



RESPONSE TO IMPROVING LIVES GREEN PAPER FROM THE BUILDING RESILIENT HOUSEHOLDS PROJECT

Key points in this response

- We support the vision set out on page 23 of the Green Paper. Insurance can play a key part in its delivery.
- The Government is right that increased take up of Income Protection insurance will help towards this vision. This must embrace Individual Income Protection (IIP) because even if coverage of Group Income Protection is extended it still will not always reach important groups such as the self-employed.
- Analysis by the New Policy Institute shows that the treatment of IIP in the new Universal Credit system is harmful, creating an obstacle to take-up. This problem, summarized at paragraph 16 below, affects many ordinary families.
- Changes should be made to Universal Credit to address this issue – we make specific suggestions at paragraph 19 below.
- Action to improve take-up of IIP should include a cross-sector Task Force and a Statutory Objective for the new Single Financial Guidance Body to promote resilience to income shocks (paragraph 24.)
- A range of lessons can be learned from agencies involved in providing support and rehabilitation through IP insurance. These are summarised at paragraphs 28 -33.

Introduction

1. At the end of October 2016, we launched our report “Building Resilient Households”. Our report was commissioned by the Chartered Institute of Insurance under the auspices of the Income Protection Task Force. The purpose of our project was to examine how resilient UK households are to the financial effects of sickness absence, and how that might change in the future. Our work found low levels of resilience and little prospect of this situation improving without concerted action by a range of parties and agencies. The full report can be found at <http://www.cii.co.uk/knowledge/policy-and-public-affairs/articles/cii-report-building-resilient-households/43674> .

2. The report drew on interviews with a wide range of parties. Since then, we have held three further workshops, and more bilateral meetings, to explore further how resilience can be improved and the role insurance can play in this area. The sponsors of our work are listed at Annex A along with a list of some 30 organisations who have contributed to our work through participation in interviews and workshops and the provision of data, information and views.



3. This response has been informed by these rich sources of input. It focuses particularly on the role that insurance can play in bringing about the vision described in the Green Paper. While we believe many of the views expressed in it are widely shared, they should be seen as those of the authors – further details of whom are also at Annex A.

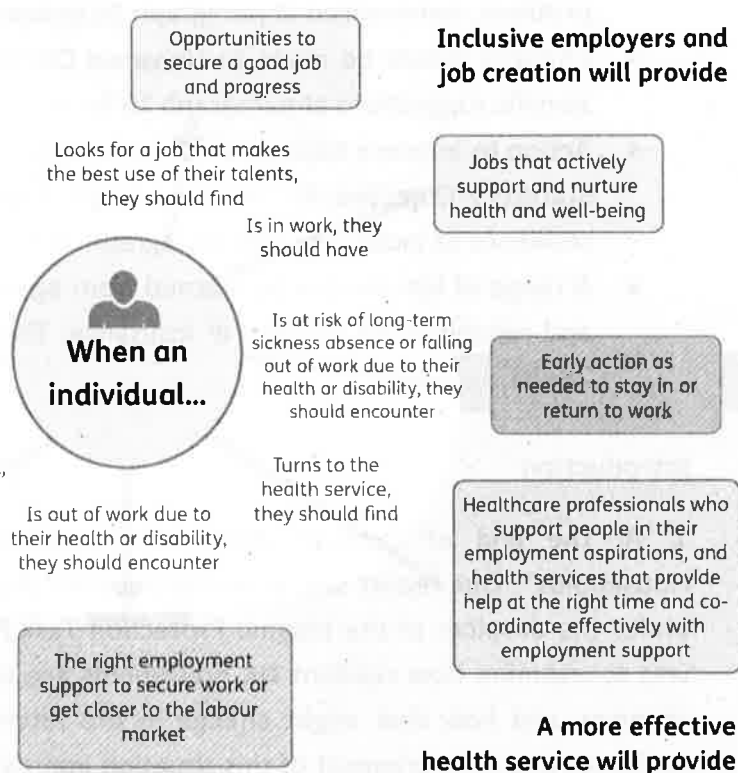
Overview

4. The Green Paper sets out the following clear and compelling vision of how our society should address the key issues of health and work. We think this is the right vision and that the Government should work with all interested parties to turn it into a reality.

