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## Improving lives: Work, Health and Disability Green Paper

The Investment & Life Assurance Group (ILAG) is a representative body, with members from across the Life Assurance and Wealth Management Industries.

ILAG members openly share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

ILAG is run by practitioners for practitioners, whether by engagement with industry associated bodies or through active consultation.

The list of ILAG members is at the end of this submission.

### Overview

We welcome the Government's focus on the physical and mental health benefits of being an active participant in the workforce. We genuinely believe that retention and support for people, who are long-term absent and disabled, are best served by Group Income Protection (GIP) cover.

The manifesto ambition is an honourable one. It is important that all segments of society work together to ensure that disabled people, and those with long-term health conditions, are afforded the best support to get into, and remain, in work.

There are four options for employers when dealing with workplace long-term absence, a summary and overview is provided below:

Path	Benefits	Drawbacks
<b>Insured GIP</b>	<ul style="list-style-type: none"><li>➤ Vocational rehabilitation and return to work focus/retention</li><li>➤ Objective assessment</li><li>➤ Improved budget certainty</li><li>➤ Return on investment</li><li>➤ Integrated support services</li><li>➤ Competitive pricing</li><li>➤ Employee receives ongoing income</li><li>➤ Additional Pension and NIC cover</li></ul>	<ul style="list-style-type: none"><li>➤ Cost incurred irrespective of absence or claims experience</li><li>➤ Employee remains on payroll (can be problematic with employer head count restrictions and business demands)</li></ul>

	<ul style="list-style-type: none"> <li>➤ Retention of death and other benefits eg private medical insurance (PMI) and cash plans</li> <li>➤ Protects against claims volatility</li> </ul>	
<b>Self-insured GIP</b>	<ul style="list-style-type: none"> <li>➤ Only pay when someone absent</li> <li>➤ Employee receives ongoing income</li> <li>➤ Retention of death and other benefits eg PMI and cash plans</li> </ul>	<ul style="list-style-type: none"> <li>➤ No additional features or employee/employer support</li> <li>➤ Volatile claims for small to medium employers (SMEs)</li> <li>➤ Ongoing employer liability</li> <li>➤ Employee remains on payroll</li> <li>➤ Cover must be provided beyond State Pension Age (SPA)</li> </ul>
<b>Ill-health early retirement</b>	<ul style="list-style-type: none"> <li>➤ Employee is off payroll</li> <li>➤ Employee receives ongoing income</li> </ul>	<ul style="list-style-type: none"> <li>➤ Loss of skills</li> <li>➤ Expensive (high capitalised costs and 'hidden' funding)</li> <li>➤ Cost of recruitment</li> <li>➤ No additional features or employee/employer support</li> <li>➤ Flies in face of disability diversity (managed out)</li> <li>➤ Potentially can lead to the loss of death and other benefits eg PMI and cash plans</li> </ul>
<b>Dismissal</b>	<ul style="list-style-type: none"> <li>➤ Employee is off payroll</li> </ul>	<ul style="list-style-type: none"> <li>➤ Loss of skills</li> <li>➤ Cost of recruitment</li> <li>➤ Conflict with Equality Act / potential litigation</li> <li>➤ Burden placed on State</li> <li>➤ Flies in face of disability diversity (managed out)</li> <li>➤ Loss of death and other benefits eg PMI and cash plans</li> </ul>

We have highlighted a number of key areas of consideration, in addition to the questions within the Consultation.

### Group Income Protection

GIP is a replacement income, paid monthly to the employer when an employee is unable to work due to long-term sickness or injury. There is a waiting (or deferred period) and the benefits can include cover for pension scheme contributions and National Insurance contributions (NICs). Benefits in payment can be level or escalate.

GIP benefits take many different forms, but are usually a percentage of the employee's gross pay, after adjustments for the level of State benefit. Benefit payments can be made to SPA or for shorter periods. The product is supported by vocational rehabilitation services from day one, as well as supplementary value benefits and employer and employee support services provided at no additional cost to the employer.

GIP is its current name but is also referred to as Long Term Disability, Permanent Health Insurance, Prolonged Disability Insurance, Group Salary Continuance and Income Replacement.

As an industry, we have struggled to develop an appropriate definition for this benefit. Even 'Extended Sick Pay' (after Statutory and occupational sick pay has concluded) or 'Sick Pay Insurance' only describe the financial benefit and not the additional services insurers provide.

These services, provided within premiums and available from most insurers include, although not exclusively:

- Vocational Rehabilitation and Case Management
- Employee Assistance Programmes (EAPs)
- Second Medical Opinion Services
- Online and Telephonic employer legal support
- Practical and emotional support for employees

Employees who use these services do not, in the main, have to be claimants under the income replacement cover to make use of them. All of them are provided free at the point of use and the majority are confidential.

