Building resilient households

CII research report

The future of financial provision for those too ill to work

in association with

SAMI Consulting

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2 Foreword

This millennium has seen employment levels in the UK rise to a record high, bringing opportunity to many people and economic benefits to the nation as a whole. Yet at the same time, growing numbers of people have found themselves unable to work as a result of sickness.

Insurance can, and does, play a significant role both in helping people cope financially during a sickness absence and in getting them back to work. Many other services and agencies also play a major part.

The CII, together with other sponsors, commissioned this study by SAMI Consulting to help understand what factors affect the resilience of UK households to sickness absence. We also wanted to know what could be done to help more families weather the effects of sickness absence in the future.

The report comes at an important time. Welfare reforms are reshaping the state benefits system, making it plainer than ever that people reliant on out-of-work benefits cannot expect to maintain the lifestyle they enjoyed while in work. What's more, fewer employers are offering sickness benefits and almost one worker in six is self-employed. So the question of how families are to cope with their commitments when sickness strikes looms ever larger.

The report does not make for comfortable reading. For those involved with insurance – both within the profession and among consumer bodies – this paper raises questions about product design and distribution, and how to build public confidence. For the Government, it asks what could be done to the benefits system to better encourage private insurance-based provision and rehabilitation. Above all, it highlights the need for services and agencies to work together to help ensure that families are better placed to cope with the effects of sickness absence in the future.

Now is the time for action. Both collectively as a profession and individually as firms, we must engage in that debate. Having made some suggestions on what needs to be done, the CII is now looking forward to actively collaborating with all stakeholders to bring about a system that best serves the public interest.

Robert Fletcher
Immediate Past President

Key points in this report:

Where we are today

- Each year, a million people in the UK suffer a prolonged absence from work due to sickness.
- A minority of this million get sick pay from their employer, although most have to rely initially on Statutory Sick Pay (SSP) of £88 a week. SSP is not available to the self-employed.
- Up to half a million would find their savings run out after just a few weeks.
- State benefits assist some people but often the payments aren't enough to help them meet inescapable commitments.
- Insurance products exist to help. They provide cash payouts, support and rehabilitation to get people back to work.
- Rehabilitation and support reduce the length of sickness absences, bringing financial benefits for employers and the State as well as helping individuals. A pound spent on these services can bring savings of £17.
- Only around 1 person in 10 is covered by insurance. As a result, many families suffer financial hardship and lasting damage when there's a prolonged absence from work due to sickness.
- Planned changes to state benefits will mean people who buy insurance could lose benefits £ for £.

Factors that may shape the future

Five factors may shape how well families weather sickness absences in the future:

- **Household resources.** Rising housing costs, 'generation rent', student loans, auto-enrolment into pensions and reliance on the 'Bank of Mum & Dad' mean household budgets are likely to remain under pressure for most families.
- **Employment patterns.** While technological advances (e.g. automated services replacing humans) can mean greater uncertainty about the distribution of work and earnings, technology can also help more people to work when unwell. Employer and social attitudes to sickness and work will be crucial.
- **Health and Health Services.** How far will health services develop to support people getting back to work? And how far will individuals proactively optimise their health? There is a long way to go.
- **Financial Planning and Financial Services.** If consumers can improve their financial planning and management capabilities, and the finance and insurance industry is able to build more trust with the public and widen access to its products and services, then a greater number of families could become more resilient.
- **The Welfare State.** A more generous benefits system looks unlikely, but a better fit with private insurance (removing the £ for £ clawback) offers a way of improving resilience. Early work-focussed support – building on the experience of insurance-funded rehabilitation – could make welfare provision more effective.

Recommendations

1. A key target for the Government and the successor body to MAS should be to increase the number of households able to cope financially with a 4–6 week interruption in income. For longer periods, insurance is likely to be a better solution.
2. The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. It should also consider how the product can be made easier to acquire and how to help build greater public trust.
3. The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position (whereby those who insure against sickness may face a £ for £ clawback) should be revised, so that those who act responsibility are encouraged rather than penalised.
4. A Task Force involving Government, MAS, Employers, Distributors, the FCA, relevant charities, health providers and insurers should be established. This Task Force would ensure that stakeholders seize every opportunity to alert people of the need to plan for contingencies such as sickness absence.
5. The Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, charities, health professionals and insurers) to consider how better, and earlier, support and rehabilitation could be extended more widely.
6. The Government should work with money advice and debt services, health professionals and the Task Force members to identify ways of alerting people about the help available as soon as possible in a period of sickness.

The issue

1. Each year a million people in the UK suffer a prolonged absence from work due to sickness.
2. A fortunate minority of these people will continue to be paid by their employer. But most will have to rely initially on Statutory Sick Pay of £88 a week, although even this is not available to the self-employed. This means a fall of £325 a week for the average earner – so, someone who is off work for 6 months could be £9,000 out of pocket.
3. While some people are able to rely on savings to make up for the loss of earnings, up to half would have depleted their savings completely after just a few weeks. While state benefits can help those in greatest need, they do not cover mortgage payments – at least for the first 9 months – and may not cover the rent or a wide range of other inescapable commitments.
4. Insurance products, such as Income Protection and Mortgage Protection, exist to help with the financial effects of sickness. They also provide support and rehabilitation to promote a speedy return to work – but only around 1 person in 10 is covered by such insurance.
5. As a result, many families suffer financial hardship. Often, there is also lasting damage done to their finances, employment prospects, family relationships, the stability of their children's education and their own longer-term health.
6. This study draws on insights from a wide range of people and organisations concerned with this problem. It looks at how things could develop over the next decade, and suggests first steps towards improving the resilience of households to the impact of sickness absence.

The Role of Insurance

7. While the take-up of insurance is low, those people who are covered can benefit in a number of ways. These may have a profound effect on their family finances and future life prospects. In 2015, some 28,000 families covered by Income Protection (IP) policies received almost £480,000,000 to help meet their living costs and financial commitments.
8. But financial help is only part of the picture – most IP insurers also provide a range of supporting services designed to help people through their illness and to return to work. These services include:
   - Sickness absence prevention (e.g. line manager training in mental health awareness).
   - Early intervention services such as physiotherapy and talking therapies, to help prevent longer term sickness absences.
   - Intensive vocational rehabilitation programmes.
   - Personal support such as nurse adviser services.
9. These services have been shown to reduce the length of sickness absences, bringing financial benefits for employers and the State as well as helping individuals. The services also make a positive difference to the lives of some families, as demonstrated by the case studies in Chapter 3.
10. Looking at the economic perspective, one study showed that for each £1 spent on rehabilitation, the total savings to families, employers, the State and insurers amounted to £17.

Factors that may shape the future

11. Over the next decade, a number of factors will shape the ability of households to prepare for, and cope with, long-term sickness. These factors include high-level drivers, such as technological and demographic change, the development of the economy, political choices and Britain's place in the world. Linked to these, our study identifies five 'direct drivers' that are most likely to have an impact upon household resilience to sickness absence in the future.

Household resources

12. The resources available to households will affect their ability to plan/provide for the risk of sickness and their ability to cope when sickness occurs. While much will depend on economic performance, existing trends together with policies whose effects are still coming through (such as auto-enrolment into pensions, student loan repayments) suggest that:

- The budgets of most working-age households will remain under pressure. For many, it will not be a realistic goal to build enough 'rainy day savings' to see them through a prolonged sickness absence.
- Reliance on housing equity to get through a long-term sickness absence (e.g. through a secured home loan) will not be an option for a growing number of people, especially the under 50s.
- Growth in the proportion of people renting (both 'generation rent' and people renting later in life following relationship breakdown) will increase vulnerability, since landlords may be less likely to forbear than mortgage lenders.
- Amongst the over 50s, a growing number will be providing financial support to their adult children – so losing income through sickness may affect both their own household and their children's households.

Employment

13. The nature and pattern of employment is likely to change significantly over the next decade. Technological advance and how employers see their role will be important. The main conclusions we draw about how changes in the world of employment may affect household resilience to sickness are:

- The distribution of work amongst the population may change. This may affect both the number of people who suffer an income shock when sickness strikes, and the ability of people to provide for themselves through insurance or savings.
- It could become easier (or be made easier) for many people to work through periods of illness and disability – changing technology and changing attitudes could make a difference.
- The extent to which employers will facilitate/provide sickness-related benefits will be important, but a significant group of self-employed (or insecurely employed) people will need alternative solutions.

Health and Health Services

14. Health trends over the next 10 years will clearly influence both the number of sickness absences and their length. Health-related drivers that may have the greatest impact on household resilience to sickness are:

- The extent to which health professionals (especially GPs, at the front-line of contact) recognise the importance of work from a health standpoint and seek to make early work-focussed interventions with their patients.
- How occupational health facilities develop, and the attitude of employers to health and work.
- The extent and availability of health management services that help people manage their long-term conditions.
- Attitudes to illnesses where symptoms fluctuate, and what they imply both for treatment and work.
- The way in which mental health problems – and the factors that contribute to them – are addressed.
- The extent to which individuals are proactive in optimising their health.

