able to claim the better of claiming on her own record or claiming a basic state pension based on his NI record.
- Any state pension base don the deceased’s qualifying years will be included when the widow/er claims their own state pension

Inheriting S2P / SERPS

The surviving spouse or civil partner can inherit part of the deceased’s S2P/SERPS entitlement.

Maximum State Earnings-Related Pension Scheme (SERPS) pension you can inherit

The maximum amount depends on the birth date of the person who has died.

Man's date of birth	Woman's date of birth	Maximum % of their SERPS you can inherit
5 October 1937 or before	5 October 1942 or before	100%
6 October 1937 to 5 October 1939	6 October 1942 to 5 October 1944	90%
6 October 1939 to 5 October 1941	6 October 1944 to 5 October 1946	80%
6 October 1941 to 5 October 1943	6 October 1946 to 5 October 1948	70%
6 October 1943 to 5 October 1945	6 October 1948 to 6 July 1950	60%
6 October 1945 and after	6 July 1950 and after	50%

You can't inherit your spouse or civil partner's Additional State Pension if all the following apply:

- you reached the State Pension age before 6 April 2010
- your spouse or civil partner died after you reached State Pension age but before their State Pension age
- you're a man who was married or in a civil partnership, or a woman who was married to another woman (unless she had legally changed her gender after marriage) or in a civil partnership

The figures above are the maximum that can be inherited. The survivor's personal entitlement and the inherited provision cannot be over the maximum the survivor would be entitled to.

Tax Credits

Child Tax Credit and Working Tax Credit are benefits that were introduced in 2003. These credits are payable by HM Revenue and Customs (HMRC)

Child Tax Credit

- Parents with children living with them who are aged 16 or under or 16 – 19 and in approved education or training can claim the family element of child tax credit which could be worth up to £545 per annum in tax year 2017/18.
- As well as the family element – a child element at a rate of £2,780 for each child is paid (2017/18).
- The child element is increased for a disabled child – to £3,175 (2017/18). There is a further supplement for a severely disabled child (£1,290 in 2017/18).

Child Tax Credit is claimed from HMRC.

- Claims cannot be backdated for more than 3 months.
- Parents already in receipt of Child Tax Credit are required to continue claiming if their circumstances meet the criteria
- Credit affected by total income (no set limit; depends on personal circumstances)
- Joint income is used for a couple – married or not
- Sound financial planning can be used to reduce the income tested e.g. through personal pension contributions
- There are additional elements of CTC and Working Tax Credit which can be claimed by families with lower income, high childcare costs, several children or children with disabilities.

A new claim for Child Tax Credit can only be made if the claimant does not live in an area that provides Universal Credit, has 3 or more children or they (or their partner) qualify for Pension Credit. If a new claim cannot be made, they would be able to apply for Universal Credit instead.

Working Tax Credit WTC

Working tax credit is designed to "top up" the income of working people who have low incomes. This includes people without children.

It is payable to

- People responsible for a child, who are over 16 and work at least 16 hours a week.
- People without children who are 25 to 59 and work at least 30 hours per week
- It can also be paid to people without children, are aged over 16 and work at least 16 hours per week and who have a disability.
- Over 60s who work at least 16 hours a week.

The actual amount paid, which is a basic amount of up to £1,960 a year, depends on circumstances

- The number of hours worked per week
- Whether or not there is a child
- Single or a couple
- Credit affected by total income (no set limit; depends on personal circumstances)

- Total income – joint income in the case of a couple.
- Extra amounts are paid for those with disabilities
- There is a child care element for those paying for registered or approved child care.
- This child care element reduces progressively for those with incomes in excess of £16,105 per annum (2017/18).

The credit is paid directly by HMRC for employees and the self employed. Couples can decide who is to receive the credit.

A new claim for Working Tax Credit can only be made if the claimant does not live in an area that provides Universal Credit, has 3 or more children or they (or their partner) qualify for Pension Credit. If a new claim cannot be made, they would be able to apply for Universal Credit instead.

