**Protection Review Book**

**John Gillman’s contribution to the GIP section**

**Auto-enrolment**

There was concern that automatic enrolment would possibly lead to the winding up of Group Income Protection (GIP) schemes where eligibility for GIP was linked to eligibility for pension, hence increasing the cost of its provision. Latest figures for scheme membership do not, however, indicate that this has happened to any great extent.

So far, auto-enrolment has been declared a success with far fewer employees (approximately 9%) opting out than was expected. This success has encouraged discussion as to whether automatic enrolment would be appropriate for health related benefits.

Small and micro employers are now approaching their staging dates. An employer survey conducted by The Pensions Regulator in November 2014 revealed that more than 20% of those due to stage between June and November 2015 had not yet drawn up plans to meet their duties. However, eight in ten smaller medium and small employers had consulted an adviser or intended to do so. In order to help, in March this year the Regulator has launched a new online 11-step guide to help small businesses[[1]](#footnote-1).

A positive view of all this is that developments in the pension’s space can prompt employers to consider other employee benefits and may open up new consulting opportunities. Whether auto-enrolment could ever be applied to GIP is another matter. It is difficult to see this happening in the short term give the sheer volume of work it would impose on employers so soon after the pensions exercise. And the insurance industry would have to be enthusiastic in stepping up to the plate for this with a coordinated enthusiastic strategy. This does not appear to be happening at the moment.

**The employment and benefits landscape generally is changing**

*Statistical data on employment***[[2]](#footnote-2)**

In 2014, there were 5.2 million businesses in the UK of which over 99% were small or medium sized (i.e. employing 0-249 people). About five million of these were micro-businesses (employing 0-9 people) and they accounted for 33% of employment and 19% of turnover.

The service industries accounted for 73% of businesses, 79% of employment and 70% of turnover. The manufacturing sector accounted for 5% of businesses, 10% of employment and 16% of turnover. In 2013 there were 346,000 business births and 238,000 business deaths.

Since 2000, the number of businesses in the UK has increased each year, by around 3% on average. In 2014, there were 1.8 million more businesses than in 2000, an increase of around 51% over this period. This is the first time ever that there have been more than five million businesses in the UK (an increase of 330,000 since 2013).

The proportion of businesses that employ people has fallen since 2000 from around a third, to around a quarter. This decline in the number of employers as a proportion of all businesses is due to the growth in self-employment: the number of sole proprietorships (businesses with no employees) has grown faster than the number of all businesses.

The number of businesses with no employees has grown by 68% since 2000, compared with growth of 51% in the total number of businesses.

*The benefits landscape*

The Chartered Institute for Personnel and Development have pointed out that increasingly, benefits are no longer regarded solely as a retention tool. Research indicates that there are many factors in an organisation’s employment proposition and that what makes them attractive might depend on the individual employee’s circumstances (such as age or caring responsibilities). This has led to the concept of ‘total reward,’ i.e. that organisations should adopt a bundle of mutually supporting financial and non-financial rewards (such as flexi-time or home working) that are aligned to the needs of the organisation and its employees. Such an approach has led many employers to regard employee benefits as a strategic tool to assist with employee recruitment and retention and/or align employee behaviours with business objectives.

Flexible benefits have proved extremely popular. Research conducted in 2012 indicated that 52% of employers had either implemented or were in the process of implementing a flex scheme[[3]](#footnote-3). According to research among HR professionals carried out in 2014, 81% of respondents claimed their organisation offered some form of flexible benefits. Of those not offering such arrangements, 25% claimed to be considering offering it within the next 12 months.[[4]](#footnote-4)

Not every employer-facilitated option is delivered via a formal flexible benefits scheme; there are many freestanding options as well. For example, retail discount vouchers can (it is claimed) save careful shoppers up to £1,000 in the course of a year. Similarly, childcare vouchers have proved very popular and carried significant National Insurance advantages (which are now under threat). Added to the mix have been plans involving the purchase of iPads, smartphones and bicycles (through Cycle2Work schemes)[[5]](#footnote-5). There was also a report recently of employees valuing and asking for upskilling and literacy support rather than a wellness programme[[6]](#footnote-6).

Most of these non-core voluntary benefits are marketed on the premise that they are relatively inexpensive as far as the employer is concerned offer immediate perceived benefits to employees. Their value is not contingent upon the happening of a usually unpleasant insured event.

Conventional benefits such as GIP have, therefore, have had to compete with numerous alternative methods of improving employee engagement.

***Other important trends and indicators***

*Age demographics*

Recent figures confirmed that government labour-market policies, such as the Age Discrimination Act of 2006 and the Equality Act of 2010, have enabled older workers to stay in the labour market longer. Two thirds of the increase in employment since May 2010 has been among those aged 50 and over. Younger workers meanwhile experienced the biggest drop in employment during the recession and have not yet recovered to pre-2008 levels. A recent report found that young people might be held back by a lack of ‘employability’ skills including literacy, numeracy and self-management and that a positive proactive approach to work was lacking. Attitude and ability appeared to hinder them more than age. [[7]](#footnote-7)

An increasing number of employees intend to work past what was previously a Normal Retirement Date – some because they do not want to retire but many others because they simply cannot afford to. More than three in five (61%) UK employees expect to work beyond the traditional retirement age of 65. A survey by Canada Life Group Insurance reveals that more than one in five (22%) workers say that they will ‘definitely’ continue to work as they get older.

Only 12% say that they would not work past the age of 65 under any circumstances, a sign that working beyond the age of 65 is fast becoming the norm for a majority of people. According to the research, with the UK facing an ageing workforce, employers will need to adapt the working environment accordingly to meet the requirements of an older workforce. Younger respondents are most likely to believe that they will work past 65. Sixty nine per cent of those aged between 21 and 30 believe they will work after 65 compared to just 50% of those aged 50-60.

Almost nine in ten respondents (88%) cite money worries as the reason they are likely to work past 65. A third (32%) say their pension savings will not be sufficient to fund retirement while 14% feel unprepared for retirement and are unsure how long their money will last. More than one in ten (14%) believe they cannot rely on a state pension.

One effect is the impact on employee health. For example, GRiD research conducted in 2014[[8]](#footnote-8) found that one third of respondents reported that, overall, their workforce was getting older. Importantly for the health perspective was the finding that over a quarter believed that they had seen an increase in absence due to age related conditions (such as diabetes and arthritis).

Overall, other implications include:

* Possible increases in the cost of health-related insurances. Research conducted in 2014 suggested that 43% of respondents expected higher costs[[9]](#footnote-9)
* The need to revisit traditional benefit structures (such as continuation of cover until retirement age)
* Changing employee attitudes to the value of benefits with 48% of employers planning to offer more choice[[10]](#footnote-10)

Research among employers conducted in 2014[[11]](#footnote-11) indicated that well-being and productivity strategies are also firmly in the spotlight, with some industries positively encouraging older employees to stay on for their knowledge and experience. This provides a strong wellness business case focusing on the initiatives, tools, governance, communications and reporting strategies required to deliver a successful model. Introducing proactive health screening programmes around preventative and chronic disease management may become part of an overall integrated health and wellness strategy.

*No more ‘jobs for life’*

The ‘paternalistic’ approach to employee benefits and welfare was often linked to the likelihood of an employee staying with the same employer (or at least in the same profession) for their entire working career. An employee could therefore see the value of a pension related to service and other benefits (such as life insurance) that protected the family in the event of death.

Nowadays (and for probably the last three decades) we have tended to change jobs more frequently since the benefits heydays of the early1970s. Average employment tenure in Britain was just over eight years in 1992 and was still the same in 2002. Average tenure for men rose between 2004 and 2011 from about 8.5 years to just over nine years in 2011. For women over the same period it rose from seven years to just over eight. The UK has for some time had the shortest average job tenure in Europe.[[12]](#footnote-12)Interestingly, in 2002 Greek workers had the longest tenure in Europe of nearly 13 years (no surprises there). Median tenure in the United States in January 2014 was 4.6 years.[[13]](#footnote-13)

*The Growth of self-employment (and businesses with no employees)*

As has already been noted in the Employment Statistics above, the self-employed community has been growing rapidly. Some commentators have cited this as an example of the economy not doing very well – people losing their jobs or unable to find employment and therefore taking refuge in self-employment.

The picture is somewhat more complicated than this. It has been pointed out that[[14]](#footnote-14):

* Self-employment growth in the last five years has mainly come from the ‘professional’ class segment. This demonstrates a shift from the manufacturing to the service industries where survival in self-employment is less difficult
* The increasing sophistication of technology enabling working from home or in a variety of environments (without the need for additional support)
* People are leading longer and healthier lives – the number of over-65s in self-employment has expanded by 140% since 2000, more than double the rate of any other age group
* There has been a baby boom – births in 2012 were the highest in 40 years and many parents are seeking the advantages of flexible working, which self-employment can bring

Some estimates suggest that self-employment could exceed the public sector workforce by 2018.

*Attraction of self-insurance*

For employers with large workforces, self-insurance of GIP can make sense. The Equality Act 2010 (and its precursor the Disability Discrimination Act 1995) forced employers to ensure that they made ‘reasonable adjustments’ in the workplace to accommodate any employee (or potential employee) with a disability. This resulted in a more focused approach to health risk management (often in partnership with both in-house and outsourced occupational health professionals). After quantifying the risk related to long -term sickness absence some organisations decided that this could be managed in-house without the costs associated with insurance. If fact, any employer who meets sickness absence costs out of payroll is self-insuring but they would not necessarily describe it as such.

*Employee over-optimism*

Research indicates that employees tend to be over-optimistic both as to what the State or their employer will provide if they are unable to work for a long period[[15]](#footnote-15). People generally also underestimate the likelihood of long-term incapacity even though it is much more likely than death before age 65.

**Group Income Protection market penetration**

One way of investigating how well traditional health-related insurance benefits have been seen to meet employer needs over the years is to look at published statistics such as numbers of covered lives and number of schemes in force. The periods chosen endeavour to compare pre-recession years (the years up to and including 2008) and post-recession periods.

It is important to remember, however, that the recession was unusual because there was not a big rise in unemployment. In 1984 unemployment peaked at 11.9% and in 1993 it reached 10.7%[[16]](#footnote-16). During the most recent downturn the peak was 8.5% in 2011 (it is currently 5.7%).

The following table sets out the number of GIP schemes in force between 2005 and 2014[[17]](#footnote-17):

***Group Income Protection Insurance***

***Number of Schemes (Thousands)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| 19.5 | 19.0 | 18.9 | 18.6 | 17.8 | 17.5 | 17.3 | 17.2 | 17.2 | 17.1 |

Numbers of schemes declined steadily from about 19.5 thousand in 2005 but steadied at just over 17 thousand from 2011 onwards. In other words, almost 2.5 thousand schemes have closed over a nine-year period. The main culprit seems to have been the effect of the recession on small businesses, with scheme numbers declining steadily from 2008 onwards.

Here is a table setting out the number of covered lives over the same period[[18]](#footnote-18):

***Group Income Protection Insurance***

***Numbers of Covered Lives (Millions)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| 1.68 | 1.73 | 1.72 | 1.76 | 1.78 | 1.79 | 1.83 | 1.96 | 2.03 | 2.08 |

Membership numbers have enjoyed a steady climb from 1.68 million covered lives in 2005 to 2.08 million in 2014 (the climb continuing even through the early recession years).

This must be put into the perspective, however, of a working population of approaching 30 million. Even taking into account the fact that many employers self-insure, this is disappointingly low penetration.

The GIP figures are doubly disappointing because of the incredible efforts insurers have been making in expanding their offering from merely a commoditized insurance product to a valuable risk management tool.

For example, alongside the GIP Scheme employers often also have access to:

* Employee assistance programmes
* Absence management services
* Limited term payment arrangements
* Speedily arranged cognitive behavioral therapy
* Financial incentives to encourage early intervention
* Direct payment of benefits to claimants
* Support packages and help lines for employees
* Absence management assessment services
* More streamlined underwriting procedures

Often these are available at no extra cost and can be very successfully integrated with an employer’s existing health strategies such as occupational health.

Insurers have also moved to recognise the need and value of limited payment policies as well as the need to encourage the inclusion of Income Protection as part of the flexible benefits menu.

**The future**

Employers have been facilitators of benefits for decades, and this role is set to continue and increase in importance as organisations try to tailor benefits to play a key part in improving individual employee engagement. Evidence for this can be seen in the growth of flex and the success of a wide range of relatively new benefit options.

For insurers this means, *inter alia*, the end of the old automatic demarcation lines between 'Group' and 'Individual' business. In their marketing strategies, insurers must now look at, and segment, the working population in a more sophisticated fashion. ‘Number of employees’, for example, is no longer a useful segment definition (if, indeed, it ever was).

These trends do not herald the end of the importance of insurance in employee benefit strategies. On the contrary, they open up fresh opportunities:

1. The growth in self-employment and micro-businesses presents a great opportunity in view of the clear need such people have to protect their livelihood in the event of incapacity

2. Small to medium size businesses face the similar risks with regard to the business owner and key employees, and pensions auto-enrolment opens up prospects for the discussion of protection products

3. Notwithstanding the attraction of self insurance, the trend towards government pushing back responsibility for health management to employers (and individuals) will highlight the value of the risk management tools that come as part of the GIP proposition

4. The election of a Conservative government means that the rollout of Universal Credit will continue. This creates opportunities for the re-design of existing GIP schemes (and possibly increasing employee pressure for better protection from their employer as the state retreats)

5. An ageing workforce and a workforce expressing changing needs (such as concern regarding elder care) present opportunities for new products and services. Keeping employees fit and productive becomes more and more important, offering the real possibility of partnerships with providers rather than simply transactional insurance arrangements.

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4. Crawford, R ‘81% Offer some form of flexible benefits’. *Employee Benefits Magazine* [7 October 2014] [↑](#footnote-ref-4)
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14. Dellot, B ‘Out of office – more and more people are working for themselves, but are they choosing to leap or are they being pushed?’ [2014] *RSA Journal* Issue 3 21-23 [↑](#footnote-ref-14)
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17. Swiss Re ‘Group Watch’ [↑](#footnote-ref-17)
18. Ibid [↑](#footnote-ref-18)