

Aviva response to the Independent Review of Employment Practices in the Modern Economy

About Aviva UK

Our purpose is to free people from fear of uncertainty and to support our customers at some of the most significant moments in their lives. Aviva helps people save for the future and manage the risks of everyday life; we paid out £30.7 billion in benefits and claims in 2015. This means £2.3 million was paid every day to life, critical illness and income protection customers and their families in 2015 – that's £1,600 every minute. By serving our customers well, we are building a business which is strong and sustainable, which our people are proud to work for, and which makes a positive contribution to society.

Introduction

Aviva warmly welcomes the opportunity to respond to the Independent Review of Employment Practices in the Modern Economy. The world of work is changing and people continue to work more flexibly so this review is a timely opportunity to explore how working practices can adapt to this change. In our response, we have chosen to draw on two specific areas of expertise from our business – pensions and retirement planning and protection – and our UK Chief Executive's role as the Government's Business Champion for Older Workers. We have focused on security, pay and rights (question 2) and opportunities for under-represented groups (question 7). We would be happy to discuss this with you further.

Key points:

- The self-employed are not captured by auto enrolment (AE) and they risk facing a significant shortfall in their retirement. Aviva recommends widening the scope of AE to include the self-employed.
- The self-employed are particularly vulnerable to the financial impact of being unable to work due to health reasons as they do not have access to Statutory Sick Pay or Occupational Sick Pay. Aviva recommends that all disincentives are removed from take up of Individual Income Protection so there is better protection against this vulnerability.
- A diverse and representative workforce is a real advantage to any business. Aviva recommends older workers, those with disabilities or care responsibilities are given the flexibility, support and protections they need. We endorse Business in the Community's recommendation to introduce statutory unpaid carers' leave.
- To increase productivity and fill the skills gaps of underrepresented groups in the labour market, Aviva supports the implementation of a Midlife MOT as recommended in the Cridland Review.

Security, pay and rights

To what extent does the growth in non-standard forms of employment undermine the reach of policies like the National Living Wage, maternity and paternity rights, pensions auto-enrolment, sick pay, and holiday pay?

People continue to work more flexibly and self-employment enables many people to do this. For many self-employed, the financial shock of living in retirement on just the state pension may be just as great as their full time employed colleagues. However they do not benefit from auto enrolment (AE). The world of work has changed over recent years and a system that was right when the original Pensions Commission began its work in 2002 may need to be considered further today.

Pensions auto-enrolment

The fact that AE doesn't capture the self-employed is particularly worrying given the decline in saving amongst this community. The number of self-employed people saving in a personal pension has fallen to 380,000 in 2014-15. This is the lowest number since records began in 2001, and down from a peak of 1.2 million in 2002-03¹. As the number of people who are self-employed continues to increase – reaching 4.8 million in the latest official statistics – it is concerning to see the number of savers in this community continue to fall.

We recognise that the Government received an independent report into the world of self-employment in February 2016². Written by Julie Deane OBE, it considered a wide range of issues affecting the self-employed, including saving for the future. The report identified that “around one in five self-employed people have no financial plans for retirement other than relying on the state pension”, and “less than a third of the self-employed say they pay into a pension”. One of Julie Deane's recommendations addressed this point specifically: *“As the number of self-employed continues to increase, the need for more flexible financial solutions, from mortgages and insurance to pensions, will become more imperative. The financial institutions that choose to address this need stand to benefit enormously. When such flexible financial instruments do begin to appear trade organisations will play a key role in signposting these so that their self-employed members can benefit from them.”*

We also recognise the important work the Government is currently doing in its review of AE and we are particularly pleased that they are looking at current coverage of the policy and considering how additional groups of people, including the self-employed can be helped to save for retirement.

We acknowledge that there are numerous proposals which would enable the self-employed to save more for their retirement. Aviva recommends widening the scope of AE to include the self-employed – we believe a system equivalent to AE is the most effective way of helping the self-employed save more for their retirement. We are currently examining how this could work in practice and hope to be publishing a report with recommendations in the summer. In particular, we are considering how tax returns might be used to facilitate this process.

¹ HMRC, Personal pensions statistics introduction, 2014 (last updated 2016)

² Self-employment review: an independent report, Julie Deane

Pensions Dashboards

As the review is considering the role government-accredited online platforms could play in helping the self-employed access services and support, we would also add that we believe Pensions Dashboards – platforms that will enable all savers, including self-employed and gig economy savers to see all their pension pots in one place - will revolutionise the way people manage their savings.

Aviva has been at the forefront of the Pensions Dashboard prototype project and we believe Pensions Dashboards are a vital tool to enhance engagement by making people's savings more accessible. Following successful completion of the prototype project, Government should introduce legislation that will make it mandatory for all pensions providers to share data with the dashboards so that savers can have a full picture of their retirement savings.

Sick pay and the role of Individual Income Protection (IIP)

The self-employed are particularly vulnerable to the financial impact of being unable to work due to health reasons as, unlike employees, they do not have access to Statutory Sick Pay or Occupational Sick Pay.

One of the roles Aviva plays is through Individual Income Protection (IIP) and we believe IIP could play a bigger role in protecting against this financial impact. IIP is purchased by an individual to insure their income against the risk of being unable to work due to illness or injury. If unable to work, it will pay a proportion (usually between 50-85 per cent) of their income until they are able to return to work, or for a period of time specified in the policy (usually 2, 3, 5 years, or until retirement). IIP also offers vocational rehabilitation services in order to help someone to return to work more quickly. For the self-employed, particularly those who work from home, an additional benefit of IIP is that it can protect both their home and business headquarters if used for mortgage or rent payments.

