duty of care can employers help improve financial wellbeing?

Max Wind-Cowie

Progressive Conservatism Project

DEMOS

DUTY OF CARE: CAN EMPLOYERS HELP IMPROVE FINANCIAL WELLBEING?

Max Wind-Cowie

September 2012

PARTNERS CREDITS

In collaboration with Unum
www.unum.co.uk

Published by Demos 2012

Third Floor
Magdalen House
136 Tooley Street
London SE1 2TU

T 0845 458 5949
F 020 7367 4201

hello@demos.co.uk
www.demos.co.uk

EXECUTIVE SUMMARY

This paper is looks at the potential role for employers in safeguarding the financial wellbeing of their employees. It looks to ask why some employers choose to facilitate financial protection for those who work for them, what barriers prevent some employers from doing so and what potential benefits could be reaped by employers, employees and, indeed, the state if we were to able to expand the number of workers protected in partnership with the companies they work for.

This paper – which builds on previous Demos research and polling undertaken by GRiD – restates the case for broader take-up of financial protection products by Britain's workers. If the UK economy were able to improve take-up to the levels seen in the US, income protection alone could help to save the exchequer up to £2.24 billion a year. That represents around a quarter of the future welfare savings demanded by the Chancellor in the 2011 budget. The best route to such long-term savings – and to heightened protection for individuals and families in the 'squeezed middle' is employer engagement.[1]

But at a time when many businesses feel that they are struggling against a negative outlook, it is vitally important to address and explain the potential benefits for employers. This is not about altruism on the part of hard-pressed small and medium businesses.

A more proactive engagement with sickness in the workplace could help to reduce the £24 billion a year that employers currently spend on employee ill health.[2] Early intervention to rehabilitate and reenable employees suffering from sickness can reduce SSP bills and also reduce staff turnover and recruitment and training costs.[3] What is more there are proven benefits – in terms of morale, engagement and employee-loyalty – that stem from provision of financial protection to employees.[4]

But there are challenges too. Many companies feel that their responsibilities to staff are already burdensome and, in a period of high unemployment and low growth, act as barriers to taking on new employees and growing businesses. Furthermore, the lack of widespread knowledge and understanding of income protection, the need for it and the service it performs means that the benefits seen to US employers (where the market is more developed and knowledge is higher) may not be immediately transferable in the UK context.

This evidence leads us to a number of questions for discussion – which we feel should form the backdrop to any effort to further and better engage employers in a discussion about their potential role in their employees financial wellbeing:

- **How great a responsibility should employers have for their employees' financial health?**
  Does the responsibility of employers end with those factors directly related to their employees' work or do employers have a wider role to play in ensuring that their employees are financially healthy and responsible? Are there benefits for employers to a more holistic approach to managing the financial welfare of their employees? To what extent should financial education form part of employers' engagement with their employees? Should Government support greater group and individual welfare responsibility through targeted support and incentives – such as NI rebates?
- **How can we make income protection viable for SMEs?**
  Should small businesses be encouraged to pool together in order to provide education and protection for employees across a number of businesses – perhaps through local Chambers of Commerce – in order to ensure that income protection is not reserved for employees of large corporations?

- **What can be done to raise demand and facilitate employee engagement in income protection?**
  A key reason for inaction among employers on income protection is the lack of demand exhibited by employees. This dampens the incentive for promoting financial education in the workplace and facilitating or supporting income protection – it also potentially reduces the benefits available to responsible employers.
- **How can we make facilitating group protection products reassuringly straightforward for employers?**
  The fear of bureaucracy and potential legal liabilities is a deterrent for employers considering income protection for staff. While the degree of this burden is overstated, and much can be done to reassure, it is true that for smaller businesses (without dedicated, in-house HR teams) facilitating income protection may prove difficult. Is there a role for a simple, straightforward, third party platform aimed at employers to aid in facilitating income protection, myth-bust about legal liability and source appropriate products?

FINANCIAL RESILIENCE AND EMPLOYEE WELFARE

Job security – or rather, the perceived lack of it – has been a recurring theme of the recession and its aftermath in the UK. Whilst unemployment has remained mercifully lower than expectations, the fact remains that an increase of short-term and part-time work may have alleviated worklessness but has failed to improve long-term financial security and wellbeing. As the Work Foundation has argued;

Since the end of the recession there has been a severe shortage of full-time permanent employee jobs.[5]

For millions of Britons the contraction in credit and erosion of job security has caused acute stress both in terms of the day-to-day costs of living and in terms of their capacity to plan for the long-term. The recent, modest up-kick in savings rates is perhaps a symptom of people's sense of insecurity in an economy that can feel both unpredictable and frightening.

But, nonetheless, the truth is that Britons are returning to work. And despite disappointing growth-figures, fewer and fewer of us are depending on welfare whilst more and more of us are finding employment. This being the case, there is a longer-term question about how we help to ensure that participants in the economy are able to acquire the protection that might insulate them against future financial shock. Key to achieving the aim of more robust and resilient workers in the UK economy are, potentially, employers.

Politically, encouraging employers to share in the responsibility of securing then financial wellbeing of their employers fits with both long and short-term trends endorsed by all three major parties. Over the last thirty years, employers have played an ever greater role in both educating and facilitating decent pension provision for their employees – culminating with the reforms that created NEST and auto-enrolment via the 2008 Pensions Act.[6]

But it also chimes with the macro-reform of the way in which Government manages and targets entitlements. As Lord Freud (Minister for Welfare Reform) said at the launch of Demos and Unum's *Of Mutual Benefit* report:

There is more, much more, that can be done to make the welfare system really work. That has to involve talking to the private sector about what they can do to help.

The change that is needed is in how we engage a range of actors – from Trades Unions to employer associations to businesses – in helping to insulate and protect workers against financial risk. The benefits of doing so are in increased productivity and reduced costs for employers, more limited risk for Government and more resilient individuals and families.