Financial Planning and Financial Services

15. The financial capability of consumers will influence the extent to which they make prudent provision for themselves through insurance, savings or use of credit. The degree of trust that consumers have in providers, and the public's ability to access information, guidance and advice will also be important factors. The effectiveness of the replacement body for the Money Advice Service, and the effect of the Financial Advice Market Review, will therefore be vital, as will the industry's efforts to build trust.

16. Access to financial products will be another important factor. New forms of distribution – perhaps, for example, through the providers of auto-enrolment pension saving schemes – may allow insurance products to reach a wider population.

17. Possible changes to the way insurance products are designed and underwritten may also be a significant influence. For example, more standardised products with less underwriting may increase the opportunity for Income Protection to become more of a mass-market product.

The Welfare State

18. How the Welfare State develops over the next decade will be an important influence in a number of ways. A more generous state benefits system could make it easier for people to cope financially while unable to work, but a move in this direction seems unlikely. Perhaps more realistic is the development of a better fit between state benefits and private insurance – moving away from the situation where people who insure may find they lose state benefits £ for £. Improving this fit is a prerequisite to a soundly-based expansion of provision.

19. A related issue is the extent to which the state benefit system can be re-oriented to prioritise early work-focussed interventions and rehabilitation. Key questions here include what lessons can be learned from the insurance sector in this area, and whether a closer partnership between public and private sectors could develop.

20. A final issue here is the balance the State seeks to strike between its own role, that of individuals, and others such as employers.

First Steps to building more Resilient Households

21. Our work has shown that too few households are resilient to loss of income through sickness. While the future presents many uncertainties and opportunities, we are clear that the problems faced by hundreds of thousands of people each year will not go away without action. We must start providing help that allows people to:
    - Be better prepared for the risk of sickness striking.
    - Get back to work as soon as possible.
    - Manage their finances during a prolonged sickness absence.
22. We make the following specific recommendations:
    1. A key target for the Government and the successor body to MAS should be to increase the number of households able to cope financially with a 4–6 week interruption in income. For longer periods, insurance is likely to be a better solution.
    2. The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. It must also consider how the product can be made easier to acquire and help to build greater public trust.
    3. The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position, whereby those who insure against sickness may face a £ for £ clawback, should be revised so that those who act responsibility are encouraged rather than penalised.
    4. A Task Force involving Government, MAS, Employers, Distributors, the FCA, relevant charities, health providers and insurers should be established. This Task Force will ensure that stakeholders seize all opportunities to alert people about the need to plan for contingencies such as sickness absence.
    5. The Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, charities, health professionals and insurers) to consider how better, and earlier, support and rehabilitation could be extended more widely.
    6. The Government should work with money advice and debt services, health professionals and the Task Force members to identify ways of alerting people about the help available as soon as possible in a period of sickness.
23. We also hope this report will prompt further debate about how services, policies and products should develop in the future. Chapter 7 lists a range of questions for debate.

8 Chapter 1: Introduction and background to the study

Introduction

1.1. Each year, around a million people in the UK experience a long-term absence from work due to sickness. Some households have the resilience to enable them to weather the financial effects of sickness. But for others it brings hardship and long-term damage to their finances and employment prospects.

1.2. The purpose of this study is to develop a deeper understanding of household resilience and how this might change over the next 10 years. By focussing some years ahead, we hope to encourage debate about what actions can be taken in the shorter term to make for a future in which many more households are able to cope with, and recover from, the financial effects of sickness.

1.3. Our emphasis is on households and families rather than simply on individuals. This is because, in many cases, children and partners are adversely affected by the loss of income and the additional strains associated with sickness.

1.4. The study was undertaken in summer 2016 and draws on:

- Interviews with decision-makers and opinion formers in organisations representing consumers, supporting people in times of sickness, and providing support (e.g. financial planning advice) to people in debt. We also talked to professional financial advisers, Government officials and regulators, insurers and product distributors, think-tanks and NGOs.
- A scenario planning event with opinion formers to consider what the future might hold.
- Consumer research conducted for the study.
- Analysis of data regarding the effectiveness of rehabilitation in the Group Income Protection market.
- Desk research on previously published material.

1.5. This report sets out:

- Background on sickness and household resilience today (Chapter 2).
- Analysis of the income protection insurance market, the effectiveness of rehabilitation and related support, and an overview of State benefits (Chapter 3).
- Consumer research giving insights into consumer attitudes (Chapter 4).
- The key drivers that may affect household resilience in the future (Chapter 5).
- Scenarios for 2026 (Chapter 6).
- Conclusions and recommendations (Chapter 7).

Chapter 2: Sickness and household resilience today 9

2.1. Over the last 10–15 years, there have been enormous advances in the research, data and analysis available about the incomes, wealth and assets of older people in the UK. We can view the financial position of pensioners through lenses such as cohort, gender, location, sources of income and capital. The importance of retirement planning and incentives to save – including the need for the state system to make it worthwhile to save for retirement – have also been centre stage during this time.

2.2. By contrast, the financial impact of long-term sickness absences – which affect a million people annually, compared to the 600,000 who reach pension age each year – have received little attention and there are no comprehensive data sources. However, we have created a picture by drawing upon the range of surveys and data sources we could find, and upon the practical experience of those who help people through periods of sickness.

The prevalence of sickness absence

2.3. Figures published by the Department of Work and Pensions (DWP) in 2014 show 960,000 people each year having a long-term sickness absence from work (defined as a continuous period of a month or more). Later research by Money Advice Service (2015) put the number of people suffering serious illness or accident each year at 1.31 million.

Who is most affected by long-term sickness absences?

70% of long-term absences are amongst employees of small or medium enterprises (SMEs), with 43% being people who work for employers with fewer than 50 staff.

60% of absences are accounted for by women.

57% of absences are amongst people under the age of 50.

[Source: DWP published data 2014].

How household incomes can be affected

2.4. The DWP figures do not include information about how these absences affect incomes. But it is possible to illustrate how a typical household might be affected:

- Statutory Sick Pay (SSP) is payable for the first 28 weeks of an absence – currently at the rate of £88.45 a week.
- This compares to the post-tax take home pay of around £415 a week for a median earner.
- So in this case, the household income could fall by over £325 a week. If sustained over 28 weeks, the cumulative shortfall would amount to some £9,000.

2.5. The actual experience of households may differ from this illustration, for example:

- Some employers – mostly public sector or larger employers – pay sick pay above SSP levels for a period, whereas the majority of absences are amongst people who work for SMEs. Research by Swiss Re for its publication "The European Insurance Report 2015, Next Generation Insurance" found that only 19% of people in the UK said their employer would continue to pay their salary in full or in part during sickness – and only 13% in the case of women.
- Self-employed people have no access to SSP.
- Some families who lack other income/capital may receive means-tested benefits so their income shortfall may be reduced (the State benefits system is further considered in Chapter 3).
- In other families, the shortfall may increase; for example if the other breadwinner has to reduce working hours to assume more caring responsibilities (either for a sick partner or for children).
- The extent of the cumulative shortfall will of course vary with length of absence and normal pay levels.
- Despite these variations, there is no doubt that each year hundreds of thousands of families face a substantial income shock when sickness strikes. So we look next at how well households are prepared for coping with such shocks, and then at what help is available to get people back to work and minimise their loss of earnings.

Preparing for the worst

2.6. Research by the Money Advice Service, and others, gives a sense of what savings people have available to cover a shortfall in income when sickness strikes (see box below). A similar picture emerges from other surveys and there is little doubt that many families are precariously placed, with very limited savings to see them through a prolonged sickness absence.

Levels of 'rainy day' savings

The MAS Financial Capability Survey in 2015 found that 'a third of middle class families would have to borrow to meet an unexpected bill of £500'. (This figure equates to little more than a week's take home pay for the average worker).

MAS's Market Segmentation (March 2016) identified two large segments of the population: the 'Struggling' segment accounts for 23% of the population who have median savings of just £50; and the 'Squeezed' segment (a further 25% of the population) who have median savings of £580.

Research by The Money Charity in 2016 found 46% of households have savings under £1,500.

Latest MAS research (September 2016) found over 16 million people have savings under £100.

2.7. We also looked at the extent to which people have insurance protection against loss of income through sickness. There is a range of information sources, but the broad picture is pretty clear:

- Around 10% of workers are covered by income protection policies – two-thirds of which are organised by their employer. There is likely to be a high degree of overlap between this group and the 19% (mentioned at para 2.5) who say they would continue to receive some payment from their employer [Source: Swiss Re analysis].
- Around 5% of people with a mortgage have mortgage payment protection policies [Source: Scottish Widows research].

2.8. It is clear from these figures that a large proportion of the population is ill-prepared – either in terms of savings or insurance – to weather the financial effects of a long-term sickness absence. Within this overall picture, some groups such as the self-employed appear to be particularly at risk of being unprepared.