Whilst there are approximately 1 million IIP policies in force held by a mixture of the self-employed and employees who have chosen to self-insure, a survey by the Federation of Small Businesses found that only 9 per cent of self-employed individuals currently have an IIP policy in place. This low percentage demonstrates the heightened risk that the self-employed are exposed to.

The current proposed Universal Credit ("UC") rules create a significant dis-incentive for the self-employed to protect their financial well-being by taking out IIP. As it stands, these rules will increase welfare costs and dependency by penalising individuals that protect themselves against sickness absence by taking out IIP.

For example, IIP benefits will be treated as 'unearned income' for UC rules. This will result in a £1 reduction in entitlement to UC for every £1 of IIP benefit received. This is in contrast to Group Income Protection ("GIP") - which is treated as 'earned income' - which leads to 65p of UC withdrawn for every £1 claimed.

Treatment of IIP under UC, risks making self-provision less valuable to individuals and, in some cases, undermines its effectiveness. This runs counter to the current Government's principle of encouraging personal responsibility and private provision. A shrinking market will mean higher welfare spending and lower tax revenue for the government. The added complexity of the UC rules will confound this effect as it may lead advisers away from recommending IIP to their customers.

We are strongly of the view that all disincentives should be removed from take up of IIP and GIP. The purpose of the withdrawal rate rules under UC is to ensure that claimants cannot end up with more than a 100% replacement rate (in terms of their pre-sickness absence employment income) and to minimise Government costs. However the likelihood of anyone also receiving over a 100% replacement rate is very low and the benefits of taking out IP are the high success rates for rehabilitation back into work so the overall time spent in receipt of benefits is much lower. Over the longer-term this is a sounder strategy.

There is no equivalent dis-incentive (to the proposed UC rules) included in other areas of Government policy. For example where an individual makes private pension contributions their state pension is not reduced in proportion to those private savings. Far from it, in contrast private pension savings are incentivised (via pension tax relief) as it is accepted by Government that it is desirable for individuals to reduce the potential burdens on the welfare state that would otherwise result.

The public policy need to promote the protection by individuals against the potential costs of sickness absence is an analogous situation to the need to privately save a sufficient amount for retirement. Any private provision for protection should be actively encouraged as it will directly reduce the costs on the state in terms of welfare spending, health costs, and increased tax and NIC receipts.

Opportunities for under-represented groups

How can we harness modern employment to create opportunities for groups currently underrepresented in the labour market (the elderly, those with disabilities or care responsibilities)?

The business case and benefits of employing older workers are clear for both the employer and employees. Having a diverse and representative workforce can be a real advantage to any business. Making organisations aware of the opportunities around recruitment and retention of an ageing workforce can improve the overall contribution of older workers to economic growth and productivity, as well as making the best use of peoples' skills and experience.

For the UK as a whole, there is also a need to encourage a longer working life. Recent research from Business in the Community³ reported that between 2012 and 2022 seven million new workers will enter the UK workforce. This comes at the same time as more than 12 million older workers will exit. We need more workers, and the older generation carry skills that can be of unique value.

³ <http://age.bitc.org.uk/news-events/news/press-release-age-workplace-retain-retrain-recruit>

Recent research from Business in the Community also shows a missing million⁴ older people who are out of work, but who want to work. While some older people can choose to retire, too many people are pushed out of work involuntarily, through redundancy, physical changes, or caring responsibilities – each of which may require a sudden change to working patterns. If individuals want to maintain living standards over their lifetime, each of these three groups will want to continue to work. Flexible working opportunities, with control and autonomy, are key to enabling older people – particularly those with caring responsibilities, or disabilities – to stay in work for longer.

As modern business models and new employment practices expand, we ask the government to ensure over 50's, those with disabilities or care responsibilities have the flexibility, support and protections they need. Aviva endorses Business in the Community's recommendation⁵ to introduce statutory unpaid carers' leave.

At Aviva we are piloting a carer scheme with the hope of rolling it out across the UK. Areas being tested include a flexible working programme to training initiatives to a carer's network.

Skills gap

Digital transformation will create a huge shift in terms of the jobs that are available and the skills required to do them. As the economy and the workplace digitise, government and employers should ensure older workers are equipped with the necessary skills.

The current population of individuals aged 50 years and over are less likely to possess formal qualifications, compared with younger age groups. Research from Business in the Community⁶ and the Government's Fuller Working Lives Evidence Base 2017⁷ both found that people over 50 are less likely to receive work-related training than their younger colleagues. Those over 60 are significantly less likely to receive any. In the last year, only 11% of men and women aged over 60 received work-related training compared to 27-30% of workers under 50. Older workers that received training also tended to receive fewer hours compared with younger workers.

To increase productivity and fill the skills gaps of underrepresented groups in the labour market, we would ask the government to support the development and practical implementation of a Midlife MOT, as recommended in the Cridland Review⁸. This should be available to self-employed older people too; much of the growth of self-employment in recent years is due to the self-employment of older workers.

⁴ http://age.bitc.org.uk/system/files/research/prime_report_the_missing_million_0.pdf

⁵ <http://age.bitc.org.uk/all-resources/research-articles/age-workplace-retain-retrain-recruit>

⁶ http://age.bitc.org.uk/system/files/research/bitc-age_inthe_workplace_report.pdf

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/600620/fuller-working-lives-evidence-base-2017.pdf

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf

