Futureproofing workplace health

Scaling up the impact of protection and health insurance

November 2023

A WPI Economics report for ABI

WPI ECONOMICS

Contents

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Executive Summary

The UK faces a labour shortage that is exceptional by the standards of other developed economies and by recent history. In contrast to many other developed economies, its labour supply has not returned to where it was prior to the pandemic.[1] A major driver of this shortage is record high levels of ill health related inactivity.

Overall, labour shortages are a significant drag on growth, as well as one driver of sustained levels of inflation. Tackling ill health related inactivity is already at the forefront of the Government's agenda. However, current proposals are mainly aimed at returning those already out of the labour market to work and on occupational health (OH) take-up by employers. While these measures are important, this report argues that these are narrow in focus, and there is a need for a much broader package of policy interventions which improve workplace health and stem the flow of people into long-term inactivity.

A key part of this wider picture is health and protection insurance, particularly for ensuring that effective workplace health support can be provided to SMEs and their employees.

Figure 1: Health and protection insurance

Health and protection insurance is designed to keep people healthy, happy and in work

Protection insurance:

- Life insurance and critical illness cover pay a lump sum in the event of death or critical illness. Policies sometimes include cover for terminal illness.
- Income Protection replaces a proportion of a worker's salary if they fall out of work because of illness or injury.

Health insurance:

- Insurance to cover the costs of independent healthcare.
- Health cash plans repay the costs of healthcare.

Most health and protection insurance cover is provided through the workplace under 'group' or 'corporate' schemes (referred to as 'group' here). Many individuals also purchase insurance cover.

Health insurance is well known for providing swift access to independent healthcare. Protection insurance on the other hand is known for providing financial security when something bad happens, but it also offers a range of independent health services.

These health services aredesigned to support good health and productivity for employers, individuals, and their families.

Health services available through health and protection insurance

Preventing and treating mental health and musculoskeletal conditions is a priority for health and protection insurers and so they offer:

- Talking therapies, CBT and counselling support aim to tackle stress and anxiety as well as acute conditions.
- Physiotherapy, including consultations and referrals.
- Occupational therapies, functional capacity assessments, and specific workplace support for severe illnesses such as cancer.
- Virtual GP services and Employee Assistance Programmes.
- A range of preventative services including fitness and nutritionist support.

There are some services specific to different types of product:

- Income protection insurance is designed to help manage workplace absence and often offers vocational rehabilitation to keep people healthy and in work.
- Health insurance offers access to, or funding towards, a range of in-patient and out-patient services. These range from diagnosis to treatment, and comprehensive support for the treatment of severe illnesses such as cancer.

