

# Building resilient households

CII executive summary

## The future of financial provision for those too ill to work



in association with

 SAMI Consulting

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This millennium has seen employment levels in the UK rise to a record high, bringing opportunity to many people and economic benefits to the nation as a whole. Yet at the same time, growing numbers of people have found themselves unable to work as a result of sickness.

Insurance can, and does, play a significant role both in helping people cope financially during a sickness absence and in getting them back to work. Many other services and agencies also play a major part.

The CII, together with other sponsors, commissioned this study by SAMI Consulting to help understand what factors affect the resilience of UK households to sickness absence. We also wanted to know what could be done to help more families weather the effects of sickness absence in the future.

The report comes at an important time. Welfare reforms are reshaping the state benefits system, making it plainer than ever that people reliant on out-of-work benefits cannot expect to maintain the lifestyle they enjoyed while in work. What's more, fewer employers are offering sickness benefits and almost one worker in six is self-employed. So the question of how families are to cope with their commitments when sickness strikes looms ever larger.

The report does not make for comfortable reading. For those involved with insurance – both within the profession and among consumer bodies – this paper raises questions about product design and distribution, and how to build public confidence. For the Government, it asks what could be done to the benefits system to better encourage private insurance-based provision and rehabilitation. Above all, it highlights the need for services and agencies to work together to help ensure that families are better placed to cope with the effects of sickness absence in the future.

Now is the time for action. Both collectively as a profession and individually as firms, we must engage in that debate. Having made some suggestions on what needs to be done, the CII is now looking forward to actively collaborating with all stakeholders to bring about a system that best serves the public interest.

This summary gives a brief overview of the key findings and recommendations. The full report can be found at [www.cii.co.uk/43674](http://www.cii.co.uk/43674)

**Robert Fletcher**  
Immediate Past President

## 4 Executive summary

### Key points in this report:

#### Where we are today

- Each year, a million people in the UK suffer a prolonged absence from work due to sickness.
- A minority of this million get sick pay from their employer, although most have to rely initially on Statutory Sick Pay (SSP) of £88 a week. SSP is not available to the self-employed.
- Up to half a million would find their savings run out after just a few weeks.
- State benefits assist some people but often the payments aren't enough to help them meet inescapable commitments.
- Insurance products exist to help. They provide cash payouts, support and rehabilitation to get people back to work.
- Rehabilitation and support reduce the length of sickness absences, bringing financial benefits for employers and the State as well as helping individuals. A pound spent on these services can bring savings of £17.
- Only around 1 person in 10 is covered by insurance. As a result, many families suffer financial hardship and lasting damage when there's a prolonged absence from work due to sickness.
- Planned changes to state benefits will mean people who buy insurance could lose benefits £ for £.

#### Factors that may shape the future

Five factors may shape how well families weather sickness absences in the future:

- **Household resources.** Rising housing costs, 'generation rent', student loans, auto-enrolment into pensions and reliance on the 'Bank of Mum & Dad' mean household budgets are likely to remain under pressure for most families.
- **Employment patterns.** While technological advances (e.g. automated services replacing humans) can mean greater uncertainty about the distribution of work and earnings, technology can also help more people to work when unwell. Employer and social attitudes to sickness and work will be crucial.
- **Health and Health Services.** How far will health services develop to support people getting back to work? And how far will individuals proactively optimise their health? There is a long way to go.
- **Financial Planning and Financial Services.** If consumers can improve their financial planning

and management capabilities, and the finance and insurance industry is able to build more trust with the public and widen access to its products and services, then a greater number of families could become more resilient.

- **The Welfare State.** A more generous benefits system looks unlikely, but a better fit with private insurance (removing the £ for £ clawback) offers a way of improving resilience. Early work-focussed support – building on the experience of insurance-funded rehabilitation – could make welfare provision more effective.

#### Recommendations

1. A key target for the Government and the successor body to MAS should be to increase the number of households able to cope financially with a 4–6 week interruption in income. For longer periods, insurance is likely to be a better solution.
2. The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. It should also consider how the product can be made easier to acquire and how to help build greater public trust.
3. The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position (whereby those who insure against sickness may face a £ for £ clawback) should be revised, so that those who act responsibly are encouraged rather than penalised.
4. A Task Force involving Government, MAS, Employers, Distributors, the FCA, relevant charities, health providers and insurers should be established. This Task Force would ensure that stakeholders seize every opportunity to alert people of the need to plan for contingencies such as sickness absence.
5. The Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, charities, health professionals and insurers) to consider how better, and earlier, support and rehabilitation could be extended more widely.
6. The Government should work with money advice and debt services, health professionals and the Task Force members to identify ways of alerting people about the help available as soon as possible in a period of sickness.

## The issue

1. Each year a million people in the UK suffer a prolonged absence from work due to sickness.
2. A fortunate minority of these people will continue to be paid by their employer. But most will have to rely initially on Statutory Sick Pay of £88 a week, although even this is not available to the self-employed. This means a fall of £325 a week for the average earner – so, someone who is off work for 6 months could be £9,000 out of pocket.
3. While some people are able to rely on savings to make up for the loss of earnings, up to half would have depleted their savings completely after just a few weeks. While state benefits can help those in greatest need, they do not cover mortgage payments – at least for the first 9 months – and may not cover the rent or a wide range of other inescapable commitments.
4. Insurance products, such as Income Protection and Mortgage Protection, exist to help with the financial effects of sickness. They also provide support and rehabilitation to promote a speedy return to work – but only around 1 person in 10 is covered by such insurance.
5. As a result, many families suffer financial hardship. Often, there is also lasting damage done to their finances, employment prospects, family relationships, the stability of their children’s education and their own longer-term health.
6. This study draws on insights from a wide range of people and organisations concerned with this problem. It looks at how things could develop over the next decade, and suggests first steps towards improving the resilience of households to the impact of sickness absence.

## The Role of Insurance

7. While the take-up of insurance is low, those people who are covered can benefit in a number of ways. These may have a profound effect on their family finances and future life prospects. In 2015, some 28,000 families covered by Income Protection (IP) policies received almost £480,000,000 to help meet their living costs and financial commitments.
8. But financial help is only part of the picture – most IP insurers also provide a range of supporting services designed to help people through their illness and to return to work. These services include:
  - Sickness absence prevention (e.g. line manager training in mental health awareness).
  - Early intervention services such as physiotherapy and talking therapies, to help prevent longer term sickness absences.
  - Intensive vocational rehabilitation programmes.
  - Personal support such as nurse adviser services.
9. These services have been shown to reduce the length of sickness absences, bringing financial benefits for employers and the State as well as helping individuals. The services also make a positive difference to the lives of some families, as demonstrated by the case studies found in Chapter 3 of the full report.
10. Looking at the economic perspective, one study showed that for each £1 spent on rehabilitation, the total savings to families, employers, the State and insurers amounted to £17.

## Factors that may shape the future

11. Over the next decade, a number of factors will shape the ability of households to prepare for, and cope with, long-term sickness. These factors include high-level drivers, such as technological and demographic change, the development of the economy, political choices and Britain's place in the world. Linked to these, our study identifies five 'direct drivers' that are most likely to have an impact upon household resilience to sickness absence in the future.

## Household resources

12. The resources available to households will affect their ability to plan/provide for the risk of sickness and their ability to cope when sickness occurs. While much will depend on economic performance, existing trends together with policies whose effects are still coming through (such as auto-enrolment into pensions, student loan repayments) suggest that:

- The budgets of most working-age households will remain under pressure. For many, it will not be a realistic goal to build enough 'rainy day savings' to see them through a prolonged sickness absence.
- Reliance on housing equity to get through a long-term sickness absence (e.g. through a secured home loan) will not be an option for a growing number of people, especially the under 50s.
- Growth in the proportion of people renting (both 'generation rent' and people renting later in life following relationship breakdown) will increase vulnerability, since landlords may be less likely to forbear than mortgage lenders.
- Amongst the over 50s, a growing number will be providing financial support to their adult children – so losing income through sickness may affect both their own household and their children's households.

## Employment

13. The nature and pattern of employment is likely to change significantly over the next decade. Technological advance and how employers see their role will be important. The main conclusions we draw about how changes in the world of employment may affect household resilience to sickness are:

- The distribution of work amongst the population may change. This may affect both the number of people who suffer an income shock when sickness strikes, and the ability of people to provide for themselves through insurance or savings.
- It could become easier (or be made easier) for many people to work through periods of illness and disability – changing technology and changing attitudes could make a difference.
- The extent to which employers will facilitate/provide sickness-related benefits will be important, but a significant group of self-employed (or insecurely employed) people will need alternative solutions.