Spotlight on the self-employed

- Almost 4.8 million workers are self-employed, accounting for over 15% of the UK workforce [Source: ONS 2016 publications]
- The nature of the self-employed workforce is changing: 60% of the rise in self-employment in the last five years has come in higher skilled managerial, professional and associate professional jobs. And most of the growth is amongst women.[Source: Deane Review of Self-employment 2016]
- When asked about the problems of self-employment, 30% cited not getting paid if they fall ill as a big problem (and a further 28% said it was something of a problem.) [Source: Deane Review]
- The self-employed tend to be older than the working population as a whole: nearly half (43%) of the self-employed are over 50 and just 11% under 30. [Source: Deane Review]
- Two thirds (62%) of self-employed workers' households are reliant on one wage earner's income, compared with 52% of the average population. [Source: Scottish Widows research 2016]
- Despite this, less than 10% of the self-employed have Income Protection insurance. [Source: Swiss Re analysis]

2.9. Chapter 4 gives further insights into consumer attitudes to providing for sickness.

Minimising the length and impact of a sickness absence

2.10. The sooner a person can return to work (with appropriate support, if needed) the less severe the impact on household finances. In addition, an early return will often minimise any negative, longer-term consequences for the individual's earning power. By contrast, those who suffer a prolonged absence are more likely to see a long-term reduction in their employability and earning power. This 'scarring effect' of a prolonged sickness absence is significantly greater than that of an absence due to unemployment.

2.11. Our interviewees highlighted the importance of early interventions to provide support to return to work. In Chapter 3, we analyse the effectiveness of such interventions – many of which result from the cover provided by Income Protection insurance policies.

2.12. For those people who are not covered by insurance, early work-focussed interventions are the exception rather than the rule. People claiming Employment and Support Allowance (ESA) – usually after 6 months on SSP – may wait a further 9 months for their Work Capability Assessment. In a bid to bring about much earlier interventions, the Government's Fit for Work initiative has sought to engage employers and doctors, but take up has so far been very low. The consensus amongst interviewees was that, in the interests of individuals and their families, and in the national economic interest, many more early interventions are required.

Wider effects

2.13. Our interviewees highlighted a range of knock-on consequences following an initial income shock resulting from sickness.

2.14. A substantial number of people become reliant on the state benefits system. However, it can leave many financial needs unmet while creating disincentives both to work and self-reliance. This is discussed further in Chapter 3.

2.15. The shock to household finances – and the ongoing shortfalls many people suffer as their commitments exceed their incomes – leads many people into debt. Those who go quickly to debt counselling services have the best chance of re-arranging their finances to get things onto a more stable footing. But many people do not seek help until they reach crisis point. This may be particularly true of those suffering sickness, as their main focus may be on the illness itself rather than addressing its wider effects.

A vicious circle and costs for society

2.16. Our interviewees also highlighted that, increasingly, debt is emerging as a factor contributing to mental health problems. And, since mental health problems are a growing cause of sickness absence, there is a vicious circle.

2.17. The costs of sickness are borne across society and affect individuals, families, employers and taxpayers. In 2011, the Independent Review of Sickness Absence estimated the cost of sickness absence at £15 billion a year.

Conclusion

2.18. In conclusion:

- In the UK, around a million people each year suffer a long-term absence due to sickness.
- Household finances can be hit quickly and hard: a shortfall of £325 a week would occur when someone moves from average earnings to Statutory Sick Pay.
- Many households lack the savings to cover just a few weeks of sickness absence, and few have enough savings to cover a period of months. Only around 1 worker in 10 has insurance cover for loss of earnings from sickness.
- While State benefits may cushion this blow, they are unlikely to cover the shortfall.
- Few people (mostly those with insurance) benefit from early work-focussed intervention/rehabilitation to get them back to work as soon as possible.
- Many households affected by sickness get quickly into debt. This may lead to additional health problems (especially if they don't receive early debt counselling) that may result in further absences and financial problems.
- Sickness absence costs the UK some £15 billion a year.

2.19. In the next Chapter, we look at the insurance market for Income Protection and the difference that can be made when back-to-work support and rehabilitation is available.

12 Chapter 3: Financial and rehabilitation support for those who are too ill to work

Introduction

3.1. This Chapter draws on information and analysis from insurers, external research and our own programme of interviews. It gives an overview of Income Protection insurance and an analysis of the support and rehabilitation it can provide. It also includes case studies and summarises key points about the State benefits system.

Part 1 – The income protection insurance market

3.2. For those who wish to protect themselves and their families from the impact of sickness on their ability to work, Income Protection insurance is the main option available. It pays out a monthly income and also provides rehabilitation support for a return to work. It can be purchased by individuals or a Group – normally, by an employer arranging a scheme for employees. While coverage is significant, it falls well short of the number of people who could benefit from such policies:

- Just over a million Individual Income Protection (IIP) policies are in force and sales of new policies saw a small increase in 2015.
- In addition, just over 2 million people are covered by Group Income Protection (GIP) policies – and this figure has risen gradually over recent years.

By way of comparison, the Sergeant Review of Simple Products (2012) noted that a further 23.5 million adults could potentially benefit from Income Protection.

Typical features of an income protection policy

3.3. Income protection products vary, but typical features include:

- IIP policies are underwritten at application using individual risk assessments based on:
  - Health and occupational status – existing conditions are covered, unlike PPI policies.
  - Level of income from work – people can insure themselves up to a certain percentage of their monthly income, with the maximum usually around 70%. This gives a financial incentive to return to work and also takes account of the fact that IIP is not taxed.
- All IP policies pay out to individuals regardless of other household income. This is different to means-tested State benefits, which take into account household income – adversely affecting households with two breadwinners.
- Policies usually have a "deferred period" i.e. a period of time that a person needs to be off sick before receiving any payment. This is linked to the period of time that their employer will continue to pay their wages. Payment from day 1 is available for those who do not qualify for sick pay – for example, the self-employed.
- Rehabilitation support is provided as soon as it is appropriate. Early interventions are often extremely valuable in helping people back to work. Most IIP policies provide rehabilitation as part of their product offering.
- Most policies pay an income until the individual has recovered or until retirement age, with cheaper options available with a fixed maximum period of payout.
- Claims payout rates are published on the basis of both individual companies and the industry as a whole. Overall, companies pay out on over 90% of IIP claims (slightly less for GIP).
- Some companies offer a guaranteed level of payout – using the financial underwriting assessment at the point of application. Others re-assess at the point of claim.
- Most IIP policies are set on an "own occupation" basis (i.e. if a person is not able to work in their own job). The State benefit incapacity test is far harsher.
- Customers can make multiple claims on policies and linked claims often pay twice for the same cause. Any claim that a customer makes has no effect on future premiums or payouts.
- Many policies encourage a gradual return to work by paying benefit in addition to the customer's part-time earnings.
- Premiums are set at the outset and premiums and benefits can be indexed. Premiums are not re-underwritten annually.

3.4. GIP products are based on similar principles to IIP policies, but there are some differences. One is that, except for very high earners in companies, they are not individually underwritten on health status. Instead, they are risk assessed as a group. Clearly this is fairly straightforward for large companies, but insurers have become more innovative in grouping risk between SMEs, avoiding the need for individual health underwriting.

3.5. While employers and individuals purchase income protection to address a financial need – if they become ill and unable to work for an extended period – the benefits can go far beyond this. For employers, in addition to supporting employees with long-term sickness pay, the other services offered often form an integral part of their employee well-being and absence management programmes.

Who has income protection insurance?

3.6. Figures produced by UK industry bodies give an idea of how many people are currently helped by these policies:

- Over 13,000 families were supported financially through individual income protection policies in 2015, with tax free claims payments totalling £131m.
- In the same year, a further 14,604 claimants were paid a total of £347m through group income protection schemes for a long-term work absence.
- In addition, 1,878 people were helped back to work in 2015 before their claim became payable, a 23% increase from 2014.
- Data provided by one insurer – Unum – shows that half of those who made claims have an annual salary of less than £30,000 and two-thirds earn less than £40,000 a year, challenging the misconception that employers only provide Income Protection to top tier staff.
- On average, women are still under-protected compared to men.

Who claims on their income protection policy and who returns to work?

3.7. Cancer, musculoskeletal problems and mental health disorders are amongst the most common causes of claim. Figures vary between insurers, but the following percentages from the insurer LV= show their top five causes of claim on Individual IP policies in 2015:

- Cancer – 21%.
- Musculoskeletal – 18%.
- Mental Health Disorder – 18%.
- Accident – 16%.
- Virus/Infection – 6%.

3.8. Another insurer, 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.

3.9. Industry-wide figures by the group risk trade body, GRiD, show that 1,878 people were helped back to work in 2015 before their claim became payable, a 23% increase from 2014. In all cases, the insurers supported a return to work with some form of active early intervention before that person was eligible for a monetary payment.

3.10. It is clear then that Income Protection helps some 30,000 families each year through periods of sickness. The next part of this Chapter looks at the type of help that can be provided in addition to the cash payouts summarised above.