Demos has argued for an evolutionary, progressive approach that rewards personal responsibility and uses state resources to support those who insure themselves against the risks of unemployment due to disability or sickness. This principle, laid out in *Of Mutual Benefit*, and based on extensive qualitative work with mid-range earners, has attracted considerable political support across the parties – with Frank Field MP, David Laws MP, James Purnell and Lord David Freud (among others) recently making the case for a more explicitly contributory and conditional means to financial protection. But it has not yet acquired the broader support and engagement that it would need in order to survive politically - from business, civil society, Trades Unions and employers groups.

A number of reviews and reports, including Dame Carol Black's *Sickness Absence Review*, have pointed to the need for a new approach to funding SSP and for the involvement of the private sector in identifying and delivering better products for individuals and employers alike. It is, however, less than clear that these products could be made sufficiently profitable for insurers and affordable for companies and individuals.

What is now needed is a process of structured engagement with key stakeholders in a potential coalition for long-term financial wellbeing via the marketplace, further research on how the market can be supported and promoted, and a fresh understanding of what barriers exist to prevent UK workers taking personal responsibility for their welfare by utilising existing products and possibilities.

This paper is the first in a series compiled by Demos – funded by Unum – looking at the specific benefits and barriers facing particular stakeholder groups in addressing the question financial resilience. Over the course of 2012, we will be hosting forums with representatives of employee groups, policy makers and the charity sector. Our starting point is the potential role of employers in helping to bridge Britain's protection gap.

Extending income protection – currently too often the preserve of senior executives and CEOs – to a larger proportion of the British workforce should be a shared aspiration of employers, employees, trades unions and policy makers. This series of papers and events aims to forge a new consensus on how best to protect British workers against the threat of accident, ill health and related long-term unemployment.

THE PROBLEM FOR EMPLOYERS

In the debate on incapacity and disability benefits it is often the impact on the exchequer and the individual which receives most attention, with the interests of the taxpayer and the employee often being painted as opposing. But business in the UK also suffers as a result of Britain's creaking sickness and disability support infrastructure.

The impact of sickness, accident and disability is not restricted to the direct cost of paying out-of-work and disability-related benefits. In her review of sickness-related absence, Dame Carol Black estimated the cost in lost productivity of 11 million people taking sick leave annually at £15 billion – with much of this being felt by employers themselves.[7] Statutory sick-pay (which employers are responsible for financing themselves) and the additional demands of finding cover for staff taking long-term, sickness-related leave cost employers approximately £9 billion a year.[8]

The costs of losing members of the workforce permanently due to sickness and ill health are also steep. Employers are often faced with the expensive task of recruiting and training replacement staff (after already facing the costs of supporting individuals through their period on statutory sick pay).

The cause of the excessive cost – and limited return – of SSP lies in the structure of employer responsibilities. The Coalition Government – in tune with the last government – has placed a great deal of emphasis on targeting and helping the long-term unemployed to rediscover the workplace. In practical terms this has necessarily meant reforming the model of the Incapacity Benefit (IB).

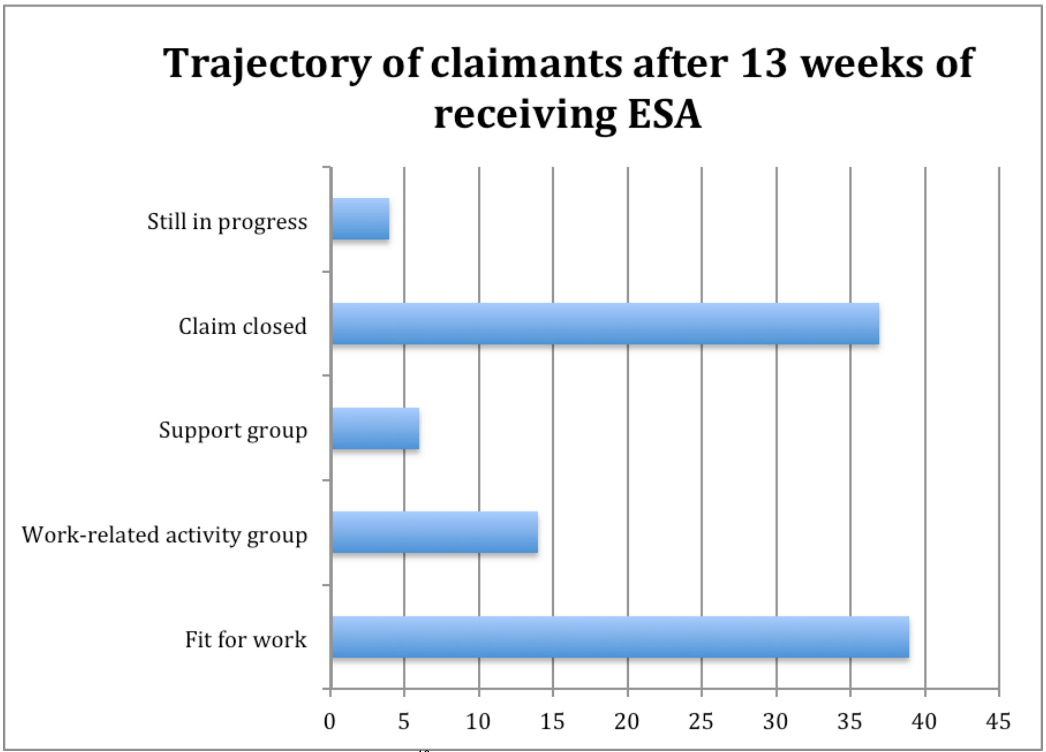
Government's approach to disability and worklessness has therefore focused on the benefits system itself. The new Employment Support Allowance (ESA) structure – which replaces IB – better assesses the capabilities of claimants and uses third parties to help those who may previously have been left on the scrapheap of unemployment return to work.

This approach is necessary but insufficient. Government should look not simply at the demand side of disability protection but also at the supply side. Interventions earlier on – before a person has permanently dropped out of work – could radically reduce the cost of ESA and ensure that unwell or disabled individuals get the help they need to go on working.

If we wish to see fewer people spending significant amounts of time invalided out of the workforce, the evidence strongly points to an early intervention approach. Working with people early on - to understand their needs, make reasonable adjustments and reestablish them in the workplace - means reducing the flow of people onto long-term welfare and improving the standard of living for those helped. It is, therefore, important that government find means of incentivising that early intervention – both to reduce the cost to themselves and to improve the life chances of individuals.

About 300,000 people a year flow from receiving Statutory Sick Pay (SSP) to receiving ESA and thus onto the payroll of the state.[9] These 300,000 people are assessed for 13 weeks and, if they don't drop out, they pass onto either JSA if they are deemed able to work, work-related activities ESA if they are able to work in some capacity, or a support group, if they are unable to work. The proportion going to each category is displayed in Figure 1.

Figure 1: Trajectory of claimants after 13 weeks of receiving ESA



Source: Department for Work and Pensions[10]

Early intervention can help prevent this flow from claimants moving from one benefit to another. Insurance policies that include intervention measures have been shown to be particularly successful in increasing rates of return to work. Ensuring physical activity, education (possibly in the form of Cognitive Behavioural Therapy) and workplace intervention - as income protection packages do - improves the probability of claimants returning to work by 43 per cent. Only 64.8 per cent of people on long-term sick leave return to work within the first six months of becoming unemployed (the period of SSP payment), so a package like this can be expected to increase the return to work rate to 92.7 per cent.[11]

At the moment there is little, if any, incentive or support for employers to invest in return to work interventions. Instead, SSP is essentially 'dead money' used as a bridge between employment and benefits. This situation increases the long-term costs of sickness and ill health to employers, meaning that an unnecessarily high number of individuals flow onto long-term out of work benefits (with appalling potential repercussions for their financial and mental health) and an ever-growing bill for the taxpayer.

Reform is key to getting better value for money for employers from Britain's sickness infrastructure, to ensure that early intervention is the norm for employees being signed off from work. As the evidence above highlights, such intervention can help to ensure that businesses do not waste money paying out SSP to employees who will not return to work, that the costs of filling posts both temporarily and permanently are reduced and that individuals receive help to continue to work at the earliest possible opportunity.

THE PROBLEM IN CONTEXT

The cost of disability to the Exchequer – in welfare payments alone – stands at around £13 billion a year.[12] That amounts to almost £500 a year for every working adult in the UK.[13] The Secretary of State for Work and Pensions, Iain Duncan Smith, recently argued that around 20 per cent of the total disability benefits bill – approximately £2.2 billion - must be cut.[14] Meanwhile, ambitious targets for future welfare savings - be it the £10 billion reduction promised by the Chancellor during the 2012 Budget or the £25 billion demanded by Steve Hilton in a recent, leaked, memo – will inevitably have to identify areas where savings can be made in the support offered to those too sick or disabled to work full-time.[15] [16]

While our disability benefits system is expensive, it is not particularly generous. Demos analysis of the relative levels of income protection and cover available to economically active citizens of peer nations across Europe, North America and Oceania showed that, despite our relatively expensive welfare provision, our actual per capita protection is relatively poor.

This relative lack of generosity in an increasingly, and unsustainably, expensive system impacts on the life experiences of individuals and families who face disability-related unemployment. In addition, the disabled and long-term sick also face other unique challenges which make their experience of unemployment all the more devastating to financial health.

People who leave the workplace due to accidents and ill health face longer periods in unemployment than those made redundant. Indeed, many people who suffer an accident or sickness that prevents them working will never return to the workplace. Of JSA claimants, almost 60 per cent of claimants return to work within three months, and almost 80 per cent within six months, of making their claim.[17] For ESA claimants the return to work levels are significantly lower. Only 26 per cent of those leaving work to claim ESA were able to return to work within a year.[18]

The long-term nature of unemployment caused by a disabling illness or accident makes the financial security of those who find themselves unemployed in this way all the more crucial. The circumstances in which individuals find themselves when they become unemployed as a result of accident or ill health will affect them for longer than would otherwise be the case.

Up to 60 per cent of disabled people in the UK live in poverty, and the additional costs of living with a disability have been estimated at between £80 and £400 a week, depending on the severity of disability, or at between 11 per cent and 69 per cent of a person's income.[19] [20]

Disabled people often suffer from a direct financial penalty as a result of their disability. For those reliant on state benefits this comes at the same time as they suffer the financial shock of becoming reliant on a dramatically reduced, fixed income. If they are an average or above average earner, that fixed income will be substantially below their previous earnings and, for those with sufficient income to be owner occupiers, insufficient to support their mortgage.

The allowances the state pays disabled people are set to be substantially reduced over the course of this parliament. The Disability Living Allowance is being replaced with a Personal Independence Payment, which will alter the assessment criteria and may well reduce the numbers who qualify and the amount they are eligible to receive.[21]

The level of total protection available to an average member of the labour force in the UK should they become unemployed is far below that of the USA. Demos's 'Index of financial protection', which scores the total public and private protection available to individuals should they become unemployed, and provides scores on the basis of what level of protection is enjoyed, placed the UK 8th out of 12 peer countries analysed. The UK scores just 44 against the USA's score of 60, and compared with Canada and the Netherlands, the UK fares even worse. In both these countries private protection is significantly higher than in the UK.[22]

Both state protection and private protection in the UK are below the level found in the USA. However, it is the substantial difference in the level of private protection that is the chief cause of the UK's low rating on the index.

This is significant for two reasons. First, the lack of private protection in the UK results in less overall coverage and resilience from spells out of work for the UK labour force. The UK workforce has, therefore, a lower level of overall protection and is less robustly protected against unemployment, accident and ill health. Second, the findings of the index further point to the relationship between a healthy private income protection market and a more generous state welfare settlement. Countries with a higher level of private protection also tend to have higher levels of state benefit. This correlation may be explained by the reduced risk to the state when a person insures themselves to cover some – or all – of the cost of welfare should they become unwell, have an accident or become unemployed. The state is better able to predict its outgoings where it has a high level of private protection within its workforce, and that expenditure is likely to be less overall. This enables higher focused payments.

Personal welfare products would protect the incomes of average earners should they suffer from a disability or long-term health condition. They would help those earners to escape poverty if they lost their job and would provide the support and the interventions necessary to return them to the workplace where possible – high-quality interventions, as delivered by the insurance industry, can be as much as 43 per cent more successful in returning people to work than non-intervention.[23] It would result in more robust individuals who had more secure finances and help to end the very real problem of disability-related poverty in the UK.

We can see, therefore, that the British disability benefits system fails on two fronts – it is excessively expensive for the exchequer and concurrently is relatively ungenerous towards recipients. We can also see that an extension of the income protection market could help to both reduce the risk to which the state is exposed and to improve the coverage enjoyed by British workers.

THE ROLE OF EMPLOYERS

As we have seen, the structure of Britain's sickness and ill-health infrastructure has a negative impact upon employers – with an immediate cost of around £24 billion a year.[24] What is more, the relative absence of income protection from the British labour market is reducing the financial health of employees who are genuinely too unwell to work. This means there is insufficient incentive to provide early intervention and leads to a burdensome level of risk being leveraged against the exchequer. Despite all this – and despite the need for real reform to rebalance and improve the British labour market's level of personal protection from disability and ill health – relatively little has been done to involve employers in helping to provide some of the solutions.

The relationship between employers and their employees has become the focus of much public and political debate and attention in the period since the beginning of the economic downturn in 2008. Government policy can be characterized as pursuing two apparently separate strands of thought on what the proper level of employer-responsibility to individuals in their employee must be – exemplified by the approach of the Beecroft Review on the one hand and the Parental Leave review on the other. A brief examination of these two approaches is useful in helping to understand the countervailing tensions at the heart of the debate over what employers are, and are not, responsible for.

Beecroft begins from the premise that employment rights are a barrier to labour market flexibility and, therefore, a burden that puts employers off taking on new staff. Calls for the relaxation of employment protection, anti-discrimination legislation and redundancy obligations are, therefore, premised on the perceived need to loosen the constraints placed upon employers with a view to incentivising more aggressive hiring strategies.

The Government's review of parental leave entitlement, on the other hand, grounds itself in a different view of the evolving relationship between employers and employees – one that places a more substantial burden of care on employers themselves. This approach is justified by Government on two interrelated but separate measures: one, that 'flexibility' must work both ways and that employees have a right to certain allowances being made for them on the part of their employers, and two; that enhanced relationships between employees and employers can, in fact, improve productivity.

Both of these approaches have merit. And they are not as incompatible as they appear. The truth is that the British labour market has become more flexible over time, as British Governments have sought to balance competitiveness against the rights of workers. At the same time, however, employers have been used to promote desirable social outcomes that are beneficial to their employees, society at large and to employers in the longer-term. From pensions to parenting, employers have been encouraged (and sometimes regulated) in order to prompt progressive change while facilitating open and flexible labour markets.

What is more, flexibility works both ways and those employers that have fallen behind in terms of their offer to employees have struggled to source and retain the talent that they need. Retention has remained a prime concern for many employers even as the recession increased financial stress and pushed up unemployment. A key means to ensuring that skilled, motivated workers contribute to the company and remain in their post has been offering alternative benefits in an era when salary increases and bonuses are less affordable and uncertainty means employees value security even more.

There are benefits not only to society and to individuals from income protection, but also to employers, and yet the British market remains under-developed. This poses two questions – 1) what can be done by employers to promote take-up of income protection? and 2) how can employers be incentivised and encouraged to take steps to improve take-up among their employees?

WHAT CAN EMPLOYERS DO?

Education

If we are to genuinely engage in targeted reform to improve the financial resilience of British workers, the role of employers is likely to be vital. Evidence shows that financial education delivered through the workplace can be highly effective. It is in the interests of employers to have employees who are financially resilient and people are most likely to be willing to give time and thought to their own financial position when they are at work.

The Government's Money Advice Service – the body responsible for improving financial capability and literacy in the UK population – clearly states that 'we believe it is a shared responsibility of government, regulators, employees, **employers**, the financial services industry and organisations' to educate individuals about their long-term financial risks and available products to off-set them.[25]

The Money Advice Service also argues that 'we believe that there is an important role for employers to play in providing financial education and advice to their employees' – a conclusion reached after extensive survey work with 1,500 employers, representing 4 million people in the workplace.[26]

It is clear that, as responsibility for financial literacy moves fully away from the FSA, Government will look more to employers to provide environments in which employees are encouraged to make informed choices about their financial wellbeing. This may well mean companies will be asked to expand the engagement many undertake on pensions – particularly around NESTA and auto-enrollment – to a wider range of products and protections.

The FSA, the body that previously held Governmental responsibility for financial capability, outlined the purpose of greater literacy as being to cultivate individuals able to:

- exercise a stronger influence in markets;
- take greater responsibility for their own actions;

- protect themselves through less mis-buying and being less susceptible to mis-selling.[27]

The ambitions of this approach are twofold. Financially capable consumers should:

- lessen the need for regulatory intervention and 'possibly reduce the burden on firms'[28]
- lower the social costs of what the FSA regards as irresponsible, individual decision making, especially the social costs of failure to plan for retirement, and of diverting resources away from more productive uses into managing individuals' financial crises.[29]

While the location of financial literacy responsibilities within Government may have changed, the core assumptions and aspirations for the capability agenda have not. These ambitions can be supported by and directed through welfare reform to encourage precisely the kind of future-orientated, responsible financial behaviour that those providing financial capability education desire. Financial protection should serve to increase not only the financial resilience of those who participate but also, through engagement, their literacy, capabilities and behaviour as well.

Employers who welcome brokers into their workplaces – with the aim of educating employees about the financial risks to which they are exposed if they do not hold income protection policies – would be performing a public service. The UK public has a poor understanding of what income protection actually is – they associate these products very strongly with payment protection products (which have received a great deal of negative publicity) and are nervous about the capacity of the private sector to insulate them against financial shock.[30]

But personal income protection – properly regulated and sold responsibly – can increase the income of those who find themselves out of work, reduce the burden on the state to pay for the needs of those who are unemployed through accident or ill health, and all in a fully costed and self-sustaining way.

What is more, individual income protection policy-holders represent a potentially reduced burden to employers; a workforce well-covered will be less reliant on SSP in the event of ill health and long-term sickness, is more likely to eligible for funded early intervention and is more likely to be supported back into work (reducing the associated costs of hiring and training for employers).[31]

Additionally, there is strong evidence that employers who actively engage their employees in discussions about their financial security inspire higher levels of employee morale and productivity.[32]

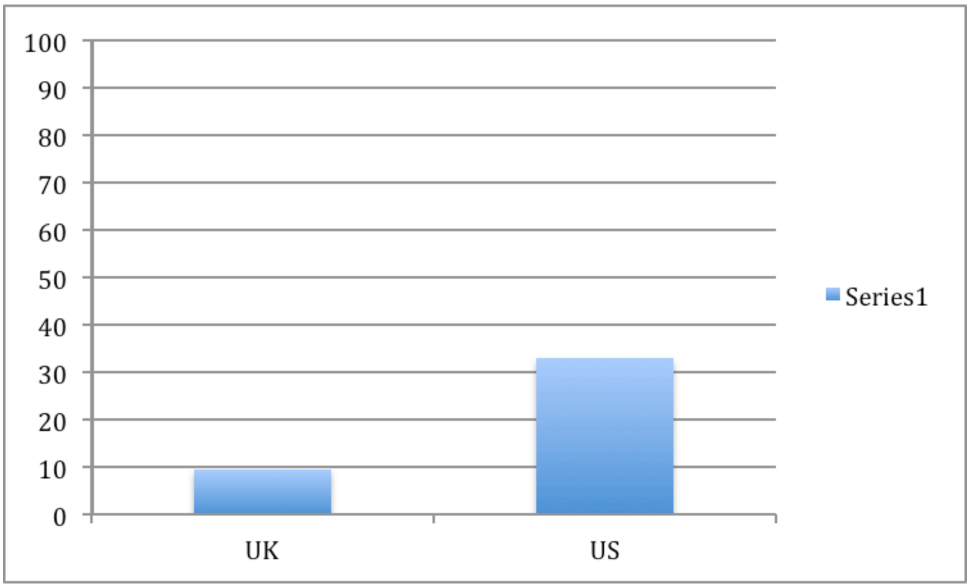
Research in the US demonstrates the importance of communication and education on financial well-being to enhancing employer-employee engagement. Employees who believe they have had informed, two-way and accurate engagement with their employers about the benefits currently available to them (both through their employer in the form of SSP equivalents and from the state in the form of welfare payments) are more likely to feel valued at work and to agree that their employer cares about their well-being. Such employees also show higher levels of morale, and loyalty.[33] Engagement such as this also has a tangible and direct impact on productivity within the workforce, survey evidence suggests that highly engaged employees, who feel that their employers take an interest in their wider lives and financial health, are 26 per cent more productive.[34]

As we can see – not only does better education about income protection and current coverage help to prompt individuals to make responsible decisions about their financial future, it also supports businesses in improving employee engagement and boosting morale, loyalty and productivity. All of this is at close to no cost to employers.

Provision

The British income protection market is, as mentioned above, low in density. Only 9.4 per cent of British employees – or 3.6 million working people – have some form of income protection coverage, compared to around a third of American workers.[35] Income protection products are sold in two forms: as personal products and as group products (offered through an employer) – with the former proving much more expensive than the latter.[36]

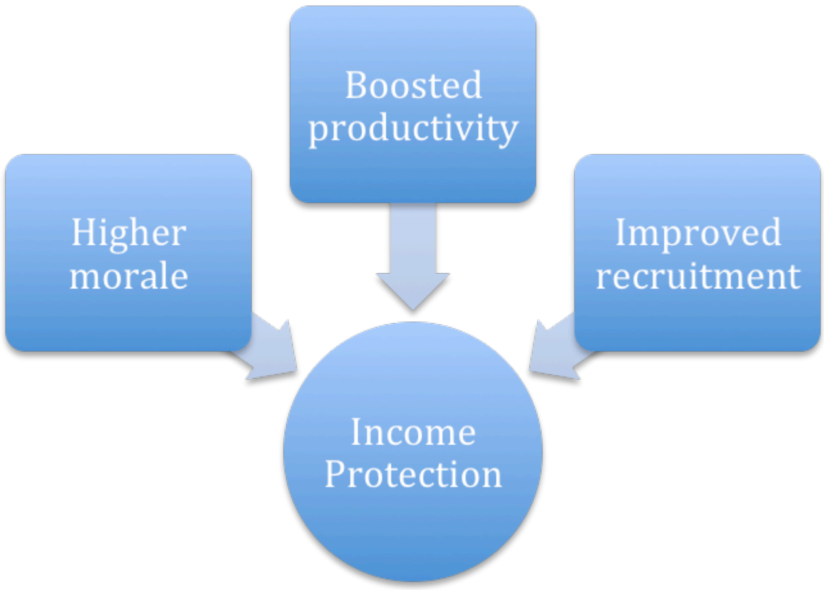
Figure 2: Proportion of workforce covered by Income Protection (US and UK)



The next step for employers who wish to support their employees into making responsible, future-orientated decisions about their own financial security is, therefore, to move beyond education and facilitate group products for their workforces.

Academic research points to some of the intuitive benefits to companies of offering income protection group policies to employees. In a 2011 research report focusing on employers and income protection, the Harvard Business Review found that 'offering a well-rounded benefits plan can go a long way in attracting employees to a company.'[37] They also found that the financial security offered by income protection has a significant motivational impact on existing employees; 'employees are most productive when they feel financially secure.'[38]

Figure 3: Employer benefits of employee income protection



Why income protection?

Despite the relatively low levels of market density in the UK, there are British businesses that choose to facilitate income protection for their employees. It is difficult to get a full portrait of what types of employers are more or less likely to offer their employees such protection in the UK, however, survey work with businesses from GRiD (Group Risk Development) gives us a clear indication of the trends in this market.

This work shows that, in the UK, employers with 100 or more employees are around 5 times as likely to facilitate income protection that are very small businesses (with 20-49 employees) and twice as likely as small to medium sized businesses (50-99 employees).[39] Employers based in the South of England are around 10 per cent more likely to offer such products than employers in either the Midlands or the North.[40]

These employers' motivations are important to developing an understanding of what drives businesses to address the long-term financial security of their employees. Three key motivations emerge from qualitative research and survey work with group protection customers:

- **Reciprocal relationships.** Of companies facilitating income protection for their employees, 17.3 per cent state that they do so in order to demonstrate their loyalty to their staff and families. [41] In addition, 19.1 per cent of employers who offer income protection state that it 'is an essential part of the package' that they offer staff.[42] Finally, and vitally, fully 14.3 per cent of companies surveyed argue that the costs to them of offering and facilitating income protection can be recouped entirely in 'improved productivity/team morale'.[43] This highlights the continued importance of building reciprocal relationships with staff – even during recession – and the key role that employers offering income protection see it as playing in creating and managing those relationships.
- **Staff want income protection.** It is important to note that the key variable between companies offering and not offering income protection is not their size, nor their sector, but whether or not staff have asked for the product or not.[44] Staff awareness of income protection is crucial to influencing employers – and vital to determining whether or not a company extends protection to its employees.
- **Recruitment.** 16.7 per cent of employers offering income protection policies to staff have done so because it helps them to recruit the highly skilled staff that they need.[45] Importantly, this is a higher priority for public service employers (30.8 per cent, versus 14.1 per cent in the private sector) suggesting that where higher wage offerings are not possible, benefits such as

income protection can be vital to attracting competent and motivated staff.

As we can see, the qualitative evidence from employers who have decided to pass on group products to their employees supports the work of the Harvard Business Review and others – companies that protect the long-term financial security of their employees reap rewards in terms of motivation, loyalty and productivity. But they are also contributing to wider social and individual goods. They help to reduce pressure and risk on the exchequer, enable higher benefits for those unable to enrol in a protection scheme themselves and protect individuals from the catastrophic financial risk of unemployment due to sickness or disability.

However, despite the widespread benefits, most British employers do not run any form of income protection scheme for their employees or even provide employees directly with information on income protection. The evidence from business suggests that there are a number of factors driving this apathy towards income protection:

- **'No-one ever asks about it'**

  Many employers have never been asked by an employee or prospective employee about income protection coverage. Widespread public ignorance of income protection has led to an acknowledged under-subscription for these products and has meant that employers can feel little or no pressure to facilitate group cover for their employees. However, evidence from those UK employers surveyed suggests that a properly communicated benefits package, including income protection, helps employee engagement and boosts morale and productivity whether or not employees were previously aware of income protection. In other words, there are real benefits to be reaped for employers who value retention and productivity even though UK employees have low levels of awareness of income protection.[46]

- **'We can't deal with the bureaucracy'**

  A recurring concern for employers is that engaging with income protection will add layers of bureaucracy and responsibility with which they may be unable (or unwilling) to deal. Although most current corporate customers give positive accounts of the level of bureaucracy that income protection involves, this challenging concern will require active engagement if the group market in income protection is to be expanded in the UK.[47]

- **'Doesn't this kind of product incentivise people to go sick?'**

  This misconception about income protection is intensely problematic. Some employers who do not currently make these products available to their employees told us that they worried income protection might actually encourage staff to take prolonged periods of sick-leave because the financial risk would be lower. The evidence runs directly counter to this concern. In fact, staff with income protection policies are likely to be assessed more rigorously in the event of a claim and to receive active support back into the workplace wherever possible – because of the incentive for insurers to enable claimants and reduce their liability.[48]

- **'What's in it for us?'**

  Some employers felt that providing for the wider financial health of their employees was not their concern and that, further, there was little concrete incentive for them to take measures to protect employees. The evidence demonstrating greater trust, morale and productivity may go some way to lessening some of this cynicism. But it is also possible that, if Government seeks to promote individual and employer engagement in welfare provision, that additional incentives – such as targeted employer-NI rebates – may be needed to promote cultural change.[49]

DISCUSSION POINTS

This paper has sought to lay out some of the challenges facing Britain's state-centric approach to incapacity and sickness welfare and to explain the potential role of employers in meeting them. Employers as educators and as facilitators of income protection could help to save the exchequer up to £2.24 billion a year. That represents around a quarter of the future welfare savings demanded by the Chancellor in the 2011 budget. At the same time, such employers would be improving the financial security of their employees.[50]

But there are benefits for employers as well. A more proactive engagement with sickness in the workplace could help to reduce the £24 billion a year that employers spend on employee ill health.[51] Early intervention to rehabilitate and reenable employees suffering from sickness can reduce SSP bills and also reduce staff turnover and recruitment and training costs.[52] Moreover, those companies that facilitate and communicate products such as income protection for their employees benefit from higher engagement, morale, loyalty and productivity among their staff.[53]

But there are challenges too. Many companies feel that their responsibilities to staff are already burdensome and, in a period of high unemployment and low growth, act as barriers to taking on new employees and growing businesses. Furthermore, the lack of widespread knowledge and understanding of income protection, the need for it and the service it performs means that the benefits seen to US employers (where the market is more developed and knowledge is higher) may not be immediately transferable in the UK context.

The evidence leads us to a number of questions for discussion:

- **How great a responsibility should employers have for their employees' financial health?**
  Does the responsibility of employers end with those factors directly related to their employees' work or do employers have a wider role to play in ensuring that their employees are financially healthy and responsible? Are there benefits for employers to a more holistic approach to managing the financial welfare of their employees? To what extent should financial education form part of employers' engagement with their employees? Should Government support greater group and individual welfare responsibility through targeted support and incentives – such as NI rebates?
- **How can we make income protection viable for SMEs?**
  Should small businesses be encouraged to pool together in order to provide education and protection for employees across a number of businesses – perhaps through local Chambers of Commerce – in order to ensure that income protection is not reserved for employees of large corporations?
- **What can be done to raise demand and facilitate employee engagement in income protection?**
  A key reason for inaction among employers on income protection is the lack of demand exhibited by employees. This dampens the incentive for promoting financial education in the workplace and facilitating or supporting income protection – it also potentially reduces the benefits available to responsible employers.
- **How can we make facilitating group protection products reassuringly straightforward for employers?**

The fear of bureaucracy and potential legal liabilities is a big deterrent for employers considering income protection for staff. While the degree of this burden is overstated, and much can be done to reassure, it is true that for smaller businesses (without dedicated, in-house HR teams) facilitating income protection may prove difficult. Is there a role for a simple, straightforward, third party platform aimed at employers to aid in facilitating income protection, myth-bust about legal liability and source appropriate products?

Demos – Licence to Publish

NOTES

[1] Wind-Cowie M, “Of Mutual benefit”, Demos, 2011
[2] Black C & Frost, D, “Health at work – an independent review of sickness absence”, 2011.
[3] SA Burke, CK Harmsconstas and PS Aden, ‘Return to work/work retention outcomes of a functional restoration program – a multicenter, prospective□study with a comparison group’, *Spine* 19, no 17, 1994; EM Haldorsen et al, ‘Predictors for outcome of a multi□modal cognitive behavioural treatment program for low back pain patients – a 12□month follow□up study’, *European Journal of Pain* 2, no 4, 1998; I Lindstrom et al, ‘The effect of graded activity on patients with subacute low back pain: a randomized prospective clinical study with an operant□conditioning behavioral approach... including commentary by Nelson RM with author response’, *Physical Therapy* 72, no 4, 1992; JS Skouen and A Kvale, ‘Different outcomes in subgroups of patients with long□term musculoskeletal pain’, *Norsk Epidemiologi* 16, no 2, 2006.
[4] Harvard Business Review, “Who Will Build Your Future? The New Employee Relationship”, 2011.
[5] http://www.theworkfoundation.com/blog/881/Jobs-growth-has-been-largely-based-on-insecure-work-and-underemployment
[6] http://www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/automatic-enrolment-background/
[7] Black C & Frost, D, “Health at work – an independent review of sickness absence”, 2011.
[8] Black C & Frost, D, “Health at work – an independent review of sickness absence”, 2011.
[9] Wind-Cowie M, “Of Mutual Benefit”, Demos, 2011.
[10] See .DWP Newsroom, ‘New “fit note” unveiled: government gets rid of “sick note” culture’, 28 May 2009, www.dwp.gov.uk/previous-administration-news/press-releases/2009/may-2009/emp170-280509.shtml (accessed 11 Feb 2011).
[11] See .DWP Newsroom, ‘New “fit note” unveiled: government gets rid of “sick note” culture’, 28 May 2009, www.dwp.gov.uk/previous-administration-news/press-releases/2009/may-2009/emp170-280509.shtml (accessed 11 Feb 2011).
[12] http://www.guardian.co.uk/world/2002/may/15/qanda.globalrecession
[13] http://www.guardian.co.uk/world/2002/may/15/qanda.globalrecession
[14] http://www.telegraph.co.uk/news/politics/9263502/Iain-Duncan-Smith-Im-not-scared-to-light-the-fuse-on-disability-reform.html
[15] http://www.telegraph.co.uk/finance/budget/9155824/Budget-2012-as-it-happened.html
[16] http://www.telegraph.co.uk/news/politics/9273103/Departing-Downing-Street-adviser-Steve-Hilton-could-have-brought-a-cake-instead-of-planning-welfare-cuts-says-Danny-Alexander.html
[17] DWP Employment Group, “Work Programme: Equality Impact Assesment”, October 2011.
[18] Sissons, P, Barnes, H, Stevens, H, *Routes onto Employment and Support Allowance* , DWP, 2011
[19] Smith et al, *Disabled People’s Cost of Living*.
[20] C Wood and E Grant, *Destination Unknown*, London: Demos, 2010.
[21] C Wood and E Grant, *Counting the Cost*, London: Demos, 2010.
[22] Wind-Cowie M, “Of Mutual Benefit”, Demos, 2011
[23] SA Burke, CK Harmsconstas and PS Aden, ‘Return to work/work retention outcomes of a functional restoration program – a multicenter, prospective□study with a comparison group’, *Spine* 19, no 17, 1994; EM Haldorsen et al, ‘Predictors for outcome of a multi□modal cognitive behavioural treatment program for low back pain patients – a 12□month follow□up study’, *European Journal of Pain* 2, no 4, 1998; I Lindstrom et al, ‘The effect of graded activity on patients with subacute low back pain: a randomized prospective clinical study with an operant□conditioning behavioral approach... including commentary by Nelson RM with author response’, *Physical Therapy* 72, no 4, 1992; JS Skouen and A Kvale, ‘Different outcomes in subgroups of patients with long□term musculoskeletal pain’, *Norsk Epidemiologi* 16, no 2, 2006.
[24] Black C & Frost, D, “Health at work – an independent review of sickness absence”, 2011.
[25] The Money Advice Service, ‘The Workplace Retirement Income Commission’s Call for evidence’, April 2011
[26] The Money Advice Service, ‘The Workplace Retirement Income Commission’s Call for evidence’, April 2011
[27] Financial Services Authority, ‘ Financial literacy has to be a long-term aim, says watchdog’ 2005a: 29, 2005b: 23, www.fsa.gov.uk/Pages/Library/Communication/PR/2001/152.shtml (accessed 11 Feb 2011).
[28] Financial Services Authority, ‘ Financial literacy has to be a long-term aim, says watchdog’ 2005a: 29, 2005b: 23, www.fsa.gov.uk/Pages/Library/Communication/PR/2001/152.shtml (accessed 11 Feb 2011).
[29] Financial Services Authority, ‘ Financial literacy has to be a long-term aim, says watchdog’ 2005a: 29, 2005b: 23, www.fsa.gov.uk/Pages/Library/Communication/PR/2001/152.shtml (accessed 11 Feb 2011).

