opting up

how to increase financial resilience

Max Wind-Cowie

DEMOS

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1 Introduction

What happens to us if we become too unwell to work? This is a difficult question, one which few of us wish to face. Polling conducted for this report – conducted by Populus on Demos' behalf, involving questioning 2,000 individuals, selected to be representative of the UK working population – indicates there is a dangerous lack of forward planning for an eventuality that affects between 1 in 10 and 1 in 20 of us during our working lives.[1]

Accident and sudden, dramatic ill-health can prevent any of us from continuing in employment, be that temporary or permanent. For anyone faced with the inability to work, the lack of a robust financial plan can be devastating. Individuals and families can find themselves exposed not just to the tragedy of sickness or disability, but also to associated costs and a collapse in income that undermines their ability to get back to normal and can exacerbate the impact of illness or injury.

This is not simply a question for individual workers, though. It is one for policy makers and employers too. The cost of disability and sickness in the UK workforce is inflated – for the Exchequer and for employers – by our relatively under-developed market in the very products that could help insulate us against the financial shocks of sickness. The proportion of British workers insuring their incomes against disability or ill-health is just 8 per cent.[2] In the USA, the rate is closer to 30 per cent.[3] More of us protect our mobile phones with an insurance product than do our incomes.[4]

This obviously leaves the incomes of British workers under-protected, especially when compared with their peers in the USA, but it also has a knock-on effect on the cost of disability to British businesses and taxpayers more generally.

Our lack of personal protection is one of the reasons for the £9 billion spent by British employers on disability and sickness every year.[5] It is also part of the reason for the UK's significant public expenditure on welfare for those unable to work – we spend £13 billion a year (or £500 per working adult) on such benefits.[6] And, more importantly, it is our lack of financial planning and protection products that makes the impact of disability and sickness in the UK so devastating for individuals and families. Up to 60 per cent of British people living with a disability live in relative poverty.[7]

What can be done?

This report is the third in a series of four, looking at financial security in the British workforce and exploring what can be done to improve our collective and individual resilience to financial shocks. Other work by Demos has highlighted the role that products such as income protection should play in helping to 'square the circle' of welfare and financial resilience. Bringing new money into how we pay for welfare – and adding new contributors into the system – can help us to spend less on benefits, improve reciprocity in the system so middle-earners do not face a benefits cliff-edge, and ensure that living standards are raised of many who find themselves unable to work. Demos research has demonstrated that the taxpayer could expect savings of as much as £3.1 billion a year – achieved through non-payment of existing means-tested benefits – if we were able to lift our levels of income protection to those in the USA.[8] At the same time, individuals who are protected by such products are much less exposed to poverty if they find themselves unable to work – someone with a pre-disability income of £30,000 a year would be £7,364 a year better off with an income protection policy than if they relied on state benefits alone. These levels go up in line with an individual's pre-disability income – and individuals on incomes as low as £20,000 a year pre-disability could benefit financially from being protected in this way.[9]

Income protection is one way of squaring the circle of welfare and financial resilience, but it remains an under-developed market in the UK. As the Government-backed Money Advice Service advises, 'If illness would mean you couldn't pay the bills, you should consider income protection insurance.'[10] Yet only about 11 per cent of us have this cover – and that take-up is skewed towards high-earners who (ironically) may find it easier to build up the kind of assets that would protect them from the financial shock of sickness or disability. Our middle-earners are vulnerable to these financial shocks and under-protected.

Encouraging take-up of income protection is not about encouraging individuals to 'opt out' of the welfare state. It is about encouraging them to 'opt up'. Individuals with an income protection product still receive some universal benefits and are still brought in to the state system. They top up their protection against risk and tie that protection to a realistic appreciation of their cost of living, via a product that protects their salary. In doing so, they can improve their living standards, save the state money and improve their long-term resilience.

This paper looks at public attitudes, understanding and desires around financial resilience – particularly with reference to ill-health and disability. It builds on a poll of 2,000 workers in the UK – conducted on Demos' behalf by Populus in February 2013 – and ongoing qualitative engagement with British workers, and makes a series of recommendations aimed at improving public awareness and engagement with the products they need to protect their income.

Recommendations

This paper sets out three core recommendations – to the insurance industry, to employers and to the Government – which could help us encourage a culture of 'opting up' and promote long-term financial protection among British workers.

