**Market Overview 2012/2013**

This is a brief look back over the last year or two in order to pick up on a few major developments and, where possible, assess what implications they have had for the Group Income Protection (GIP) market.

Firstly, some **market statistics**. According to Swiss Re Group Watch 2013, at the end of 2012 in-force premiums for GIP totaled just over £563 million – an increase of 8.7%. The total number of lives covered also increased – from 1.836 million (in 2011) to 1.964 million. However, the number of in-force schemes fell slightly, from 17,306 to 17,224.

The trend towards limited benefits periods also seems to be continuing with the reported percentages written on this basis for the period 2009 to 2012 being 7.1%, 10.1%, 11.7% and 13.2% respectively.

Premiums under flexible benefits schemes increased by 7.4% and the Swiss Re researchers expect steady growth to continue. They cite two reasons for this: auto-enrolment putting budgetary pressure on employers and improving technology making flexible benefit solutions easier and cheaper to administer and more affordable for smaller businesses.

The first stage of **auto-enrolment into employer pension schemes** took place in October 2012 in a phased programme that will last until 2018. Research conducted by Group Risk Development (GRiD) indicates that employers are broadly upbeat with 36% believing that auto-enrolment will have a positive impact on their business. Also, encouragingly, 35.7% expect to meet the additional cost of auto-enrolment without cutting other benefits.

Historically there have been strong links between life assurance benefits and active pension scheme membership. Some employers have also established a link between GIP scheme eligibility and eligibility for the pension scheme.

Auto-enrolment is prompting very fundamental reviews of such linkages since, for example, the number of covered lives could increase dramatically post auto-enrolment with significant cost implications for protection benefits generally. Also, with employees possibly opting in and out of the pension arrangements, there are issues with regard to data collection and underwriting.

GRiD has also conducted some research into the effect of the **removal of the Default Retirement Age** in April 2011. Of the representative sample of employers they contacted, 27% reported seeing the rates of absence go up for age-related health conditions such as diabetes and arthritis. On the more positive side, older employees were seen as being more likely to be loyal and were also a valuable store of knowledge. And 50% stated that they were now more likely to recruit employees aged 50 and over. Almost 42% of respondents reported a general increase in workforce average age over that last five years (33.3% reported an increase in the last 12 months).

As far as the **nature of claims under GIP policies** is concerned, research has thrown up some anomalies regarding **the causes of long-term absence generally**. The high percentage of mental health claims has been a feature of claims profiles for some time. For example, a year ago Legal & General were reporting that, over the previous 12 years, one third of GIP claims were for mental health issues. In the finance and insurance sectors the figure was 44%.

However, GRiD’s 2012 research among a representative sample of businesses with up to 1,000 employees showed acute medical conditions re-emerging as the main cause of absence (21.9%) with stress-related/ mental health and musculoskeletal conditions following at 12.5% each. This variation may well be explained by the fact that, for the GRiD research long-term absence was defined as more than four weeks. GRiD also makes a point regarding co-morbid health conditions.

These problems, such as depression and anxiety – which commonly occur when an employee suffers from a physical health condition for any length of time – may not have been accurately captured by employers because only the initial cause of absence is recorded.

George Osborne created some excitement in his **2013 Budget** speech when he said ‘Companies that look after their employees, and help them return to work after periods of sickness, will get new help through the tax system too’.

He went on to say that the Government was going to consult later in the year about the introduction of ‘targeted tax relief so that amounts up to a cap of £500 paid by employers on health-related interventions….are not treated as a taxable benefit in kind’. The industry as a whole has enthusiastically welcomed this move, but some commentators have expressed concern as to whether the sum is significant enough and whether it would (for large employers) be too difficult to track and administer effectively, a possible disincentive.

Finally, for anyone interested in **legal developments**, there are a couple of cases readers may want to look up. These are Duckworth v British Airways (regarding reasonable adjustments being made ‘within a timely manner’) and Lloyd v BCQ (regarding the dismissal of a GIP claimant).