Our Vision

A society where everyone is ambitious for disabled people and people with long-term health conditions, and where people understand and act positively upon the important relationship between health, work and disability...

So that...



5. Insurers already play a role in supporting this vision for a wide mix of people every year. Through products such as Income Protection insurance they:

- **Actively support and nurture health and well-being**, for example through line-manager training in mental health awareness, employer advice, wellness platforms and Employee Assistance programmes, and nurse adviser services.
- **Take early action as needed to help people stay in or return to work**, for example by providing work-focused clinical treatments (such as physiotherapy



and talking therapies,)personalized case management, and return-to-work plans.

- **Bridge the gap between healthcare, workplace, individual and GP** focusing all parties on a return to work outcome.
- **Offer rapid financial support** providing the security people need to enable them to concentrate on their recovery.

6. Currently around 10% of workers are covered by income protection policies (individual IP and Group IP together.) Cover is not confined to higher earners: in fact it is well spread across the income distribution. Analysis of individual IP data from one major provider LV= shows that a third of their policies are held by people earning less than the national average pay. Other insurance providers cover a range of income groups and Friendly Societies in particular, have traditionally covered blue collar workers. A similar pattern can be seen in Group IP (GIP) where analysis from one major provider shows 39% of people covered earning under £30,000 a year.

7. We believe that increased take-up of protection cover would provide:

- Added security for many ordinary families enabling them to be sure of paying the rent or mortgage and of meeting bills (a degree of security the state welfare system is unable to provide for many people because of strict limits on help with housing costs and other restrictions.)
- Greater help and support if they fall ill, helping them and their families deal with the emotional stress of illness and helping them get back onto their feet more quickly and avoid the vicious cycle of ill-health, loss of income, poverty and under-achievement for the whole family (this is well illustrated by the 7 Families campaign <http://7families.co.uk/>)
- An expansion of insurance-based rehabilitation and work-focused support, enabling limited State resources to be supplemented by voluntary private provision.

8. The Green Paper highlights the desirability of increasing take-up of Group Income Protection. We strongly agree with this objective and note that the Government is working with the ABI to explore the viability of group income protection insurance products for smaller employers.

9. However, the self-employed (who now account for almost a sixth of the workforce) could not benefit from GIP, and realistically there are also likely to be many employees – especially in small businesses –who either will not be offered GIP or who would be better off with individual policies (e.g. because of the lack or portability of GIP.) Taken together, the self-employed and micro-businesses (1-9 workers) account for almost a third of the UK workforce.



10. It is therefore especially important to take action to encourage greater take-up of individual Income Protection, and other products such as Critical Illness cover where appropriate. Rather than duplicate the Government's work with the ABI our response focuses on these individual insurance products.

11. We recommend the Government take the following actions to sustain existing levels of private provision and to facilitate greater take up:

- Improving the fit between the State welfare system and private sickness insurance so that those people who make provision for themselves and their families do not face pound for pound claw-back of state support (see paras 15 to 20 below.)
- Establishing a Task Force to ensure all opportunities are seized to alert people to the need to plan for contingencies such as sickness absence (see paragraphs 21 to 27 below.)
- Setting a clear statutory objective for the new Public Financial Guidance Body to maximise the number of families that are resilient to income shocks arising from accident, sickness & disability and other causes (see paragraphs 21 to 27 below.)

Alongside these Government-led actions we also recommend the Income Protection insurance industry establishes 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.

12. Our response does not cover all areas discussed in the Green Paper. But we add at the end of this response comments on some further issues raised.

Context – Understanding the problem

13. The Green Paper is refreshingly frank about how the current system is failing many people and it sets out much of the context very well. Some further points, however, should be noted as part of the context:

- Close to two-thirds of the UK private sector workforce is now employed by SME's. Most long-term sickness absences (around 70%) are, therefore, amongst employees of SME's with 43% being people who work for employers with fewer than 50 staff. So, finding a solution for these people, and for the 5 million self-employed, is of great importance.
- While State benefits are a great help to many people, they are often not sufficient to provide financial security. Housing benefit restrictions mean that most tenants will face a shortfall in rent. And help with mortgage payments is very severely restricted and from 2018 will be replaced by loans. In addition,



people often have other essential commitments which cannot be met by the state benefits system.

- As a result, prolonged sickness absence can lead to build up of problem debt or even to families being uprooted and having to move to a different area, sending children to a different school at a time when a parent is battling illness resulting in potentially life-long impacts.
- Problem debt is a factor contributing to mental health problems which in turn may lead to further sickness absence and poor financial decision making (see Money and Mental Health Policy Paper 'Seeing through the Fog'.) So the lack of financial security creates a vicious circle with negative consequences for individuals, their families, employers and the State.

Income Protection insurance – part of the solution

14. To understand how Income Protection insurance can be part of the solution it should be noted that it:

- Normally offers work-focused support and rehabilitation as part of its core service. The service provided has a strong record in getting people back to work (as evidenced in our October 2016 report.)
- Need not be an expensive product e.g. £4 a week could provide cover of £500 a month to a 40 year-old right up to retirement age. While premiums rise with age, they can also be reduced by having a longer deferral period (the time after the start of sickness before benefits start to be paid) or paying out for a fixed number of years rather than up to retirement age.
- Is available to a wide range of people. Insurers seek to accept people with pre-existing conditions where possible: figures from LV= show 90% of applicants are accepted
- Offers greater certainty than state benefits (paying out over 90% of claims.)
- Supports people in retaining their current occupation (and thus skills, self-esteem and longer-term spending power) by paying out on a 'own occupation' basis compared to the State system which pays out only when someone is unable to do any work
- Is designed for (and taken up by) ordinary working families – including blue and white collar workers – reflecting the traditional roots of this product in the Friendly Society movement.

Improving the fit between State welfare and sickness insurance

15. The project commissioned the New Policy Institute to examine the interaction between the state benefits system and private insurance for sickness. Their report – which is attached to this response – sheds new light on areas where there is a poor fit



between the systems and where reform could improve outcomes for both individuals and the taxpayer. We urge the Government to take forward these reforms and believe that doing so is a pre-requisite to achieving increased take up of insurance.

16. The case for reform is this:

- For many ordinary families, the benefits system cannot cover all their commitments. Millions have mortgages or rental commitments beyond what the benefits system can cover, or other commitments/expenses which cannot be catered for in a taxpayer-funded system.
- To be financially resilient to sickness absence, it therefore makes sense for many people to make some insurance provision. The practical help they give people in getting back to work also helps individuals, families, employers and the taxpayer.
- Currently, just over 1.1 million people do this through Individual Income Protection (IP) policies. These policies are held by ordinary working people. Analysis of data from LV= shows a third of policies are held by people earning under below the national average, with 60% being held by basic rate taxpayers.
- The NPI report illustrates how the new rules coming in for Universal Credit treat many people with IIP less favourably than the system they replace. Families with children and people who rent are hit particularly hard as the 'disregards' and 'tapers' which help them in the legacy system are being withdrawn.
- This interaction is not a minor or theoretical issue. NPI's analysis shows that most families would be eligible for Universal Credit if a breadwinner loses their earnings through sickness.
- NPI estimate that if there were even take-up of IIP across the population as a whole, 59% of families would find that making extra provision through IIP results in a reduction in state benefits. For around 20% of families, the loss of state benefits could fully offset the cash payout from IIP (though other features of IIP policies such as rehabilitation and work-focused support would still be of value.)

17. As Universal Credit is rolled out and the new rules start to affect families, this will reduce the attractiveness of Income Protection to people of ordinary means. Only high earners or those with substantial savings will be able to enjoy its full benefits. This situation is starkly at odds with the vision the Prime Minister has set out for the social fabric of our country. It will also undermine, rather than support, the vision for work and health described in the Green Paper.



18. We recognise that a balance has to be struck here. Given the pressure on public finances, the State means-tested system may not be able to disregard completely all income an individual has from a sickness insurance policy. On the other hand, if it takes the income fully into account against state benefits it penalises those who have sought to increase their resilience. And, in doing so, it creates the strongest possible disincentive to private provision. Between these two extremes, a 'win-win' position can be found where both State and individuals are able to benefit from people choosing to make insurance provision.

