Aviva Family Finances Report
Winter 2016/17

Living together – do the finances add up for cohabiting couples?

| Retirement | Investments | **Insurance** | Health |

AVIVA

Welcome to Aviva's **Family Finances Report** Winter 2016/17

Contents

Key findings

- Cohabitees' finances are in poorer health than couples who are married, with lower incomes and sparser savings
- Those who are cohabiting feel less financially secure (68%) than those who are married (76%)
- Half (51%) of cohabitees think that government benefits are weighted in favour of married couples
- More than a third (36%) of cohabitees do not know that the Marriage Allowance exists
- Almost one in five (19%) of those cohabiting wrongly believe they are fully entitled to Bereavement Benefit
- Cohabitees lack vital triggers to take out financial protection as just 58% are homeowners compared to 74% of married people
- As a result, cohabitees have greater potential exposure to any sudden financial shocks, leaving their families at risk. 38% of cohabitees have children[1]
- Three quarters (74%) of cohabitees do not have a will and 64% do not have life insurance
- Just 4% of cohabitees have an agreement in place to safeguard against separation

1 ONS, Families and Households in UK, November 2016

Introduction

Given how prevalent cohabitees have become in society, it is imperative we identify their understanding of the financial and legal differences, the challenges they face and their distinct approach to managing the family purse."

A growing number of people in the UK are in a long-term committed relationship, without official recognition through marriage or civil partnership. Recent decades have seen a transformation taking place; the 3.3 million cohabiting couples in the UK today are now established as the fastest growing family type.[1] Today, couples who choose to either marry later or not at all are redefining the characteristics of the modern UK family unit.

With the number of cohabiting couples likely to rise further in years to come, this trend has potentially profound financial consequences for millions of households. At present cohabitees are not entitled to the same financial benefits as those who are married, for example through tax allowances, welfare benefits and legal rights, if unforeseen events were to occur. Given how prevalent cohabitees have become in society, it is imperative we identify their understanding of the financial and legal differences, the challenges they face and their distinct approach to managing the family purse.

This Winter 2016/17 edition of the Family Finances Report: *Living together – do the finances add up for cohabiting couples?* examines the financial profile of cohabiting couples aged 18-55 in the UK, including the extent to which they are aware of the financial implications behind their relationship choices and how they manage their finances. We then identify some of the common financial concerns that exist within cohabiting arrangements, what steps today's cohabitees have taken to ensure financial security, and consider how their exposure to the risk of unexpected circumstances contrasts with married couples.

Our findings highlight that cohabitees tend to be less financially prepared for the future than married couples and on the whole are in weaker financial health. At the same time, a significant proportion of cohabitees are also either unaware of the benefits available to married couples or mistakenly believe that they too enjoy the same entitlements. Such misconceptions have the potential to cause significant financial strain should unexpected circumstances arise.

This is particularly important to address at a time when our assessment of the broader economic outlook for families, tracked since 2010, shows that many households are growing more concerned about the impact that rising inflation could have on the price of basic necessities.[2] A drop in average savings and a significant jump in average outstanding debts add up to a cocktail of warnings that suggest, with uncertain times ahead, it is more important than ever that families, cohabiting or married, take proactive steps to help maintain their financial health.

Paul Brencher
Managing Director, Individual Protection, Aviva UK

2 Office for National Statistics, UK Inflation figures, November 2016

Part one: The financial profile of cohabitees

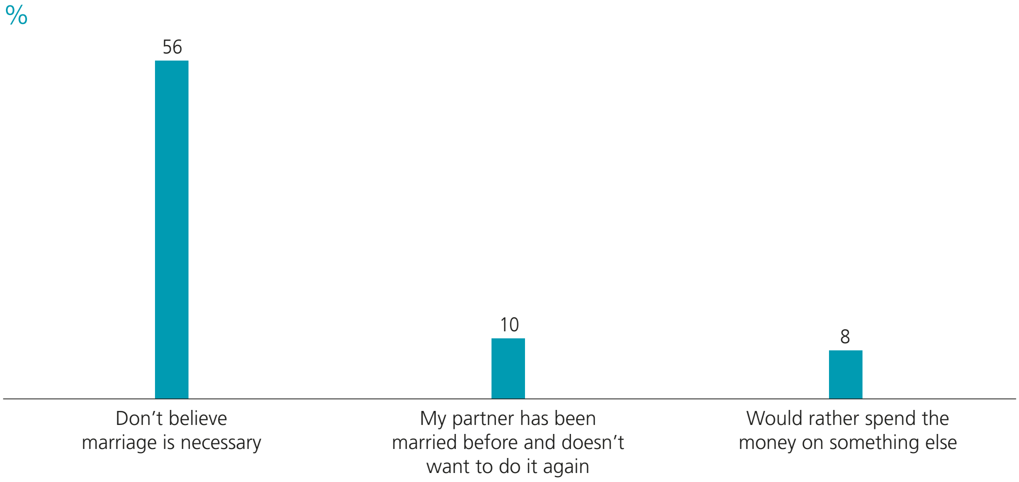
Key findings

- Half (51%) of cohabitees think that government benefits are weighted in favour of married couples
- More than a third (36%) of cohabitees do not know that the Marriage Allowance exists
- Almost one in five (19%) of those cohabiting wrongly believe they are fully entitled to Bereavement Benefit
- A third (31%) of cohabiting couples manage their money entirely separately, and are twice as likely than married couples to treat secured debts such as a mortgage this way
- Cohabitees' finances are in poorer health than couples who are married, with lower incomes and sparser savings

The number of cohabiting couples today stands at 3.3m and has more than doubled since 1996 to become the fastest growing family type in the UK, accounting for 17% of all families compared with just 9% twenty years ago.[2] In contrast, while married couples still overwhelmingly represent the largest family group (12.6m), their share has dropped from 76% in 1996 to 67% today.

It is clear that this trend could be set to continue: Aviva's findings highlight that a quarter (25%) of UK adults who are currently cohabiting do not expect to get married. Among this group, more than half (56%) do not believe marriage is necessary anymore while one in ten (10%) will not marry because either they or their partner have already been married before.

The top three reasons cohabitees choose not to marry*



* Among cohabitees who aren't likely to or won't ever get married

A quarter (25%) of UK adults who are currently cohabiting do not expect to get married

Nearly a third (30%) of cohabitees are engaged or soon to be married, although an additional one in five (19%) intend to marry in future but are happy not acting on their plans yet. Unsurprisingly, this is highest among 18-24s (30%) although the same applies to 20% of 25-34s and 36-45s: age brackets which would traditionally be more closely associated with marriage. Such views chime with the fact that more couples are now choosing to marry later. The latest available data indicates a shift in recent decades: the average age people got married for the first time (where both parties were previously single) in 2013 was 32 for men and 30 for women, up from 27 and 25 respectively in 1991.[3]

As for the motivations to marry, aside from expected factors such as love (76%) and commitment (39%), almost one in five (18%) people who are already married felt they should take this step before starting a family. Only 6% flagged the importance of financial gains and the security that marriage could bring.

