



## **IPTF AND BRHG ANNOUNCE CHANGES TO HOW STATE BENEFITS MAY IMPACT PROTECTION INSURANCE**

The Building Resilient Households Group sought clarification from DWP about how pay outs from protection policies will be treated under the new system

### Changes to State help with mortgage payments

From 6 April 2018 people who suffer a loss of income from sickness or other causes can no longer get state benefits to cover their mortgage payments. Instead some people may be offered and qualify for a loan, called a Support for Mortgage Interest Loan (SMIL) in which case DWP will, where possible, put a charge on their property. This means that all mortgage holders now need to consider protection if they want to avoid eating into the equity in their home in the event of a prolonged sickness absence (an occurrence that affects two million people each year.)

### Clarification of how insurance pay-outs will be treated

In the light of these changes the Building Resilient Households Group, has sought clarification from DWP about how pay-outs from protection policies will be treated under the new system. The key point from the clarification we have now received is **any income received from an insurance policy which is specifically intended and used to cover mortgage payments will be totally disregarded when entitlement to means-tested benefits is assessed.** This applies to both legacy benefits and Universal Credit

Two provisos should be noted:

- If insurance pay-outs are restricted to the payment of a mortgage (e.g. by being paid direct to the lender) they will be fully disregarded. But if the claimant has choice over how to spend the payments then only any portion which DWP judge to be intended and used for mortgage cover will be disregarded.
- If a claimant applies for a Support for Mortgage Interest Loan their insurance payout will be taken into account when their offer of a loan is considered. However, this scenario is unlikely to be a common one as people would have no need for a loan while receiving insurance payouts which fully cover their mortgage.

### Implications for mortgage-holders, advisers and insurers

Richard Walsh, Joint Chair of the Building Resilient Households Group, said: “This clarification means that:

- people who choose to protect their mortgage payments with an appropriate insurance policy can do so without fear that their pay-outs will lead to their benefits being cut
- advisors should alert clients to the risk that loss of income through sickness or other causes may lead to mortgage holders into spiralling debt – and advise on appropriate protection
- insurers may see opportunities to design new protection policies with a portion specifically designated to cover mortgages”

**-ends-**

**Notes to editors**

DWP guidance can be found in paragraphs 22-23 of the memoranda in the following links:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/696657/adm9-18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696657/adm9-18.pdf)

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/696627/m-05-18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696627/m-05-18.pdf)

Schedule 5 of *The Loans for Mortgage Interest Regulations 2017* (SI 2017/725) contains the relevant amendments to the legislation for means tested benefits.

**For more information, please contact:**

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**IPTF**

Chair by Kevin Carr, Roy McLoughlin and Jo Miller, the IPTF is a group of insurers, reinsurers, distributors and tech firms helping to build financial resilience and improve the UK Income Protection industry.

**BRHG**

The Building Resilient Households Group gives regular updates on its progress to the IPTF and the CII. The Group is chaired by Richard Walsh and Alan Woods, both of SAMI Consulting. Most of the funders are members of the IPTF. The current funders are Aviva, Holloway Friendly Society, LV=, Royal London, SCOR, Scottish Widows, Swiss Re, and The Exeter.