

# Building a healthy, productive workforce

Unum's policy priorities for the  
next government





# Contents

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|  |         |
|--|---------|
| Introduction   | Page 4  |
| How to help people with health problems stay at work                           | Page 5  |
| How to help people prepare financially for being too ill to work               | Page 8  |
| Competitive, innovative insurance that works for policyholders and the economy | Page 11 |
| Unum: helping build Britain's healthy workforce                                | Page 14 |

## Unum's policy priorities for the next government

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1. Introduce a temporary tax break for SMEs to invest in Group Income Protection to improve people's work and health outcomes.
2. Deliver a coordinated plan to build the financial capability of working people so they can prepare for the risk of becoming too ill to work.
3. Trial a protection statement that shows working people the risk of becoming too ill to work, the income they could expect from their employer and the state, and signposts them to information on how to improve their financial resilience.
4. To meet the needs of Britain's ever-changing workforce, the next government must create a robust and pragmatic regulatory environment that supports innovation and economic growth while protecting policyholders.



# Introduction



## Peter O'Donnell

Chief Executive Officer  
Unum UK

In my introduction to Unum's 2015 General Election Manifesto, "Work and Wellbeing – A back-up plan for Britons", I raised the case of Amy who had been unable to work for a year because of her depression. With her partner's income, their limited savings and some help from her parents, Amy and her family could just about get by for a few months. Regrettably, Amy's case is not an isolated one – 83% of disabled people acquire their disability during their working life and up to 150,000 disabled people leave work every quarter.

Too few working people with long-term health problems get the support they need from their employer to stay in work. Ill-health among working age people already costs the economy around £100 billion a year and by 2030, an estimated 21 million working age people will have a long-term health problem.

In its Improving Lives Green Paper, the last government recognised that encouraging more employers to invest in GIIP could reduce the number of people falling out of work for health reasons and ultimately help the economy. Hence, in line with our call in 2015, Unum is calling on the next government to introduce a temporary tax break for SMEs to invest in Group Income Protection. A £30 reduction in SMEs' national insurance contributions for every employee they cover would cost the Exchequer £4 million a year. Even a modest increase in coverage as a result of the tax break begins to save the government millions after the second year.

Money worries are the biggest source of stress to UK employees – 18 million working hours in time off work are lost every year. Furthermore, two-thirds of people who develop serious debt problems do so because of some form of income shock. In order to address this problem seriously, Unum recommends that the government trials a protection statement that shows working people the chance of becoming too ill to work, the income they could expect from their employer and the state, and signposts them to information on how to improve their financial resilience. Employees could access the statement online or it could be included with their P60 at the end of the tax year.

**“Whoever wins the general election will face the same big challenges: a fast-changing workforce with more long-term health problems, low productivity and low levels of financial resilience.”**

Unum is also calling for bold government action to improve the financial capability of working families so they can prepare for the risk of becoming too ill to work. Despite years of well-intentioned, but badly implemented, government initiatives aimed at helping working-age people to make better financial decisions, the sad truth is that 40% of people have less than £100 in savings. Next year sees the 10th anniversary of the Thoresen Review of generic financial advice. It would be an ideal opportunity for the next Government to set in place far-reaching and long-term policies that would support the decision making of hard working people across the country.

Britain needs a healthier, more productive workforce and I urge the next government to implement these policy priorities as soon as possible.

# How to help people with health problems stay in work

## Challenge

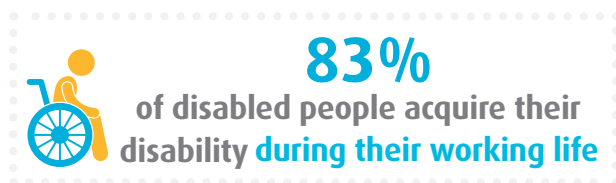
- Too few people with long-term health problems and disabilities get the support they need to stay in work. This is a major cause of the disability employment gap.
- It can affect the mental, physical and financial health of those who fall out of work and of their carers too.
- 1 in 8 people within five years of the state pension age have stopped working because of ill-health.
- Ill-health among working age people costs the economy around £100 billion a year.