There is an industry debate about whether insurers would be better to offer just the financial benefits, when a claim becomes payable, or provide the benefits the employer and employee may really value, namely the additional support services available, referencing the financial benefit as one component of the package.

We acknowledge the scale of the task at hand to explain the financial benefit and the associated support services. As an industry, we are committed to delivering this, but the current state of the market, and its size, significantly limits this goal.

Group Income Protection (GIP) already provides a financial lifeline for individuals unable to work due to accident, sickness or disability, with 2.1 million individuals covered under 17,000 GIP schemes (as at 31 December 2015).

The growing focus on proactive early intervention services (EIS) is of specific relevance to both employers and employees. This immediate and ongoing 'return to work' support can help in minimising the length of an absence, benefiting the individual, their family, their employer, as well as the State (Appendix #1).

Furthermore, EAPs and counselling services, provided through GIP, can prevent absences from occurring; helping those struggling while in work, as well.

It is disappointing that more employers have not embraced this benefit for their employees, which shows the scale of the educational task ahead.

Although State benefits provide essential support for many, there are significant benefits that Income Protection delivers, which could reduce reliance on the State.

- GIP is a long-term insurance contract with guaranteed policy terms and conditions. The GIP payment is a safety net for the employer and the employee, but for most insurers the focus is now on the range of services provided prior to payment of policy benefit. There are no guarantees with State Benefits, which tend to become more restrictive over time.

With a focus on managing the Welfare budget, the level of benefits may continue to reduce over time. In April 2017, the reduction in Employment Support Allowance (ESA) and the Work-Related Activity Component (WRAC), and the revised State Mortgage Interest terms, mean that the level of financial support has diminished in the short-term.

- The level of benefit provision is specified in the contract and elected by the employer or individual. For example, even on a relatively low benefit of 50% of salary (routinely it is 75% of salary with a State Benefit deductible), an average salary of £27,600 will provide an employee with a replacement salary of £13,800 per year, at no additional cost to the State. State benefit payments provide a basic safety net, which is often insufficient for people to maintain their previous, pre-disability standard of living.
- GIP cover is usually subject to an 'own occupation' definition of being unable to work. It can also be based on 'suited occupations' and 'activities of daily working' criteria can also be used, depending on the customer's occupation and affordability. The more restrictive definitions of incapacity, used as the basis for State benefits, 'any occupation' or 'activities of daily living', restrict access for all of those to whom they apply and where there is often a need to provide support.
- Criteria, such as when benefits are paid and the period for which they continue, is selected by the employer or individual effecting the cover. There is no choice in the State system.
- GIP may cover people with existing health conditions (provided they are actively pursuing their occupation when cover starts), because of the economies of scale available to insurance companies. This is called the 'Free Cover Level' (the amount of benefit an employee can have free of medical underwriting, also known as the 'automatic acceptance limit' or 'non-selection limit') and allows previous health conditions to be ignored (if the employee is performing their normal work duties) on the day the scheme starts.

If an employee's benefit is in excess of the 'Free Cover Level' and requires medical underwriting, they will continue to benefit from 'Free Cover Level' in the event of a claim. Exclusions will only apply to benefits in excess of this and is possible that the individual may be declined or benefits over the 'Free Cover Level' postponed.

- GIP members benefit from continuity of service, thus maintaining access to other employment benefits, such as PMI or cash plans, which can alleviate the burden on the National Health Service (NHS). There are also options which can continue pension scheme contributions and NICs during illness, protecting income during and after working life.
- The maximum level of benefit tends to apply to very high earners only, whereas the caps applied to State benefits relate to average or lower earnings.
- The claims process is understood to be more simple, acknowledging the length of ESA, with active case management and is usually processed through a central point.

Insurers also have the financial motivation to return the employee to the workplace, as claims reserves have to be established to pay for benefits, which can last more than 40 years.

It is our belief that GIP is the best vehicle to facilitate retention of the employee within the organisation and, if this is not achievable, provide support and continuity of the quality of their and their family's pre-absence and disability life. We would welcome the opportunity to discuss this in more detail.

### **Self-employed sector**

We are extremely concerned that the Green Paper does not pay sufficient regard to the rapidly increasing self-employed sector within its scope. These individuals are at risk of being overlooked by reform and the needs of the self-employed must be considered to deliver the tools to facilitate self-reliance across the entire labour market.

There are disincentives to self-provision within the welfare system, which discourage the self-employed, as well as those who are not members of occupational arrangements, from taking out personal cover.

The interaction between Universal Credit and Individual Income Protection (IIP) policies reduces the motivation for self-provision, which becomes less attractive, and leads to increased reliance on the State. We suggest that it should be a priority for the Government to address these disincentives, to support people who opt to fund their own provision.

Whilst GIP is available for firms with two or more employees, for the self-employed IIP is the only option. This is subject to full medical underwriting (and fully means tested against Universal Credit). Without specific focus on this segment of the employment market over-reliance on the State for support will continue.

There are only 1.1m people covered by IIP and 2.1m covered under GIP, which equates to approximately 10% of the workforce.

Consumer apathy and denial, coupled with the misconception that the State will provide, need to be addressed. The lack of clarity surrounding State benefits - how much individuals will get, where from, what the assessment process is and how long benefits will be paid for - only adds to the confusion.

Simplification of the State benefit system and promoting the need for self-reliance, to help organisational decision makers understand the importance of Income Protection, both personally and for any employees, is essential.

The service allowing an individual to find out their entitlement for State Pension is extremely valuable in pension planning. A similar service could be considered by the DWP for disability benefit entitlement. Individuals' establishing their State benefit entitlement, and the basis on which it is provided, would facilitate an overall understanding of personal, financial planning and protection.

### **Ability or capability to work**

There is a difference between a person's ability to do the job they are employed to do and that individual's capability for working. A person may not be able to continue in their current career, but this does not mean they cannot be an active participant in the workforce.

We recommend that the process within the health care sector takes account of an individual's ability to work, rather than just their capability to carry out their previous job.

### **Simple Product**

The insurance industry, despite a great deal of work and consideration, has concluded that Income Protection is unlikely to conform to the Sergeant Review requirements for simple products. This is because some employees could be disadvantaged by GIP benefits, as the means test for State Benefits would leave them in a less advantageous position. It is impossible for the industry to provide a simple product within this context.

This should not, however, deter consideration of a Government-backed 'kitemark' for a universal scheme design. For example, the minimum base level could be:

- 50% of salary benefit payable for a period of two years;
- Cover for employer and employee Automatic Enrolment pension scheme contributions and NICs; and
- Support service package to include, as a minimum, vocational rehabilitation and EAPs.

### **Changing attitudes**

The presentation of real-life role models within the support infrastructure is essential to build awareness and a realistic understanding of the State system. For those not able to work through ill health (both physical and mental) or disability, we believe that the role of the job centre, in highlighting the support available, could be developed to deliver the greatest impact.

We would welcome the opportunity to work with Government on to raise awareness about the skills and services available through the insurance industry. This would help to change some common misconceptions around cost and the benefits available.

### **Sharing expertise**

The current method of processing individuals, unable to work through ill health, presents numerous barriers for those striving to return to work. Our industry has the capability and experience to deliver streamlined processes and support for potential and actual claims.

In this regard, we would welcome the opportunity to work with the Government, and where appropriate any 'think-tanks', in process design and development.

### **Conflicting view of GIP from Government bodies and Taxation**

There are new employer disincentives, such as funding NICs for employees that are absent from work and being paid sick pay. The recent announcement of limitations in respect of salary sacrifice arrangements did not exempt the provision of Income Protection cover. This is disappointing, given the value to the employee, employer and the State.

Potentially this means that, when salary sacrifice is in operation, a claimant would have been taxed as a benefit in kind on the cost of cover and then again with income tax deducted from the benefit paid by the insurer, via employer, as income replacement.

Removing the facility to enhance cover through salary sacrifice arrangements is likely to mean that employers withdraw these options for employees. We await the final decision from HMRC on a GIP exemption.

Market data show that there is limited confidence amongst individuals seeking to purchase without the support of an adviser. Moreover, research carried out in 2015 by Swiss Re indicates that 18% of those eligible believed that they already held cover, which would pay them a regular amount in the event they are unable to work through ill health or disability. In fact, no more than 10% of the workforce has such cover in place.

We understand it is HMRC's view that benefits secured by employee contributions should be subject to tax and NICs in the same way as benefits secured by employer contributions. We feel that this is inequitable. At the very least, such benefits should be permitted free of tax. However, this is a complex approach and we recommend that HMRC reconsiders an exemption.

The value of building on what is already provided by the employer should not be underestimated. If employers stop offering such benefits, support and cover previously provided by insurance will fall on the State. This is contrary to the Government's policy objectives on work and welfare and the drive for greater personal responsibility and self-reliance.

Our responses to the questions set out in the Green Paper are set out below:

## **Consultation questions**

### **Chapter 2: Supporting people into work**

#### **Building work coach capability**

##### **What specialist tools or support should we provide to work coaches to help them work with disabled people and people with health conditions?**

The insurance industry has a wealth of experience in offering EAPs and developing intervention and rehabilitation packages for the workplace. Early intervention and clear communication, which includes confidential assistance, for example, access to experts to discuss mental health issues, without stigma, are essential to working with those suffering from ill-health or disabilities.

Work coaches need to provide a holistic support service and should be provided with disability confidence training.

The experience must be as personal as possible, while being simple and seamless. Those calling on the expertise of work coaches must be confident their concerns have an owner and are being dealt with.