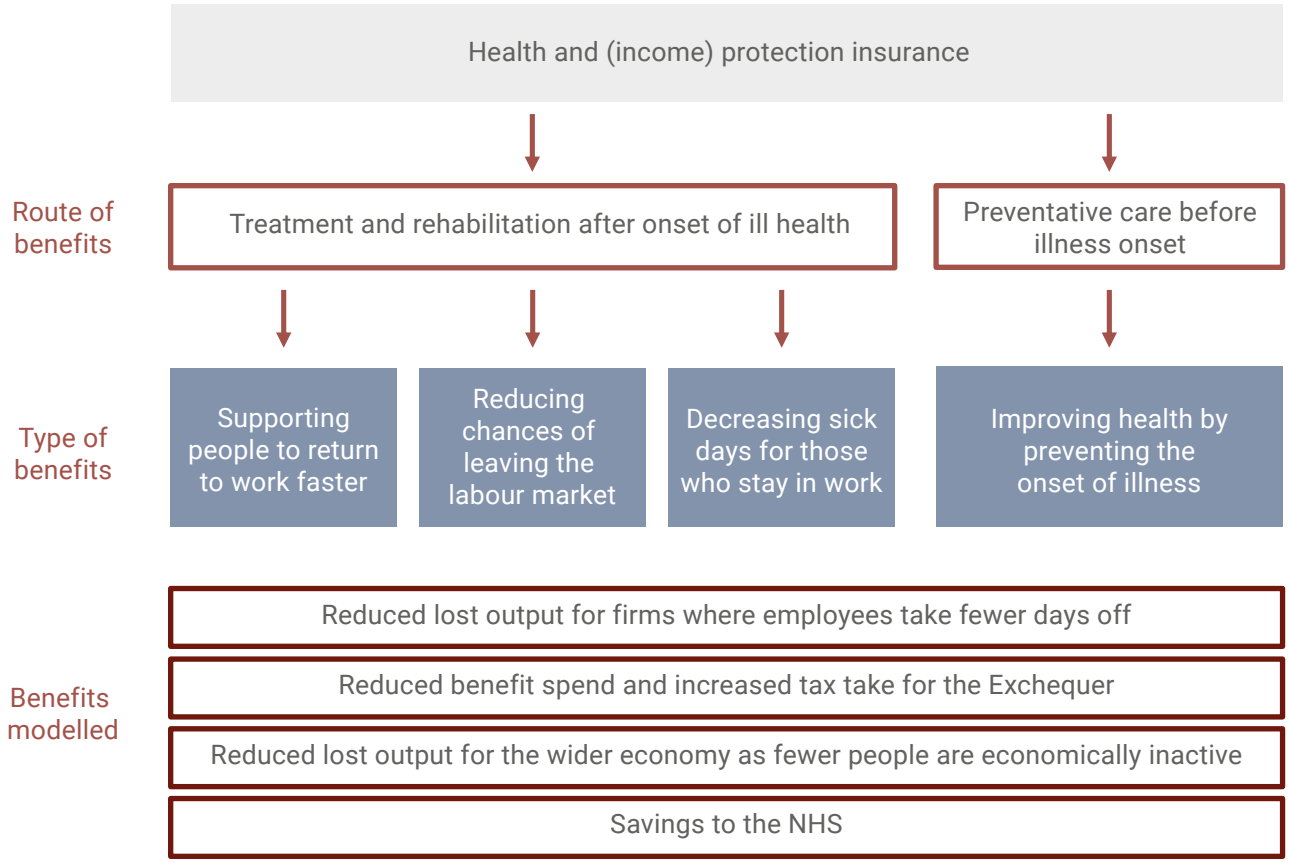
Source: ABI[2]

In fact, insurers are already making a major contribution towards reducing the length and frequency of long-term sickness absence and ensuring that people do not drop out of the labour market altogether, therefore maintaining the supply of labour. ABI data helps to quantify this impact for the first time:

- In 2021, **over 1.6 million people used the health services available to them through insurance**. This encompasses services for prevention, early care, diagnosis, treatment, recovery, and support. These customers **used the services 5.5 million times in 2021**, 3.5 times per person on average.
- An analysis of around 16,000 vocational rehabilitation cases found that **nearly 9 in 10 (86%) people remained in the workforce** following access to rehabilitation services through insurance.[3]

To understand the value of the health benefits provided through health and protection insurance this report quantifies the economic value of this contribution based on the following logic model.

Figure 2: Health service benefits logic model



Source: WPI Economics analysis

We find that in 2021, services provided by insurers:

- **Increased labour supply by an equivalent of 12,500 FTE workers due to fewer people in that year leaving their job** because of their health. If we include workers who received support and so stayed in work in the previous 5 years, the total additional labour supply is the equivalent of over 40,000 FTE workers.
- **Reduced long-term sickness absence by around 14 million days**.
- **Overall this leads to benefits equivalent to £6.1bn**.
    - Benefits to business equal to value of the reduction in lost output associated with sickness absence days, which amounts to £2.6bn.
    - The wider economy also benefits from fewer people being economically inactive to the sum of £2bn.
    - Alongside these, fiscal benefits to the Exchequer of £1.5bn come through higher tax receipts and reduced benefits spend.

Additionally, we estimate savings to the NHS at £1bn per year; money that could be re-invested in improved health and social care.

This report outlines a range of policy options that could be used to deliver a significant increase in the take-up of insurance over the short- to medium-term. This includes:

- **Reforming Statutory Sick Pay (SSP)** - creating a stronger safety net underpinned by more support for employers. The experience in the Netherlands suggests that higher levels of sick pay can strengthen the employer incentive to invest in workplace health, as well as improve safety nets and deliver fiscal benefits.
- **Ensuring that any incentives for OH support employer choice** - so that they can deliver better workplace outcomes in a way that makes sense for their workforce. Insurance is one key part of the workplace health landscape, and greater take up can help deliver the Government's objectives to reduce sickness absence and health related inactivity. It should not be overlooked in favour of a singular focus on OH.
- **Reforming the interaction between benefits and insurance to reduce disincentives** - to ensure that the self-employed, particularly low and median earners, can protect themselves from the financial impact of long term sickness absence.
- **A long-term roadmap to deliver mandatory health at work disclosures** - to drive company and investor actions to improve health support for the workforce.

In particular, these interventions are aimed at boosting insurance take-up among SMEs and the self-employed, where policy has previously failed to shift the dial.

We hope these measures could double take-up over five years and lead to additional benefits to business, economy, and the Exchequer worth £800m in the first year alone. By the fifth year, this would mean 165,000 more people in work, as well as saving 28m days of sickness absence. Combined with the existing impact of insurance-provided services, total benefits would be around twice as large as the current benefits, at around £12.2bn.

In the long term, we believe that it should be the Government's ambition to ensure that every worker has access to financial and practical support to help them manage their health and return to work quickly should they need to take time off due to illness or injury. In turn, this would mean that all employers need access to workplace health solutions, including insurance, which helps them manage ill health among their workforce, reduce sickness absence, and limit flows into long-term inactivity. Delivering on this could involve some form of mandation, although this is a long-term ambition given the scale of the challenge and complexities around delivery.

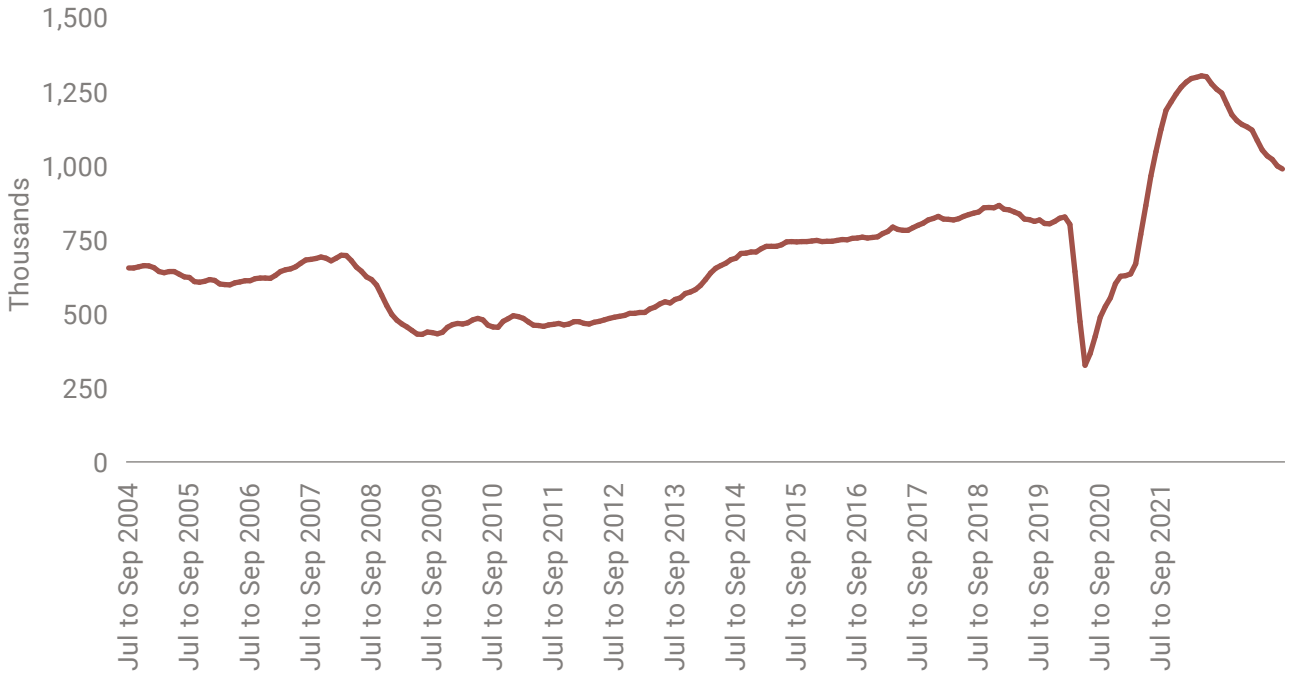
Ultimately, recognising the role of insurance, alongside other tools, is a key prerequisite to progress in this space. The insurance industry stands ready to work in partnership with government to address the challenge of workforce health.

CHAPTER 1 Introduction

Three of the biggest barriers to economic growth in the UK are the shortage of labour, levels of workplace ill health and the significant level of health-related economic inactivity.

On the first of these, data on labour shortages from the Office for National Statistics (ONS) makes clear the challenges that firms face in being able to hire the workers that they need. While vacancies are beginning to fall, the total number remains very high.

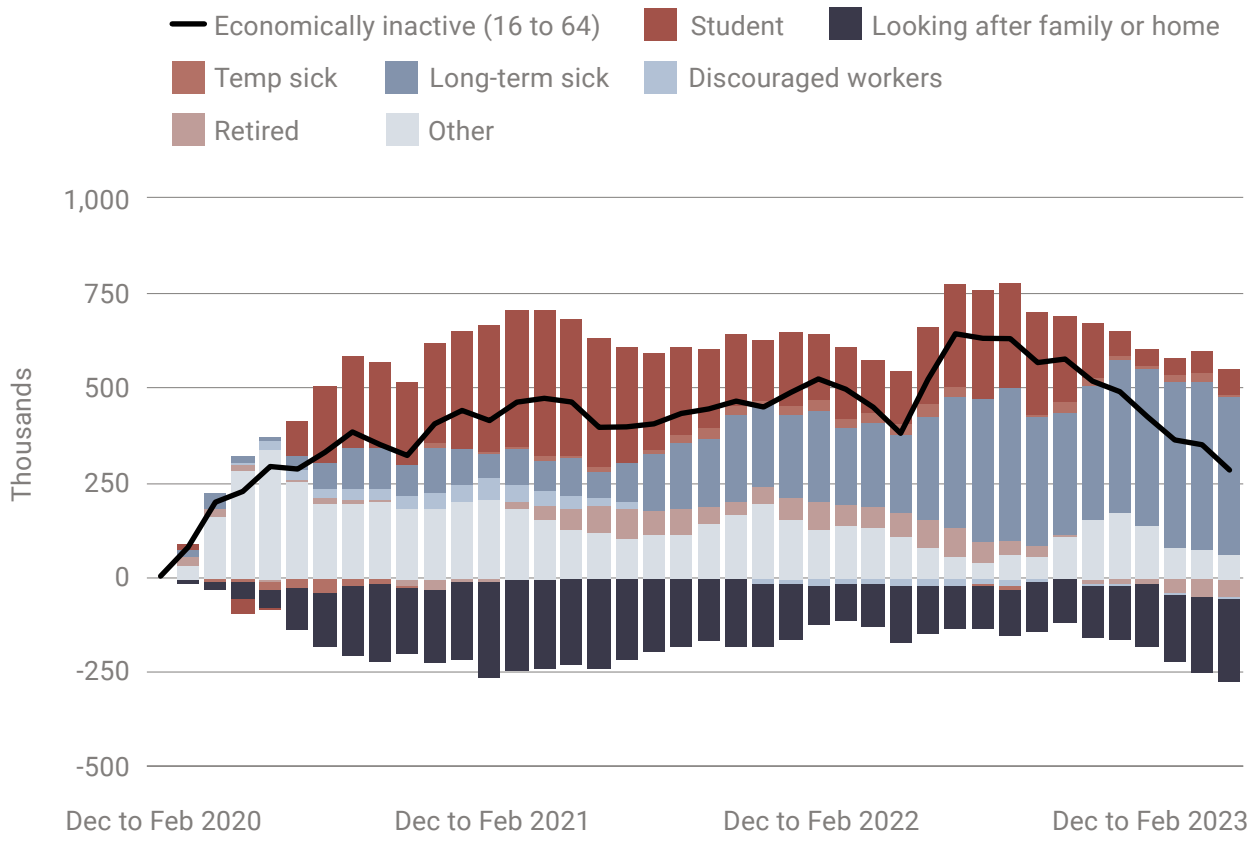
Figure 3: Vacancies in UK economy (thousands)



Source: ONS[4]

A key driver of this is stubbornly high levels of economic inactivity. The most recent data shows that economic inactivity remains substantially above pre-pandemic levels, with the long-term sick making up the overwhelming majority of this. The overall costs of this level of economic inactivity to the economy and Exchequer are significant and sit alongside the considerable harm to living standards and wellbeing of those directly affected.

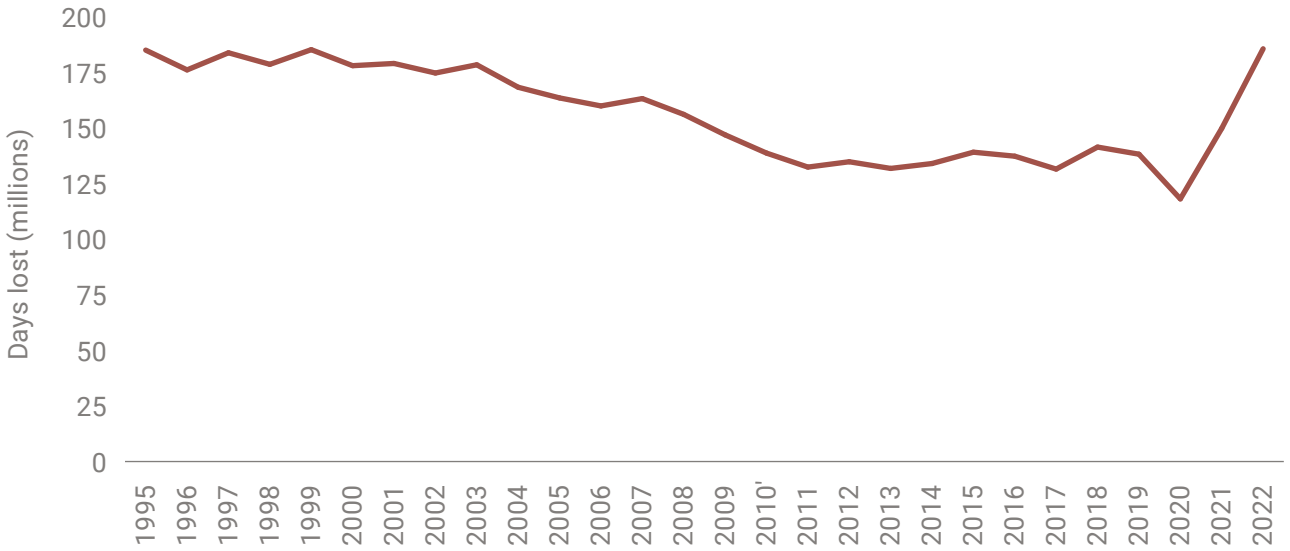
Figure 4: UK economic inactivity by reason, people aged 16 to 64 years, seasonally adjusted, cumulative change from December 2019 to February 2020, for each period up to May to July 2023



Source: ONS[5]

The third challenge is the fact that, even when vacancies are filled and employees are in place, workplace health in the UK is poor and appears to be getting worse. Data from the ONS shows that 186 million working days were lost to sickness absence in the UK in 2022 – a record high.

Figure 5: Record high sickness absence



Source: ONS[6]

With these challenges in mind, it is encouraging that the Chancellor has recognised the importance of ensuring businesses have the healthy workers they need to thrive and grow, stressing this in the Budget in March 2023. To this end, the Government has put in place a number of policies designed to boost labour market participation, including around pensions and childcare. In addition, a package of reforms was set out to modify disability benefits to provide better support and encourage more disabled people to consider or take steps to return to work.

As with previous governments, this signals a focus on supporting people who have been economically inactive for a long time due to health reasons back to work. Whilst this focus is welcomed and vital for ensuring that opportunities to work are provided to everyone, there has been limited success in helping this group back into work in the past. There is a high risk of similar outcomes with the current proposals when considered alongside pressures on the UK's healthcare services.

That's why we believe that the Government must focus its attention on prevention and reducing the flow of people into inactivity.

Thankfully, there are some signs that the Government is moving in this direction. It has recently published a raft of evidence on sickness absence and is consulting on changes to how the take-up of occupational health support can be improved.

Whilst this is positive, we believe that this approach must go both further and faster. Discussions with practitioners and experts undertaken in this report highlighted that although assessments provided through OH can add value, they are only one part of the picture in addressing health-related absence. This is because they are focused on developing a plan to tackle an issue that has already become significant, can take time, and do not provide the early help that many employees will need to remain in work or return to work quickly (even before the need to move to OH). That's why insurance and associated services also play a crucial role in supporting return to work for those who begin a period of absence, as well as reducing instances of sickness absence in the first place. Overall, this suggests that the Government's consultation and wider work in this area need to take a broader view of the interventions and support required to improve workplace health and stem the flow of people into health-related inactivity.

This report assesses one part of what is needed - insurance, with a particular focus on how SMEs can be encouraged and supported to do more (some 61% of the workforce are employed by businesses of fewer than 250 staff).[7] It shows how protection and health insurance are already an important part of the picture, and the potential benefits of an increase in take-up of these products. It goes on to show how such an increase could be made a reality.

CHAPTER 2

The role of insurance in work and health policy

The interaction between work and health has been a longstanding policy challenge in the UK. Previous governments have made a range of commitments and targets around reducing sickness absence and the flow of individuals onto long-term inactivity and disability benefits, but policy has not shifted the dial. A bigger role for protection and health insurers could help to drive progress in this space, and this section discusses its role within the extensive work and health picture.

Policy to support workplace health - the present and recent past

This section considers a range of recent and existing features of the UK's work and health policy landscape which, in different ways, have attempted to address its shortcomings and improve the retention of those unable to work due to ill health.

Fit for Work and Workplace Health Connect

In 2015, the Government introduced the 'Fit for Work' service to improve access to OH for those beginning a long-term period of sickness absence to support a return to work. The service allowed GPs and employers to refer an individual to a free occupational health assessment if they had been absent from work for four weeks or longer. In many cases, this was followed up with a return to work (RTW) plan for the employee and employer.[8]

While feedback from some of those who used the service was positive, it was marred by extremely low take-up rates by employers and GPs, with just over 600 referrals a month in all of England and Wales. According to the evaluation, *"Attempts to market to SMEs directly were generally unsuccessful, not least because for most SMEs long-term sickness absence was not a current issue and many General Practitioners (GPs) or other healthcare professionals who referred clients to the pilots did not distinguish between employees of large or small workplaces. Indeed, the evidence is that the pilots tapped into a demand for their services from employees in large workplaces."* As a result, the service was scrapped in 2018.[9]

The Government's Workplace Health Connect pilot showed similar issues in being unable to engage employers. This service offered an advice line as well as site visits to SMEs to improve overall levels of workplace health. This also struggled with low levels of take-up, finding that *"SMEs tend to not view sickness absence (short- or long-term) as a problem in their organisation."*[10]