## Our policy priority

- Introduce a temporary tax break for SMEs to invest in Group Income Protection to improve people's work and health outcomes.

The last government had a well supported ambition to halve the disability employment gap. To achieve it, the Green Paper on Work, Health and Disability includes a welcome vision for inclusive workplaces where people get the early support they need to stay in work.

Being in a job is good for our wellbeing, whatever our age, gender or level of education.

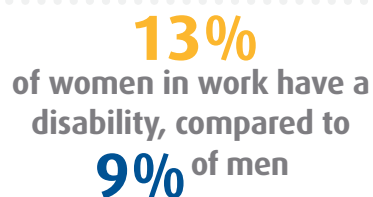


When you find out you have a serious health problem, you need your employer to support you in the right way so you can stay in or return to work when you are ready. That lets you focus on your recovery and protects your mental, physical and financial health.

When employers cannot provide the right support, people with a health problem are much more likely to fall out of work. The effects of leaving work can be long lasting and devastating. 1 in 5 people who are out of work for six months do not work again for at least the next five

years. The longer you are out of work, the harder it is to find new employment and the more harm it does to your wellbeing.

In many cases, carers have to give up work too. That in turn reduces the carer's wellbeing and can mean a double financial hit on the household.



Workers of all ages are affected by long-term health problems, but they are more common among older workers. By the end of the next parliament, there will be 763,000 more people in the UK aged 50-64 and 292,000 fewer aged 16-49 than there are today. By 2030, an estimated 21 million people of working-age will have at least one long-term condition and the number with cancer will increase from 750,000 to an estimated 1.7 million.

The gains from helping more people to stay in work and to retire at a time of their own choosing could be huge.

Having control over when you stop working has a very powerful impact on wellbeing in retirement. Yet ill-health is forcing 1 in 8 people within five years of the state pension age to stop work. Someone who earns an average salary and has to give up work for health reasons at 55 could earn £200,000 less and have 60% less in their pension pot than if they had been able to retire at 65 instead.

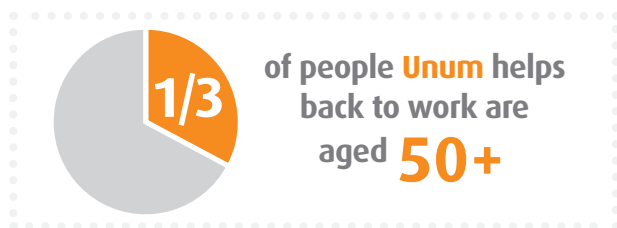
There would also be gains for the economy and taxpayers. Sickness absence already costs employers £9 billion a year and 139 million sick days were taken in 2015. A study found the average cost to an employer of replacing a worker earning more than £25,000 ranged between £20,000 and £40,000. Economic inactivity costs the government £50 billion a year.

## A temporary tax break for SMEs to invest in Group Income Protection to improve people's work and health outcomes.

Employers purchase Group Income Protection to:

- Access wellbeing services and advice to reduce sickness absence
- Provide effective, early support that helps employees at risk of long-term sickness absence to stay in or return to work
- Secure a guaranteed financial income for employees who are unable to work long term.

Unum helps employees of all ages with all types of health problems either stay in work or return to work. Although older workers are more likely to use Unum's support, a third of the people with musculoskeletal problems that Unum helped back to work last year were under 40 years old.



The financial support that Group Income Protection provides lets those who are unable to work focus on their recovery and helps protect them from financial stress. In 2015, Group Income Protection providers paid £347 million to employees who were too unwell to work, with an average benefit payment of £23,761 per year.

Group Income Protection is a valuable investment for all kinds of organisation.