2 Office for National Statistics, UK Inflation figures, November 2016

3 Office of National Statistics, Marriages in England & Wales, up to 2013, published in 2016 (table 6 and 7)

The financial health of cohabitees

While the number of cohabiting families is increasing, Aviva's data highlights that their financial health tends to be poorer than those who are married. For example, cohabitees' monthly incomes are 14% lower compared to married people (£1,944 vs. £2,265), making it more difficult for them to manage similar levels of debt.

Cohabitees also have on average nearly half the amount of savings & investments held by married couples, with £2,688 held compared to £5,157.

Cohabitees have nearly half the amount of savings & investments held by married couples (£2,688 vs. £5,157)

The financial profile of cohabitees versus those who are married

Aspect of finances	Cohabitees	Married/ civil partnership	% difference
Monthly income	£1,944	£2,265	-14
Savings & investments	£2,688	£5,157	-48
Debt	£19,290	£19,050	1

Part of the reason that cohabitees are in worse financial health than married people is because of their age: 84% of 18-24s are cohabitees, while 54% of 25-35s are. It is not until the age of 36 or above that people are more likely to be married than cohabiting. On average, younger people tend to be lower down the career ladder and have lower incomes, with smaller savings as a result. However, even older cohabitees are in a weaker financial position compared to those who are married. For example, cohabitees aged 51-55 have 16% lower incomes and 49% less in savings and investments than married people of the same age, suggesting the inequality between the two groups is not down to age alone.

Cohabiting and marriage trends across different age groups
%

Age	18-24	25-35	36-45	46-50	51-55
Cohabiting	84	54	37	39	40
Married/civil partnership	15	44	53	48	45

Other family types in Aviva's sample include those who are divorced/widowed raising children alone and single people raising children alone

However, the way cohabitees manage and share their money in comparison to those who are married also plays a role, as does a political and legal environment which, as subsequent findings show, is seen to favour married couples. As a result, cohabitees have greater potential exposure to any sudden financial shocks.

Cohabiting couples favour financial independence

When it comes to managing money, although the majority (58%) of cohabitees are happy to share money equally, the 'what's mine is yours' approach is less common compared to those who are married or in a civil partnership (72%).

Almost a third (31%) of cohabitees keep their money completely separate from their partner, nearly twice the proportion of married people that do the same (17%). Cohabitees are also more likely to manage unsecured debts independently (16% vs. 10% of those who are married) and are twice as likely as married couples to do the same with secured debts (8% vs. 4%), despite these typically being larger and the consequences of missing repayment obligations potentially more severe.

Almost one in three (31%) cohabitees keep their money completely separate from their partner

Managing money together or individually when in a relationship
%

	All	Cohabiting	Married/ Civil Partnership
Share money equally	65	58	72
Keep money completely separate	23	31	17
Manage unsecured debt equally	40	37	42
Manage unsecured debt independently	12	16	10
Manage secured debt equally	43	41	45
Manage secured debt independently	6	8	4

Figures do not add up to 100% as they do not include all possible responses

Cohabitees are also significantly less likely than married couples to have a joint bank account (24% vs. 46% of married people) or shared savings account (12% vs. 21%). But while cohabitees are more likely to have their own financial products, they are nonetheless honest about where they are keeping their money – on the whole. More than half (52%) have their own individual bank account their partner knows about, compared to 46% of those who are married. Similarly, two in five cohabitees (41%) have their own savings account, in contrast to 35% of those who are married. Only a small proportion (5%) have a secret savings account their partner doesn't know about or a covert credit card or loan (4%).

Cohabitees (24%) are less likely to have a joint bank account than married couples (46%)

Financial products owned by people in relationships
%

	All	Cohabiting	Married/ Civil Partnership
My own individual bank account that my partner knows about	49	52	46
A workplace pension	40	38	42
My own savings account that my partner knows about	38	41	35
A joint bank account both me and my partner can access	35	24	46
A joint mortgage	32	24	41
A savings/ISA account my partner doesn't know about	5	5	4
A credit card of personal loan my partner doesn't know about	4	4	5

The legislative landscape's impact on couples' finances

With more people choosing not to marry, it is important to understand the extent to which the growing cohort of cohabitees are aware of the financial implications behind their relationship choices for both themselves and their families. The different financial and legal entitlements for cohabitees compared with those who are married have far-reaching implications, both during periods of financial stability and on occasions when financial strains emerge within cohabiting relationships.

It is undeniable that the existing legislative landscape favours those who are married, certainly from the point of view of cohabitees themselves. Half (51%) of cohabiting couples think policies have been set to benefit married couples, compared to 39% of married couples, while only 12% of cohabitees disagree. Cohabitees are most likely to think this because they have experienced or believe married couples benefit from state financial benefits (54%) or generally feel this is the way the system works (32%).

One in two (51%) cohabitees think government policies benefit married couples

Views on whether the legislative landscape favours married couples
%

	All	Cohabiting	Married/ civil partnership
Agree	**45**	**51**	**39**
Disagree	**16**	**12**	**20**

The eligibility criteria for a number of benefits support this view:

- The Marriage Allowance enables adults who are married or in a civil partnership to transfer £1,100 of their personal allowance to their partner if they earn more, potentially reducing their tax burden by up to £220.[4]
- Married couples also benefit from Inheritance Tax exemptions, allowing them to pass their estate to their spouse tax-free when they die, along with similar exemptions concerning Capital Gains Tax.
- Under certain criteria, the surviving partner in a married couple can access Bereavement Payment Benefit, significant on-going support for any dependent children, and can also inherit a partner's pension if they pass away. Although these benefits are about to change, the new bereavement benefits will still only be available for married couples or civil partners.

In contrast, these benefits are unavailable for couples who cohabit.

Aviva's findings indicate that one in five (19%) cohabitees who intend to get married in the future feel such benefits will play a large role in their decision. In contrast, only 13% of couples who are married say these benefits played a large role in their decision. This difference may suggest that as the societal importance of marriage declines, financial considerations are becoming a bigger influence in couples' decisions to wed.