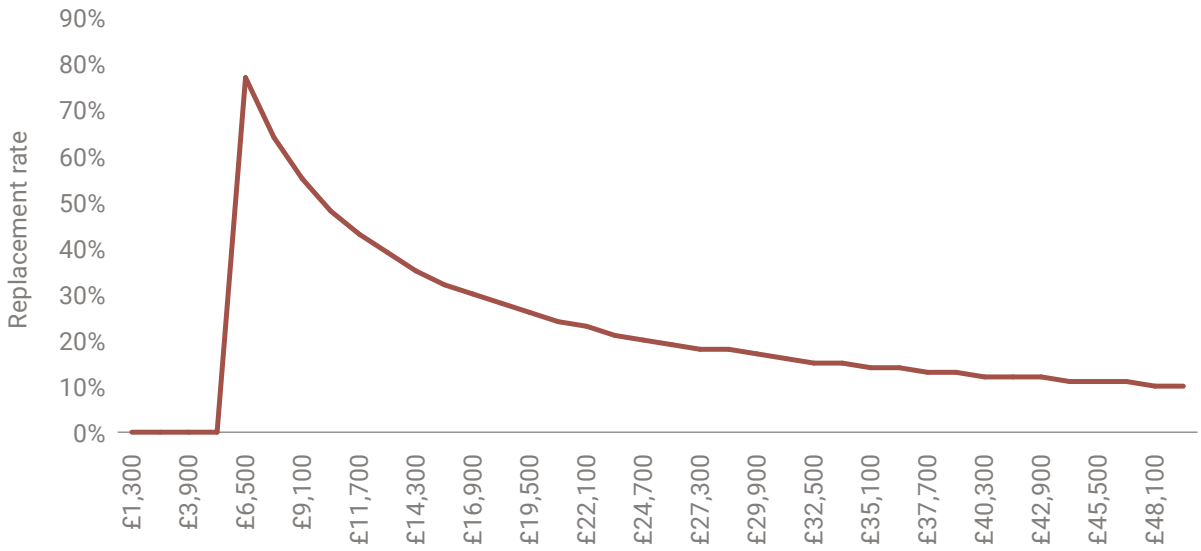
Ultimately, these initiatives failed because employers did not take up the service, even though support was freely available. This highlights the need to ensure employers have the incentive to engage in workplace health to address levels of sickness absence so that they take the time to realise the potential benefits of available services when they are cash- and resource-constrained.

Statutory Sick Pay

Statutory Sick Pay (SSP) was a landmark reform when introduced in the 1980s, for the first time creating a financial link between employers and their employees' health. It remains largely the same policy as when it was introduced, while the disability benefits landscape has changed radically in the same period.

The generosity of SSP in the UK is exceptionally low by international standards, paying a flat rate of £109.40 per week. This means that SSP provides a very low replacement rate for most earners. Once someone starts earning £18,000 a year or more, around the rate of the minimum wage for someone working full time, their replacement rate on SSP would be around 30% when they receive the full rate.[11]