Employers pay as little as £200 per employee to provide coverage. Except for the very highest earners, Group Income Protection automatically covers employees with existing health problems at no extra cost. More than half of the employees Unum covers earn under £40,000 and almost a fifth earn under £20,000.

7.5 million people in the UK work for small and medium sized enterprises (SMEs) with 10-249 employees. Every year, 5.56 in every 1,000 of them will take long-term

sick leave for six months or more and their employers' response will have a significant impact on whether they are able to return to work.

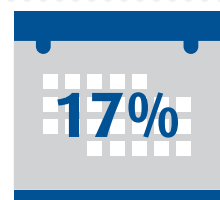
Around a fifth of the employees Unum covers work for SMEs. So we know Group Income Protection works well for smaller employers. However, in the economy as a whole, less than 5% of people working for SMEs have Group Income Protection. The most effective way to encourage more SMEs to invest in Group Income Protection is to introduce a temporary tax break.

A £30 reduction in SMEs' national insurance contributions for every employee they cover would cost the Exchequer £4 million a year. Even a modest increase in coverage as a result of the tax break begins to save the government millions after the second year.

Bold action to quickly increase the number of SMEs investing in Group Income Protection would have major benefits for working people with long-term health problems and disabilities, their families, employers, the economy and tax payers.

We believe it would help reduce the disability employment gap and bring about the vision for healthy, inclusive workplaces reflected in the Green Paper on Work, Health and Disability. Unum called for the tax break in its manifesto for the 2015 general election, and in its response to the Green Paper.

**Unum's  
Group Income Protection  
shortens long-term  
sickness absence by**



Employers get a tax exemption on payments of up to £500 per employee on medical interventions that are recommended by Fit for Work. So the principle that employers should be incentivised to invest in the wellbeing of their staff is already recognised. We encourage the government to keep improving Fit for Work, but also to go further and reward employers that invest in Group Income Protection too.

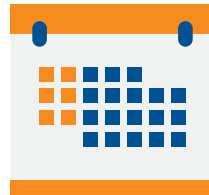
This tax break has broad support from employers, insurers and insurance brokers through the trade bodies EEF, Association of British Insurers and Group Risk Development.

# How to help people with health problems stay in work



**21m**

working people will have a long term health problem by 2030



Up to **150,000**

disabled people leave work every quarter



More than **6 out of 10** with a serious health problem people get back to work with

**Unum's Group Income Protection**



**7.5m**

people work for organisations with 10-249 employees



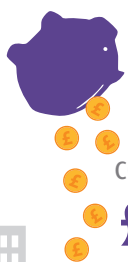
**43,000**

go on long-term sick leave every year



**Less than 5%**

have **Group Income Protection**



Economic inactivity costs the government

**£50bn** a year



# How to help people prepare financially for being too ill to work

## Challenge

- Money worries are the biggest source of stress to UK employees. Financial stress costs the economy £121 billion a year and 18 million working hours in time off work.
- Over the past 10 years, there has been a 50% increase in the number of employees struggling financially.
- Two-thirds of people who develop serious debt problems do so because of some form of income shock, such as becoming too ill to work.

## Our policy priorities

- Deliver a coordinated plan to build the financial capability of working people so they can prepare for the risk of becoming too ill to work.
- Trial a protection statement that shows working people the risk of becoming too ill to work, the income they could expect from their employer and the state, and signposts them to information on how to improve their financial resilience.

Despite years of government initiatives designed to improve financial capability, many people still struggle to make good financial decisions.



The workplace is an efficient and effective way to improve the financial capability of working people. Unfortunately, successive governments have failed to take full advantage of this potential. While many workers do get some support at work to prepare for retirement,

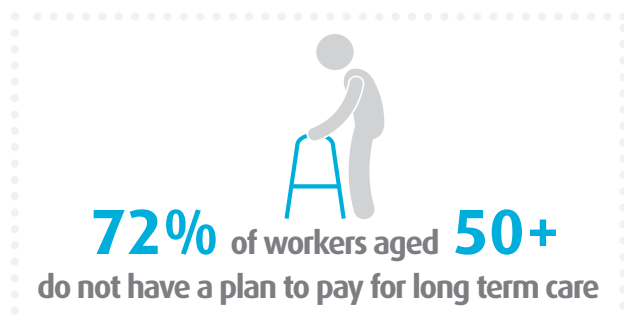
research shows the financial problem workers need the most help with is preparing for and managing negative “life events”, such as becoming too ill to work.



27m working age people do not have enough savings to allow them to cope with the type of significant income shock that flows from becoming too ill to work.

That is partly because most people greatly underestimate the chance of becoming too ill to work and greatly overestimate the financial support they would get from their employer and the state if it happened.

Almost a fifth of people surveyed believed there was a 1 in a 1,000 chance they would become too ill to work when in fact 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.



More than half of working people believed they would receive their full salary for three to six months if they were too ill to work. In fact, employers are legally only obliged to pay Statutory Sick Pay at £88.45 for 28 weeks.

In summary, too many people who have to stop working for health reasons have no kind of financial buffer or protection.



## Deliver a coordinated plan to build the financial capability of working people so they can prepare for the risk of becoming too ill to work.

We support the calls from The Financial Inclusion Commission and the House of Lords Financial Exclusion Committee for government to take a strong, coordinated lead in building financial capability in the UK.

In its report, the Financial Exclusion Committee quoted concerns Unum expressed in its evidence to the inquiry. Unum warned that the slimmed down public financial advice body currently proposed to replace the Money Advice Service, The Pensions Advisory Service and Pension Wise will not have sufficient resources to deliver an effective financial capability strategy.

Without a new kind of strong, accountable leadership to deliver a coordinated, properly resourced plan, another five years of opportunity to finally improve people's financial capability could well be lost.



Building financial capability goes beyond improving people's mental and financial wellbeing in the short term. It is also an investment upstream to prevent some of the problem debt and financial crises that would otherwise cause serious harm for households and taxpayers in the future.

So a proper plan to improve financial capability must include investment in programmes that will help working people avoid problem debt should they become unable to work due to ill-health. The Money Advice Service's 10-year strategy for the UK did just that but its future and financing are now uncertain.

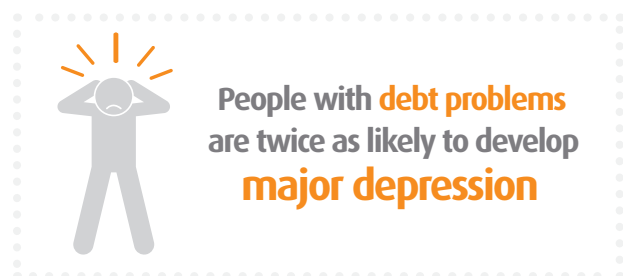
## Trial a protection statement that shows working people the risk of becoming too ill to work, the income they could expect from their employer and the state and signposts them to information on how to improve their financial resilience.

Unum recommends the next government trial a protection statement for working people. It would show every employee the risk of becoming too ill to work and what financial support they would receive from the state and their employer for 4 weeks, 28 weeks and 52 weeks. It could also signpost the employee to information on how to improve their financial resilience. Employees could access it through work or online, perhaps with their payslip or P60.

A protection statement would help overcome working people's low understanding about the risk of becoming too ill to work and the levels of financial support they would receive.

It could also help stimulate conversations between employers and their staff about what financial education and employee benefits they should invest in.

Piloting a protection statement has the support of the Association of British Insurers.



