

The Changing Role of the Employer in Providing Protection – the What, the Why and the How

The Protection Review Conference

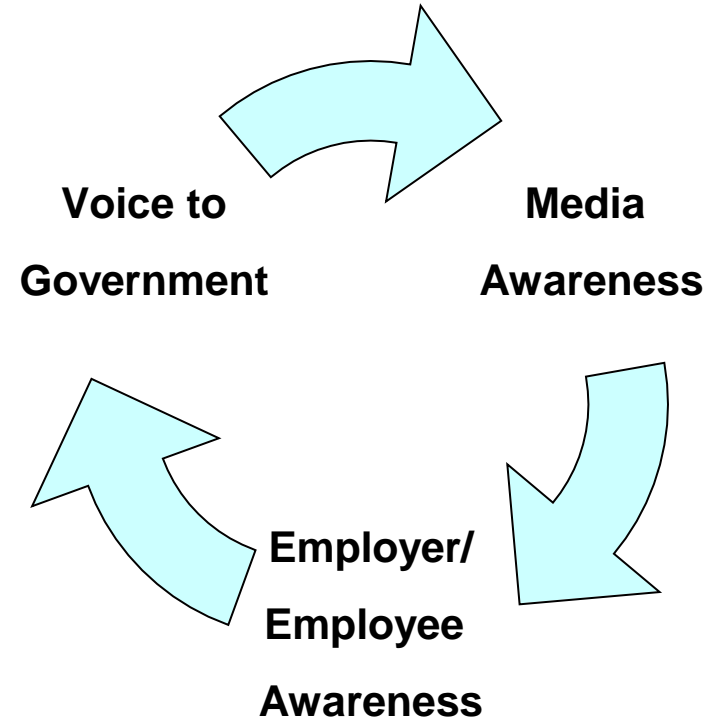
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Introduction to GRiD

- Formed in 1998
- 45 or so members
- Insurers, Reinsurers and Intermediaries
- Aims to promote & enhance status & uptake of Group Risk protection benefits



What is Group Risk?

- Umbrella Term for 3 Company sponsored benefits
 - Group Life Insurance
 - Group Income Protection
 - Group Critical Illness
- Often Insured
- Give employees access to protection
- Free or reduced cost to end user
- Fewer medical details
- Highly valued but relatively inexpensive

Group Risk Stats

The Group Risk industry provides an extensive safety net

- Through 48,000 schemes, covers 7.85 million people for life assurance valued at £860 billion (40% of all insured UK life cover)
- Through 17,500 schemes, covers 1.79 million people for income protection benefits totalling £48.37 billion (75% of all insured UK income protection cover)
- Through 2,209 schemes, covers 305,600 people for critical illness benefits totalling £19 billion

(Swiss Re Group Watch 2011 and Swiss Re Term & Health Watch 2011)



The UK Protection Gap

- **Life Assurance** £2.4 trillion (£2,400 billion) end 2010
Context (Swiss Re 2010) - half the UK adult population (i.e. around 24 million people) has a life protection gap averaging £100,000, with the greatest gaps in percentage terms among those aged between 25 and 40)
- **Income Protection** £190 billion annual benefit end 2010

Without Company Sponsored Insured Group Risk.....

Life Assurance over £3.26 trillion (£3,260 billion)

Income Protection over £238 billion per annum

(Swiss Re 2011)



Changing Landscape of Employment

Demise of Paternalism

- No jobs for life
- Less employee loyalty
- One size does not fit all
- “Nudge”
- Greater focus on need to attract and retain

GRiD Research 2010

- **38.9% of employers see no obligation to offer financial support to employees or dependants on disability or death**
- **Only 10.6% see it as their duty to offer high levels of financial support to disabled employees or bereaved dependants**
- **However, over a third of employers with group risk benefits believe they help recruit and retain key personnel**

Changing Landscape of Employment

Greater Risk Sharing

- Defined Benefit to Defined Contribution Pensions
- Compulsory to Flexible Benefits
- PMI - Cancer Drugs

Implications

- Life Assurance + Ill health early retirement (IHER) fall outside of pension scheme
- Design & Equality Act impact
- Group Critical Illness cover (GCIC) is growing on back of flex
- Strip out cancer drugs and offer GCIC?