There is a disparity between the industry and Government in the treatment of those with long-term health conditions and disabilities that must be addressed.

We can give case studies, data and experience, of how work coaches operate within EAPs.

Promoting awareness of what is covered amongst individuals in an employer-sponsored arrangement, whether insured or self-insured will encourage self-reliance outside of the State system.

Data sharing between employers, insurers and work coaches would be invaluable in creating a better service; preventing the repetitive disclosure of information. To achieve this, the requirements of the Data Protection Regulations will need to be reviewed.

The success of work coaches will depend on sufficient access to Occupational Health and Vocational Rehabilitation specialists. There is a massive opportunity to develop an integrated training programme with input from all interested parties.

## **Supporting people into work**

### **What support should we offer to help those 'in work' stay in work and progress?**

There is evidence that EAPs, offered as part of an organisation's GIP scheme, result in individuals remaining in the workforce (Canada Life data suggests 53% of EAP users would have become absent without the support of the EAP).

Again, education among both employers and employees is vital.

Our experience suggests that some employers have a GIP scheme, which includes all of the support services, but choose not to make claims under the policy due to the impression that this will increase their premiums.

Employees can be reluctant to ask about the sickness benefits available to them. From industry to employer, we must do a better job of explaining the services available.

Government could help industry promote awareness of the benefits provided by employers and the insurance industry. For example, insurers in the market are achieving return to work rates of between 70-80% often before the end of the deferred period, which will usually be within the first 6 months of absence.

The employer is the natural route for the communication of benefits but, in a changing workforce, the term 'employer' can relate to many different entities. For example, affinity schemes to associated trade schemes mean that there are additional avenues to support those with health problems or disabilities in work.

The development of the Single Financial Guidance Body should enable work coaches to access information and to signpost people to other areas.

For those with long-term illnesses, it would be prudent to review the processes associated with the ongoing payment of income-related benefits.

## **Improving access to employment support**

### **Should we offer targeted health and employment support to individuals in the Support Group, and Universal Credit equivalent, where appropriate?**

#### **What type of support might be most effective and who should provide this?**

The same types of support should be available to all individuals, regardless of their categorisation. How these support services are accessed and used may differ, but there should not be a separate process for providing services to those in the Support Group.

The effective delivery of the support and the understanding that individuals in the Support Group are likely to be experiencing a more difficult set of circumstances is essential.

In this situation, contact needs to be on a personal level and not just about assessment of needs: it can also be less frequent, given the reduced likelihood of improvement in circumstances.

We recognise that it will be difficult to fund this level of individual contact and are aware that the behavioural biases of the individual will be a key factor in the process of returning to work.

### **Chapter 3: Assessments for benefits for people with health conditions**

#### **Should the assessment for the financial support an individual receives from the system be separate from the discussion a claimant has about employment or health support?**

We agree that these are two separate issues, but there is benefit in discussing the options available for both at the same time.

Being presented with the full suite of help, support and advice in one session is more productive than multiple visits and disclosure of information

The 'Empowerment and Enablement' and 'Biopsychosocial' models of disability all confirm that a rounded approach to managing long-term absence and disability is needed. Whilst it is common practice in insurer 'Return to Work' plans (many of which are medically endorsed) to adopt this, having a financial and health support discussion does not align with the successful outcomes the insurers achieve.

We are not aware of the capability within job centres to provide this level of knowledge. Similarly, we are not clear if there are individuals within the system who would be able to highlight the opportunities available.

If the long-term aim is to facilitate a return to work for those with health problems or disabilities, the focus needs to be on more than just the monetary support available.

There are significant barriers in place, even before assessments are conducted, and the paperwork required is repetitive and inflexible. We would be happy to work with the Government to develop a process which can provide a more personal experience resulting in greater claimant satisfaction.

#### **How might we share evidence between assessments, including between Employment and Support Allowance/Universal Credit and Personal Independence Payments to help the Department for Work and Pensions benefit decision makers and reduce burdens on claimants?**

#### **What benefits and challenges would this bring?**

While co-ordination is a good thing, the process itself is too complicated. To facilitate the sharing of evidence, the entire benefits system needs to be reviewed and streamlined to help those in need and to remove unnecessary barriers.

Different parts of government record data in different ways, some keep paper records, others digital. We recognise that aligning the data fields and the method in which data is stored across all departments is an enormous challenge.

### **Chapter 4: Supporting employers to recruit with confidence and create healthy workplaces**

## **Embedding good practices and supportive cultures**

### **What are the key barriers preventing employers of all sizes and sectors recruiting and retaining the talent of disabled people and people with health conditions?**

Often, employers only consider solutions and support required for 'work time' and not how an employee will get to work. This can be a key barrier for the recruitment and retention of employees.