19. A possible approach to striking the right balance could include the following elements:

- As the State withdraws from paying any benefits to cover mortgage interest, any element of an insurance pay-out used to cover mortgage payments should be completely disregarded in the benefits system. It seems irrational and self-defeating to remove the existing disregard for such payouts and treat them as available towards ordinary living costs.
- A similar approach could also be applied to tenants. For example, any element of insurance which covers their "excess rent" could be fully disregarded by the benefits system. (By "excess rent" we mean the amount of rent that can't be allowed by the benefits system because it exceeds a local or national cap.) Another option might be for people to be able to "opt out" of drawing any state support for housing and in exchange the State would disregard any insurance payout they receive to cover their rent.
- A taper and partial disregard on insurance payouts to meet living (as opposed to housing) costs. A logical starting point here would be for the "earned income" taper and work allowances to apply to Income Protection in the same way as they do to Group Income Protection. The reality is that both IIP and GIP are forms of deferred earnings. Both involve putting aside a small amount of earned income to make prudent provision for future loss of earnings. In the case of GIP, this is facilitated by the employer whereas IIP is set up by the individual. There seems no equitable reason why the latter course (which is the only route available to the self-employed and millions of other workers whose employers do not offer GIP) should be treated as less worthy than the former.
- There may also be advantage in offering a specific new disregard on Income Protection payouts. This would give a very clear message that it pays to make prudent provision – a message that is all the more important in the IP setting as it requires the individual to make an active purchasing decision. And for low income households a very simple basic policy which provides a sum within the disregarded band would be extremely cheap and have significant impact on their wellbeing.



20. A reform along these lines could form the basis of a new partnership between government and insurers aimed at helping families improve their resilience to sickness and associated income shocks. It would require commitment from both sides – from Government to make these reforms to the system and to then retain stability, and from insurers to develop appropriate propositions. The benefits would be felt by individuals who take out insurance, their families, their employers and the taxpayer.

Pro-active steps to increase take-up of sickness insurance products

21. Improving the fit between state benefits and private insurance is a pre-requisite to sustaining and increasing the take-up of insurance. But, alongside this, a pro-active effort is needed to engage workers and families in becoming more resilient to income shocks, whether they arise through sickness, job loss, relationship breakdown or retirement.

22. The facts are stark:

- As the Green Paper shows, 1.8 million employees each year have a long-term sickness absence
- The majority of households rely on one wage-earner's income (almost 2/3rds of households in the case of the self-employed)
- 40% of working-age people (almost 17 million people) have savings of under £100
- Only 1 mortgage-holder in 20 has mortgage payment protection insurance (though more have Life and Critical Illness insurance.)
- Only 1 worker in 10 is covered by Income Protection insurance (including GIP)
- Statutory sick pay, at £88 a week falls short of the average take-home pay by £325 a week. State benefits cannot bridge this gap for many families.

23. As we set out in our October 2016 report:

- Alarmingly few families have the financial resilience to cope with income shocks from accident, sickness & disability or other causes – an eventuality which most households are likely to face several times in a working life.
- There is little prospect that resilience will improve without concerted and determined action involving a range of parties including Government, Employers and Financial Services.
- This lack of resilience can lead to serious financial hardship and to further health problems, leading in turn to further sickness absence, debt, employment problems and growing demand on health services; and to wider impacts on families and their life-chances.



A cross-sector Task-Force and a statutory objective for the new Financial Guidance Body

24. Against this background, we believe it is essential that:

- A Task Force be established to ensure all opportunities are seized to alert people to the need to plan for contingencies such as sickness absence. Parties involved would include Government, Money Advice Service (and its successor), employers, distributors, the FCA, third sector organisations and insurers.
- The new SFGB is set clear statutory objectives. Amongst these should be the objective of maximizing the resilience of households to the financial effects of income shocks arising from accident, sickness & disability and other causes. We comment further on this in our response to the Government's consultation on Public Financial Guidance.

25. We don't think it is necessary for the Government or the SFGB to do most of the work in this area. The Government's key role is to provide national leadership on this subject. It can do so by:

- Giving clear messages about the importance of people taking steps to protect their livelihood. The messages over the last decade about the importance of saving for retirement have been very effective in changing the climate. They should continue, but it is now time to get the message out about resilience during working life.
- Ensuring that policies and actions match this message, by removing disincentives and supporting 'nudge' type interventions.
- Bringing together the key parties and encouraging them to work together to boost resilience. Once the Task Force is established, its members can take forward much of the work.