4 Details on Marriage Allowance, https://www.gov.uk/marriage-allowance/how-it-works

Awareness levels of financial benefits

Despite the general perception that policies favour marriage over cohabitation, there is an awareness gap when it comes to the detail of such benefits. More than a third (36%) of cohabitees who intend to get married said they did not know the Marriage Allowance exists. That said, a quarter (24%) stated they will definitely apply for the allowance when married and a similar proportion (23%) are considering it.

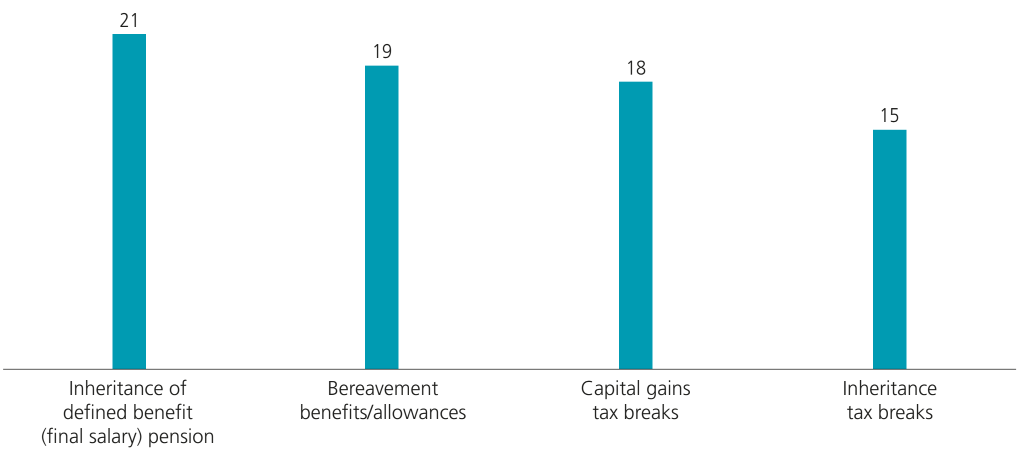
When it comes to other tax breaks, Aviva's findings also highlight further misunderstandings amongst cohabitees. While more than half (54%) of cohabitees think the ability to pass on their assets to a surviving spouse without incurring any Inheritance Tax is only applicable for married couples, 15% wrongly believe this stretches to couples in a committed relationship who live together.

A similar trend is seen on exemptions to Capital Gains Tax, with half (51%) stating these are for married couples only and almost one in five (18%) mistakenly believing they also apply to cohabitees. Moreover, 19% of those who cohabit mistakenly believe they are eligible for bereavement benefits and allowances. Overall, such misconceptions could lead to a financial shock if the unexpected were to occur among cohabitees.

One in five (19%) of those who cohabit mistakenly believe they are eligible for bereavement benefits and allowances

More than one in five (21%) cohabitees believe they would inherit their partner's final salary pension if they passed away. However, not all schemes will pay benefits to unmarried partners in the event of death. If a couple do not intend to get married, it is imperative they review their pension scheme rules so they are aware if this type of exclusion is listed. For schemes where unmarried partners are permitted to be beneficiaries, it is also important they are named as such on the policy: however, a third (33%) of cohabitees are yet to have named the beneficiaries of their pension if they die.

Proportion of cohabitees who mistakenly believe cohabiting couples are eligible for financial benefits
%



Dealing with the unexpected as cohabitees

At present cohabitees do not have the same legal rights as married couples to claim financial support in light of bereavement. While this is a scenario that few want to contemplate, such a shock can also bring added financial complications if no plan is in place. Couples should consider financial protection products available to them to ensure they are as prepared as possible.

Such planning is all the more important should a cohabiting couple also have children. Ensuring legal safeguards are in place, such as a will or a cohabitation agreement, can help ensure financial stability is maintained for younger loved ones in the event of any changes to the structure of the family unit. With only 26% of cohabitees having a will in place, and significantly fewer (4%) having a cohabitation agreement, it's clear that more needs to be done to communicate the importance of having these safeguards for this growing family type.

With State bereavement benefits set to change in April, but with no new provision for those cohabiting, it is crucial that cohabitees put in place the legal and financial arrangements that would protect their partner, and in particular their children, should they die.

"Many people today are choosing to marry later or not at all due to changing attitudes in society to marriage. The consequence of this is that – with benefits in place only for those who are married or in civil partnerships – a significant portion of the UK population are subject to different financial and legal boundaries than those who follow a more traditional path. Money matters may not be the key reason for a couple's decision to marry or to cohabit, but as people plan for the future and consider unforeseen circumstances that can affect any relationship, it is important to be aware of the legal and financial differences between marrying and cohabiting."

Paul Brencher
Managing Director, Individual Protection, Aviva UK

Part two: Financial exposure: The protection and security of cohabitees

Key findings

- One in ten (10%) cohabitees admit to still being in a relationship simply because they can't afford to leave; while just 4% have an agreement in place to safeguard against separation
- Those who are cohabiting feel less financially secure (68%) than those who are married (76%), despite enjoying similar emotional security
- Cohabitees lack vital triggers to take out protection as just 58% are homeowners compared to 74% of married people
- Cohabitees show more financial vulnerabilities than those who are married as three quarters (74%) do not have a will and 64% do not have life insurance
- Affordability is a greater barrier for cohabitees and they are more likely than married people to have not even thought about taking out financial protection

Financial tension within cohabiting relationships

Money can be a source of arguments in any relationship, but the repercussions are potentially more severe for cohabitees. Aviva's findings suggest they are slightly more likely (18%) than married couples (16%) to argue about money on a weekly basis, and just as likely to be secretive about money with their other half (20% of cohabitees and 21% of married people).

One in five (19%) people who cohabit feel the spending habits of their partner negatively impacts them, slightly higher than the percentage of married people (17%) who feel the same. Perhaps as a result, 13% of cohabitees admit they worry about getting married to their partner as they are so bad with money.

Moreover, one in ten (10%) believe the credit rating of their partner has had a negative impact on their finances, with one in six (17%) admitting they knew nothing of their loved one's history before it became a problem.

Nearly one in five (18%) cohabitees argue about money with their partner on a weekly basis

Cohabitees more likely to have their finances negatively affected by their partner
%

Negative impact on finances	All	Cohabitees	Married/ civil partnership
My partner's spending habits	18	19	17
My partner being bad at saving/managing money	16	18	14
My partner's lack of interest in finances	12	12	11
My partner's credit rating	9	10	8
Advice my partners have given to me about my/our finances	6	6	6

Safeguards against separation

Despite these concerns, the findings highlight that only a minority of cohabitees have a precautionary arrangement in place to protect finances should a relationship breakdown. Only 4% have a cohabitation agreement, (a legal record of what is owned and shared by cohabiting partners to protect them financially), or a declaration of trust covering property and other financial arrangements.

One in ten (10%) cohabitees say they are only with their partner because they can't afford to separate. While they are less likely to find themselves in this situation than married couples (13%), this still suggests that 330,000 cohabiting families are only together because of financial constraints.[5]

5 Calculated using Aviva's data and national figures for number of cohabitees, Families and Households in UK

Cohabitees feel more financially insecure

Not being married doesn't seem to have much effect on couples' emotional security, with 81% of cohabitees saying they feel emotionally secure in their relationship compared to 83% of those who are married. However, in contrast, cohabitees are notably less likely to feel financially secure (68%) than married people (76%).

A third (32%) of cohabitees expect to feel more financially secure if they marry

This is perhaps unsurprising given Aviva's data shows cohabitees have 14% less monthly income and 48% less in savings and investments on average than those who are married, while having similar levels of debt. However, it also raises the question of whether marriage has a psychological side-effect of greater financial security, as well as more financial perks and an increased likelihood of pooled resources.

A third (32%) of cohabiting couples expect to feel more financially secure if they marry, which is supported by the 35% of married couples who agree this was true for them once they tied the knot. Yet there is an interesting perception gap between what married people see as the sources of financial security within a marriage, having experienced it, and how the same is perceived by cohabitees.

Cohabitees are most likely to think that marriage will boost feelings of financial security because of government benefits for married or civil partnership couples (40% vs. 21% of married people) and being able to inherit assets (30% vs. 26%): both factors which are exclusive to being married.

In contrast, married people are more likely to say the added sense of financial security within their marriage came from having someone to support them if they lose their income (48% vs. 29% of cohabitees), having help with financial decisions (36% vs. 27%) and benefiting from a higher joint income (39% vs. 20%): all of which can also be features of cohabiting relationships.

This could mean that married people don't appreciate the benefits and perks they have access to, or conversely that cohabitees place too much importance on this and are failing to recognise aspects of financial security they too could develop. Equally, it might be a sign that social trends and the changing role of marriage are resulting in a situation where policy and benefit privileges are becoming more attractive as a reason for cohabitees to marry.

Married people are most likely to say they feel more financially secure because they have support should they lose their income (48%)

Reasons marriage makes people feel more financially secure among those who agree it will have/has this effect
%

	All	Cohabiting – I will have…	Married/ Civil Partnership – I have…
Someone to support me should I lose my income	40	29	48
Help with making important financial decisions	32	27	36
A higher joint income	32	20	39
Policies that support married/civil partnership couples	28	40	21
The ability to inherit my partner's assets if they pass away	28	30	26
A larger savings pot	20	15	24

Marriage and homeownership act as prompts to take out protection

Marriage is a common prompt for couples to take out or update protection products to reflect their new status. Among married people, nearly half (45%) arranged or updated a life insurance product after they tied the knot, including a third (31%) who took this product out for the first time. Meanwhile, a third (34%) took out or updated a will, while one in four (25%) took out or updated critical illness cover. Income protection remains relatively under used by married couples, but 18% took out or updated this type of product once they got married.

As more people decide not to get married, the lack of this prompt means growing numbers could neglect to take out appropriate cover, leaving them and their family exposed to any financial shocks.

Proportion of married people who took out or updated protection policies after getting married
%

	Took this out for the first time	Updated their policy	Already had this but didn't update
Life insurance	31	14	10
A will	22	12	5
Critical illness cover	15	10	5
Income protection	9	8	6
Private health insurance	9	10	6

Figures are rounded to 0 decimal places so may not tally with above paragraph

Homeowner status is another factor that influences a couple's level of protection. For example, home owning couples are significantly more likely to have taken out or updated a life insurance policy after they got married (57% of mortgaged homeowners vs. 25% in private rental accommodation). Most homebuyers are encouraged to take out life insurance when they apply for a mortgage, acting as a common prompt to increase or improve protection.

Similarly, two fifths (39%) of homeowners with a mortgage took out or updated a will after they got married, compared to just 11% of private renters.

Homeownership levels are significantly lower among cohabitees: 58% of those who are cohabiting own their home with or without a mortgage, compared to three quarters (74%) of married people. This means cohabitees are less likely to have been prompted to take out protection by the process of becoming a homeowner.

Homeownership levels are significantly lower among cohabitees (58%) than married people (74%)

People who took our or updated protection policies after getting married by homeowner status
%

	Homeowners with a mortgage		Private renters	
	Took this out for the first time	Updated their policy	Took this out for the first time	Updated their policy
Life insurance	41	16	15	10
A will	25	13	6	6
Critical illness cover	18	12	8	5
Income protection	11	10	4	2
Private health insurance	8	11	6	6

Figures are rounded to 0 decimal places so may not tally with above paragraph

Lack of protection leaves cohabitees exposed

Given cohabitees are less likely to own their own home, this removes key triggers for taking out formal protection and leaves them noticeably less likely to have a range of products in place. Three in four (74%) cohabitees do not have a will, leaving their partner vulnerable to financial loss. While someone who is married or in a civil partnership will automatically inherit the entirety or part of the estate if their spouse dies without a will, depending on the value[6], the same is not true of cohabiting couples, and the surviving partner and children may be left with nothing.

Similarly, nearly two thirds (64%) of cohabitees do not have life insurance. Life insurance represents the biggest contrast in cover between cohabitees and married couples, with married people 19 percentage points more likely to have this type of policy in place. This means cohabiting couples are significantly less likely to receive financial support should their partner pass away. Add to this the lack of legal rights surrounding inheritance, and cohabitees could find themselves experiencing significant financial hardship if the worst was to happen.

Nine in ten (90%) cohabitees do not have income protection, while a similar proportion do not have health insurance (88%) and 86% do not have critical illness cover: all noticeably higher than the equivalent figures for married couples.

Three in four (74%) cohabitees do not have a will, while 64% do not have life insurance

Proportion of people in relationships who do not have vital cover
%

	Cohabiting	Married/ civil partnership
Income protection	90	77
Private health insurance	88	75
Critical illness cover	86	70
A will	74	61
Life insurance	64	45

Affordability concerns are key barrier to protection

The reasons for not having different types of cover in place are similar across both cohabitees and married couples. Affordability tends to be cited as the biggest barrier, along with a lack of perceived need or simply not thinking about it.