More needs to be done to understand whether the Government, the employer or the employee is responsible for funding travel costs associated with remaining in work.

Attitudes toward disability and sickness absence need to change and the factors that constitute a 'reasonable adjustment' cost reinforced. This would give employers greater confidence that they are complying with legislation.

Employers, the industry and the Government must embrace the benefits of new technology, which can facilitate working from home.

Although attitudes are changing, there remains a stigma attached to those with mental health issues. The impact on smaller companies is more apparent and more difficult to address.

Promotion of best practice, perhaps citing the work of organisations, such as Lloyds Banking Group's award winning disability and inclusion and diversity programmes, would show employers the ways in which they can incorporate good practices into their businesses.

Whilst hegemonically this will work, especially for larger organisations, the Green Paper has challenged the GIP industry to provide further business case evidence:

#### ***167. the return on investment for employers who purchase group Income Protection insurance***

This comes in two forms, savings and wider business benefits:

##### **Savings**

- Reduced occupational and statutory sick pay through proactive rehabilitation. The HSE cites £8,000 cost for each 7+ day absence cost to business. With an average duration of 5-7 weeks for EIS, established by Canada Life, early intervention gives sick pay savings and ensures that the productivity of the employee is maintained (albeit less due to time away from workplace).
- Retention of an employee saves recruitment costs and these can be as high as £30,000 per replacement (Sources: AXA PPP Healthcare and CBRE).
- Fewer ill-health, early retirement pension capitalised costs (noting GIP limited benefit payment plans of 2 years report a 30-40% claim cessation rate) and greater Pension Trustee confidence in granting the ill health pension (as all has been done by a GIP insurer to return the employee to the workplace, unsuccessfully).
- Reduced additional support services cost include the potential for an EAP pay direct cost removal, reduced organisational legal and /liability insurance costs, reduced medical treatment and private medical insurance costs (improved/correct treatment and

diagnosis) etc. as insurer support services are routinely included within the GIP premium.

- Equality Act (2010) compliance reducing litigation and workplace conflict.

#### Wider Business Benefits:

- As part of Corporate Social Responsibility, many organisations aspire to have workforces that are representative of either the UK workforce, their customer demographic or wider society.

Disability diversity programmes (unlike race, gender and age) are routinely the hardest to run and achieve colleague 'buy in'. The retention of employees with disabilities helps to achieve diversity goals, increased awareness and reduce fear for those who have become recently disabled, as well as achieve some form of measurement.

- Disabled employees are cited to be more loyal and productive than non-disabled employees.
- Managers who engage with the absence policy can be more fluent in up to 28 other policies and procedures and so proactive engagement with GIP, OH and HR, for example, increases managerial competence.
- Maximises the other benefits available eg death and medical benefits, to ensure that the benefits spend is used when most needed.
- Increased staff attraction and retention where GIP is in place.
- Amazing 'feel good factor' when retaining a recently disabled colleague.

It is worth noting that many employers comply with employment law and with the new employee health questionnaire, where there is no obligation to disclose health issues or disabilities. Putting in place Income Protection cover for employees, together with the health and wellbeing support can foster and encourage a culture that removes barriers for employees to discuss health issues in the workplace.

Occupational and GIP products support the retention and recruitment of disabled people and people with health conditions. All policies include an element of automatic cover for people who are actively at work on the day the policy begins or on the date on which they are eligible to join. The amount of the automatic cover offered will depend on a variety of factors, including the number of members and the level of benefit.

Consequently, membership of such schemes is open to all who able to meet the eligibility criteria. It is only those whose benefits exceed the Free Cover Level that will be underwritten by the insurer. Even then, these individuals are covered, up to the Free Cover Level, with the additional benefit subject to medical underwriting.

The Free Cover Level means that many people are insured who, because of their condition, may find it difficult to purchase personal cover or find it unviable due to additional premiums, or to an exclusion. The support services provided as part of the proposition help to retain people in work where possible.

Non-salary benefits, such as contributions to a pension scheme and the provision of, or access to, life and health insurance, will be an important factor when considering a career

move. In some sectors, benefits provided through the workplace can be a source of competitive advantage or, at least needed, to match packages provided by competitors.

We have included market data in the appendices, which demonstrates the important role the insurance industry has in increasing self-reliance (Appendix #2).

In addition to occupational arrangements, data from the Association of British Insurers (ABI) shows that, at the end of 2015, there were 1,129,000 IIP policies in effect. It has been estimated that around one-third of these policies have been taken out by people who are self-employed.

### **Staying in or returning to work**

**What good practice is already in place to support inclusive recruitment, promote health and wellbeing, prevent ill health and support people to return to work after periods of sickness absence?**

**What role should the insurance sector play in supporting the recruitment and retention of disabled people and people with health conditions?**

**What are the barriers and opportunities for employers of different sizes adopting insurance products for their staff?**

The main barrier is where an employer hasn't purchased cover for themselves. If they are not able to comprehend the benefits Income Protection can provide for them, they will not see the value for their businesses and employees.

The perceived cost associated with employees suffering from pre-existing conditions is also an issue, along with an employer's ability, or otherwise, to recruit replacement staff.

A larger employer may have more experience of the types of insurance designed to provide support. However, it is often the case that smaller firms are unable to visualise the risks that could be mitigated through Income Protection insurance.

UK insurers have the scale to broaden the cover provided to UK businesses, but there is a barrier to growth with the under-resourcing of distributors and Employee Benefits Consultants (EBCs). The adviser market needs to be stimulated to grow, and it needs some of the focus, currently on pensions, to move to GIP for the market to expand beyond its current size. Distribution is the challenge for industry, not the appropriateness of the products.

In addressing the DWP comment, "[we] therefore want to explore why larger employers are not making better use of these products and what would encourage them to do so" the issue is one of distribution and not of product deficiencies. Most EBCs struggle to maintain and service their current portfolio of clients let alone than seek new ones.

In the Green Paper, the DWP states:

***213. We therefore want the insurance industry to develop group Income Protection products that are affordable for, and tailored to, meet the needs of, smaller employers, including micro businesses, and for them to raise awareness and make access to such products easier.***

Reflecting on the clear distribution challenge cited above, the GIP industry already has products and services in place that are affordable, tailored to small and micro businesses with ease of access (Appendix #3, has 7 employer case studies based on actual data).

We believe that GIP products are already tailored to SME and micro business needs, based on both dimensions of the current offering: financial benefits and the additional support services packages that are available.

Specifically:

- Decision makers in SME and micro businesses are also employees, tending to also be the higher earners, and so should be more interested in covering potential loss in income. The options are not currently being presented to them routinely by advisers, leaving those with the most to lose, financially unaware.
- Tiered benefit schemes are available where Directors can have cover to SPA, 75/80% of salary, escalation in benefits and higher pension contributions, with staff on lower benefits, as the product design is fully flexible.
- Covering pension contributions not only protects the business owners' income in work and retirement. It can also provide contiguous payment of the pension contribution that possibly funds the commercial premises the organisation uses.

There is no option under current pensions legislation to provide a 'Waiver of Contribution or Premium' for pensions. Conversely, long term disability for senior individuals could mean the cessation of a business where the building has to be sold.

- Many smaller employers have PMI, to avoid NHS waiting lists, and so continued service enables the continuation of this benefit.
- The real case quotations (starting at 0.073% of salary costs) in Appendix 3 are based on a 13-week waiting or deferral period, but shorter waiting periods of 4 or 8 weeks are available, at an additional cost. This could further reduce Statutory and Occupational sick pay costs and all come with the full range of support services.
- Support services packages can help prevent absence and workplace issues whilst de-personalising performance issues (EAP), reduce legal costs and document creation costs for staff handbooks and contracts of employment.

We believe that SME and micro businesses have access to these products easily, albeit they tend to be distributed through EBC and independent advisers, rather than directly.

The level of benefit, where employees do not need medical underwriting, starts from £65,000 annual GIP benefit for two employees and can go up to £150,000 benefit. This means that only salaries more than £130,000 and £260,000 will need any form of medical underwriting (based on a 50% of salary scheme with no pension or NIC benefits). Even those with pre-existing health conditions can gain cover, if they are actively at work on the day the scheme commences.

Different insurers have made attempts to grow the market but without any degree of new-to-market scheme success. The 'It will never happen' and 'State will provide' illusions reduce individual propensity to even consider, let alone buy, income protection cover.

With a fragmented and limited distribution model the industry has struggled to gain traction with new-to-market schemes. There has been greater success with the increase in

employee numbers, where limited populations are covered by an organisation. This emphasises the value that organisations place on the benefit in place.

We all understand that we need to raise awareness, but in many situations a 'business case' is needed for investment (in staff and marketing budgets) and, with what is currently a stagnant market, this is not achievable in the current climate.

## **Chapter 6: Building a movement for change: taking action together**

### **How can we bring about a shift in society's wider attitudes to make progress and achieve long-lasting change?**

The Government should make the public sector, and companies it buys services from, the model for the private sector to aspire to. The public sector must be compliant with both the law as well as its spirit.

We appreciate that the growing need for self-reliance is not an easy message for the Government to communicate. The key is to engage with people at an early age, so that it is ingrained in their mentality that self-sufficiency is the way forward.

Education covering financial capability, financial resilience and self-reliance will contribute to changed perceptions over time

The change in attitude in younger generations, is evidenced by the questions recruits ask employers during the interview process (Appendix #4).