# How to help people prepare financially for being too ill to work

50%

more working people report money worries now than in 2006



27m

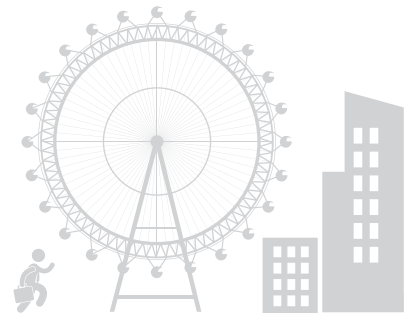
working people could not cope with an income shock

9 out of 10

employers believe money worries affect employee performance



Financial stress costs the UK **£121bn** a year



Financial distress adds **4%** to payroll costs for UK firms



The government must lead a plan to build **financial capability**



Employees need a **protection statement**

to plan for ill-health



# Competitive, innovative insurance that works for policyholders and the economy

## Challenge

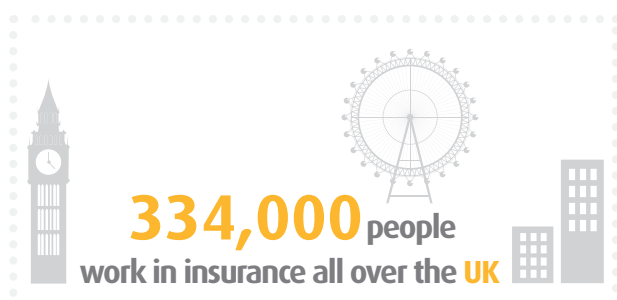
- Almost every household in the UK relies upon insurance in some way - 5.7 million households have life insurance and 20 million have car and home contents insurance.
- Insurance companies play a fundamental role in the economy and pay £12 billion in taxes.
- The UK has the third largest insurance market in the world but it faces growing competition and Brexit brings some uncertainty.
- Because the world of work is changing quicker than ever, insurers need to be free of disproportionate regulation to meet the needs of tomorrow's employers and workers.

## Our policy priority

- To meet the needs of Britain's ever-changing workforce, the next government must put in place a robust and pragmatic regulatory environment that supports innovation and economic growth while protecting policyholders.

Insurance plays a vital role in the UK, protecting households from all kinds of risks, managing £1.9 trillion of investments and employing huge numbers of people all over the country.

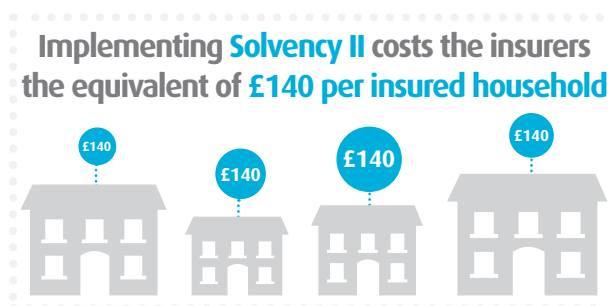
The third largest insurance sector in the world, with the potential to expand exports around the globe, is one of the jewels in the UK's crown.



Within the UK, enabling more access to insurance could help the government solve a wide range of policy problems, from the rise of cybercrime to meeting the needs of an ageing population.



Insurers are regulated through Solvency II, an EU regime implemented in the UK by the Prudential Regulation Authority. Solvency II became effective in January 2016. The members of the Association of British Insurers estimate it has cost £3 billion to implement.



Unum entirely supports the objectives of Solvency II. It was one of the first 19 companies to have an internal model approved under the Solvency II regime. Unum believes that the UK must have a robust regulatory system for insurance that properly protects the economy and policyholders. That means policyholders and taxpayers must be protected from the risk of an insurance company failing, but also be protected from regulation that increases costs or reduces insurers' competitiveness.

That balance is hard to achieve and it is right that regulators err on the side of caution. However, there is strong evidence that the design and implementation of prudential regulation in the UK could be improved without harming economic stability or policyholders.

In its evidence to a Treasury Select Committee inquiry, the Association of British Insurers stated that the amount of information insurers have to report to the regulator has increased by 4-8 times under the new regime.