Universal Credit

Universal Credit was introduced in 2013 and has started to replace six existing benefits with a simpler, single monthly payment for those out of work or on a low income. Universal Credit will help them to be better off in work, start a new job or work more hours.

Universal Credit will eventually replace:

- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Income Support
- Working Tax Credit
- Child Tax Credit
- Housing Benefit

Eligibility to claim Universal Credit depends on where the individual lives and their personal circumstances. For details of where it can be claimed, see www.gov.uk/guidance/jobcentres-where-you-can-claim-universal-credit .

If people already claim a benefit, they will continue to do so as normal and they'll be told when Universal Credit will affect them.

Universal Credit will be gradually rolled out to the rest of the UK from October 2013 and is intended to be completed by September 2018. It is intended to start transferring those on existing benefits or tax credits onto Universal Credit from July 2019, and to complete that process by March 2022.

Universal Credit can be claimed where the claimant is

- 18 or over
- under state pension age
- not in full time education or training
- not have saving over £16,000 (savings over £6000 will reduce the amount paid)

There are no limits to the number of hours people can work a week. Universal Credit payments will reduce gradually as they earn more (by 63p for every £1 earnt), so they won't lose all their benefits at once if they're on a low income.

How much people will receive depends on their personal circumstances, including their income and how many children they have. The payment is made up of a basic 'standard allowance' and any 'extra amounts' that they may be entitled to.

Your circumstances	Monthly standard allowance
Single and under 25	£251.77
Single and 25 or over	£317.82
In a couple and you're both under 25	£395.20
In a couple and either of you are 25 or over	£498.89

You may get more money on top of your standard allowance if you're eligible.

How much you'll get	Extra monthly amount
For your first child	£277.08 (born before 6 April 2017) £231.67 (born on or after 6 April 2017)
For your second child	£231.67 per child
If you need help with childcare costs	85% of your costs (up to £646.35 for one child and £1,108.04 for 2 or more children)
If you have a disabled or severely disabled child	£357.78 to £649.38
If you're disabled or have a health condition that stops you from working	£318.76
If you care for a disabled person	£151.89

If you have children

You only get an extra amount of £231.67 for more than 2 children if:

- you were already claiming for more than 2 children before 6 April 2017
- you're renewing a claim for more than 2 children that stopped within the past 6 months

You might get the extra amount if you start caring for another child, depending on when they were born and how many children you have.

Universal Credit is paid differently to current benefits. It'll be paid once a month into the individual's bank, building society or Post Office account and will include any support for housing costs they're entitled to (which they will then pay to their landlord themselves).

Full information can be found at www.gov.uk/universal-credit/overview

Benefits Cap

There is a limit to the total amount of benefits that most people aged 16 to 64 can get, although not all benefits are effected by the Cap. Details can be found at www.gov.uk/benefit-cap .

3.2 Mortgage Repayment Support

NB: This benefit is to end on 5 April 2018 and will be replaced by a loan. Existing claimants should receive details of the change by February 2018.

Limited assistance will be given to people who are unable to pay their mortgage. This support is paid by the Department of Work and Pensions (DWP)

Support for Mortgage Interest (SMI)

- DWP will not contribute towards repayment of any of the capital of a mortgage – they will only contribute towards the interest. This is paid at a standard rate rather than the rate the mortgage payer actually pays.
- The current rate is 2.61 (2017)
- This benefit is means tested
- If the claimant has capital in excess of £16,000 then no benefit will be paid
- Equity in the property is not taken into consideration
- Benefits are reduced by £1 a week for each £250 (or part) of capital over £6,000
- No mortgage support will be paid for the first 13 weeks and is paid direct to the lender
- Full benefit is paid after the 13 weeks has elapsed or immediately if receiving Pension Credit
- The benefit will only apply to a mortgage ceiling of £200,000. The limit is £100,000 if the claimant is receiving Pension Credit
- Benefit is payable for up to 2 years for those who are also claiming Jobseekers Allowance
- No limit to payments if client is claiming Income Support, Pension Credit or income related E&SA
- Limits can be put on the benefit if for example the house is deemed to be "excessive" or if the area in which the house is situated is deemed to be more expensive than other areas where there is suitable accommodation.
- The benefit excludes any element of the loan which was for home improvements – unless the "improvements" were considered essential to make the property fit for human occupation.
- Any interest due on arrears will not be covered either.