### **What is the role of government in bringing about positive change to our attitudes to disabled people and people with health conditions?**

To engender positive change, the Government must demonstrate that it is instilling its policy intentions across its departments and in its communications.

Providing evidence of the way its policy is helping to change attitudes with statistics, as well as open and transparent communications to its various audiences, will also help to educate individuals.

There is a suite of financial products that can help individuals build financial security and self-reliance and the Government must give equal prominence to each of them. The current focus on pension, ISAs and auto-enrolment means that little is known or understood about the Income Protection market and the benefits it provides.

### **Could any of the proposals within the green paper potentially have an adverse effect on people with a protected characteristic? If so, which proposal, and which protected group/s are affected? And how might the group/s be affected?**

As we mentioned in our overview, the Green Paper overlooks the self-employed. We don't believe there are any protected characteristics, but there are gaps which should be considered and disincentives that have been introduced as a result.

The current Universal Credit policy does little to encourage individuals to take out Income Protection.

As a matter of urgency, the Government should work with insurers to ensure that the State system and private provision complement each other. This, in turn, will give greater confidence to advisers who will be concerned at the risk of mis-selling allegations should the

circumstances, when a claim is made, mean that the policy (sold in different circumstances) turns out to have limited or no value.

We are enthusiastic to work with the Government to develop a system that supports the need to be self-reliant.

Yours faithfully,

**Dr. Matthew Connell**  
**Chair, Investment & Life Assurance Group**

## **Appendices:**

### **#1 Impact of early intervention services and rehabilitation**

In 2015, Canada Life reported that 80% of employees who engaged with EIS returned to work before their absence resulted in a claim (usually 26 weeks-scheme dependant) with an average duration of 5-7 weeks (depending on whether the employer worked with the insurer to establish referral processes). In effect EIS helped to control premiums for the employer and getting employees safely back into work more quickly than without case management. Deeper analysis of 2015 claims shows that 80% of absences relating to mental health problems will last only seven months when early intervention is utilised, compared with two years where it is not used. In this case, employers had access to day one mental health early intervention services for their employees.<sup>1</sup>

In 2016, further Canada Life statistics show that of the 740 cases referred to EIS in 2016:

- 93% were resolved before claim payment in 2016
- Over 70% of cases returned to work before claim payment
- 95% employee engagement was maintained (i.e. 95% of referred employees actively engaged with the service)

**Unum's** return to work service shortens the length of absences that last six months or more, reducing the length of those most complex absences by on average 16.6% and 18.2% for mental health problems.

**Unum's** (2016) Return to work statement shows that seven out of ten people who use their return to work service get back to their employer.

Research by **Zurich** in December 2015 (Income Protection and rehabilitation – working together) found that for every £1 that insurers spend on rehabilitation activities, £16.80 of benefit is generated in the form of:

- Employees – earnings
- State – increased tax revenue and lower expenditure on welfare benefits
- Employer - productivity and reduced indirect costs
- Insurers and customers – reduced number and length of claims which is reflected in premiums.

**Zurich** stats show that:

- 66% of claims notified through their case managers were referred for rehabilitation

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<sup>1</sup> Canada Life MI, 2015/16

- 82.5% of those referred to case managers returned to work before the end of the deferred period or were claims that were not proceeded with

Examples of the rehabilitation support available to employees can also be found in the activity of the 7 Families initiative, particularly <http://7families.co.uk/pickford-family>. Furthermore, EAPs and counselling services can aid preventing absences from occurring in the first place, helping those struggling in work as well.

The GIP Industry prides itself on the patient-centric, compassionate way in which it supports absent employees and does everything it can to return them to the workplace.



EIS Laura

GRP1335\_117R.pdf



EmployeeCare Lucy

GRP1316\_117R.pdf



EIS Steven

GRP1344\_117R.pdf



EIS Simon

GRP1337\_117R.pdf



CMS Rehabilitation

Case Study GRP824-

## #2

Research conducted by the Centre of Economics and Business Research (CEBR) on behalf of Unum indicates that the total annual cost of long-term absence to the private sector could rise from £4.17bn in 2014 to £4.81bn in 2030. When the public sector is added, the costs over the same period rise from £6.71bn to £7.60bn.

Factors that could influence this include changes to the make-up of the workforce, including increases to the number of older workers.

By notifying absence early and offering early intervention, the length of sickness absence can be reduced by 17% and the length of mental ill-health absence by 18%.

For the GIP cohort evaluated, this equates to a reduction in sickness absence of over a year (60 weeks) based on an average long-term absence duration of seven years assumed for the cohort, directly contributing to savings for individuals and their families, employers, the state and insurers.