Know the risk

Government has a role to play in helping the public to appreciate the risks that they face in life. More than half (58 per cent) of us underestimate the risk of facing unemployment due to disability – almost a fifth of us think that rather than between a 1 in 10 and 1 in 20 chance, we have just a 1 in a 1,000 chance of this occurring to us. This low level of awareness contributes to a climate in which other risks take precedence and the British workforce is under-insured against this potentially devastating occurrence.

Coupled with our overestimate of our employers' obligations to us – with over half of workers believing that we are entitled to our salary for three to six months or longer if we are unable to work because of ill-health or disability – this leaves workers vulnerable to financial shock should they find themselves unable to work in these circumstances. The Government should explore using its auto-enrolment pension scheme NEST (National Employment Savings Trust) as a jumping off point to alert workers to the wider financial risks we all face. Employees should be reminded in their annual pension statements of their risk of disability and the amount of their current entitlements.

Be clear about advice

Previous Demos work on income protection and engagement with employers has highlighted several fears employers have about engaging with employees about financial risk. Alongside, and connected to, a fear of bureaucracy is confusion about the line between alerting employees to the availability and usefulness of products and delivering 'financial advice', which most employers are not qualified or allowed to give. We need to be clear with employers that they can, and should, facilitate access to products such as income protection – and that employers who behave responsibly in this way will not be unfairly penalised or left open to vexatious litigation.

Develop new groups

Nearly half (47 per cent) of us would welcome our employer taking a role in helping us to plan for our financial security.

However, a significant minority (27 per cent) feel uncomfortable about our employer taking on such a role. While it is important for us to normalise as far as possible the employers' role in undertaking to educate employees about and facilitate the delivery of financial protection products in the workplace, this may never be considered desirable by some workers.

Some small and medium sized business employers – and many self-employed individuals – may be unprepared or unable to engage in this way. However, there are major advantages to accessing protection products via groups. Doing so helps individuals to understand the risk to which they are exposed and can significantly reduce the cost of protecting themselves against risk. The insurance industry should work with potential alternative risk groups – such as trades unions or membership organisations like the National Trust and Neighbourhood Watch – to create new points of access to group products for those who are uncomfortable or unable to buy via their employer.

2 What the public know

Public awareness about the prevalence of disability, the likely financial exposure many would have if they are unable to work, and the sorts of protection that might help to make them more resilient is worrying low. This general lack of awareness – in conjunction with other factors explored in this paper – has contributed to the absence of protection against ill-health and disability within the UK labour market. Individuals who would benefit from protecting their incomes have not done so – in part because they underestimate the risk to themselves, in part because they overestimate the state and employer assistance available to them, and in part because they are under-informed about the availability of products that could help insulate them against this risk.

3 The prevalence of disability

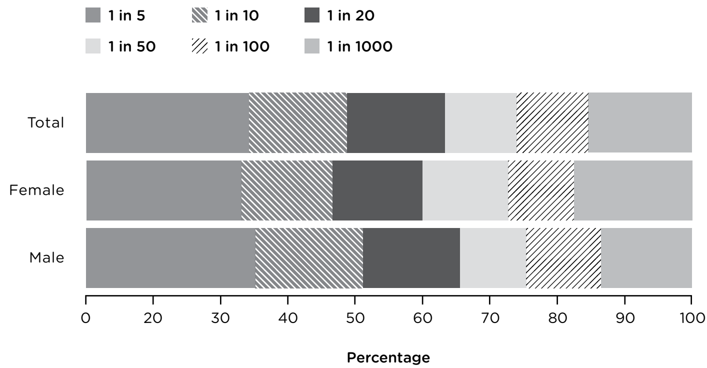
About 1 in 10 British workers claim some form of state benefit in their life as a result of an accident or severe ill-health, and at any one time 1 in 20 workers are out of work through disability.[11] The financial outlook can be bleak for individuals who find themselves in this situation. Around 60 per cent of those living with a disability in the UK also live in relative poverty.[12] People living with a disability face higher living costs – estimated at between £80 and £400 a week (or between 11 per cent and 55 per cent of an individual's income), depending on an individual's level of disability.[13]

We polled 2,000 UK adults in order to assess their knowledge and current financial security provisions.

Polling respondents demonstrated a lack of awareness about the risk of disability within the working population: 17 per cent of respondents believed that their risk of experiencing a disability that renders them unable to work for six months or more was as low as 1 in 1,000 (or 0.1 per cent),[14] and 58 per cent of individuals underestimated their risk of facing disability-related unemployment.[15] Only 16 per cent of individuals accurately estimated their risk as being around 1 in 10.[16]

Interestingly, male respondents were less likely to underestimate their risk of unemployment due to a disabling condition: 55 per cent of men underestimate their risk of disability-related unemployment, compared with 59 per cent of female respondents (figure 1).[17]

Figure 1 **Survey responses to the question 'What do you think the risk of being unable to work for more than 6 months during your working life is?', by gender**



Source: Demos and Populus poll, Feb 2013

The British public widely believes itself to be less at risk from disability – and from the financial consequences of finding themselves unable to work due to illness – than it is. This has consequences for our willingness to plan for (and to take steps to mitigate against) the possibility of catastrophic financial shocks resulting from accident or ill-health. It goes some way to explaining the British workforce's lack of active engagement with protection products.

4 Current provisions

We asked respondents to tell us how they would survive financially if they faced a period of unemployment due to accident or sickness (table 1).

Table 1 **Survey responses to the question 'Which of the following financial securities, if any, do you have in place in the event that you should be unable to work due to long-term sickness absence?'**

Response	Total	
	#	%
My employer would pay my salary	489	24
Savings, equivalent to 3 months or more of usual income	485	24
I would rely on my spouse/partner to support me	439	22
I would rely on my family to support me	310	15
Savings, equivalent to less than 3 months of usual income	213	11
Other investments	184	9
I would rely on my overdraft	129	6
Critical illness cover	121	6
I would rely on my credit card	114	6
Mortgage payment protection insurance	109	5
Income protection cover	84	4
Other	205	10
None	456	23

Source: Demos and Populus poll, Feb 2013

The findings point to the lack of planning and preparedness within the UK workforce for the financial consequences of unemployment due to ill-health or disability. Nearly one-quarter (23 per cent) of UK workers admit to having no plan for dealing with forced unemployment due to illness or injury.[18] Just under one-quarter (24 per cent) of us claim to have savings sufficient to cover the loss of three months or more in income, and the same proportion of people (just a quarter of the UK's working population) expect our employer to carry on paying our wages.[19]

Even that figure may be misleadingly high. Previous polling has suggested that 32 per cent of British people have no savings whatsoever.[20] It may be that some individuals in our polling are over-estimating their level of savings and/or equating their assets (such as their home or valuable belongings) with 'savings' although these are less liquid and less useful in a time of financial crisis. Just 12 per cent of us would use debt of one kind or another to bridge the gap, while 37 per cent of us envisage relying on either spousal or family income to keep us afloat.[21]

These findings are, in themselves, worrying. Only 15 per cent of people say they have some form of insurance cover to assist them financially in the event of ill-health or disability – and only 4 per cent of that figure is made up of income protection (the only product that will specifically replace lost income).[22] But when we look in more detail at respondents' financial preparedness we see that even the low figures given for sufficient savings overestimate the level of assets available to the UK workforce in the event of an emergency. Furthermore, when pressed to think about the level of obligation that employers have to their employees, most people dramatically overestimate the level of support they are likely to receive.

Altogether, over a third (35 per cent) of respondents claimed that they could rely on their own savings.[23] However, when they were asked the current level of savings they could access in the event of emergency, half (49 per cent) had less than £2,000 to support themselves and their family – the equivalent of just one month's average household income.[24] Only 24 per cent of respondents have savings equivalent to three months' average income, while 28 per cent have more than this in accessible savings.[25]

This points to the dangerously low levels of savings in the British workforce – rendering British workers hyper-vulnerable to financial shocks and reducing their resilience in the face of events such as accidents or sudden sickness – and to our lack of planning and understanding of the financial risks we face. This lack of awareness is highlighted in the answers to a question we asked about how long respondents believed their employers would pay their full salary should they be unable to work (table 2).

Table 2 **Survey responses to the question 'Imagine you were off work because of long-term illness or injury. For how long would you expect your employer to pay you full salary?'**

Response	**Total**	
	#	%
Up to 1 week	55	3
2 weeks	63	3
3-4 weeks	172	9
5-8 weeks	120	6
9-12 weeks	182	9
3-6 months	728	36
7-9 months	77	4
10-12 months	137	7
Over 1 year	70	3
Until retirement age	27	1
I wouldn't expect my employer to pay me full pay if I was off work because of sickness/injury	393	19

Source: Demos and Populus poll, Feb 2013

As table 2 shows, half (51 per cent) of employees mistakenly assume that their employer would pay full salary for at least six months in the event of illness, despite companies being only legally obliged to provide statutory sick pay, currently £85.85 a week for a maximum of six months.[26] This demonstrates that there is a worrying ignorance about levels of provision among the British workforce – as well as a tendency to overestimate levels of protection and to underestimate financial risk.

Finally, we asked respondents to outline which types of insurance they currently have – providing them with a range of options in order to try to understand what protection individuals believe they have in place (table 3).

Table 3 demonstrates that there is a huge bias among the population towards protecting items over income. More of us insure our mobile phones than have critical injury insurance, and twice as many of us have pet insurance as have insured our incomes.

The survey also highlights the continued popularity of life insurance among the UK workforce – 32 per cent of us are insured against death. While life insurance is important to protect families and dependants against the financial risk of us dying unexpectedly, the fact that only 6 per cent of us insure against the equivalent risk of being unable to work because of accident or sickness is worrying.[27] More and more conditions that once brought near-certain early mortality are now manageable – allowing individuals to live longer but, sometimes, with a reduced ability to work. This fact lies behind the steady increase in disability rates within the UK population over time, and makes income protection an increasingly important product for individuals with dependants (who are precisely the type of earners likely to purchase life insurance).

Table 3 **Survey responses to the question 'Which of the following types of insurance do you believe yourself to currently have?'**

Response	Total	
	#	%
Home insurance	1301	64
Car insurance	1251	62
Life insurance	644	32
Pet insurance	257	13
Mobile phone insurance	248	12
Healthcare insurance	244	12
Critical illness insurance	158	8
Income protection	130	6
Payment protection insurance	71	3
I do not currently have any of these insurance products	231	11
I do not know what types of insurance I do or don't have	129	6

Source: Demos and Populus poll, Feb 2013

5 What about the state?

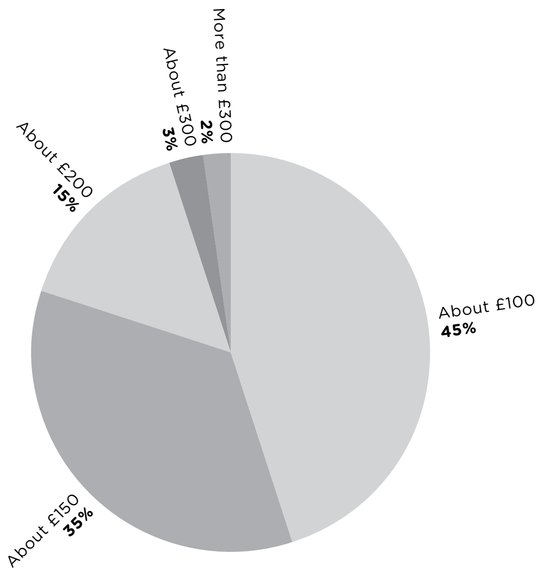
If we find ourselves unable to work then our levels of private protection – whether savings or insurance products – will not be our only means of financial support. The state plays a role in providing for those of us unable to work, but the levels of state support available are relatively low compared with average incomes. Despite the public cost of unemployment benefits to the UK taxpayer, benefit levels are also not particularly high when compared with peer countries, and have been reduced in real terms by the Government's 1 per cent uprating.[28]

The British public sometimes believes that the overall level of spending on unemployment benefits allows individual recipients to receive higher levels of income support than they in fact do. Polling conducted by the Trades Union Congress (TUC) in January 2013 demonstrated that, on average, the British public over-estimates the level of unemployment benefits by 30 per cent.[29] The TUC's polling was used to make the argument that the public's support for reductions in welfare spending is 'soft' – and that once confronted with the financial reality of life on benefits, the public is less enthusiastic about reducing spending.

Our own polling shows that this issue of over-estimation of welfare benefit figures is not as problematic when it comes to disability benefits. While it is not possible to give a precise figure for individuals' income when claiming disability benefits in the same way as we can with Jobseeker's Allowance claimants – because of the complexity of the various available benefits – we asked respondents to give an estimate of the average disability allowance, which Demos research suggests is around £150 per week when Employment and Support Allowance and Independent Living Allowance are included.[30]

About one-third (35 per cent) of our respondents answered 'around £150 per week' when asked to estimate the level of average entitlement (figure 2).[31] The mean response was £144 – well within the general level of income available to claimants.[32] Only 20 per cent of respondents over-estimated the level of support available to those unable to work because of sickness or disability.[33]

Figure 2 **Survey respondents' estimates of the average amount Employment and Support Allowance and Disability Living Allowance combined pay out per week**

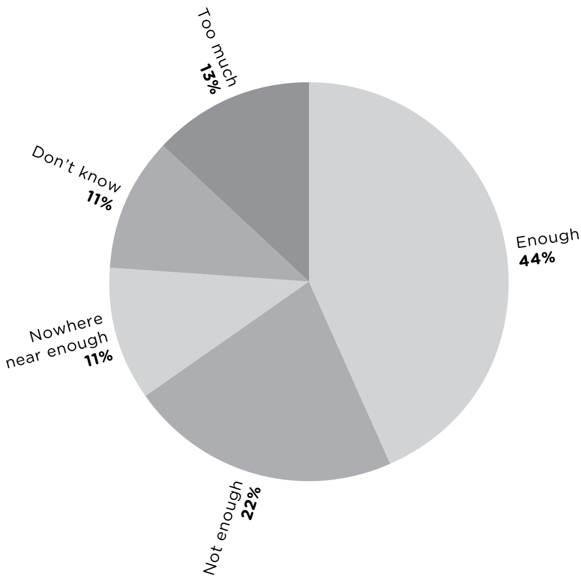


Source: Demos and Populus poll, Feb 2013

We then revealed the accurate average to respondents and asked them to tell us whether they believed that this level of entitlement was reasonable or not. Bearing in mind that the average household income in the UK is over £2,000 a month

– and that the average receipt of disability-related benefits amounts to just £600 a month (less than a third of average household income) – one might expect the public to assert that these benefits are not generous enough. However, respondents appeared sanguine about the level of disability support available from the state (figure 3).

Figure 3 **Survey responses to the question 'In the UK someone on benefits related to long-term illness or disability will receive an average of around £150 a week to live on. Which of the following statements do you most agree with?'**



Source: Demos and Populus poll, Feb 2013

Table 6 shows that 57 per cent of us believe that current entitlements – despite being well below average incomes – are either about right or too generous.[34] Only 33 per cent believe that current levels are insufficient – and of those who believe we should pay more only 11 per cent believe that current levels are not 'anywhere near enough'.[35] Overall, the biggest single group of respondents wanted to keep our level of state benefits at about the same – which is government policy.[36]

It seems that the British public is marginally better informed about life on disability-related benefits than life on other unemployment benefits and that, despite the relatively low level of income replacement available, support for dramatically increasing state benefits is low.

6 What do people want?

Our polling demonstrates that there are low levels of private, personal protection in the UK workforce. Be it savings (half of us have less than one month's salary put aside) or income insurance (which only 6 per cent of us believe we have), the British public are under-protected against the catastrophic financial shock of finding ourselves unable to work in the event we are too ill to do so. British workers understand that they are not financially secure: 45 per cent of respondents to our poll agreed that they do not feel financially secure and 39 per cent admitted that they do not know how they or their family would cope were they unable to work as a result of an accident or ill-health.

This lack of financial resilience is partly explained by our collective under-estimation of our likelihood of facing such a shock – 58 per cent of us believe we are at less risk of sickness or disability than we in fact are. This also leads us to over-insure for some risks (such as premature death) and to massively under-insure against the risk of lost income.

Although we know that the state's support will be extremely limited in the event of our disability, we are unenthusiastic about increasing that support and only 11 per cent of us believe that a dramatic increase is desirable. Here we can see the central dichotomy facing policy makers who want to build a financially resilient workforce: the public is under-protected against financial risk, aware that state support may be insufficient to maintain their living standards and outgoings, and yet unprepared to contemplate the increased taxation necessary to raise welfare. Squaring this circle of public opinion – particularly in an era of cross-party commitment to reduce public spending – is vital if we are to ensure that the public is protected against risk while reducing the exposure of the Exchequer.

A solution to these questions has been presented in Demos' work on financial security and wellbeing, carried out over the last three years. We advocate involving individuals more in protecting themselves against financial risk – via insurance – and in driving awareness and financial planning within the workplace. Employers play a central role in helping their employees to build their financial resilience and plan for the risks they may face. Research from the Money Advice Service led it to conclude:

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.[37]

Involving employers is central to improving financial planning and resilience for two reasons. First, the workplace can be the perfect location for conversations about personal finance – removed from the distractions of the home and allowing advice to be given in a trusted environment without demanding individuals give up their time. This logic has led to greater pension planning and provision activity in the workplace. Second, employers who take an active interest in promoting financial resilience can achieve savings for their employees on the kinds of products that offer protection against financial risks. A group income protection product facilitated by an employer but paid for by employees can be far less expensive than one sourced by an individual via a broker.

There are advantages for employers who engage their employees in active financial planning and help to facilitate the delivery of products at the workplace. For example the Harvard Business Review found that such responsible employers boost productivity by as much as 26 per cent.[38] What is more, employers who help to insure their workers against sickness and disability may well save money. Dame Carol Black estimated the cost in lost productivity of 11 million people taking sick leave annually at £15 billion, mostly through short-term bouts of sickness – with much of this being felt by employers themselves.[39]

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.[40] Part of this cost arises from the inefficient way in which our sickness and disability welfare system works – allowing individuals with long-term health problems to exist on statutory sick pay for 28 weeks before even coming into contact with the benefits system.[41] There is therefore no actor within the system with an incentive to intervene early, to identify the appropriate occupational therapy responses and/or reasonable adjustments that may enable return to work.

Income protection products build in this incentive because the insurer is responsible for meeting the salary of the individual who is unable to work. Many income protection providers run effective early intervention programmes and provide advice to employers in order to reduce levels of stress and the risk of accidents within the workplace. Some studies suggest that ensuring physical activity, education (possibly in the form of cognitive behavioural therapy) and workplace intervention – as many income protection packages do – improves the probability of claimants returning to work by 43 per cent.[42] People who receive intervention during their period of statutory sick pay can be up to seven times as likely to return to work without requiring state benefits as those who do not.

Persuading employers to work with their employees to improve financial security – through education and facilitation – is important and of mutual benefit. Furthermore, our polling suggests that such moves would be welcomed by workers themselves: 47 per cent of those we polled 'would welcome my employer helping me to plan for my financial security' while only 27 per cent said that such assistance would make them feel uncomfortable (table 4).[43]

The top two reasons respondents gave for wanting their employer to have a role in helping them plan for their financial security are instructive – they reflect a strong grasp of the

Table 4 **Survey responses to the question 'Which of the following statements about your employer's role in helping you to plan your financial security do you most agree with?'**

Response	Total	
	#	%
I would welcome my employer helping me to plan for my financial security	949	47
I would feel uncomfortable about my employer trying to help me plan for my financial security	549	27
Don't know	527	26

Source: Demos and Populus poll, Feb 2013

Table 5 **Survey responses to the question 'If you would welcome your employer taking a role in helping you to plan for your financial security, which of the following statements do you agree with?'**

Response	Total	
	#	%
Because they may be able to offer financial services cheaper than if I got them on my own	574	61
Because it would demonstrate that they care about me as an employee	558	59
Because they are better placed to help improve my financial security than me	288	30
Because otherwise I would never do it on my own, without their emphasis	116	12
Other	14	1

Source: Demos and Populus poll, Feb 2013

potential advantages of such assistance, and appear to confirm earlier work by the Harvard Business Review on the impact of such conversations on employee-employer relationships.[44]

Well over half (61 per cent) of those who would welcome their employer's engagement in their financial planning say that they believe that working with their employer might enable them to access financial products more cost-effectively, and nearly as many (59 per cent) thought it would 'demonstrate that my employer cares' (table 5).

Of the small minority of respondents who were uncomfortable about their employer taking a role in helping them to plan and secure their financial futures, the biggest reason was concerns about privacy (63 per cent) followed by scepticism that employers know enough about their personal financial situation to help (46 per cent).

7 Conclusion

UK workers are under-protected when it comes to replacing their income should they be unable to work. Half of us have less than one month's salary saved. Only 11 per cent of us have an income protection product designed to safeguard our living standards. Almost half of us have 'no idea' how we and our families would cope if we were unable to work and feel financially vulnerable. The state is only likely to replace around a third of our average income should we be unable to work because of accident, ill-health or sickness. Although 10 per cent of us will find ourselves unable to work through illness or disability, as a population we do little to offset that risk and protect ourselves and our families from the devastating financial implications.

The solution is unlikely to come from further state provision. Despite arguments about cuts to specific benefits, none of the three major political parties advocates significant increases to disability support. This is understandable. Only 11 per cent of the public think that a dramatic increase in the level of these benefits is necessary. While there are likely to be changes to the reforms and reductions that have been made should Labour win the general election in 2015, the overall level of spending is not expected to increase.

There is an alternative. The insurance market can help to protect individuals against the risk of unemployment due to an inability to work because of ill-health – it already does this for around 8 per cent of us. However, as there are low levels of awareness and understanding about the risk of disability and the way in which income protection products guard against that risk, the British public has a relatively low level of engagement with this solution to what is a growing problem.

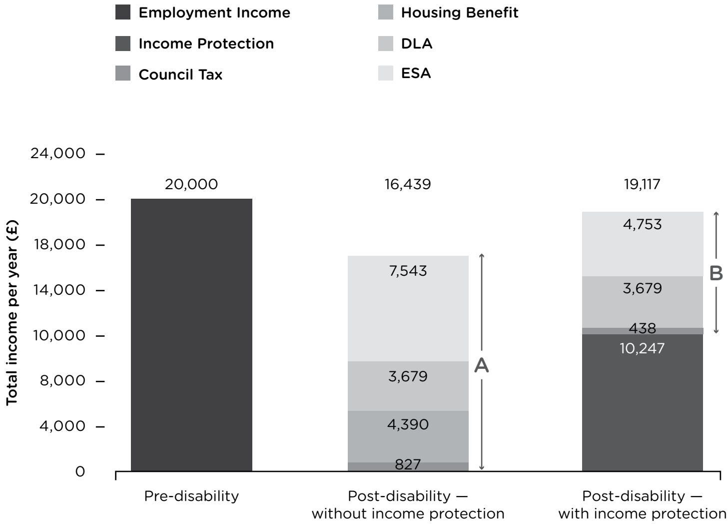
About one-third (32 per cent) of workers are insured against premature death – protecting our dependants from the risk that they will be unable to cope financially without our income. Yet less than a third as many take measures to protect ourselves against loss of income due to sickness and disability, although we are three times more likely to become too sick or injured to work as we are to die during our working lives.

This low take-up of such protection has a dramatic effect on families – contributing to the fact that 60 per cent of British disabled people live in poverty – as well as on employers – contributing to the £9 billion cost of sickness each year – and to taxpayers – increasing the overall cost to the Exchequer of supporting those who are unable to work. Increasing the take-up of these products has benefits for all these stakeholders.

An individual earning £20,000 who falls ill and becomes unable to work but has an income protection policy will typically be £3,000 a year better off than if he or she relied on the state. The taxpayer will save £7,569 per person per year simply through the non-payment of means-tested benefits, which the individual's higher post-disability income make unnecessary.[45] And, if the individual never makes it onto Employment Support Allowance because his or her insurer is able to offer effective rehabilitation into the workplace, the employer saves money in recruiting and training the disabled employee's replacement and is able to keep the employee's skills within the company. In addition, the employee is likely to have been as much as 26 per cent more productive before becoming ill – a product of the boosted morale and productivity that comes to companies from offering these products to their workforce (figure 4).

Products such as income protection enable us to square the circle of disability welfare. Such protection products have built-in reciprocity – improving the replacement ratio so central to ensuring that individuals facing forced unemployment due to illness or injury do not also experience catastrophic financial shock. They also reduce the cost to the state of providing effective welfare, thereby helping to diffuse some of the prevailing anxiety about the cost of

Figure 4 **Comparison of income for someone earning £20,000 pa and that person relying on welfare benefits following disability**



Income advantage: £19,117 - **A** (£16,439) = £2,678

Tax savings: A (£16,439) - **B** (£8,870) = £7,569

Source: Malcolm and Atzeni[46]

unemployment. Finally, income protection products have a built-in incentive to the provider to actively invest in preventative measures in those workplaces that they cover and effective rehabilitation for those struck by illness or disability – helping to bring new money into occupational health and therapy.

