



Institute
and Faculty
of Actuaries

Work, health and disability: improving lives

IFoA response to Department for Work and
Pensions and Department of Health

16 February 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



The Work, Health and Disability Consultation Team
Ground Floor
Caxton House
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London, SW1H 9NA

16 February 2017

Dear Work, Health and Disability Consultation Team,

IFoA response to the Work, Health and Disability consultation

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Department of Health (DH) and the Department for Work and Pensions' (DWP) 'Improving Lives: The Work Health and Disability Green Paper'. The IFoA is the UK membership body for actuaries. Health and care is a growing area for actuarial work as actuaries collaborate with other health professionals in financial planning for the NHS, researching ways to restructure funding models to meet the demands of an ageing population and to offer health and care insurance solutions.
2. Our general comments and our comments on questions in the consultation focus on the potential role of insurance in meeting the Government's vision set out in this Green Paper.

General comments

3. Insurance plays an important role in meeting many of societies' needs and in helping people to protect themselves from unforeseen events and costs. We agree with DWP and DH that income protection insurance can support individuals to meet their financial commitments should they experience an extended absence from the workplace owing to disability or a health condition. It can also play a role in rehabilitation, which in turn helps employers to run their business and ensure their workforce is healthy, productive and motivated. An active role by employees and employers can result in improvements in health and wellbeing. Both of these can reduce State expenditure, which could mean that State funding can be targeted to those most in need of additional support should their health prevent them from working. Therefore, striking the right balance between State, employer and individual responsibility is vital to developing a framework that is both sustainable and provides an adequate safety net.
4. In addition to striking the right balance between State, employer and employee responsibility, we recommend the three main priorities for DWP and DH when considering the potential role of insurance are:
 - i. Government must implement an effective communication strategy. This should alert employees to the level of safety net provided by the State and the gap between this and the amount they would need to replace their income from employment.

- ii. Should the Government want to achieve universality of cover it might consider whether nudges (e.g. opt-out) or incentives (e.g. in relation to tax) alongside Government legislation are required.
- iii. The amount of income protection an individual can expect to receive from the State is means-tested. Income from an income protection insurance product is taken into account when State benefit entitlement is calculated. This could discourage saving if savers feel they have been penalised and have lost out by making personal provision. Therefore, we recommend better alignment between State benefits and insurance to help people remain above the means-testing threshold. For example, income from an income protection product could receive favourable treatment within the means-test assessment for Universal Credit. This would be beneficial for the individual as well as reducing State expenditure.

We have elaborated on these points in our responses to the consultation questions.

What role should the insurance sector play in supporting the recruitment and retention of disabled people and people with health conditions?

5. We consider that the greatest benefit of group income protection (GIP) for employers would be the integration of GIP with absentee management. GIP can enable employers to take a proactive approach to the health and wellbeing of their employees. The UK already has a number of GIP initiatives focusing on improving employee wellbeing. Initiatives include stress and fatigue reduction to improve employee health and productivity, as well as reduce rates of absence. Such initiatives can also provide employers with an anonymised overall annual health status report on its employees.¹ Through engaging with employers, GIP can help to achieve early notification of claims and to facilitate early treatment, thereby reducing the length of absence from work.²
6. As well as having benefits for employers (in retaining its workforce), GIP can also help employees better achieve financial resilience should they experience prolonged health conditions that affect their ability to work. In particular, it can help individuals with a disability or long-term health condition access a wider range of financial products as their experience can be pooled with the rest of the workforce given the group nature of the policy. This reduces the risk to insurers and allows easier access (less underwriting) at a lower cost.
7. A 2014 report by the Association of British Insurers found that generally, those in lower paid employment and in less senior positions were more likely to leave work due to ill health than those with higher earnings and in managerial positions.³ In addition, those households whose income is just above the means-testing threshold for Universal Credit are likely to experience a substantial drop in income if the main earner is not able to work and they are reliant on only State benefits. We therefore consider it important that GIP is universal, which it is not often currently, and that it is not restricted to managerial positions, but the entire workforce - noting there may be eligibility criteria such as having passed a probationary period.
8. In addition to GIP, we consider individual income protection to be a valuable insurance for the workforce. Fifteen percent of the UK's workforce is now self-employed and the number of

¹ IFoA (2016) *Wearable technology: A health and care actuary's perspective* [Author: Matan Abraham]

² Zurich (2015) *Income Protection and rehabilitation – working together, December 2015*

³ Association of British Insurers (2014) *Welfare reform for the 21st Century: The role of income protection insurance*

people in self-employment has increased by eighty-eight percent since 2001.⁴ This is a significant and growing minority, who do not have access to GIP. We note that the Government and the charity sector have a number of initiatives to help people with disabilities to explore the potential for self-employment. Therefore, whilst the Green Paper focuses on GIP we consider that individual insurance products could also be usefully considered as these can play a valuable role in offering income protection for self-employed individuals with a disability or long-term health condition.

9. A final consideration is the link between this Government initiative and the Government's 'Retain, Retrain, Recruit' initiative to extend working lives as the rate of absence owing to poor health has been found to increase with age.⁵ Creating a working environment that supports older workers is an important part of helping people to manage their income across their lifetime and in particular in preparing for retirement.

What are the barriers and opportunities for employers of different sizes adopting insurance products for their staff?

10. The opportunities for employers in adopting GIP are evident; access to a greater pool of talent, increased productivity, a better understanding for employers of their exposure to the risk of absenteeism due to ill health, as well as earlier rehabilitation services to reduce the length of absenteeism. However, as the Green Paper notes, take-up of GIP is low. The main barriers to employers adopting insurance products for their employees are that neither employers nor employees believe there is a benefit to adopting them and so do not value such products. This means that employees do not expect their employer to provide this type of cover and so it is not a factor when seeking an employment opportunity, or deciding to stay in a particular place of employment. Based on our experience of other health-related insurance products we believe the main barriers to be:
 - a. If the Government wants to increase uptake, by motivating employers or employees to take greater responsibility, it must implement an effective communication strategy.⁶ This should alert individuals to the level of safety net provided by the State and the gap between this and the amount they would need to replace their income from employment. There is an expectation that the State will provide for individuals with health and care needs. Whilst the State provides an important safety net, if individuals are unable to work, the safety net is unlikely to be sufficient for them to be able to meet all of their necessary expenditure, without significantly reducing their outgoings. It is vital that individuals understand the gap between State provision and their income needs if they are going to value an insurance product that would provide them with greater income protection.
 - b. We have seen from the retirement market that even where an individual may wish to secure a regular income, they do not appreciate the benefit of the guarantee, or they are not willing to pay for it. Since the introduction of freedom and choice in pensions, removing the requirement to purchase an annuity, we have seen a drastic decline in the number of new annuities purchased and thereby the start of a decline in the number of people with a guaranteed income for life from insurance. We believe a

⁴ Chartered Insurance Institute (2016) *Building resilient households: The future of financial provision for those too ill to work*

⁵ Office for National Statistics (2014) *Sickness absence in the Labour Market, February 2014*

⁶ ABI (2016) *News release: ABI data shows promising growth in income protection* [Available online: <https://www.abi.org.uk/News/News-releases/2016/08/ABI-data-shows-promising-growth-in-income-protection-market>]

large part of individuals not valuing guarantees is again due to a lack of awareness of the potential risk of running out of money, and so again, this point highlights the vital need for effective awareness raising if employees are going to value income protection products.

11. The similarity between the barriers facing the GIP market and saving for retirement and later life costs suggests there may be opportunities for the GIP market to learn from, or leverage, recent changes in the pensions landscape. Automatic enrolment has increased the number of people saving into a pension by almost seven million, with the expectation this will rise to ten million by 2018. More than 293,000 employers have enrolled their employees into a DC pensions scheme. This illustrates the role of Government and employers in nudging and incentivising employees to save for the future; whilst the employee retains ultimate responsibility, for whether and how much they save (over the minimum contribution). Perhaps DH and DWP might consider an collaborative approach with similar divisions of responsibility.
12. A further barrier is the risk that individuals are discouraged from contributing towards income protection if they feel that by making provisions they will be no better off, where the income from their insurance results in a direct loss in State benefits. We have seen this in the long-term care insurance market.⁷ Income protection claim income is treated as 'earned income' in eligibility assessments to State benefits; this is problematic where it results in a decrease in an individuals income replacement rate. It appears counter-intuitive that Universal Credit 'penalises' individuals for self-funding and so places a disincentive for income protection.
13. Affordability could be a significant barrier for smaller employers. Again, we can draw on the experience from automatic enrolment where there is a scheme (NEST) with sufficient scale that it improves affordability for smaller employers. NEST also has to accept all employers, including micro-employers and all of their eligible employees, although it is worth adding that any scheme would need to be underwritten.
14. Finally, this review of GIP provides Government with an opportunity to review the process for anyone who has had to leave the workforce owing to ill health. It can be onerous and require repetitive completion of forms for both State benefits and any insurance claim income. This is likely to be particularly daunting for those in ill health and so we recommend a review of processes by government departments and insurers is encouraged as part of this initiative.
15. Should you wish to discuss our response in further detail please contact Rebecca Deegan, Policy Manager (rebecca.deegan@actuaries.org.uk / 0207 632 2125) in the first instance.

Yours sincerely,



Colin Wilson

President, Institute and Faculty of Actuaries

⁷ IFoA (2016) *Sessional Paper: The Future of Social Care Funding – Who Pays?* [Available online: <https://www.actuaries.org.uk/documents/future-social-care-funding-who-pays-0>]