The DWP makes the assumption that house owners should take responsibility for protecting their loan and home by taking out mortgage payment protection insurance. DWP provides the benefit for those who are unable to work for a long period and who have limited or no capital reserves.

Homeowners Mortgage Support (HMS). This scheme ended in April 2011.

- HMS was intended to support people who had a temporary drop in their income and as a result were unable to maintain the payments on their mortgage
- If their claim was successful – the borrower could delay some of the interest payable on their mortgage for up to 2 years.
- The mortgage would also be switched to Interest Only if it was set up as a repayment mortgage
- The Lender had to be part of the Government Supported scheme.
- The borrower must be able to pay at least 30% of the interest each month
- The mortgage must not be in arrears
- It was only available if the borrower owned just one home
- If the borrower had Mortgage Payment Protection Insurance – then the expectation would be that they would claim on this rather than use HMS
- If the drop in income was expected to be permanent or they were in receipt of SMI – then they would not be eligible for HMS
- As part of the review of the Support it was discovered that very few people had taken up HMS – and so the scheme ended in April 2011.

3.3 Considerations and Impact on Financial Planning

The range of Benefits and Credits and the criteria to successfully claim can be very detailed and complicated. The main benefits are included here to make sure that the Financial Adviser has a reasonable understanding of the main benefits and how they can help to support the client in difficult times.

Many of the benefits can be used in conjunction with insurance and that is why it is so important that the Adviser has a comprehensive and accurate understanding of the limitations and conditions of the benefits. This way he can advise on supplementary insurance that will make the client's situation better – rather than putting the customer in a position where he is unable to claim any benefits or support.

In most cases, the level of benefit will not be enough to maintain the required standard of living – so the correct advice on additional insurance protection will give the customer peace of mind and support him through the difficult times.

Many people are not aware – or indeed choose not to make themselves aware – of exactly the position they would find themselves financially in the event of death of a partner, long term sickness of themselves or a partner or the need for income protection. The Financial Adviser needs to bring these to the attention of their clients.

Some benefits are means tested, some are taxed - a summary table follows as an aide memoire. The Financial Adviser also needs to consider the effect of the client's financial situation now – and in the future. Care must be taken not to give advice that would reduce the client's entitlement to means tested benefits- especially in retirement.

Full details of benefits are on www.direct.gov.uk

Benefit	Means Tested	Taxable	NICs	Detail
Child Benefit	No (but reduces if total income exceeds £50,000)	No	No	Must be responsible for a child
Statutory Maternity Pay	No	yes	Yes	Paid by Employer, must have worked for the employer for 6 months 90% of average earnings for the 1st 6 wks, then the lower of 90% of their average weekly earnings or £140.98 for the next 33 weeks
Statutory Paternity Pay	No	yes	Yes	Continuous employment with same employer for at least 26 wks by the 15th week before baby due. Continue to work for the employer until baby is born. You must earn at least £ 113 pw. Amount paid is the lower of 90% of their average weekly earnings or £140.98
Maternity Allowance	no	no	Yes	Paid if not eligible to SMP – flat rate for max. 39 weeks
Child Tax Credit	yes	No	Yes	Family and Child elements – means tested on income
Working Tax Credit	yes	No	Yes	Responsible for child- work at least 16 hours, be at least 16 – low income. No child – aged 25+ and work 30 hours+
Income Support	Yes – on income and capital £16,000	Not normally	No	Aged 16+, working less than 16 hours per week, has allowance to cover mortgage

Redundancy Payment	No	Not on 1st £30,000	No	Paid by Employer. 1st £30,000 tax free, taxable above this. Many firms have their own rules on payments which are above the statutory redundancy limits. Max Statutory payment is £14,670 - must have worked for employer for more than 2 yrs.
Job Seekers Allowance	Means tested on Capital not means tested on income	Yes	Yes	Must comply with Jobseekers Agreement ie Fit, available and actively seeking work. Amount paid depends on age. Can work up to 16 hours a week
Statutory Sick Pay	No	Yes	Yes	Only payable to employees – after 3 days illness for up to 28 weeks. ESA after 28 weeks
Employment Support Allowance ESA Contribution based – not means tested, NIC- Yes **Income based- means tested NIC - no**		Yes	Yes	Replaces Incapacity Benefit. Paid after 3 days illness for Self employed and employees as above. Assessment phase is 13 wks. Main phase has 3 components – basic, work/support and extra premium. Assessments are ongoing to encourage claimants back to work
Incapacity Benefit	yes	Yes	Yes	As ESA for claims before October 2008
Severe Disablement Allowance	yes	No	No	Flat rate paid to those unable to work for 28 weeks replaced by E&SA
Disability Living Allowance	No	No	No	Care and Mobility components. Under 65 paid after 3 months and expectation disability continues beyond next 6 months
Attendance Allowance	No	No	No	Higher rate for 24 hour care, lower rate for day or night care required. 65+ and has lasted 6 months

Carers Allowance	yes	Yes	No	Must not be in full time work and caring for person who gets Disability Allowance or Attendance Allowance
Basic State Pension	No	Yes	Yes	Paid at State Pension Age and will increase by higher of national average Earnings, CPI or 2.5%
SERPS	Yes	Yes	Yes	Not paid to self employed. Replaced by S2P
S2P	Yes	Yes	Yes	2 rates of accrual depending on income bands.
State Pension Credit	Yes	No	Yes	Tops up Basic State Pension for low income people. Personal Allowance applies so no income tax due. Guaranteed and Savings Credit
Bereavement Support Payment	No	No	Yes	Under state pension age. Up to £3,500 lump sum and £350.00 per month for 18 months.
Widowed Parents Allowance	No	Yes	Yes	Replaces Bereavement Allowance for those who are responsible for a child in full time education. Must be in receipt of child benefit

Protection Learning Outcome 3 (PROT3) – End of Module Test

Multiple Choice Questions

Question	Answer	
3.1 - Which of the following best describes the eligibility criteria for income support?	A.	Over the age of 18, work more than 16 hours per week, benefit not dependent on national insurance contributions, not means tested.
	B.	Over the age of 18, work fewer than 16 hours per week, benefit not dependent on national insurance contributions, not means tested.
	C.	Over the age of 16, work fewer than 16 hours per week, benefit not dependent on national insurance contributions, but is means tested.
	D.	Over the age of 16, work more than 16 hours per week, not dependent on national insurance contributions, not means tested.

3.2 - Which of the following most accurately describes the rules applying to increases in the amount of the basic state pension?	A.	Always increased by the increase in CPI over the one month ending in the previous September.
	B.	Increased by the increase in RPI over the one month ending in the previous September.
	C.	Increased by the increase in RPI over the one month ending in the previous September, subject to a minimum of 2.5%.
	D.	Increased by whichever is highest of earnings, prices and 2.5%.

3.3 - Which of the following individuals will NOT receive credits towards the State Second Pension?	A.	Jane, aged 40, looking after her 11 year old son, claiming child benefit.
	B.	Harry aged 20, spending 25 hours each week caring for his disabled father and claiming carer's credit.
	C.	Ella aged 43, a self employed child minder.
	D.	Bill aged 19, employed as a mechanic earning £6,050 per annum.