Solvency II has increased the amount of capital Unum is required to hold significantly, despite the fact that the risk the company poses to financial stability is unchanged. It has also increased the time, money and staff needed to deal with the bureaucracy of regulation. Where regulations become disproportionate, it can make companies less competitive, less innovative and more expensive for policyholders. While Unum is not advocating for wholesale changes to prudential regulation, there are many incremental improvements that would benefit the economy and policyholders.

Such improvements would help Unum and all UK insurers meet the fast-changing needs of employers in an economy where more women, older people and people with health problems are in work and where new types of employers are emerging.

## **Create a robust and pragmatic regulatory environment that supports innovation and economic growth while protecting policyholders.**

Previous governments have recognised the importance of ensuring regulators consider the impact of their actions on competitiveness. Since 2014, the Prudential Regulation Authority has had a secondary statutory objective to facilitate effective competition and it is obliged to publish a report each year explaining how it has done this.

In 2016, the regulator's report emphasised the importance of ensuring its regulation is proportionate. Unum welcomes this focus – disproportionate regulation undermines insurers' competitiveness both within the UK and in international markets, and can increase costs for policyholders.

Tackling some disproportionate aspects of Solvency II

requires change at EU level. However, the Treasury Select Committee inquiry evidence identified a number of other areas where the Prudential Regulation Authority has the power to take action now to reduce the burden of regulation without undermining its other objectives.