Research conducted by Economics, Policy and Competition (EPC) on behalf of Zurich from the perspective of all stakeholders concluded that an annual direct financial benefit of £74 million can be attributed to rehabilitation through GIP:

- £27 million taxpayer savings through lower welfare payments and higher tax revenues.
- £5 million savings to employees and their families who return to their higher earnings in work.
- £17 million to employers through reduced occupational sickness payments and other direct costs of absence.
- £25 million to insurers through reduced payments of claim benefits, which can ultimately be passed on to customers through lower premiums.

Additional quantified indirect benefits for employers were found to be worth around £35 million. This figure reflects the cost of temporary staff, overtime and lower productivity while the individual is absent from work.

Research carried out for Canada Life research indicates that 86% of absences can be managed back to work within six months and that 80% of absences relating to mental health

problems will last only seven months when early intervention is utilised compared with two years where it is not. In this case, employers had access to day one mental health early intervention services for their employees.

Legal and General, has published statistics on those who returned to work in cases where early intervention rehabilitation was provided:

- 78% of all notified GIP claimants returned to work before the end of the deferred period and 83% did so within the first year of absence.
- 80% of mental health claimants returned to work before the end of the deferred period and 86% did so within the first year of absence.
- 82% of musculoskeletal claimants returned to work before the end of the deferred period and 87% did so within the first year of absence.
- 28% of cancer claimants returned to work before the end of the deferred period and 40% did so within the first year of absence.

### **Appendix #3 Real case studies of GIP affordability for SMEs and micro employers**



170210 GIP SME  
Cost and Cover Exam

Taking the first real example (Cyber company) the cost is 0.087% of salary costs and after corporation tax the net cost to the business is 0.07% of salary costs which is 1/100<sup>th</sup> the Automatic Enrolment pension cost for employers and employees in 2018 i.e. 8% of salary.

The product quoted will provide both financial and non-financial benefits:

- Day 1 Vocational Rehabilitation Access
- An EAP
- A Second Medical Opinion service
- Access to a Treatment Sourcing Service (aligned with Fit for Work treatment sourcing to utilise the £500 tax free treatment exemption- noting access to treatment sourcing is provided and not payment for treatment itself).
- An online and telephonic legal support service for the employer with document creation and case support
- A pay as you earn (PAYE) salary payment to the employer, after 13 weeks' continuous absence of 50% of salary (reducing Statutory Sick Pay costs now the Percentage Threshold Scheme has been removed)
- Protection for an 8% Automatic Enrolment pension scheme contribution
- Protection for continuing payment of NICs

Taking this most expensive example (bespoke jeweller) the cost is 0.688% of salary costs and after corporation tax the net cost to the business is 0.55% of salary costs which is 1/14<sup>th</sup> the Automatic Enrolment pension scheme contribution cost for employers and employees in 2018 i.e. 8% of salary.

Whilst this information has been provided by one insurer (Canada Life), with a bespoke support services package, all insurers offer additional services with employer and employee support and noting costs can further reduce in a competitive/broking environment.

Leveraging their size, insurers have all selected the best quality service providers to deliver these services as they are experts in managing employee health and understand the impact deficient service can have on service users.

Additionally, whilst free (to users and included within premiums) and of great quality the GIP industry has taken on the need to provide much more than financial benefits to sick and disabled people as the single dimensional nature of that aspect of support limits the ability of individuals to cope with significant changes in their life circumstances.

#### **Appendix #4**

<https://www.pwc.com/m1/en/services/consulting/documents/millennials-at-work.pdf>

## **ILAG Membership 2017**

### **Full legal members**

Aberdeen Asset Managers Life & Pensions Ltd  
AIG Life Limited  
Aviva  
Barnett Waddingham LLP  
Canada Life Limited  
Capita plc  
Defaqto Limited  
Deloitte LLP

EY  
FIL Life Insurance Limited  
Forester Life  
Gen Re  
Grant Thornton  
Hannover Re UK Life Branch  
HCL Insurance BPO Services Limited  
HSBC Bank plc  
Huntswood  
Hymans Robertson LLP  
LV=  
Mazars LLP  
metfriendly  
MetLife

Milliman  
OAC Actuaries and Consultants  
OneFamily  
Pacific Life Re  
Phoenix Group  
Pinsent Masons LLP  
Police Mutual Assurance Society Limited  
PwC  
Reliance Mutual Insurance Society Limited  
RGA UK Services Limited  
RPC Consulting  
Sanlam UK Ltd  
SCOR Global Life UK  
SDA Ilp  
Suffolk Life Annuities Limited  
Sun Life Financial of Canada  
Swiss Re  
Unum  
Vitality  
Wesleyan Assurance Society  
Willis Towers Watson  
Zurich Assurance Limited

### **Associate members**

AKG Financial Analytics Ltd  
Ecclesiastical Insurance Group  
Foresters Friendly Society  
McCurrach Financial Services Ltd  
NMG Consulting

Shepherds Friendly Society Limited  
Squared Health  
Squire Patton Boggs  
State Street Investor Services