This is not about encouraging individuals to 'opt out' of the welfare state. It is about encouraging them to 'opt up'. Individuals with an income protection product still receive some universal benefits and are still brought in to the state system. But they have topped up their protection against risk

– and related that protection to a realistic appreciation of their cost of living, via a product that protects their salary. Such an approach should be considered using the example of the settlement among individuals, employers and the state when protecting incomes into retirement. The single-tier state pension – introduced by the Coalition Government – provides a level of certainty about state support to those retiring from full-time work. However, the single-tier state pension will not be sufficient for most people to enjoy the quality of life they expect in retirement. Therefore, we are all encouraged to 'opt up'. Private pension provision – through ongoing employer–employee pension schemes or the new, auto-enrolment NEST programme – provide us with additional resources before we retire. Encouraging greater income protection take-up should be seen as an extension of this logic – the state safety net remains intact, but individuals and employers can work together to enhance it for themselves and their families.

Recommendations

This paper lays out the current levels of protection enjoyed by the UK workforce, and explores some of the attitudes and needs of UK workers. It is clear that many of us feel financially vulnerable and have less savings and protection than we need, and a majority would welcome our employer's input into building our financial resilience. It is also apparent that individuals, families, employers and the state all have much to gain from encouraging people to 'opt up' when it comes to welfare and sickness and disability. So how can we promote the take-up of products such as income protection?

Know the risk

Government has a role to play in helping members of the public to appreciate the risks that they face in life. More than half (58 per cent) of us underestimate the risk of facing unemployment due to disability – almost a fifth of us think that rather than between a 1 in 10 and 1 in 20 chance, we have just a 1 in 1,000 chance of this occurring to us. This low level of awareness contributes to a climate in which other risks take precedence and the British workforce is under-insured against this potentially devastating occurrence. Coupled with our overestimate of our employer's obligation to us – with over half of workers incorrectly believing that we are entitled to our salary for three to six months or longer if we are unable to work because of ill health or disability – this leaves us vulnerable to financial shock. The Government should explore using its auto-enrolment pension scheme NEST as a jumping-off point, to alert workers to the wider financial risks we all face. Government should remind employees in their annual pension statements or new HM Revenue & Customs statements of what their tax is being spent on, their risk of disability and the amount of their current entitlements.

Be clear about advice

Previous Demos work on income protection and engagement with employers has highlighted several fears employers have about engaging with employees about financial risk. Alongside, and connected to, a fear of bureaucracy is confusion about the line between alerting employees to the availability and usefulness of products and delivering 'financial advice', which most employers are not qualified or allowed to give. We need to be clear with employers that they can, and should, facilitate access to products such as income protection – and that employers who behave responsibly in this way will not be unfairly penalised or left open to vexatious litigation.

Develop new groups

Nearly half (47 per cent) of us would welcome our employer taking a role in helping us to plan for our financial security. However, a significant minority (27 per cent) feel uncomfortable about our employer taking on such a role. While it important for us to normalise as far as possible employers' roles in undertaking to educate employees about and facilitate the delivery of financial protection products in the workplace, this may never be considered desirable by some workers. Some small and medium sized business employers – and many self-employed individuals – may be unprepared or unable to engage in this way. However, there are major advantages to accessing protection products via groups. Doing so helps individuals to understand the risk to which they are exposed and can significantly reduce the cost of protecting themselves against risk. The insurance industry should work with potential alternative risk groups – such as trades unions or membership organisations like the National Trust and Neighbourhood Watch – to create new points of access to group products for those who are uncomfortable or unable to buy via their employer.

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What happens to us if we become too unwell to work? This is a difficult question, one which few of us wish to face. But this is not simply a question for individual workers. It is one for policy makers and employers too. The cost of disability and sickness in the UK workforce is inflated – for the Exchequer and for employers – by our relatively low levels of protection against the financial shocks of sickness.

This report is the last in a series looking at financial security in the British workforce and exploring what can be done to improve our collective and individual resilience to these financial shocks. This report includes original polling which finds that UK workers are under-protected when it comes to replacing their income should they be unable to work. Half of us have less than one month's salary saved and only 11 per cent of us have insurance designed to safeguard our living standards.

It argues that the solution is unlikely to come from further state provision. Despite disputes over cuts to specific benefits, none of the three major political parties advocates significant increases to welfare spending. The solution proposed within rewards individuals for 'opting up' rather than opting out of state provision. This means the state safety net remains intact, but individuals and employers can work together to enhance it for themselves and their families.

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