26. MAS – and then the SFGB – can play a key role by working with others to test and evaluate different ways of improving resilience and helping to spread best practice. Ideas to be trialled could include:

- Employers providing periodic statements to employees of what sick pay they would get in the event of a prolonged absence. Existing research suggests that many employees have misconceptions in this area. Basic information about what State Benefits would provide could also be trialled.
- Providing, perhaps through digital tools, easy-read information about the risk of sick absence, the potential income gap it creates, and the cost of insurance to cover the gap.



- Building on pensions auto-enrolment communications to alert people to the risks from sickness and opportunities to protect themselves.
- Focused information at key life-events such as starting work (just like a pension, Income Protection is cheaper the sooner you start.)
- Using key contact points for the self-employed to help them consider how to be resilient (research shows that income insecurity due to sickness is a top worry for them, but translating this into action is much less frequent.)

27. In addition, MAS and its successor can play a vital role as an independent and authoritative source of information about the financial risks of sickness, and the importance of planning for them. It can also signpost people to where they can go to find products.

Other issues

28. Our workshops and interviews also provided some insights into the factors that make work-focused support and rehabilitation operate most effectively. These are based on the experience of insurers and of the third sector organisations with whom they often work in partnership.

29. The first key lesson is that the earlier support is provided, the more effective it is likely to be. Insurers therefore try to ensure they are brought in as soon as possible, rather than waiting until benefits are payable (many policies have a deferral period before cash is payable.) An early intervention – such as physiotherapy or CBT – can keep someone in work, with necessary adjustments. Doing this can greatly increase the speed of full recovery. If the person does need to take time off then providing the right support early on can minimize the period of sickness absence. Once someone has been away from work for a while, it is a longer haul to get back.

30. The second lesson is the importance of a person-centred approach to care and support. The personal case manager usually provided through insurance makes a big difference both in providing practical and emotional support and keeping the person motivated. Their ability to co-ordinate services, getting the right one in place at the right time, helps the person focus on doing the things they need to do to get better rather than finding their way through bureaucracy. People often need help from more than one medical/caring specialty. Seeing the ‘whole person’ and co-ordinating specialties effectively is important, as is help with everyday issues such as transport, childcare and relationship stress.

31. Perceptions of the support service and its motivation are also important. The use of third sector agencies/charities can make it easier for an individual to see that the support is really there to help them, rather than looking after the interests of the insurer or the Government. The feeling that you are being helped by someone who is



on your side is important, especially at a time when a person may be facing difficult emotional pressures.

32. Support services provided through the third sector can also be best placed to help understand and manage the impact of an individual's illness and treatment on the whole family – providing 'pre-hab' support. They may also use language that enables them to relate best to their client group and have a good understanding of local services, issues and contacts - which can make a big difference in helping the individual & family get the very best of what's available.

33. We are encouraged that NHS England is currently piloting person-centred approaches to helping people to return to work. This reflects its new statement that "work is a health outcome". We have offered to facilitate a discussion between NHS England and Red Arc, Legacare and Aviva Claims management to share experience and explore any potential for public private partnerships.

Building Resilient Households Project

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ANNEX A: ACKNOWLEDGEMENTS

The Building Resilient Households report was sponsored by the following organisations:

Aviva, British Friendly, the Chartered Insurance Institute, the Exeter, LV=, Scottish Widows, Swiss Re.

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Throughout our work we have been grateful for the information, views and ideas contributed by the large number of people from the sponsors and organisations listed below, who helped us with our research. This sort of project works best when people give their personal views, informed by their knowledge of the context. The opinions expressed should not therefore be regarded as the positions of any of the organisations listed. Our thanks go to our sponsors and to:

Association of British Insurers

Citizens Advice

Council of Mortgage Lenders

Countrywide Group

Fawcett Society

Federation of Small Businesses

Financial Capability Board

Financial Conduct Authority

Financial Inclusion Centre

HM Government

Income Protection Task Force

Intrinsic

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Lifesearch

Master Adviser IFA Ltd

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Money Advice Service

New Policy Institute

NHS England

Openwork

Red Arc

Resolution Foundation

Scope

Stepchange

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Richard spent 6 years as Head of Health at the Association of British Insurers (ABI). Before that, he was a senior civil servant responsible for strategic planning at the Department of Health. He has a special interest in the health and protection sector and has worked on a number of projects for public and private sector clients.

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