**The Group Income Protection Market in 2014**

**Income Protection and auto-enrolment**

The Department for Work & Pensions published their Automatic Enrolment (AE) evaluation report in November 2013, which set out in some detail what impact AE had achieved[[1]](#footnote-1). The data show that, in the first year of AE, more than 1.9 million workers across almost 3,000 employers were automatically enrolled into a pension scheme. Surprisingly (and encouragingly) the average opt-out rate was only 9% whereas some research conducted before the AE programme was launched suggested that opt-out rates were likely to be between 15% and 40%. One has to bear in mind, however, that the initial wave of staging dates were for large employers who, generally speaking, probably have pension arrangements in place and are (one might assume) more adept at communicating pensions information to staff. Staging dates for smaller employers start in April and run through to 2015 and for these groups it is expected that opt-out rates will be higher.

Concern was expressed before the AE process started that employers would, for example, seek to fund additional expenses by reducing their spend on other benefits provision such as Group Income Protection (GIP). There was also concern that, where GIP eligibility was linked to pension scheme eligibility, the increased pension scheme membership would render the GIP scheme unaffordable. The latest edition of Swiss Re Group Watch [[2]](#footnote-2), however, seems to indicate that these fears were unfounded since the number of lives covered under GIP schemes actually increased by 3.8% (from 1.963 million to 2.039 million). In-force premiums grew by 6.2% (from £563m to £598m) but the number of in-force schemes fell slightly (from 17,224 to 17,193).

Other good news was that Group Risk Development[[3]](#footnote-3)(GRiD) research conducted towards the end of last year revealed very positive attitudes among employers. More than half of them (52%) would be supportive of auto-enrolling employees into group risk protection products. Employers’ attitudes towards the pension AE experience were also positive with almost a quarter (24%) having increased their spend and a further 40% saying that AE had a positive impact on their business (for example by encouraging employee loyalty and improving interest in financial matters).

So what does all this mean for Group Income Protection?

AE is taking place against a background of significant change:

* The removal of the Default Retirement Age has contributed to the fact that the UK workforce is ageing - GRiD research conducted in 2012 found that one third of respondents reported that feature among their own employees. 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). 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.
* Early diagnosis and more effective treatments are helping people remain in employment who would previously have had to leave – possibly because their life expectancy was seriously impaired or because their treatment had side effects that made work impossible. This is great news for both employers and employees, but employers must be continually aware of their obligations under the Equality Act to make ‘reasonable adjustments’ (and a person diagnosed with cancer, for example, has immediate statutory protection whether or not their symptoms result in absence).
* The stigma attached to mental health conditions is gradually disappearing (although progress is still very slow). There is now a higher likelihood, however, that employers will find employees more willing to declare a mental health condition and this must be dealt with in the most positive and helpful way in order to keep them in employment.
* Welfare reform has been a key feature of both this and the previous government’s policy, and for some time now there has been an obvious synergy between Government policy on workforce health and the way Group Income Protection arrangements operate. One only has to look at the structure of the proposed ‘Health and Work Service’[[4]](#footnote-4) due to be launched later in 2014 to see this.

The extension of AE to smaller employers will undoubtedly offer advisers an opportunity to talk about employee benefits overall and GIP will no doubt feature in these discussions. There are, however, challenges to be dealt with, these include:

* Demonstrating the likelihood of long-term absence occurring and quantifying the relationship between employee health and productivity
* Promoting effectively the value of the benefits that come as part of the GIP ‘package’ (for example rehabilitation services, employee assistance programmes and therapies specifically related to mental health)
* Justifying increased cost at a time of economic uncertainty. Persuading employers that it can make good business sense to invest in health. For example, emphasising that both the employer and the employee benefit from maintaining the employment relationship once an employee has developed job-specific skills.
* Helping employers to see how GIP fits in to an overall health risk management strategy and is not simply just another insurance policy
* Promoting the positive relationship between work and personal wellbeing and persuading employers of its importance. There are significant personal losses for people who are unable to get back into work, apart from the financial implications. It has long been accepted that work is important in many ways to a person’s psychological well being, bringing as it often does personal satisfaction, status, recognition and a supportive social network.
* Illustrating how insurance can help avoid litigation by ensuring that legal obligations, such as the need to provide reasonable adjustments, are met.

Obviously the success so far of pensions auto-enrolment has the prompted the question as to whether auto-enrolment of income protection would be a good idea.

Given the incredible amount of work it has taken to get pensions auto-enrolment up and running it is difficult to imagine any government (for the time being at least) foisting another compulsory initiative and more costs on employers. Whereas it is true that the government is shifting burdens related to sick pay costs to the employer, and making claiming for state benefits more difficult, insurance is still only one possible solution. Many employers already self-insure and many have also set up quite sophisticated early intervention protocols in order to fulfil their responsibilities under equality law. It will also be interesting to see how employers engage with the Health and Work service when it is up and running and one can see insurance playing a complementary role with other health-management initiatives.

**The next few years**

It has often been said that the GIP market is more about evolution than revolution. It is also fair to say, however, that the work that has been done by insurers in the area of health risk management over the previous few decades has been impressively innovative. It has produced tangible evidence that an effective partnership with employers is perfectly feasible at a time when workforce health is becoming of higher importance as the nature of long-term absence changes (and government spending on welfare benefits is destined to continue to be reduced).

The next few years may see:

* A continuing (but very slow) trend towards short-term payment periods, flexible benefit schemes and employee-paid arrangements. These reflect both changes in the employer-employee relationship and workforce demographics
* Employers looking for more effective means of early intervention with the emphasis on productive, fast and safe return to work
* An ageing workforce where the nature of the causes of absence (both short-term and long-term) will change along with a concurrent need for changes in benefit design and risk management approaches
* The employer becoming a facilitator of benefit provision rather than the provider and funder
* More interest in employee wellness and pro-active measures which deliver better productivity and improved employee engagement

It may be wise to end on a cautionary note when considering how the market and coverage generally can be extended, and there may be a lesson from what has happened in the Australian market. This article by Tony Boyd entitled ‘Life insurers knocking on heaven’s door’[[5]](#footnote-5) makes interesting reading.

1. Available at https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013 [↑](#footnote-ref-1)
2. http://www.swissre.com/media/news\_releases/nr\_20140408\_Group\_Watch\_UK\_2014.html?mobile=iPad [↑](#footnote-ref-2)
3. http://www.grouprisk.org.uk/ [↑](#footnote-ref-3)
4. Available at https://www.gov.uk/government/policies/helping-people-to-find-and-stay-in-work/supporting-pages/co-ordinating-the-health-work-and-wellbeing-initiative#health-and-work-service [↑](#footnote-ref-4)
5. http://www.afr.com/p/business/chanticleer/life\_insurers\_knocking\_on\_heaven\_3koYxryqJTiB2vgrboGIjN [↑](#footnote-ref-5)