Part 2 – Rehabilitation provided by income protection insurance

The need for rehabilitation

3.11. The need for rehabilitation is reflected in the top five causes of income protection claim, but services also need to respond to the changing face of sickness and disability in the context of work. For example:

- According to the Health and Safety Executive, mental illness accounts for the most working days lost due to ill-health in the UK – a trend that the World Health Organisation expects to grow. This trend is mirrored in income protection insurance data, where mental illness is now a leading cause of long-term disability claims.
- The fact that more people are now surviving cancer is a cause for celebration, but it brings into focus another issue: that many are not able to return successfully to the workplace – despite wanting to. According to research conducted by Macmillan and the Department of Health, there is a need to offer people living with cancer early access to cancer-focussed work support services and treatment, and return to work advice.
- While the aging workforce represents an opportunity for employers in many ways, new challenges are emerging too. One is that people are continuing to work in the presence of long-term health conditions, creating a contingent requirement for adaptive workplaces and new approaches to rehabilitation that focus on keeping people in work and preventing health deterioration.

3.12. Alongside the human value of rehabilitation, economic research from the two studies summarised below provides compelling analysis of rehabilitation's financial benefits too. In this summary of the economic evidence – we have not directly compared different analyses due to the researchers using different modelling.

Centre of Economics and Business Research (CEBR) on behalf of Unum from the perspective of employers

- 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 group income protection 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.

There is a £16.80 saving for every £1 spent with rehabilitation on group scheme claimants.

Economics, Policy and Competition (EPC) on behalf of Zurich from the perspective of all stakeholders

An annual direct financial benefit of £74 million can be attributed to rehabilitation through Group Income Protection:

- **£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. This brings the total of quantified financial benefits to around £110 million.

The effects of early interventions

3.13. As mentioned earlier, income protection insurers actively promote early interventions to support a return to work. The effectiveness of these interventions is supported by:

- Canada Life research indicating that 86% of absentees can be managed back to work within six months. Furthermore, 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.
- In 2013, The Work Foundation found that employee absence could be reduced by 39% if employees were referred to early intervention services.

3.14. This analysis provides evidence that, in addition to the positive health benefits of recovering sooner and returning to work, families, employers, insurers and the state can make significant economic savings through rehabilitation funded by income protection.

Access to rehabilitation and support services through income protection

3.15. Return to work support offered by insurers is wide-ranging. Market analysis from Swiss Re in 2014 found that the rehabilitation provided can be categorised broadly as follows:

- **Sickness absence prevention**, such as line manager training in mental health awareness, employer advice, wellness platforms and Employee Assistance Programmes.
- **Early intervention services** to prevent longer-term sickness absence, provide work-focussed clinical treatments (e.g. talking therapies and physiotherapy), case management and return to work plans.
- Intensive **vocational rehabilitation programmes** involving multi-disciplinary input.
- **Generalised support services** available at any time, before or after absence, such as nurse adviser services providing individual advice, support and guidance for all causes of illness.

These services bridge the gap between healthcare, workplace, individual and GP, focusing all stakeholders on a return to work outcome. Funding of work-focussed treatment, such as physiotherapy or talking therapies, can be included. This aligns with the current best practice that supports work-focussed early intervention services.

3.16. The same analysis gives an indication of how rehabilitation is being delivered. 93% of group income protection providers, and 75% of individual income protection providers, considered rehabilitation as a core part of the claims service offered to customers. So the large majority of people covered under income protection arrangements are likely to be offered rehabilitation and support to return to work.

The Human Story

3.17. Prolonged work absence can also have a significant personal cost, and disrupt the emotional and social equilibrium of a family. Providing advice and support at a time when it's needed helps families cope better with this adversity. Along with the financial resilience provided through income protection payments, this helps to get the family back on track for a more resilient future. The real case studies below help to illustrate this.

Living with cancer

3.18. According to the Cancer Survivors and Unemployment Study, people with cancer are 1.4 times more likely to be unemployed than people without cancer [Source. Cancer Survivors and Unemployment: A Meta-analysis and Meta-regression, Angela G. E. M. de Boer, PhD; Taina Taskila, PhD; Anneli Ojajärvi, PhD; Frank J. H. van Dijk, PhD, MD; Jos H. A. M. Verbeek, PhD, MD JAMA. 2009;301(7):753-762. doi:10.1001/jama.2009.187].

However, according to research carried out on behalf of Unum and Maggie's Cancer Centres, "As many as 63,000 people living with cancer today want to work, but are encountering barriers that prevent them because the right support isn't in place for them or their employers."

3.19. This figure is likely to grow as the working population ages and cancer survivorship improves. Macmillan and the Department of Health have said that all people working, or with potential to work, should be offered work support and advice.

3.20. Income protection insurers have responded to this challenge by developing specialised rehabilitation and support services. These are designed specifically to help more people living with cancer, and their families and employers, to successfully navigate the journey back to work. Examples include:

- Providing employer workshops – such as those provided by Maggie's Cancer Centres and Unum, and Aviva and Working Towards Wellbeing – to help HR professionals understand and talk about the challenges of supporting employees with cancer. HR personnel would also develop skills and strategies to help employees to remain in, or return to, the workplace.
- Specialised work support services (e.g. Working Towards Wellbeing Cancer Work Support Service) that provide case management, advice and signposting as well as treatment where needed such as Cognitive Behavioural Therapy (CBT), graded exercise programmes, fatigue management and other specialist referrals.
- Nurse counselling services, such as Red Arc, aimed at providing emotional and practical support as well as onward signposting and referral for treatment.

Case Study

David is a Maintenance Supervisor who was diagnosed with lymphoma in 2013. He underwent extensive treatment with chemotherapy and later stem cell transplant. Unfortunately his treatment was complicated by infections and graft vs host disease, which impacted his recovery. David experienced long-lasting symptoms of muscle ache, fatigue and recurring infections. The income protection assessor discussed David's concerns with him, identified that he might benefit from cancer work support, and referred him to a service in March 2015.

In May 2015, David began his rehabilitation programme with a dedicated case manager who has specialist experience in cancer work rehabilitation. The case manager talked with David and set goals and plans surrounding his recovery and return to work. Together they developed a tailored programme involving Return to Work (RTW) coaching and a graded RTW plan.

David wanted to improve his mental agility and concentration, so relevant activities were suggested.

Note: David is not his real name.

The case manager led a workplace meeting to agree a phased return, including adjustments to his work duties initially. Through the coaching provided, David was helped to reflect on his progress and this was crucial in him maintaining his confidence, motivation and mood.

Alongside the work focussed rehabilitation, a tailored physical exercise programme was also provided to help David increase his stamina and manage his fatigue. The case manager provided useful resources from Macmillan on cancer and work, and gave David a pedometer to help motivate him in increasing his activity levels.

David was gradually able to increase his exercise levels and commenced a graded RTW in September 2015. In January 2016, he achieved a full and sustained RTW.

The case manager predicted that, without this support, a return to full capacity work was unlikely for the foreseeable future. This was due to the numerous barriers to a return to work and the unavailability of similar services via the NHS.

Case Study 7Families

Paul Pickford. Paul was the manager of a leading car dealership in Yorkshire. In his early forties, he worked long hours in a job that he was very fond of and knew well. In late 2012, Paul went to work with a vague headache and later collapsed and was rushed to hospital.

The diagnosis was a massive brain-stem stroke, which was so severe that doctors asked his wife, Vicky, if she wished to turn off Paul's life-support machine. He was aphasic and severely paralysed. She declined but was warned the prognosis was poor and that Paul's quality of life would be significantly compromised. After several weeks in hospital, Paul returned home and received intensive physiotherapy and rehabilitation from the team at the hospital. He also had care support through Social Services.

Paul was deemed eligible for the 7Families project and assigned a case manager who was in regular contact in person and on the phone. Vicky played a major part in Paul's treatment because the stroke had damaged his vocal muscles. He was also confined to a wheelchair, as he could not walk, although he had some sensation in his arms and legs.

At this stage, the prospect of resuming work in any form seemed distant even though Paul's application to his physiotherapy regime and rehabilitation programme was exemplary. He was given an E-Tran frame, a visual system enabling him to communicate with Vicky and others. He was also provided with regular emotional support through Red Arc nurses, who phoned Vicky regularly to discuss his progress. There was no cognitive impairment and Paul began to believe that he could resume home-based work if he could retrain.

He began to become much stronger as his physiotherapy took effect and the 7Families project enabled him to obtain a gaze computer (similar to the one used by Professor Stephen Hawking). The financial support from the project has been equivalent to the support Paul would have had if he had taken out an IP policy for around 50% of pre-disability income. With this, alongside focussed case management, strong emotional support at home and from Red Arc, and his own tenacity and determination, Paul has continued to make progress. He has taken an online book-keeping course and now has an appetite for further on-line training, perhaps in IT, opening up possibilities of working from his home.

Key to his recovery, alongside the massive personal courage exhibited by Paul and Vicky, was the impact of external assistance. The experienced case management support, allied to the emotional backing from Red Arc and various technological aids, has helped Paul reach a situation where he continues to get stronger physically and is using his mental faculties and business experience to create the possibility of a new career.

Paul's case shows the potential that top-class rehabilitation and case management has to help people adapt to a new work possibilities despite grave illness.

Note: This case study is taken from the 7Families Project **www.7families.co.uk.** Paul has given his permission for his story to be told.

Part 3 – The State System

3.21. It is beyond the scope of this report to provide a comprehensive review of the State welfare system and the rehabilitation services provided by the NHS. Nevertheless, it is important to briefly understand the welfare system and its interactions with the private system.

The welfare system for those who are too ill to work

3.22. The main state benefit for people who are unable to work due to sickness is Employment & Support Allowance (ESA.) Its basic elements are summarised below.

ESA – Basic elements

People normally get the "assessment rate" for the first 13 weeks of their claim. This is usually £73.10 a week (less for under 25s) and, after that, people are placed in one of 2 groups and receive:

- up to £102.15 a week for those in the work-related activity group
- up to £109.30 a week for those in the support group

People in the support group who are on income-related ESA are also entitled to the enhanced disability premium of £15.75 a week. They may also qualify for the severe disability premium of £61.85 per week.

There are 2 types of ESA:

- Contribution-based ESA – payable to those who have paid enough National Insurance contributions. It's limited to one year for people in the work-related activity group.
- Income-related ESA – payable on a means-tested basis, either on its own or on top of contribution-based ESA, for people on a low income.

3.23 Key points to note about ESA are:

- ESA is not payable if you are in remunerative work.
- Entitlement is based on a "work capability assessment". The criteria are much harsher than those applied to most income protection insurance claims.
- ESA is being absorbed into the new Universal Credit.
- Many people need means-tested top-ups. As these start to come increasingly from the new Universal Credit, people who have bought their own insurance may lose state benefits pound-for-pound with the effect that self-provision is penalised.
- Means-tested help with housing costs is increasingly limited, as shown in the following boxes.

The benefits system and mortgages

Currently, under Universal Credit, owner-occupiers with a mortgage must wait for a qualifying period of 9 months before they are entitled to any support for their mortgage payments. In addition, no help is available if you (or your partner) have any earned income. This is in contrast with other elements of UC, where the intention is to make working worthwhile.

After the qualifying period, support is available towards mortgage interest payment with a cap of £200,000 for the mortgage. Payments are calculated using a set rate (at the time of writing 3.13%) and paid monthly.

In the summer budget of 2015, the Government announced that, from April 2018, payments towards mortgage interest will be turned into a loan from the Government. The loan will have to be repaid when the house is sold or on return to work.

3.24. Interviewees highlighted that:

- Once on ESA, most people remain on it for at least 6 months.
- Differential rates of ESA make it hard for people in the 'Support Group' (now the majority of recipients) to contemplate work-related activity, as they risk losing their preferential rate.
- As means-tested top-ups come increasingly from Universal Credit, with different rules about self-provision, those who have bought their own insurance may lose state benefits pound-for-pound, with the effect that self-provision is penalised. With the roll out of Universal Credit, and its merger with Housing Benefit, this makes it less attractive for low to medium earners to support themselves and their families by purchasing income protection insurance. Such an outcome is undesirable financially, and from the perspective of the rehabilitation services that come with the product.
- The benefits system provides help with mortgage interest only in very restricted circumstances. As a result, a prolonged sickness absence often leaves families unable to meet their mortgage commitments.
- Restrictions on Housing Benefit mean that many tenants will find their rent is not covered in full. We were told that, on average, tenants will face a 25% shortfall – a figure that very few would be able to meet from the standard living costs allowance of around £73 a week. This can lead to families being up-rooted and having to move to a different area, sending children to a different school at a time when a parent is battling illness. With the proportion of households who rent on the rise, these issues are likely to affect a growing number of people.

How the amounts payable for rent are restricted

Housing benefit restrictions on privately rented accommodation are decided by Local Authorities based on the "broad market rental area" (in essence, for a standard property with the number of bedrooms required for the household, the amount is usually set at the rent for the cheapest 30% of homes).

For local authority or housing association rents, the full rent is normally paid. However, this may be subject to the "bedroom tax" – eligible rent is reduced by 14% for one spare bedroom and 25% for two or more spare bedrooms. The criteria for determining a spare bedroom are complex, but examples include – two children under 10 (of either sex), or two children under 16 of the same sex, would be expected to share a room.

Conclusion

3.25. Key conclusions from this chapter are:

- The market for Income Protection insurance is small but significant, and has the potential to grow substantially.
- Some larger private sector, and public sector, employers provide sickness benefits and rehabilitation/support services, but the amount of this cannot be quantified.
- The large majority of people with IP insurance are eligible for back-to-work support and rehabilitation.
- A wide range of types of support are available, allowing the right mix of help to be provided to each individual.
- Rehabilitation and support works: when provided early, it reduces significantly the time taken for people to get back to work, as well as reducing the human cost.
- There is an economic case for rehabilitation and support: one study showed a return of £17 for each £1 spent.
- Individuals, employers, the State and insurers all stand to benefit from an expansion in rehabilitation.
- The £ for £ deduction of income protection payments from means-tested State benefits is counterproductive and should be reviewed.

3.26. We turn in the next Chapter to consumer research on public attitudes to insurance against the risk of sickness.

20 Chapter 4: Consumer attitudes to protecting household income

Introduction

4.1. As part of this project, Scottish Widows commissioned consumer research giving insight into consumer attitudes to resilience and their potential household coping strategies. The key results are summarised in this Chapter.

4.2. Consumers' underlying attitudes are significant, as they help us understand what may be getting in the way of people making the right preparations – and what can be done about it. We highlight key findings on this, covering:

- Where health/sickness and income protection feature in people's financial planning.
- Possible barriers to taking out insurance.
- Possible enablers/prompts to getting insurance.

Where health/sickness and income protection features in people's financial planning

4.3. The research asked people to say how much attention they paid to insuring various things when reviewing their personal finances. The percentage of respondents paying 'a lot' or 'some' attention is shown in Table A below.

Table A: What gets most attention when considering insurance

Item/Risk	% paying some or a lot of attention
Home contents	71
Home (buildings)	66
Car	64
Income	56
Health	51
Electrical goods	50
Life Insurance	46

4.4. This suggests that income and health issues are thought about by around half the population. However, this only translates into making insurance provision in around a tenth of the population: a much lower ratio than for most of the other items in the list. (Individuals' perceptions about what their employer may provide in the event of sickness may be a factor here.) There is a striking contrast with Life Insurance, which a third of respondents claimed to have.

4.5. The research went on to explore how people prioritise their spending, by asking them to classify items as 'luxury' or essential'. The results are in Table B:

Table B: What expenditure items are considered essential?

Item/Risk	% paying some or a lot of attention
Saving for retirement	51
Providing financial security for dependents if you die	40
Annual holiday	36
Shopping trips (beyond household essentials)	22
Satellite/cable TV	21
Protecting your income if unable to work	20
Eating out twice a month	13

4.6. The much lower priority given here to income protection may give a clue as to why the take-up is so much lower than for life insurance.

Possible barriers to taking out insurance

4.7. Perhaps the most significant barrier to taking out income protection insurance is that people do not think long-term illness or disability would "happen to them". The research found that only 19% thought they were at risk [Source: Syndicate Research 2016].

This shows the importance of health and financial education of a type similar to the "Seven Families Project" **www.7families.co.uk**, that highlights the incidence and financial impacts of working-age health events.

4.8. Other potential barriers emerged when respondents were asked why they had not taken out income protection insurance. Responses suggest that:

- Around a quarter of people feel they don't need it.
- Another quarter have concerns about affordability.

Other factors mentioned included a lack of trust in insurers (6%), complex products (3%), willingness to self-insure (9%), and not a priority (14%).

Enablers/prompts to getting insurance

4.9. The research also explored what had prompted people into taking out IP insurance. The main prompts are shown in Table C:

Table C: Prompts to arranging Income Protection cover

Prompt	% paying some or a lot of attention
Buying a property	25
Felt the need to protect own income	23
Had children	9
Friend/family member became incapacitated	6
Insurance offered by employer	6
Professional recommendation e.g. IFA	4
Took on more debt	3
Change of marital status	3

4.10. These results suggest that key 'life events' may provide some of the best opportunities for getting people to consider their income protection needs.

Conclusion

4.11. The key messages we take from this consumer research are:

- Many people already give some thought to protecting their income, but few translate this into action.
- Low prioritisation of income protection appears to be a key reason, fed by the view that 'it won't happen to me.' Addressing this mismatch between perception and reality is important if households are to become more resilient.
- Key life events provide natural prompts to consider Income Protection. But the most popular prompt (buying a house) will not apply to the increasing number of people who rent and yet are still vulnerable to income shocks.

Chapter 5: Drivers of future change

5.1. Our interviews and workshop explored what might drive changes in the resilience of households over the next 10 years. Five high-level drivers emerged. We summarise them in the box below and then describe in detail a further set of more specific drivers which could have a more direct bearing upon the resilience of households to the financial effects of sickness.

High-level drivers

Technology. Technological change was seen by participants as potentially having a huge impact on household resilience. It could make it much easier for people to continue to work while sick; it could bring medical advances that reduce the prevalence and impact of sickness; and it could support a revolution in health promotion/ preventative medicine. At the same time, it could have a major impact on jobs and incomes. It could also change financial services – and how people interact with them – in a way that could encourage more self-provision.

The Economy. If the economy were to perform strongly over a sustained period, this could be a positive factor in helping households build resilience – either through private or state provision. Conversely, poor economic performance would be a negative factor. Other aspects of the economy could also be important drivers, such as price and wage inflation, interest rates, the development of the labour market and the distribution of wealth and income.

Demography. The aging population means more people are working later in life – when sickness is more likely to strike – and this trend seems likely to continue. Alongside this, growing demands for care of the elderly are placing greater pressure on many households, potentially reducing their resilience to sickness. At the same time, the younger generation of workers faces major pressures on disposable incomes through high housing costs, student debt, and automatic pension saving. As more people in this cohort start families, they do so with lower incomes and less prospect of home ownership than the previous generation.

Political Climate. The political climate of the next 10 years will itself be influenced by the other drivers, and is likely to seek to address them. How it does so will be important in determining what role the State will play in helping households to plan for, and get through, periods of sickness; and what role might be played by others such as employers, financial services, individuals and health services.

Brexit and Britain's place in the world. While views differ on the impact of Brexit, it is clear that Britain's place in a rapidly changing world will have important implications for trade, the number and nature of British jobs, migration, and the economy.

Direct drivers

5.2 Several of the drivers people told us about were rather more specific. They build on the high-level drivers, showing how they might translate into more direct effects on household resilience to sickness. We have grouped these 'Direct Drivers' into 5 categories:

- Household Resources.
- Employment.
- Health and Health Services.
- Financial Planning and Financial Services.
- The Welfare State.

Household resources

5.3. The resources available to a household may affect both their ability to plan/provide for the risk of sickness, and their ability to cope when sickness occurs. We use the term resources to refer both to disposable income and assets, and to the ability to call on other sources of help and support.

5.4. Interviewees identified a range of relevant trends regarding household income and wealth, as summarised here.

Trends relating to household income and wealth

The stagnation in the disposable incomes of working-age households

Disposable incomes have shown no growth over the last 10 years for the median household [Source: ONS]. In contrast, the disposable income of retired households has risen substantially.

The decline of household saving as a proportion of disposable income

This is a long-term trend: it was around 13% in 1997 and is now around 4%.

Housing costs remain high

This is true compared to long-term averages: average rents are up 25% over the last 10 years, and the house price/earnings ratio has doubled since the mid-1990s (though the effect of this is currently offset by record low interest rates).

Household debt levels are rising

These levels are forecast to rise still further (from £ 1.48 trillion for the UK as a whole in 2016 to £2.55 trillion by 2021, according to the OBR).

Student loan repayments now kicking in

This is affecting a growing number of households (adding 9% to their effective marginal tax rate).

Auto-enrolment into pensions

This is now covering much of the working population, with rates set to rise to 4% of earnings by 2018 – and pressure for these to rise further.

5.5. While several of these factors could go either way over the next 10 years, some look much more likely to add to financial pressures. For example, the effects of auto-enrolment and student loans are still feeding through, housing costs – since interest rates seem more likely to rise than fall – and debt, where we have the OBR forecast.

5.6. In terms of wider resources, current/recent trends have included:

- A growth in the number of single-adult households.
- Amongst two-adult households, a growth in the number depending on two breadwinners.
- A shift amongst the under 40s to renting rather than home ownership. LV = research found the average first-time buyer is now 38 – compared to 29 in the 1980s, and this age is projected to rise to 41 by 2025.
- A trend towards younger adult households being reliant, to an extent. on financial support from their parents ('the Bank of Mum & Dad').

Most interviewees thought these trends were likely to continue for some time.

5.7. Putting these factors together, the key conclusions we draw about how household resources are likely to drive household resilience over the next 10 years are set out here.

Household resources – conclusions

1. **The budgets of most working-age households are likely to remain under pressure. For many, it will not be a realistic goal to build enough 'rainy day savings' to see them through a prolonged sickness absence.**
2. **Reliance on housing equity to get through a long-term sickness absence (e.g. through a secured home loan) will not be an option for a growing number of people, especially the under 50s.**
3. **Growth in the proportion of people renting (both 'generation rent' and people renting later in life following relationship breakdown) will increase vulnerability, as landlords may be less likely to forbear than mortgage lenders.**
4. **Amongst the over 50s, a growing number will be providing financial support to their grown-up children – so if these parents lose income through sickness, it may affect both their own household and their children's households.**
5. **While the future can never be certain, this was one area where interviewees and workshop participants felt the future direction of travel could be foreseen with a reasonable degree of confidence.**

Employment

5.8. The changing nature of employment (including self-employment) was identified by most participants as likely to have a significant effect on household resilience to sickness. Several distinct aspects were highlighted, as described below.

5.9. The trend over recent times has been towards **more self-employment** and more people in **less secure forms of employment** (such as zero-hours contracts). This was thought to create a growing group of workers who could perhaps rely less on their employer for support – whether in the form of sick pay, access to insurance, or support to return to work. Many interviewees thought this trend would continue, reinforced by Brexit and the need for the UK to compete in an ever-more competitive global economy.

5.10. Alongside this trend, there has been a tendency for **employers to play a diminishing role in welfare**. For example, many companies are moving towards less generous pension provision and are less inclined to provide sick pay or group insurance cover. While some felt this trend would continue, others thought it could turn around – prompted either by State pressure (as with auto-enrolment in pensions) or by employers needing more loyalty as jobs become higher skilled (with artificial intelligence – AI –replacing more routine jobs).

5.11. Substantial changes to the nature of work itself over the next 10 years were seen as very likely. The advance of AI was expected to bring much greater automation, extending into many areas of employment currently viewed as 'professional'. How this would play out was seen by most as quite unpredictable. On the one hand, there could be much less work for people to do; on the other hand, there may be new higher-skill jobs creating more work and wealth, while machines do the routine work. Either way, the jobs and wealth could be spread more evenly, or else concentrated in the hands of a fortunate minority. The way work develops could therefore have a big impact both on the extent to which household income is affected by sickness, and on the ability of households to make provision for this contingency.

5.12. As work itself changes, and technology advances, it may become easier for people to work while unwell. To some extent, this is already happening: the physical demands of work are reducing and employers are becoming more used to making reasonable adjustments for people with sickness/disability. Linked to this, a growing number of people are now able to work from home some of the time. We are already in a world where some employers recognise that the working environment (rather than a person's condition) can either disable or enable an employee. There is a prospect that this recognition will grow substantially over the next 10 years and be supported by the affordable technology needed to fully enable many more employees. Even in the shorter-term, developments could depend on the extent to which employers see the advantages of early work-focussed interventions with sick employees. For example, such interventions have the potential to accelerate the return to work and improve future employability (as illustrated in Chapter 3).

5.13. Putting these factors together, the main conclusions we draw about how changes in the world of employment may affect household resilience to sickness are set as follows.

The changing face of employment – conclusions

1. The distribution of work amongst the population may change. This may affect the number of people who suffer an income shock when sickness strikes, and the ability of people to provide for themselves.
2. It could become easier (or be made easier) for many people to work through periods of illness and disability – changing technology and changing attitudes could make a difference.
3. The extent to which employers will facilitate/provide sickness-related benefits may change, but a significant group – including a large number of self-employed (or insecurely employed) people – will need alternative solutions.

Health and Health Services

5.14. Health trends over the next 10 years will clearly influence both the number of sickness absences and their length. We have not sought to summarise the body of work on health trends, but note several types of trend highlighted to us:

- **The growth in successful treatments for many cancers and other serious illnesses.** We are moving towards a world where serious illness and work may co-exist over a period of years. This may include periods of absence from work during intensive treatment, periods where an individual can work more-or-less as normal, and periods where the after-effects of treatment or illness require some adjustment to what they do at work.
- **The growth in mental health and stress-related problems.** These illnesses are often associated with issues at work and/or with financial problems, and the interconnections highlight the importance of holistic solutions.
- **Mixed results on health promotion.** There has been good progress in some areas (such as smoking) but little in others (such as obesity and Type 2 diabetes).
- **Advances in the use of medical data.** While still at an early stage, such advances may allow for predictions about health risks for individuals and for preventative action.

5.15. Looking forward, the box below summarises the health-related drivers that interviewees identified as having the greatest potential impact on household resilience to sickness.

Most important health-related drivers

1. The extent to which health professionals (especially GPs at the front-line of contact) recognise the importance of work from a health standpoint and seek to make early work-focussed interventions with their patients.
2. Attitudes to fluctuating conditions, and what they imply both for treatment and work.
3. The extent to which mental health problems – and the factors that contribute to them – are addressed.
4. The extent to which individuals are proactive in optimising their health – something that might be aided by wearable technology, as well as more sophisticated use of medical data.
5. The extent to which the NHS makes available health management services that help people to manage their long-term conditions 6. How occupational health facilities develop, and the attitude of employers to health and work.

Financial Planning and Financial Services

5.16. At their best, financial services are there to help people achieve their aspirations and to cope during challenging times. Three types of financial service are particularly relevant:

- Insurance products that can provide cover against certain events, such as sickness, or for specific costs such as mortgage interest.
- Savings products, including pensions, from which the over 55s can now release cash.
- Credit products such as credit cards, other unsecured loans and mortgages.