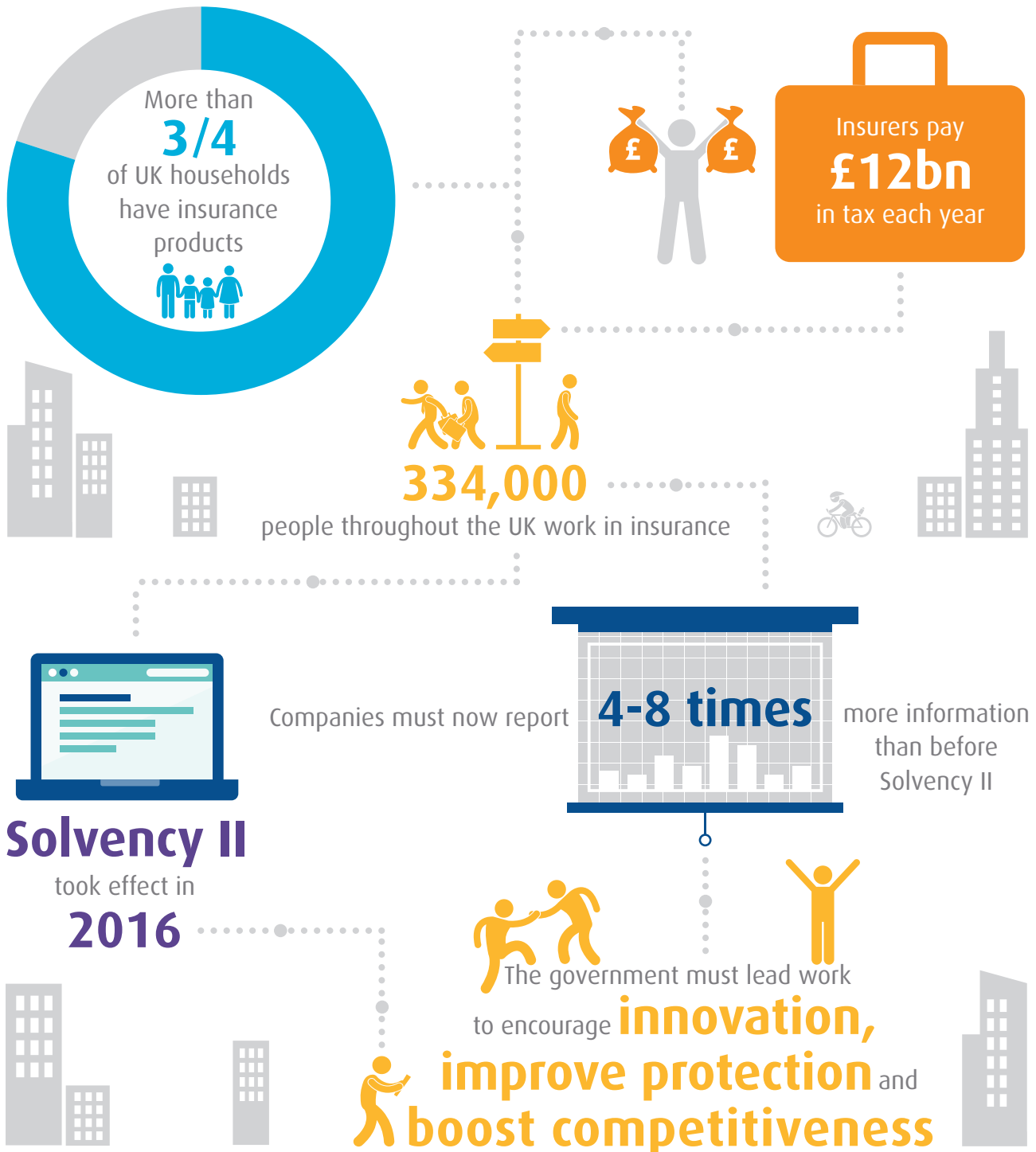


As a result of the inquiry, the regulator is now working with the Association of British Insurers to identify some improvements which can be made.

We hope this will result in an improved regime. However, the next government should not rely on Select Committee inquiries to drive improvements in regulatory regimes. This kind of exercise should not be a one-off and the government should not assume that all possible gains will be realised without its engagement.

To ensure this key sector remains competitive before and after Brexit, and to protect the benefits insurance bring to the economy and policyholders, the next government should drive work with the Prudential Regulation Authority and insurers to identify improvements to prudential regulation.

# Competitive, innovative insurance that works for policyholders and the economy



# Unum: helping build Britain's healthy workforce

At Unum, we are experts in supporting employers so people with health problems can reach their potential at work. We work with thousands of organisations, from small local businesses to the biggest household names, to protect over 1.4 million British workers.

We partner with an innovative range of leading experts to share what we know works.

Our free workplace wellbeing hub helps employers create a wellbeing strategy based around prevention, intervention and protection.

The hub includes free modules for line managers and employers of people with health problems. We worked with Maggie's to develop a module on managing cancer in the workplace and with St Catherine's Hospice on helping staff through bereavement. Our wellbeing hub has been shortlisted in the CSR category of the 2017 British Insurance Awards.

We are working with Carers UK to improve the financial capability of carers across the country.

To help disabled people reach their potential at work, we fund places on the Disability Rights UK Leadership Academy and Leonard Cheshire's Change 100 programme that sets up summer internships for students and recent graduates.

Together with The Mental Health Foundation and Oxford Economics, we recently published research on to how employers can treat the mental health of their workforce as an asset. It found people living with mental health

problems already contribute an estimated £226 billion to UK GDP and explored how employers can realise even greater benefits by improving the mental wellbeing of their staff.

To mark the five-year anniversary of the review in to sickness absence by Professor Dame Carol Black and David Frost CBE, Unum brought together leading thinkers to write essays on how to enable more people with health problems to stay in work. Launched in parliament with Dame Carol and the Director of the government's Work and Health Unit, the collection included recommendations from experts on human resources, occupational health, musculoskeletal problems, business, insurance, general practice and employment law.

Our annual Return to Work Statement shows who uses our services to get back to work. This year, it included a special focus on musculoskeletal conditions.

Our annual Claims Statement provides data about who we pay a financial benefit to each year because they are too ill to work.

We have also published research on everyone who has Group Income Protection with us with a special focus on SMEs.







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