Cohabitees are often more constrained by affordability beliefs. For example, among cohabitees who do not have a will, one of the main reasons cited is they cannot afford it (24%). This comes despite a joint will typically costing no more than £300 when using a solicitor, and despite will-writing services being even cheaper. In contrast, only 16% of married people say the same. The same trend is also true across life insurance, critical illness cover and income protection, and could be a reflection of cohabitees having lower monthly earnings than those who are married, or being unaware that life cover is available from as little as £5 per month.

With affordability a bigger perceived issue, cohabitees are slightly less likely than married people to reject the need for certain types of cover altogether. One example of this is income protection in the face of serious illness or disability. The Association of British Insurers (ABI) estimates that every year, one million workers[7] find themselves unable to work for more than four weeks due to illness or injury. While 16% of cohabitees think they won't ever need income protection, this is slightly lower than the 19% of married people who say the same.

Cohabitees are also more likely to see a need for private health insurance (14% say they don't need this vs. 16% of married people), critical illness cover (13% vs. 16%) and a will (5% vs. 7%). This could be because cohabitees are less financially protected by marriage-related benefits should they or their partner lose their income or die.

6 https://www.citizensadvice.org.uk/family/death-and-wills/who-can-inherit-if-there-is-no-will-the-rules-of-intestacy/#h-married-partners-and-civil-partners

7 https://www.abi.org.uk/News/News-releases/2015/08/Protection-insurers-help-more-families-than-ever-before-with-350-payouts-every-day

Reasons cohabitees do not have protection in place compared to married people
%

	Cohabiting	Married/ civil partnership
Private health insurance – can't afford it	**46**	**51**
Private health insurance – don't need it	**14**	**16**
Life insurance – can't afford it	**42**	**35**
Life insurance – don't need it	**12**	**12**
Critical illness cover – can't afford it	**40**	**37**
Critical illness cover – don't need it	**13**	**16**
Income protection – can't afford it	**37**	**35**
Income protection – don't need it	**16**	**19**
Will – can't afford it	**24**	**16**
Will – don't need it	**5**	**7**

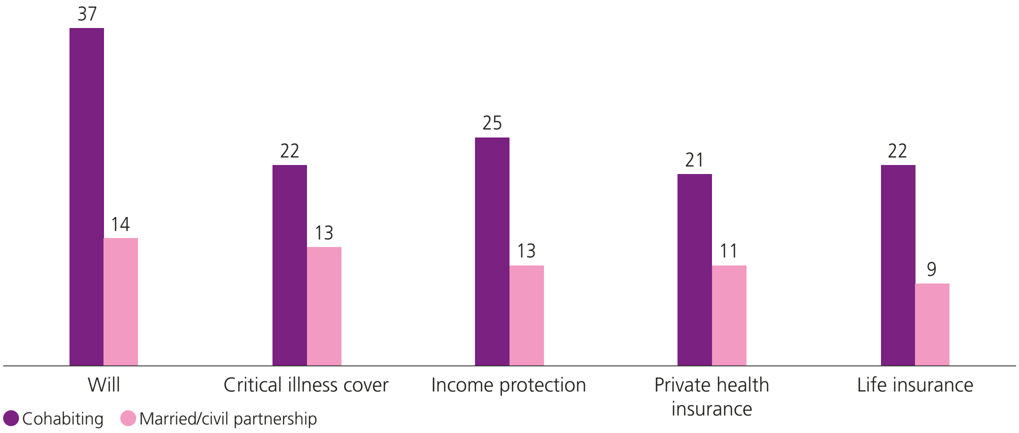
Over a third (37%) of cohabitees have not even considered taking out a will

Cohabitees unlikely to consider taking out protection

While a significant proportion of people in both married and cohabiting relationships have not even considered taking out protection, this is particularly common among cohabitees. Over a third (37%) of cohabitees have not considered a will, compared to just 14% of married people. A fifth (22%) of cohabitees also have not thought about life insurance, with this falling to 9% of married people.

The fact that cohabitees are less likely to have considered taking out insurance despite being less financially secure – both in terms of their financial profile and legal standing – is a real concern, and means this family type is particularly vulnerable to the unforeseen.

Proportion who have never thought about getting protection before
%



The cohabiting property gamble

One of the most serious considerations for cohabiting couples who do not have a will is what will happen to their property should one partner pass away. For married couples, the surviving spouse/partner has rights to the property of the deceased under the laws of intestacy. Cohabitees however don't have this protection in place.

Similarly, in the event of a relationship breakdown, one half of an ex-couple could find themselves homeless if their partner has full rights to their home and asks them to leave. In the case of married couples and civil partners, the other partner, even in the case of sole ownership, has rights to stay and the property can't be sold without their consent. Cohabiting couples have no such protection, potentially leading to a difficult situation.

More than a quarter (26%) of cohabitees who are homeowners own the property they are living in themselves and their partner does not have a share. An additional 16% say their partner owns the property solely. Should the cohabitee who owns the property pass away, the surviving partner will have no claim to the home unless it is set out in a will. They may be able to go to court and claim a beneficial interest but there are no guarantees the court will rule in their favour.

"The commitment represented by marriage and civil partnership means many people feel more financially secure as a result. This formality also helps prompt couples to think long and hard about their future together, and how best to protect themselves and any family from unforeseen circumstance through loss of income, illness or death. However, as cohabiting becomes more common and growing numbers decide not to marry, many couples are not experiencing this trigger to reassess their financial security. Similarly, while becoming a homeowner is a common prompt to take out protection, cohabitees are less likely to own their home and therefore are less likely to be encouraged to take out protection. As a result, cohabitees are less likely to have vital products such as life insurance or a will.

"The fact that cohabiting couples, who have fewer rights than those who are in a formally recognised partnership, are particularly exposed to unforeseen events is concerning. It's common to think "it won't happen to me" or "I'll get round to it eventually", but taking this gamble could lead to serious hardship. The most effective way to protect your family's financial future is by arranging appropriate protection regardless of your marital status."

Paul Brencher
Managing Director, Individual Protection, Aviva UK

Conclusion

Many cohabiting couples' future financial stability is at risk because they are significantly less likely to have protection products in place. A leading reason for this is that cohabitees are missing crucial triggers that commonly prompt couples to take out insurance."

We have now entered a new world where people aren't just getting married later; they are also choosing in increasing numbers not to get married at all. As well as representing a significant societal change, this trend is having a notable effect on couples' finances and their exposure to future financial hardship.

Cohabitees are arguably in a weaker financial position than their married counterparts, with lower incomes and significantly less in their savings accounts. Although this is partly age related – 18-35s are more likely to be cohabitees than married – the way cohabitees manage their finances also plays a role, with those who are cohabiting almost twice as likely to keep their money completely separate.