At least as important as the products themselves is the capability of individuals to access those most suitable to them, and to be able to plan their finances, including for the unexpected. A wide variety of businesses and services exist to help with this, ranging from the Money Advice Service (MAS) through to other free advice services (such as Citizens Advice) and specialist debt charities such as Step Change. This list also includes professional financial advisers, who may be remunerated by commission or fee. Changes in many of these areas are anticipated following the Government's recent Financial Advice Market Review and Public Financial Guidance Review.

5.17. **Financial capability** was one of several key drivers identified by interviewees that may influence household resilience to sickness. Work by MAS and others has shown the low level of financial capability amongst many people in the UK, and MAS has embarked on a strategy to address this. Following the Public Financial Guidance Review, it appears that it will fall to the Government and MAS's successor body to take this further forward. A key challenge is to get more people to plan for life events, including sickness. Some interviewees were optimistic that technology, as it advances, will make financial planning a more engaging activity. Others were less optimistic. Making advice and guidance more accessible could also be a key factor, though views differed as to whether the government reviews of financial advice markets (FAMR) and public financial guidance(PFGR) would achieve this. Personal finances becoming an examined subject in schools could drive change – but it would probably be 15 years before this had a significant effect upon adult behaviour.

5.18. **Trust in financial services** was also identified by interviewees as a significant factor. Building greater trust this was seen by most interviewees as important but likely to be a long haul. For some interviewees, simpler products were a potential key, for others simpler language was vital. Specific ideas mentioned in relation to Income Protection include introducing a time limit (say 2 or 5 years) after which any failure to declare a pre-existing condition would not affect a claim; and moving to fixed benefit levels which are not affected by changes in earnings. Publication of statistics on the percentage of claims accepted could also help build trust.

5.19. The **future development of insurance products** could be a third key factor in this area. A number of possible directions were identified in our interviews and workshop:

- Insurance products could become broader in their cover, so that income loss due to a wider range of causes was embraced. Or there could be more products offering very tightly defined cover (as Critical Illness polices do by covering only certain specified illnesses.) A move in the latter direction might help with affordability, but may mean individuals needing a range of complementary products to avoid (or at least reduce) the risk of a severe income shock that was not insured.
- Another possible direction could be for products to offer more holistic and/or discretionary benefits. This could enable the best package of cash, income and support to be arranged for each individual, rather than simply having pre-determined payouts.

A factor affecting product development and marketing could be the returns on capital that businesses can get from, for example, investing in insurance products compared to credit products. Approaches to underwriting might also evolve, as shown as follows.

Possible different directions for underwriting

A range of different ideas emerged in our interviews.

Advances in data and technology offer the potential for insurance premiums to be linked much more closely to personal risk (as already offered for motor insurance through in-car devices.) A move in this direction could make insurance more affordable overall, though at the expense of making it harder for higher risk people to get cover. Some interviewees saw attractions in such personalised premiums, as individuals who took action to improve their health and fitness would be able to see a direct effect on their premiums.

Coming from a different angle, several interviewees felt that the current system of individual underwriting was cumbersome and time-consuming. This led, it was thought, to potential customers for Income Protection products dropping out of the process before setting up a policy. Interviewees thought the future would bring products that could be bought 'on the spot', either by removing underwriting for basic products or using instantly available data.

Some pointed to the workplace as the natural location for protection, allowing for group underwriting and enabling more people to be covered at affordable prices. In this scenario, it might be the employer, the employee, or both paying the premiums.

5.20. Changes to the **distribution of – and access to – insurance products** covering sickness could also be an important factor looking forward. Distribution is currently through 3 main channels: employers offering Group insurance cover for their workers; mortgage advisers (who encourage home-buyers to consider protection) and other Independent Financial Advisers.

5.21. Interviewees suggested new forms of distribution could play a big role in the future. One example is the auto-enrolment pension providers who are already providing workplace pensions for millions of workers through their employers. Adding a standard protection offering to their members, at no cost to the employer, was seen as a potential route to wider self-provision. A variant of this would be more employers choosing (separately from their AE pension provider) to facilitate group protection products. Some interviewees also suggested:

- A much bigger role for price comparison websites, as consumers increasingly expect to buy financial products in this way.
- Employers could play an important role just by giving their staff regular statements of their potential sick pay entitlement – including where it is nil.New 'disruptive business models' might enter the market, based for example on household-name internet businesses, and reach people who don't engage with current channels.

5.22. Overall conclusions emerging in this area are summarised below.

Financial planning and financial services – conclusions

1. The financial capability of consumers – and the degree of trust they have in providers – will be important factors influencing the extent to which people make prudent provision for themselves (whether through insurance, savings or use of credit.) So too will access to information, guidance and advice. The effectiveness of the replacement body for the Money Advice Service, and the effect of the Financial Advice Market Review, will therefore be important, along with action by the industry to build trust.
2. Access to financial products will be another important factor. New forms of distribution – perhaps for example through providers of auto-enrolment pension saving, or via brands with which consumers already have a relationship – may allow insurance products to reach a wider population.
3. Possible changes to the way insurance products are designed and underwritten may also be a significant influence. For example, more standardised products with less underwriting may increase the opportunity for Income Protection to become more of a mass-market product.

The Welfare State

5.23. How the welfare state develops over the next 10 years was the final direct driver. One important aspect of this is **the future level and nature of sickness-related state benefits.** A more generous state benefit system would clearly reduce the income shock suffered when people lose earnings through sickness. While some interviewees saw this as an attractive direction of travel, there was a strong consensus that public expenditure constraints made this option unlikely. More likely was a continuation of the recent trend to pare back the benefits system.

5.24 Another key factor is **the extent to which the state benefit system prioritises work-focussed action.** The importance of early work-focussed interventions was a common theme amongst many interviews. Such interventions – and early rehabilitation – can reduce the duration of earnings loss and the long-term effects on earning power. Currently though, a work capacity assessment may often come well over a year into a sickness absence. Introducing an early work-focus would require a major re-engineering of the system, involving substantial up-front investment – and perhaps controversial changes to remove differential benefit levels. Against this background, doubts were expressed about how much progress we might see in this area over the coming years.

5.25 **The extent to which the state welfare system encourages self-provision** could also prove important. As noted in Chapter 3, current reforms to the benefit system will mean that people who provide for themselves through insurance may – in future – see no benefit from doing so. This is because their insurance payouts would be deducted pound-for-pound from state benefit entitlement, which could prove to be a major obstacle to people providing for themselves. Financial advisers and providers are likely to be very wary of offering a product to someone who may pay the premium, but then find they don't benefit when sickness occurs. Even high-earning households may have to fall back on the benefits system if they lose a breadwinner's earnings. This may not just discourage new provision, but could also lead to people currently holding income protection policies to being advised to discontinue them and rely on state benefits instead. Interviewees were hopeful that the Government would address this specific issue. Several also believed that the next stage of welfare reform would have to involve a stronger partnership between state and private provision. Allied to this was the need for much more clarity about what individuals could expect from public and private provision, and how they would complement each other.

5.26 A final issue here is **how much the State seeks to provide directly, and how much through others such as employers.** As noted above, few saw much prospect of more generous state benefits. But several interviewees saw auto-enrolment into pensions as a possible model for future state intervention into income protection. This could either be through auto-enrolment into a standard protection product (with or without employer contributions) or by requiring/encouraging employers to offer their workers access to a protection scheme. For some interviewees, these options seemed a natural progression from pensions auto-enrolment. Others thought it less likely to come about, citing the burden on employers as a significant issue. Either way, it was noted that:

- All employer-based distribution mechanisms would fail to reach the self-employed and probably not reach many of those in insecure employment.
- Any move to extend coverage through employers, or routes such as Master Trusts, could only work once the interaction between private cover and the state benefits system has been resolved.

5.27. Our conclusions on how the development of the state welfare system may affect the resilience of households to the effects of sickness absence are set out as follows.

The impact of future development of state welfare – conclusions

1. The State system is unlikely to become sufficiently generous to eliminate – or substantially reduce – the problem of income shocks faced by families during a sickness absence.
2. The State system is increasingly penalising those who make provision for sickness. A more complementary approach could open the way to more co-provision.
3. The extent to which the State system can be re-engineered to focus on work support and rehabilitation may make a big difference to the outcomes for households and the economy.

Conclusion

5.28. A large number of drivers have the potential to affect the future ability of households to weather the financial effects of sickness. The direction of travel of some of these drivers can be predicted with some degree of confidence, while for others the future direction is very uncertain. Where conclusions can be drawn, we have set them out in the conclusions boxes in this chapter.

In Chapter 6, we use a scenario planning approach to explore how this combination of relatively certain and very uncertain factors could evolve.

30 Chapter 6: Scenarios for 2026

6.1. Planning for the longer term requires robust decisions, made in circumstances where some aspects of the future simply cannot be predicted. If decisions are delayed until everything can be confidently predicted, then the planning horizon becomes extremely short-term and problems that require a long-term plan of action are simply left untackled.