## Health and Health Services

14. Health trends over the next 10 years will clearly influence both the number of sickness absences and their length. Health-related drivers that may have the greatest impact on household resilience to sickness are:
- The extent to which health professionals (especially GPs, at the front-line of contact) recognise the importance of work from a health standpoint and seek to make early work-focussed interventions with their patients.
  - How occupational health facilities develop, and the attitude of employers to health and work.
  - The extent and availability of health management services that help people manage their long-term conditions.
  - Attitudes to illnesses where symptoms fluctuate, and what they imply both for treatment and work.
  - The way in which mental health problems – and the factors that contribute to them – are addressed.
  - The extent to which individuals are proactive in optimising their health.

## Financial Planning and Financial Services

15. The financial capability of consumers will influence the extent to which they make prudent provision for themselves through insurance, savings or use of credit. The degree of trust that consumers have in providers, and the public's ability to access information, guidance and advice will also be important factors. The effectiveness of the replacement body for the Money Advice Service, and the effect of the Financial Advice Market Review, will therefore be vital, as will the industry's efforts to build trust.
16. Access to financial products will be another important factor. New forms of distribution – perhaps, for example, through the providers of auto-enrolment pension saving schemes – may allow insurance products to reach a wider population.
17. Possible changes to the way insurance products are designed and underwritten may also be a significant influence. For example, more standardised products with less underwriting may increase the opportunity for Income Protection to become more of a mass-market product.

## The Welfare State

18. How the Welfare State develops over the next decade will be an important influence in a number of ways. A more generous state benefits system could make it easier for people to cope financially while unable to work, but a move in this direction seems unlikely. Perhaps more realistic is the development of a better fit between state benefits and private insurance – moving away from the situation where people who insure may find they lose state benefits £ for £. Improving this fit is a prerequisite to a soundly-based expansion of provision.
19. A related issue is the extent to which the state benefit system can be re-oriented to prioritise early work-focussed interventions and rehabilitation. Key questions here include what lessons can be learned from the insurance sector in this area, and whether a closer partnership between public and private sectors could develop.
20. A final issue here is the balance the State seeks to strike between its own role, that of individuals, and others such as employers.

## First Steps to building more Resilient Households

21. Our work has shown that too few households are resilient to loss of income through sickness. While the future presents many uncertainties and opportunities, we are clear that the problems faced by hundreds of thousands of people each year will not go away without action. We must start providing help that allows people to:
- Be better prepared for the risk of sickness striking.
  - Get back to work as soon as possible.
  - Manage their finances during a prolonged sickness absence.
22. We make the following specific recommendations:
1. A key target for the Government and the successor body to MAS should be to increase the number of households able to cope financially with a 4–6 week interruption in income. For longer periods, insurance is likely to be a better solution.
  2. The Income Protection insurance industry should establish a new programme to communicate the product's features in clear and simple language. It must also consider how the product can be made easier to acquire and help to build greater public trust.
  3. The Government should work with insurers to enable the state welfare system and private provision to complement each other. The emerging position, whereby those who insure against sickness may face a £ for £ clawback, should be revised so that those who act responsibly are encouraged rather than penalised.
  4. A Task Force involving Government, MAS, Employers, Distributors, the FCA, relevant charities, health providers and insurers should be established. This Task Force will ensure that stakeholders seize all opportunities to alert people about the need to plan for contingencies such as sickness absence.
  5. The Government should take the lead in bringing together the interested parties (such as representatives of employers, workers, charities, health professionals and insurers) to consider how better, and earlier, support and rehabilitation could be extended more widely.
  6. The Government should work with money advice and debt services, health professionals and the Task Force members to identify ways of alerting people about the help available as soon as possible in a period of sickness.
23. We also hope this report will prompt further debate about how services, policies and products should develop in the future. A range of questions for debate has been included in Chapter 7 of the full report.

A full copy of the report can be downloaded at [www.cii.co.uk/43674](http://www.cii.co.uk/43674)



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