Cohabitees are also less likely to feel financially secure than those who are married, and believe that Government policy works in favour of married couples. At the same time, there is some confusion among cohabitees over the Marriage Allowance and other tax breaks, with a significant proportion mistakenly believing cohabiting couples are eligible for the same benefits as married couples.

But it's not just cohabitees' current finances that appear to be in a more vulnerable state. Many cohabiting couples' and their families' future financial stability is at risk because they are significantly less likely to have protection products in place.

A leading reason for this is that cohabitees are missing crucial triggers that commonly prompt couples to take out insurance. An obvious example is marriage: many of the married couples in our sample took out or updated an insurance policy after they got married.

Becoming a homeowner is another key prompt, as mortgage holders in particular are encouraged to take out cover as part of the buying process. Cohabitees are less likely to be homeowners, perhaps because they are less comfortable with taking on the commitment and financial risk of purchasing a home, as well as the obvious constraint that many are simply less likely to be able to afford this just yet. This represents another trigger that cohabitees are yet to experience and a missed opportunity to take out vital protection for themselves and their families.

It perhaps comes as no surprise then that cohabitees are more likely than married people to say they haven't even thought about taking out protection. Affordability is raised as another barrier, with cohabitees more likely to say they cannot afford to take out certain protection products.

But while this may be true for those on very low incomes, for the majority the question is: can you really afford not to? Cohabitees are in a far more vulnerable position from a legal standpoint than married couples. Should their partner pass away, they will not automatically inherit their estate nor will they assume the rights to their partner's home, even if they have been living in it for many years. When children are involved, the impact of this is even more pronounced.

In the event of losing their income, cohabitees' weaker finances mean they are more likely to struggle, particularly if their relationship breaks down or their partner is not in a position to support them financially.

Without the existence of a cohabitation agreement, which forms a legal record of what is owned and shared by cohabiting partners to protect them financially, a relationship breakdown could cause significant financial instability, particularly if things ended on a sour note. Worryingly, Aviva's findings show that only 4% of cohabitees have this type of agreement in place.

The rate of couples cohabiting in the UK is likely to rise in the years to come. In acknowledgement of the lack of protection cohabitees have in comparison to those who are married, the Government has already set the wheels in motion for a Cohabitation Rights Bill[8] that would provide better legal safeguards for this type of couple. However, the introduction of the Bill is a long way off, so cohabiting couples need to take steps now to protect themselves.

Proactive financial planning will be key to ensure this family type doesn't miss out on the security associated with marriage. Open and honest conversations are equally important so couples are clear on how they will manage their finances and are aware of any issues that could cause difficulties in the future. Finally, suitable protection products are vital to provide long-term financial stability.

We must strive to create a mind-set among all UK family types that proactively planning for the long-term is important not just for those who are married, but also for those who want to enjoy a comfortable future without the fear of financial uncertainty.

Paul Brencher
Managing Director, Individual Protection
Aviva UK

Five key considerations for cohabitees

1) Take out a will: All families should have a will, but it is particularly important for cohabitees, who do not have the same legal safeguards as married couples should one partner pass away. A will is easy to arrange, and with a range of cost options available, it doesn't need to cost the earth.

2) Consider a cohabitation agreement: Cohabiting couples who don't plan to get married in the next few years should consider drawing up a cohabitation agreement. This legal document outlines who owns what and can help avoid any financial loss or costly legal difficulties should a relationship break down. It might seem unromantic, but could save families emotional and financial heartache later down the line.

3) Be aware of your rights: Aviva's findings show there is considerable confusion over what exactly cohabiting couples are entitled to. Cohabiting couples do not have access to the same rights and benefits as married couples, regardless of how long they have been together. Understanding what will happen should one partner pass away or the relationship breaks down is vital for family security.

4) Make sure you're both on the same page: Our research shows cohabitees are more likely to prefer to manage their money independently. However, every couple is different, so it's important cohabitees have frank, honest conversations about how they want to manage their funds and whether they should pool resources. This is also the perfect time to bring up any issues, such as a poor credit rating or loan, that could impact future financial decisions.

5) Get protected: Many cohabitees miss key triggers to take out protection such as getting married or becoming a homeowner. However, not having cover in place could lead to financial hardship in the future, particularly for cohabitees who tend to be in worse financial health than those who are married. All families should ensure they have appropriate policies in place to protect their financial stability.

8 http://services.parliament.uk/bills/2014-15/cohabitationrights.html

Family Finances Tracker
– Winter 2016/17

Key findings

- Families' typical monthly income has dropped to its lowest level in two and half years
- Household debt is up by a third year-on-year to a record high
- Nearly one in five families has no money put away as typical monthly savings dip
- Mortgaged homeownership has dropped, as has families' confidence about the value of their homes
- Inflation rivals unexpected expenses as families' biggest concern, but an improving jobs market provides a sense of security

Aviva has been tracking the finances of UK families since 2010, spanning the impact of the recession and the gradual recovery. As we enter another period of economic uncertainty, Aviva's Family Finances tracking data will continue to be a measure of the financial stability of UK families.

Income

Monthly family income has dropped to its lowest level in two and a half years, standing at £2,006 in winter 2016/17.

It is the third consecutive year that typical income has fallen, with summer 2014 (£1,934) the last time levels were lower. Year-on-year, income is down by £18 a month despite the boost to income in the first half of 2016.

Monthly family income has dropped to its lowest level in two and a half years (£2,006)

Typical* family net income across all family types

	Summer 2014	Winter 2014/15	Summer 2015	Winter 2015/16	Summer 2016	Winter 2016/17	Annual change
Monthly family income	**£1,934**	**£2,043**	**£2,126**	**£2,024**	**£2,151**	**£2,006**	**-1%**

* Typical refers to a median (see methodology)

Those married or in a committed cohabiting relationship with two or more children remain the family type receiving the largest income (£2,165). However, their income is down year-on-year by 3%, with this family group typically £696 worse off over the course a year, with their monthly income having stood at £2,223 last winter.

Divorced, separated or widowed parents have also witnessed a decline in income over the past year. This family group has experienced an 18% drop, with income levels falling to £1,111 compared to £1,360 last year. At the same time, fewer in this family group are receiving state benefits (37% in winter 2016/17 compared to 46% a year ago).

UK families' total monthly household outgoings have increased by 11% annually, up by an average £252 per month

Expenditure

Despite their falling incomes, Aviva's data suggests the average UK families' total monthly household outgoings have increased by 11% since last year, up by an average £252 per month. Spending now stands at £2,507 per month, versus £2,255 last winter.