6.2. Scenario planning offers a tool to help decision-makers proceed in the face of uncertainty. Instead of making a firm prediction about the future, it creates a set of scenarios that capture a range of possible futures. Decision-makers can then test possible courses of action against the scenarios. If they look good in most, or all, scenarios, they can be given a green light. If they look good in one scenario but poor in several other likely scenarios, then a red light may be appropriate. When the results are more mixed, an amber light – indicating the need for more exploration – may be best.

6.3. In this chapter, we outline a number of possible scenarios against which our suggestions for action (set out in Chapter 7) could usefully be tested. This builds on work undertaken at our scenario planning workshop and factors in further input from interviews, all overlaid with some of the authors' own judgements.

6.4. We have not sought to produce an exhaustive set of all possibilities – instead, the aim has been to ensure we have a good range of different plausible scenarios.

6.5. For each scenario, we have included some indicators which might show – over the next few years – that this is the direction of travel.

Scenario 1: 'Things can only get better'

In this scenario, advances in technology change the nature of work in a benevolent way: the distribution of work and earnings is sustained or improved, many tedious tasks are automated, and work becomes less stressful. The extra wealth generated provides some room for employers to play a bigger role in encouraging their staff to plan ahead and arrange protection. Employers value their staff and put effort into helping them work through periods of illness/recuperation whenever this is beneficial. Health professionals are linked into this, so that retaining a strong work connection is seen as a key part of the treatment for many patients. The state benefit system – and what you will get if you are sick – is simple to understand and has been designed jointly with employers and financial service providers. This ensures that all forms of provision are complementary.

Early indicators that we might be moving towards this scenario could include:

- A clear vision from Government for the country's social and economic future.
- New partnerships emerging between health providers and employers, focussed on occupational health as a win-win for employers and employees.
- Public debate intensifies about the importance for society of social inclusion and better mental health.
- There is a new focus on utilising developing technology to improve the quality of life of employees, as well as consumers.
- A new contract for welfare is created where it is clear what the state will provide, and how self-provision can complement this. A new offer for the self-employed (combining state and self-provision) is part of this.

Scenario 2: 'A Tale of Two Cities'

Here, technological advance is rapidly automating much of the work done by millions of people whose skills are no longer needed. Most of the wealth from automation is going to investors. Those employees whose jobs cannot be automated are well-paid and highly-valued and employers do all they can for them (as in Scenario 1). The growing numbers of people with little or no work are becoming a real concern, and the benefits system is being reshaped around providing a basic income for people whether they work or not.

Early indicators that we might be moving towards this scenario include:

- Brexit leading to a loss of Government focus on employment protections.
- A growing proportion of business finance coming from sources that have no wider interest in the quality of life in the UK.
- Unemployment starting to rise.
- Widening inequalities in health and income – and between the regions.
- A growth in the number of gated communities.

Scenario 3: 'So what's changed?'

This scenario sees a broad continuation of current trends. In some ways, our lives and habits have been transformed by the latest gadgets, we have got used to still faster ways of communicating, and few people are still doing the same sort of work as they did 10 years ago. Although employment levels remain high, real incomes are static or declining for most people. Employers continue to focus on cost-reduction in a competitive global environment and show little appetite for taking on new responsibilities. The state benefits system has evolved piecemeal in response to financial pressures and is comprehensible only to a small number of experts. Private provision has become the preserve of the rich. Health professionals feel overwhelmed and focus on treating the illness more than treating the patient.

Early indicators that we might be moving towards this scenario could include:

- Brexit dominates the Government agenda with wider public policy issues being squeezed out.
- Public debate on health fails to move on from old arguments about acute care and private sector involvement in the NHS.
- State welfare is increasingly portrayed as something for 'them not us'.
- Government decisions on social and employment policy reflect short-term political considerations.

Scenario 4: 'Me World'

This is a possible variant of Scenarios 1 and 3 (and should be read in conjunction with them). The difference is that individuals have been empowered by technology and government policy to take control of their own futures. Working people are very savvy about their needs and do not wish to rely on state welfare as their only support when things go wrong. Many now buy protection products using Artificial Intelligence tools that get them a good deal. As its side of the bargain, the Government provides (through these AI tools) a clear statement of what the state system will provide for each individual in the event of sickness.

Early indicators that we might be heading towards this scenario could include:

- A craze about a new app or technology that puts people in control of their finances.
- It becoming uncool to have no plan for the future.
- Financial products adopting more standardised features, enabling comparison.

Conclusion

6.6. As noted above, scenarios can be used to test the robustness of possible decisions. They can also help build consensus about what kind of a future we would like to see – and what we would like to avoid.

6.7. In Chapter 7, we make a small number of recommendations that we think are robust in all scenarios. And, we list some questions for debate that we hope will prompt discussion about what kind of world we want to get to – and how we take the next steps.

32 Chapter 7: Making progress in the right direction

7.1. In this report, we have painted a picture of how resilient today's households are to loss of income through sickness. Our conclusion is that, sadly, too few households are well-placed to cope with the financial effects of a prolonged sickness absence. We know from those we have talked to that the consequences of this can prove severe for many of the million or so families affected every year.

7.2. Our exploration has shown that there are many causes underlying this position and that addressing this situation will require action on a number of fronts. Without action, the problem will not go away. Indeed, this report identifies many reasons to believe that the problem may grow. With that in mind, we make a set of specific recommendations and then pose some further questions for wider debate.

7.3. Action should help people to:

- Be better prepared for the risk of sickness striking.
- Get people back to work as soon as possible
- Manage their finances during a prolonged sickness absence.

Helping people be better prepared for the risk of sickness striking

7.4 Precautionary savings are a good way of building resilience against a range of short-term contingencies. **We recommend a key aim for the Government and the successor body to MAS should be to increase the number of households who are able to cope financially with a 4–6 week interruption in income (Recommendation 1).**

7.5 The risk of longer term absences will usually best be covered by insurance rather than savings. For example, a typical cost of income protection insurance for someone on average earnings is under £10 a week – compared to a sum of £20,000 or more that might have to be saved for the contingency of a 2-year sickness absence. In order to promote much greater take up of insurance, **we recommend:**

- **The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. The industry should also consider how the product can be made easier to acquire, and how to help build greater public trust (Recommendation 2).**
- **The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position, whereby those who insure against sickness may face a £ for £ clawback, should be revised so that those who act responsibility are encouraged rather than penalised (Recommendation 3).**
- **A Task Force involving Government, MAS, Employers, Distributors, the FCA and Insurers should be established. This Task Force should ensure that all stakeholders seize the opportunities to alert people to the need to plan for contingencies such as sickness absence (Recommendation 4).**

Helping people back to work as soon as possible

7.6. Where people have Income Protection insurance – or are covered by an employer Group IP scheme – they are likely to benefit from support and rehabilitation, as discussed in Chapter 3. Greater take-up of insurance will therefore help with this goal of helping people return to work as fast as possible. In addition, **we recommend that the Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, health professionals and insurers) to consider how better – and earlier – support and rehabilitation could be extended more widely (Recommendation 5).**

Help to people in managing their finances during a prolonged sickness absence

7.7. Inevitably, a significant number of people will continue to suffer a prolonged sickness absence without either sufficient savings or insurance to help them through. For these people, early money advice (and perhaps debt counselling) could be the key to minimising the financial difficulties they face. Yet many people seek help only once their difficulties have worsened. We therefore **recommend that Government works with money advice and debt services, health professionals and the Task Force members to identify ways in which people can be alerted to the help available early in a period of sickness (Recommendation 6).**

Next Steps

7.8. Alongside these recommendations for immediate action, we hope this report will prompt further debate about how services, policies and products should develop in the future.

Questions for debate

- How can employers and health professionals best focus on early work-related interventions, and what support do they need to do so?
- What can be done to help the self-employed consider – and provide for – their income protection needs?
- What can be done to engage groups who are not well-reached by current distribution channels (such as tenants and women)?
- How can the financial services industry – working with others – raise public awareness of financial vulnerability and the steps required to mitigate it?
- Is there a role for employers and/or automatic-enrolment pension providers in promoting/facilitating protection cover? What might be needed to enable this?
- How should risk be pooled in private insurance? Is more individualised risk assessment a helpful direction? Or would it be better to pool risk much more widely so that higher risk people can access affordable insurance (along the lines of Flood Re)?
- How could insurance products be better designed? Would products covering (for example) a wider range of risks, or offering more holistic/discretionary benefits, be a step in the right direction?

Summary of recommendations

1. A key target for the Government and the successor body to MAS should be to increase the number of households who are able to cope financially with a 4–6 week interruption in income. For longer periods, insurance is likely to be a better solution.
2. The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. The industry should also consider how the product can be made easier to acquire, and how to help build greater public trust.
3. The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position, whereby those who insure against sickness may face a £ for £ clawback, should be revised so that those who act responsibly are encouraged rather than penalised.
4. A Task Force involving Government, MAS, Employers, Distributors, the FCA, relevant charities and Insurers should be established to ensure that all opportunities are seized to alert people to the need to plan for contingencies such as sickness absence.
5. The Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, charities, health professionals and insurers) to consider how better, and earlier, support and rehabilitation could be extended more widely.
6. The Government should work with money advice and debt services, health professionals and the Task Force members to identify ways in which people can be alerted to the help available early in a period of sickness.

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