3.4 - Which of the following statements describes the application of savings credit?	A.	Minimum age 65, credit 60p for every £1 of income above a certain level, up to the guarantee credit ceiling. If income exceeds the guarantee credit ceiling, debit 40p for every £1 of income above the guarantee credit ceiling.
	B.	Minimum age 60, credit 60p for every £1 of income above a certain level, up to the guarantee credit ceiling. If income exceeds the guarantee credit ceiling, debit 40p for every £1 above the guarantee credit ceiling.
	C.	Minimum age 65, credit 40p for every £1 of income above a certain level, up to the guarantee credit ceiling. If income exceeds the guarantee credit ceiling, debit 60p for every £1 of income above the guarantee credit ceiling.
	D.	Minimum age 60, credit 40p for every £1 of income above a certain level, up to the guarantee credit ceiling. If income exceeds the guarantee credit ceiling, debit 60p for every £1 of income above the guarantee credit ceiling.

3.5 - Which of the following is NOT a feature of support for mortgage interest?	A.	Includes the benefit of a contribution by DWP towards paying mortgage interest at the rate payable by the individual.
	B.	No benefit is paid for the first 13 weeks.
	C.	There is a ceiling on the mortgage for which the benefit is payable, of £200,000.
	D.	Benefits are reduced by £1 a week for each £250 (or part) of capital over £6,000.

3.6 - Job Seekers Allowance is not means tested	A.	at all
	B.	for the first 6 months
	C.	for the first 12 months
	D.	for the first 3 months

3.7 - The payment of child benefit is taxed how?	A.	Taxed at basic rate of Income Tax
	B.	Taxed at the highest rate of Income Tax payable by either spouse
	C.	Tax free in all situations
	D.	Tax free unless a High Income Child Benefit charge applies

3.8 - After how long after claiming Statutory Sick Pay, can a person move to Employment Support Allowance?	A.	28 weeks
	B.	26 weeks
	C.	12 weeks
	D.	52 weeks

3.9 - Support for Mortgage Interest will be paid except when?	A.	it is for interest only
	B.	the claimant has equity in their property in excess of £200,000
	C.	the claimant has capital over £16,000
	D.	after 13 weeks have elapsed and the claimant meets the criteria

3.10 - Which one of the following benefits IS means tested?	A.	Statutory Paternity Pay
	B.	Income Support
	C.	Redundancy Payment
	D.	Statutory Sick Pay

- **End of Questions -**

Answers

Question	Answer	
3.1 - Which of the following best describes the eligibility criteria for income support?	C	Over the age of 16, work fewer than 16 hours per week, benefit not dependent on national insurance contributions, but is means tested.
3.2 - Which of the following most accurately describes the rules applying to increases in the amount of the basic state pension?	D	Increased by whichever is highest of earnings, prices and 2.5%.
3.3 - Which of the following individuals will NOT receive credits towards the State Second Pension?	C	Ella aged 43, a self employed child minder.
3.4 - Which of the following statements describes the application of savings credit?	A	Minimum age 65, credit 60p for every £1 of income above a certain level, up to the guarantee credit ceiling. If income exceeds the guarantee credit ceiling, debit 40p for every £1 of income above the guarantee credit ceiling.
3.5 - Which of the following is NOT a feature of support for mortgage interest?	A	Includes the benefit of a contribution by DWP towards paying mortgage interest at the rate payable by the individual.
3.6 - Job Seekers Allowance is not means tested	B	for the first 6 months
3.7 - The payment of child benefit is taxed how?	D	Tax free unless a High Income Child Benefit charge applies
3.8 - After how long after claiming Statutory Sick Pay, can a person move to Employment Support Allowance?	A	28 weeks
3.9 - Support for Mortgage Interest will be paid except when?	C	the claimant has capital over £16,000
3.10 - Which one of the following benefits IS means tested?	B	Income Support