Average* weekly expenditure
£

Category	Summer 2015	Winter 2015/16	Summer 2016	Winter 2016/17
Housing (rent or mortgage repayments)	505	490	504	495
Utility bills	293	280	289	297
Debt repayment	225	215	205	216
Holidays	176	190	204	231
Weekly food shop (excluding alcohol)	206	199	200	208
Childcare/school and university fees	209	199	187	237
Motoring	135	142	137	160
Household goods and services	106	105	114	137
Entertainment and recreation	110	116	114	134
Public transport	99	108	102	138
Alcohol, cigarettes and tobacco	103	115	103	133
Personal goods and services	92	97	92	120
Total	2,259	2,255	2,252	2,507

* Average refers to a mean (see methodology). Figures may not add up due to rounding

The largest increase in spending has occurred across household goods and services (up 30%)

The largest increases have occurred across household goods and services (up 30%) and public transport (up 28%). Families are also dedicating more funds to holidays with spending up by a fifth (22%) since last winter, perhaps as a result of the loss in value of the pound.

There has been little change in the cost of the weekly food shop – a key barometer of how inflation affects the family purse. Weekly food spending has increased by just £9 annually and now stands at £208. That said, the year ahead could bring greater inflationary pressures for families after a jump in inflation to 1.2% in November 2016 – the highest in over two years.[9] Further rises could also be on the horizon in 2017 as the longer term consequences of the weakening pound, following the UK's vote to leave the EU, begin to take hold and affect the price of imported goods.

Housing costs, consistently the largest single outgoing for families, remain stable having increased by only £5 since last winter and are also down by £9 when compared to summer 2016. This may be influenced by the Bank of England's unprecedented base rate cut to 0.25% in August 2016 which has helped keep mortgage rates low.

9 UK Inflation figures, November 2016 ONS

Borrowing

Having dipped in 2014, families' household debt – excluding housing and student debts – has grown in recent years, helped by low interest rates giving families greater access to low-cost credit. Average borrowing, as tracked by Aviva since 2011, has now passed its previous peak of Summer 2013 to reach £17,630 in Winter 2016/17: 18% higher than the previous record.

Due to the presence of a small number of households indicating unusually high levels of debt, particularly from alternative or niche sources, the debt figures in this report have been adjusted to reduce the impact of these outliers on the overall family average. Historic figures have been similarly reweighted using the same methodology to allow comparisons. Aviva will continue to monitor these trends closely in future reports.

The single biggest contributor to household debt is personal loans (£2,770)

Average household debt levels (excluding housing and student debts)
£

	Summer 2013	Winter 2013/14	Summer 2014	Winter 2014/15	Summer 2015	Winter 2015/16	Summer 2016	Winter 2016/17
Total house-hold debt	14,950	7,670	6,640	8,690	9,250	13,070	11,250	17,630

The single biggest contributor to this total is personal loans, with families owing an average of £2,770. This is an increase of 33% since last winter. As a result, this type of borrowing has overtaken credit card debt, which nonetheless remains the second biggest contributor to family debt with the largest amount owed on average (£2,680) since Aviva first began tracking this data.

Hire purchase borrowing has fallen 6% year-on-year, and has been replaced by loans between family members and friends as the third most significant source of debt with £2,110 owed on average.

Top three sources of family debt (excluding housing and student debt)
£

Winter 2015/16		Winter 2016/17	
Credit cards	2,370	**Personal loans**	2,770
Personal loans	2,080	**Credit cards**	2,680
Hire purchase	1,450	**Loans from family members or friends**	2,110

Savings and investments

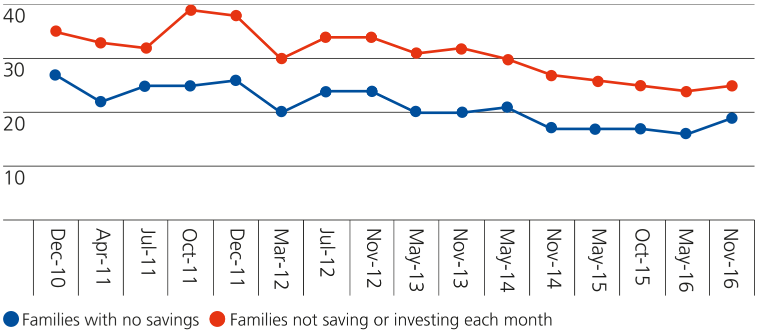
Aviva's data shows family savings pots have taken a hit in the last six months, dropping back from £4,426 in the summer to £3,134: the lowest level since summer 2015. This is still a significantly larger amount than four years ago when the typical family had savings of just £1,031. Nevertheless, nearly one in five (19%) families have nothing put away, compared with 17% in winter 2015.

Another 18% have less than £2,000 – the typical family's monthly income – in savings and investments compared to 20% a year ago.

The average amount saved or invested each month has also dropped in the last six months, back to similar levels (£103) as winter 2015 (£105). However, the typical monthly amount saved or invested has now remained above £100 for the last two years, having never reached this level before 2015. While there has been no change year-on-year in the 25% of families who are not saving, this remains below the 30%+ who fell into this category during 2010-2014.

Nearly one in five (19%) families have no savings or investments

Uptick in families with nothing saved or not saving/investing each month



Homeownership and housing wealth

The continuing pressures caused by the property supply/demand gap have seen homeownership among families drop from 67% to 64% in the last year. Interestingly, Aviva's data suggests outright ownership has risen slightly from 17% to 18% of all families, with the decline therefore driven by a fall in mortgaged homeownership from 49% of all families to 46%.

This could be a sign of difficulties in raising a deposit and getting a mortgage for first-time buyers or families who are not considered 'prime' borrowers. Families who do have a mortgage have seen their average debt rise to £71,040 in winter 2016/17, up from £66,580 in the summer and £62,850 a year ago to the highest level since winter 2012: a 13% rise in total.

Homeownership among families has dropped from 67% to 64% in the last year

Those families who do own their own home estimate its typical worth to be £191,960, up from £184,300 a year ago – a modest 4% increase that is close to the 4.4% reported by Nationwide's November house price index. However, families are less confident in the value of their homes than they were six months ago when they estimated their home was worth £201,700.[10]

The lower valuation may be influenced by uncertainty in the housing market following the UK's decision to vote to leave the EU. There has also been a drop in activity compared with the first half of 2016 when stamp duty changes fuelled a rush of purchases for buy-to-let properties and second homes. Families who own property other than their home have similarly revised down the value of these properties, which have grown annually from £102,120 to £108,730 but fallen 8% from £118,550 in the last six months. This suggests second homes are seen as particularly vulnerable to softening house prices.

