

MoneyMarketing

Income protection could take leading sick pay role

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Lord Freud: 'Very little has been done to help those people on statutory sick pay'

Statutory sick pay could be replaced by employer-funded income protection as part of a Government review to tackle the £100bn annual cost to the economy of working age ill health.

In February, the Department for Work and Pensions announced an independent review of the sickness absence system in England, Wales and Scotland. It will look at how the system could be changed to help more people stay in or return to work after an illness.

It is jointly chaired by national director for health and work Dame Carol Black and British Chambers of Commerce director general David Frost.

Speaking at a conference held by thinktank the Stockholm Network this month, minister for welfare reform Lord Freud revealed one of the proposals being considered by the review is for employers to take out IP for their staff rather than give them statutory sick pay.

He said: "Sickness absence is a kind of hidden shadow welfare system in the private sector that people have tended to ignore up to now but is deeply implicated in the rest of the system. We cannot afford to go on ignoring it."

Employers must pay statutory sick pay for up to 28 weeks. Freud said around 600,000 people a year claim statutory sick pay for between four and six weeks. At the end of a 28-week period, 300,000 move to a Government employment and support allowance, which pays because of an illness or disability.

Freud said: "Very little has been done to help those people on statutory sick pay, especially those working for smaller companies. Very little of it is insured, I think the income protection rate is about 7 per cent. The industry is taking this £8bn hit per year and we are seeing 300,000 people come on to employment and support allowance."

A DWP spokesman says: “The sickness absence review is an independent one so we cannot pre-empt the outcome or say what will be included but it is safe to say the income protection route is one of the options that could be looked at.”

The Income Protection Task Force was set up in 2006 to highlight the importance of IP to advisers and consumers.

IPTF co-chairman and CWC Research senior partner Clive Waller says: “This is the kind of radical solution that will be required both to reduce government expenditure and provide better financial protection for individuals. Moreover, the proposal recognises the leadership that the industry has shown in getting people back to work.”

But Waller adds this idea has to be picked up by the Government and needs the support of the protection industry.

IPTF co-chairman and Le Beau Visage managing director Peter Le Beau says: “It is reassuring that the subject of IP is very much on the political agenda and that new and workable ideas are being developed. We urge the insurance industry to grasp this opportunity to be a part of this important debate.”

Master Adviser senior partner and member of the IPTF executive team Roy McLoughlin says: “This is one of the most positive pieces of news to come out about IP. It suggests an advocacy either of individuals taking out IP or companies taking out group protection and almost represents a rubberstamp of IP by the Government.

“The white flag is being raised about reliance on the state to cover long-term illness with a huge arrow pointing to self-sufficiency, which basically means IP.”

In addition to the IP proposal, the sickness review will examine if the balance of costs related to sickness absence and returning people to work is appropriately shared between individuals, employers and the state. It is due to report later this year.

The DWP says around 150 million working days a year are lost due to sickness absence, which works out at an average of around six days for each worker.