[30] Demos focus group, 'Average earners and welfare', 10 Dec 2010.
[31] SA Burke, CK Harmsconstas and PS Aden, 'Return to work/work retention outcomes of a functional restoration program – a multicenter, prospective□study with a comparison group', *Spine* 19, no 17, 1994; EM Haldorsen et al, 'Predictors for outcome of a multi□modal cognitive behavioural treatment program for low back pain patients – a 12□month follow□up study', *European Journal of Pain* 2, no 4, 1998; I Lindstrom et al, 'The effect of graded activity on patients with subacute low back pain: a randomized prospective clinical study with an operant□conditioning behavioral approach... including commentary by Nelson RM with author response', *Physical Therapy* 72, no 4, 1992; JS Skouen and A Kvale, 'Different outcomes in subgroups of patients with long□term musculoskeletal pain', *Norsk Epidemiologi* 16, no 2, 2006.
[32] Harvard Business Review, "Who Will Build Your Future? The New Employee Relationship", 2011.
[33] Unum, "Beyond the usual benefits: The power of employee education to influence workplace satisfaction," 2010.
[34] Towers Watson, "2008/2009 WorkUSA Report," 2009.
[35] http://ask.unum.co.uk/blog/questions/common-questions-about-income-protection/
[36] Association of British Insurers, Accident and Health Insurance Statistics, 2009.
[37] Harvard Business Review, "Who Will Build Your Future? The New Employee Relationship", 2011
[38] Harvard Business Review, "Who Will Build Your Future? The New Employee Relationship", 2011.
[39] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[40] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[41] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[42] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[43] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[44] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[45] GRiD, Group Risk Development (GRiD) 2011 Employer Research, February 2012
[46] Demos structured interviews with employers, Spring 2012.
[47] Demos structured interviews with employers, Spring 2012.
[48] Demos structured interviews with employers, Spring 2012.
[49] Demos structured interviews with employers, Spring 2012.
[50] Wind-Cowie M, "Of Mutual benefit", Demos, 2011
[51] Black C & Frost, D, "Health at work – an independent review of sickness absence", 2011.
[52] SA Burke, CK Harmsconstas and PS Aden, 'Return to work/work retention outcomes of a functional restoration program – a multicenter, prospective□study with a comparison group', *Spine* 19, no 17, 1994; EM Haldorsen et al, 'Predictors for outcome of a multi□modal cognitive behavioural treatment program for low back pain patients – a 12□month follow□up study', *European Journal of Pain* 2, no 4, 1998; I Lindstrom et al, 'The effect of graded activity on patients with subacute low back pain: a randomized prospective clinical study with an operant□conditioning behavioral approach... including commentary by Nelson RM with author response', *Physical Therapy* 72, no 4, 1992; JS Skouen and A Kvale, 'Different outcomes in subgroups of patients with long□term musculoskeletal pain', *Norsk Epidemiologi* 16, no 2, 2006.
[53] Harvard Business Review, "Who Will Build Your Future? The New Employee Relationship", 2011.

This project was supported by:

As the Government embarks on the rollout of NEST – an opt-out employee and employer contribution scheme for pensions – *Duty of Care* asks whether employers have a role to play in widening and strengthening financial protection for workers in the UK. Using survey evidence from employers who have taken a proactive approach to financial protection – via workplace education and through products such as income protection – this report addresses the potential benefits for employers and employees and outlines some of the areas of concern and caution.

Duty of Care makes the case that better financial protection and employer-supported financial protection products boost morale and productivity in the workforce. What's more, this report uses evidence from the US and elsewhere to show that financial literacy and capability education can be at its most effective when delivered in the workplace.

But the report also finds that – alongside economic uncertainty – many employers still feel uncomfortable discussing financial protection with employees or taking steps to improve their workforce's resilience. *Duty of Care* argues that government should find ways of cutting bureaucracy, educating employers and promoting new products to aid worker protection in the UK economy.

Max Wind-Cowie is Head of the Progressive Conservatism Project at Demos.

This report is the first in a series of four reports looking at financial protection in the UK. Subsequent reports will look at the attitudes of policy makers, workers and special interest groups to financial protection and resilience.

progressive
conservatism
project

978-1-909037-19-9

£10