Elsewhere, one in five (20%) families is now renting privately – the highest percentage since winter 2012 – while 14% are housed in social rental properties.

Family property prices fluctuate

	Winter 2015/16	Summer 2016	Winter 2016/17	Annual change	Six month change
Family homes	**£184,300**	**£201,700**	**£191,960**	**+4%**	**-5%**
Other property owned	**£102,120**	**£118,550**	**£108,730**	**+6%**	**-8%**

10 Nationwide House Price Index Nationwide

More than two in five (43%) families are worried about a significant increase in the price of basic necessities, up from 36% in the summer

A look to the future

At the end of an eventful 2016, Aviva's data shows families have become increasingly worried about a significant increase in the price of basic necessities, such as food or utilities, affecting their standard of living in early 2017. The 36% of families who were worried about this in the summer has grown to 43% now – making it their most common concern alongside unexpected expenses (also 43%). Such fears already look well-founded with inflation having reached a two-year high of 1.6% in December 2016.[11]

Along with a change of leadership in the Conservative government, the last six months have also seen a slight increase in the percentage of families worried about the loss or changes to current government benefits from 13% to 15%.

However, the improving jobs market seems to have allayed concerns over job insecurity despite the general atmosphere of economic uncertainty. Government data for December shows employment was still close to the record high of 74.5% reached from May-July 2016, with unemployment falling.[12]

Aviva's findings show that 32% of families are concerned in winter 2016/17 about losing a job, for example due to redundancy: while this makes it their third biggest concern, this is the lowest figure since tracking began in winter 2010 and down from a high of 50% in summer 2014.

The Bank of England's base rate cut to 0.25% in August also looks to have eased families' fears over higher borrowing rates. The percentage worried about higher mortgage rates has fallen from 22% to 16% in the last year, while those worried about an inability to keep up with any debt repayments has fallen from 13% to 11%. This is despite 4% of families saying they have used a payday loan in the last 12 months – the highest level since Aviva started tracking this two years ago.

The three biggest threats to families' standard of living in the next three months
%

Summer 2016		Winter 2016/17	
Unexpected expenses	45	Significant increase in the price of basic necessities	43
Significant increase in the price of basic necessities	36	Unexpected expenses	43
Losing a job	38	Losing a job	32

11 UK Inflation figures, December 2016 ONS
12 UK Labour Market, December 2016 ONS

"Uncertainty has become the new normal as we enter 2017. There is now a clear expectancy among families that they will feel the pinch through rising prices with inflation likely to rise further. A further significant rise in household debt and a fall in savings levels is also a cause for concern. Families should use the start of a new year as a moment in time to review their finances to ensure they have a plan in place to deal with any financial strain that may lie ahead.

"At the same time, it is encouraging that fears around job security are now at their lowest levels since Aviva's records began. Such confidence provides some assurance allowing more families to be able to deal with changing economic circumstances from a position of stability."

Paul Brencher
Managing Director, Individual Protection, Aviva UK

Tracker conclusion

Concerns among families about the price of basic necessities are also rising, and with inflation on the up, these fears already look to be well-founded."

As we have tracked the financial fortunes of UK families since 2010 – when the impact of the recession was being keenly felt – to the current day, we have seen both moments of recovery and times of pressure on the family purse. The result of the EU referendum vote in June set in motion a fresh period of economic uncertainty, and Aviva's findings suggest families certainly faced financial challenges in the second half of the year.

Families' monthly income now stands at its lowest level in two and a half years. Certain family types continue to struggle more than others, with those raising children alone witnessing the biggest fall in their earnings.

Perhaps unsurprisingly, the proportion of families who are not saving anything on a monthly basis has begun to creep up, although the typical monthly amount saved or invested has remained above the £100 threshold for the last two years. This might not seem like a huge amount, but monthly savings never managed to reach this level between 2010 and 2014, and even putting a small amount away on a regular basis can add up to a healthy savings cushion that will prove invaluable should any unexpected expenses arise.

However, the amount of debt held by UK families is becoming a real concern. Household borrowing is now at its highest level since we began tracking this data, with significant uplifts in the amount borrowed through both traditional forms of lending such as credit cards and overdrafts, and other methods like personal loans. With incomes and savings in decline, many families could struggle to repay this debt, which could potentially lead to a very risky financial situation.

Concerns among families about the price of basic necessities are also rising, and with inflation on the up, these fears already look to be well-founded. Monthly expenditure figures have indeed risen, and greater inflationary pressures are expected as we proceed into 2017.

Although families can't do much about wider economic factors affecting their finances, they can take action to ensure they are as well prepared as possible for future pressures. For those with significant levels of debt, cutting their debt must be a key goal. This can be achieved by prioritising monthly repayments over other forms of expenditure or preventing taking on any more unnecessary debt. It requires discipline, but is essential to avoid spiralling into a pattern of borrowing that cannot be sustained.

Establishing a regular savings habit also remains vital. As the cost of necessities rises, it may be tempting to stop saving, but it is crucial families have some form of back-up should any unforeseen expenses occur. Driving down debt and boosting savings will leave families in a stronger position to deal with any financial challenges in the year ahead.

Paul Brencher
Managing Director, Individual Protection, Aviva UK

Methodology

Over 2,300 people aged 18-55 who live as part of one of six family groups were interviewed to produce the report's latest tracker findings for Q4 2016.

In total, 32,915 UK consumers have been interviewed for the tracker between December 2010 and May 2016. This data was combined with additional information from external sources cited within the main report listed below and used to form the basis of the Aviva Family Finances Report. All statistics refer to figures from the latest wave of research unless stated otherwise.

The family types surveyed in this research are:

- Married/civil partnership – defined as those who are married or in a civil partnership and living together, including those who don't plan children, plan children or have one or more children. For the purposes of this report, all mentions of 'married' refer to those who are married or are in a civil partnership.
- Cohabiting – defined as those who are in a committed relationship (but not married) and living together, including those who plan children, don't plan children, or have one child or more.
- Divorced/separated/widowed, raising one or more children alone
- Single, raising one or more children alone

Technical notes:

- A median is described as the numeric value separating the upper half of a sample, a population, or a probability distribution, from the lower half. Thus for this report, the median is the person who is the utter middle of a sample. All figures are medians unless otherwise specified and are referred to as 'typical' rather than 'average' (mean).
- A mean is a single value that is derived by adding all the values on a list together and then dividing by the number of items on said list. This can be skewed by particularly high or low values.

For further information on the report or for a comment, please contact Melissa Loughran on:

T: 01904 452791
E: melissa.loughran@aviva.com