Changing Landscape of Employment

Auto-Enrolment

- Government has recognised the pensions savings gap
- Extra money to find
- Admin burden
- Redesign

Implications

- Benefits on agenda
- Increase in flex?
- Fund purchasing protection?
- Should protection come first?

Changing Landscape of Employment

Welfare Reform

- State support is changing
- Greater personal responsibility
- Greater onus on employer to rehabilitate / accommodate

Implications

- Less amount for less time
- No longer unconditional - you must be work ready
- Are employers ready?

Changing Landscape of Employment

Longer Working Lives

- No DRA
- Extended SPA
- New working patterns

Different Needs

- Family breaks
- Flexible working
- Choice for changing needs

Canada Life Research 2011

- Only 12% of employees have a benefits package they have built themselves
- Just 3% have the flexibility to change their existing benefits
- 41% would like to be able to customise their benefits
- 52% would move jobs for better benefits
- Income protection rated as third most important benefit to employees yet only 7% have it

Changing Role of Employer in Providing Protection

- Attraction and retention
- Business continuity
- Flex
- Risk share
- Not indefinitely
- Re-emergence of personal responsibility
- Voluntary
- Diversity
- Part of a composite package
- Interaction with other benefits

So that's the "What" and the "Why" - now the "How"!

Employer Priority - Pension or GIP?

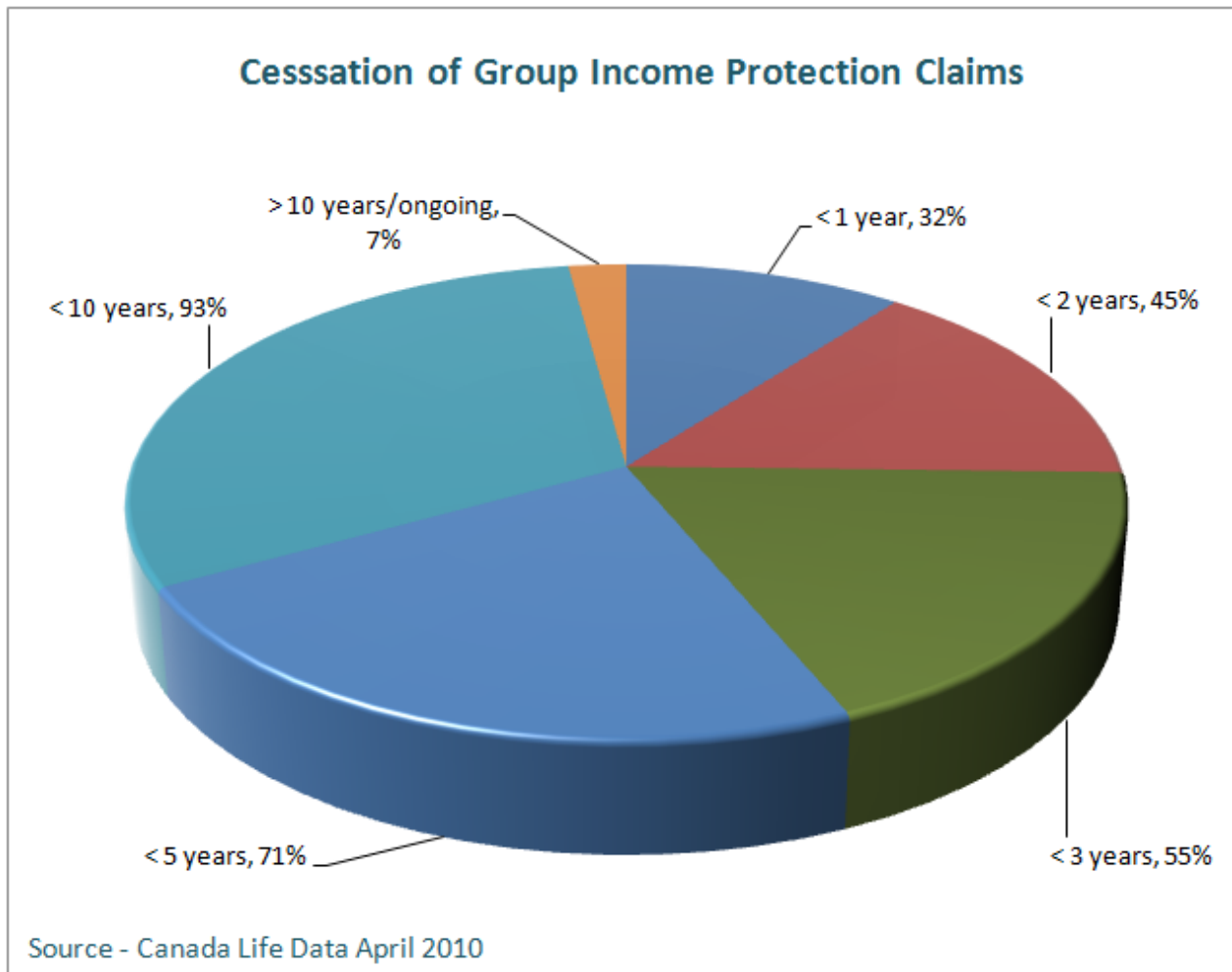
- **Alignment with pension**
 - Waiver of premium
 - Protects pension e.g. investment
 - IHER for Defined Benefit schemes
 - Other benefits continue
 - Tax and NI continue – the State still receives a contribution
- **Priority over pension**
 - Deferred income
 - Cost 15% vs 0.5%
 - Transferable vs immediate!

