

Why contractors cannot rely on unemployment benefit

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Contractors cannot rely on unemployment benefit to meet their living expenses if they cannot find work because, even if they are eligible, the current level of [Job Seeker's Allowance](#) at £73.10 [correct at the time of writing] falls well short of a typical contractor's earnings.

"Contractors don't benefit from the safety nets that employees typically enjoy, such as redundancy pay if they lose their job and benefits when out of work for more than a few weeks," explains [Contractor Financial's](#) life and income protection insurance expert [Mark McBurney](#).

"The harsh reality is that contractors must make their own arrangements for periods between contracts, and that also includes preparing for times when they cannot work as a result of illness, too."

McBurney's advice to contractors is to have plenty of cash savings that will cover at least three to six months of household outgoings alongside income protection and critical illness cover in case they can't work due to an accident or illness.

Can contractors claim unemployment benefit?

According to McBurney, contractors may be eligible to claim JSA without shutting down their limited company, but it depends on a range of factors including how much savings and assets they have.

"To qualify for income-based JSA, a contractor must have £16,000 or less in savings and household income of less than £6,000. Business assets and cash will be included in that total, so contractors with a healthy business bank account will not qualify."

Contractors who paid themselves a salary above the personal allowance, or who are relatively new to contracting and had a permanent job in the two years before their JSA claim and so amassed Class 1 National Insurance Contributions (NICs), may be eligible for contribution-based JSA.

It takes time to reduce household expenditure

In McBurney's experience, even the most thrifty of contractors can take weeks or even months to significantly reduce household expenditure, which reinforces the importance of having a cash buffer.

"If you look at a typical contracting household, although discretionary spend on holidays and luxuries is considerable, so are the core costs of mortgages, car leases, utilities and other household costs that are difficult to reduce quickly.

"Contractors may also have commitments such as school fees and support for children at university that cannot easily be reduced."

There are no protection insurances that contractors can take out to pay for household outgoings if there is no contract income. Cash savings and investments that can be readily turned into cash are the only options.

How contractors can pay the bills if they become ill

"Fortunately, if a contractor has an accident or becomes too ill to work, then there are insurances that can make up some of the income shortfall," highlights McBurney. "Income protection can provide up to 70% of a contractor's regular income if they have an accident or illness that keeps them from working in the short term.

"For a disabling accident or serious illness such as cancer or heart attack, contractors can choose critical illness cover. This type of policy will provide the contractor and their family with an income potentially until retirement age, when a contractor's pension should start to pay out."

McBurney also urges contractors to consider taking out a Relevant Life Policy, which is life insurance paid for by their limited company that pays an income or lump sum to the contractor's family if they were to die prematurely.



[Mark McBurney](#)

Protection Team Manager

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Mark McBurney is an experienced financial adviser, with ten years' history in the mortgage market, now specialising in protection for contractors.

Contractor Financials specialise in providing financial advice tailored to the needs of contractors and freelancers. [Read Full Profile...](#)

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McBurney concludes: "Contractors should assume that unemployment benefits and other state insurances won't meet their household expenses in the event that they cannot find work, or become too ill to work. They should speak to their financial adviser so they can make their own provision."

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