What GIP options are there?

Source: Canada Life

	Premium for 89 employees	% of salary	Cost per employee pa after 26% CT
Gold (75% salary to cease age + Pension Contributions + NI Contributions and escalation)	£34,291	1.2%	£285.12
Silver (Tiered with 10 Directors on Gold and 79 staff on Bronze version)	£19,271	0.68%	£160.23
Bronze (50% salary paid for 2 years without pension conts, NI or escalation)	£7,366	0.26%	£61.24

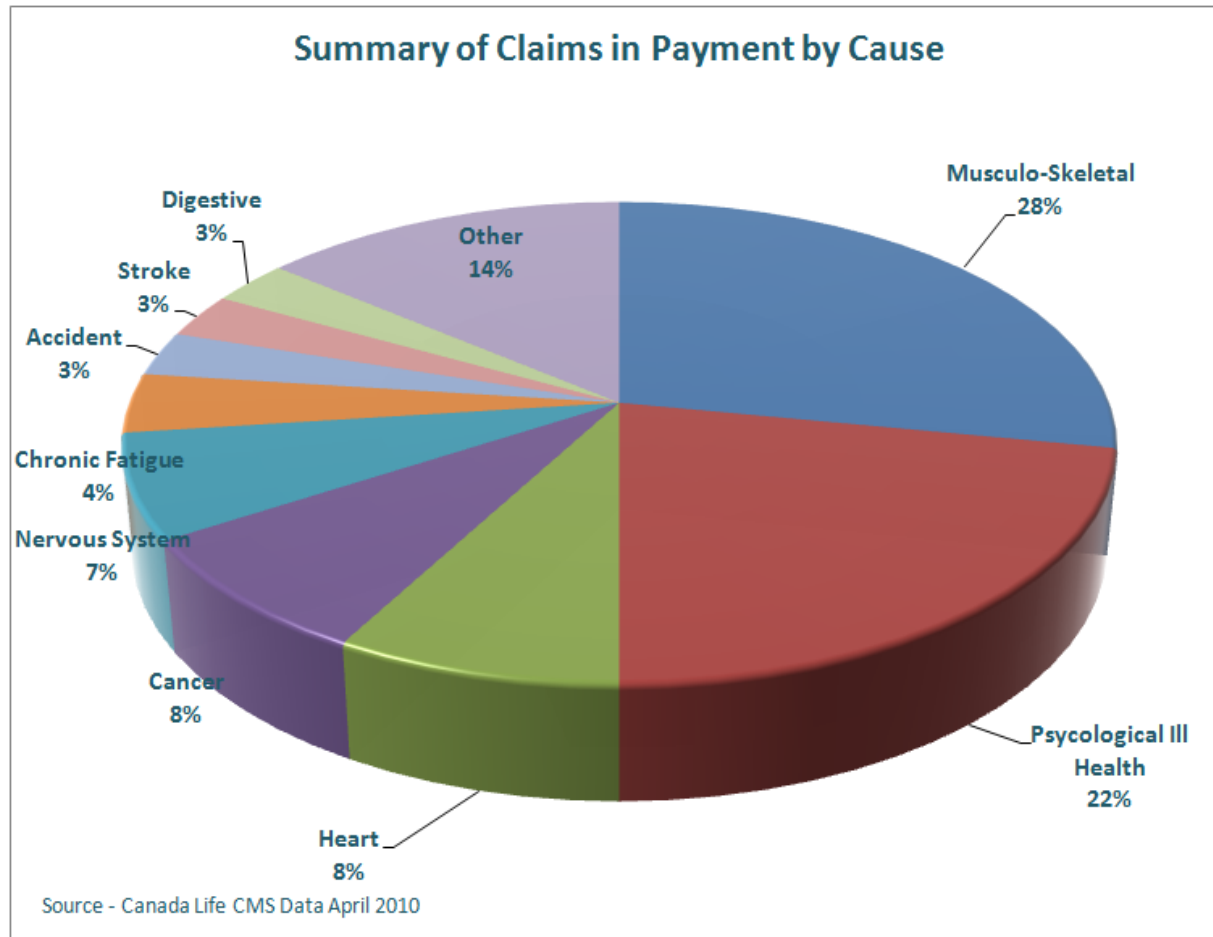
Why long term?



Other things to consider

- Lump sum option
- Inclusivity - free cover/non-selection limit
- Value adds
 - Employee Assistance Programme
 - Employer Assistance Programme
 - Second diagnosis services - impact on private medical costs?
 - And more...
- Outsourced vocational rehabilitation

How would an employer manage?



Advise on all products/options

Source: Canada Life

Level of cover	Group Income Protection	Group Critical Illness	Group Life	Cost
1 Star	<ul style="list-style-type: none"> • 50% salary – ‘ESA + WRAC’ • 26 week deferred period • 2 year limited payment period • Own occupation 	<ul style="list-style-type: none"> • £10,000 for core illnesses 	<ul style="list-style-type: none"> • £10,000 	<p>Total £9,060 Cost per employee pa £110</p>
3 Star	<ul style="list-style-type: none"> • 75% - ‘ESA + WRAC’ • 5% Pension Scheme Contributions • 26 week deferred period • 3 year limited payment period + 2x salary capital option • Own occupation 	<ul style="list-style-type: none"> • £20,000 flat benefit for core and additional conditions 	<ul style="list-style-type: none"> • 2x salary 	<p>Total £33,630 Cost per employee pa £400</p>
5 Star	<ul style="list-style-type: none"> • 75%- ‘ESA + WRAC’ • 12% Pension Scheme Contributions + employer NI Contributions • 13 week deferred period • Payable to age 65 • Own occupation 	<ul style="list-style-type: none"> • 3x salary for core + additional conditions • Children’s cover - £20,000 • Permanent Total Disability cover for ‘Own’ occupation basis 	<ul style="list-style-type: none"> • 4x salary and 25% salary Death In Service Pension for Directors 	<p>Total £84,762 Cost per employee pa £1,010</p>

Individual or Group?

Source: Canada Life