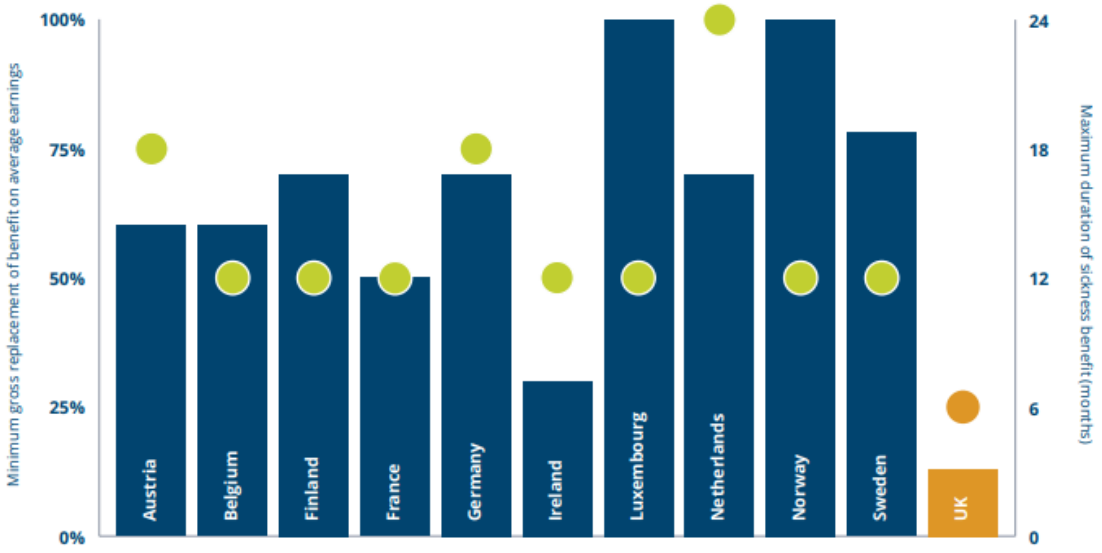
Figure 6: Replacement rate under SSP



Source: WPI Economics analysis

In addition, 'waiting days' mean an individual receives no SSP for the first three days of their absence. Overall, this means that in the first week of payment, SSP is paid at an equivalent rate of £1.10 per hour for a full-time worker. It is little surprise that more than half of people on SSP (52%) live in poverty.[12]

Figure: 7: Comparison of sickness protection in developed countries



Source: OECD and Unum

This means that unless an employer provides additional Occupational Sick Pay, many people would have a very limited safety net from their employer in the event of sickness absence. In addition, current low levels of sick pay result in higher spending on means-tested benefits as people's income drops below the threshold for Universal Credit entitlement during periods of absence. Finally, it also limits the incentive for employers to invest in preventing sickness absence, such as through OH or insurance solutions, as the direct costs of sickness absence to the employer are small.

The Government has acknowledged the weakness of the UK's SSP system while also asserting in 2021 that "now is not

the right time to introduce changes to the sick pay system."[13] Instead, government is focusing on how it can leverage the OH market to help support employers to have a more proactive approach to workplace health.

Occupational health

Reforms to OH are being considered as a route to improving the retention of workers in the labour market. A government consultation[14] has set out proposals which include:

- Introducing voluntary measures, including a national health at work standard for employers and a baseline for quality OH provision.
- Addressing low take-up of OH provision amongst employers across the UK through examining successes both in the UK and internationally.
- Working to develop OH workforce capacity to support the sector to rapidly build a sustainable, multidisciplinary workforce that can meet an anticipated increase in demand for OH services.

There is a strong case for many of these measures. Our stakeholder engagement as part of this report identified the same issues around the immaturity and lack of standardisation in OH provision at present. However, many have highlighted that these proposals focus too much on OH as a specific discipline rather than the broader range of tools that can deliver better workplace health and return to work outcomes. OH often only provides an assessment, whereas service and interventions are also needed to both support return to work outcomes and provide earlier support to ensure that many employees do not need to take time off in the first place.

Given that this is the case, it is surprising that income protection and other insurance do not feature in the Government's proposals to address workplace health challenges. Insurers offer interventions such as vocational rehabilitation, a whole range of preventative services and, in the case of income protection, provide a crucial financial safety net which can all support workforce health. This is a substantial oversight that has been recognised by the Work and Pensions Select Committee, which has rightly highlighted that government should *"explore how income protection insurance could work alongside occupational health as a joined-up approach to promoting workplace health."*[15]

The added value of insurance

Protection and health insurers already play a significant role in supporting workplace health in the UK. Insurance policies purchased by employers, such as health insurance and group income protection, offer prevention and early intervention services and support for a wide range of common, acute, and long-term conditions.

They also provide specific support for improving workplace health and reducing long-term sickness, including occupational health services, vocational rehabilitation, and health services that target key reasons for sickness absence early on.

Health insurance gives employees fast and easy access to treatment for a wide range of conditions. This immediately minimises time off work, and by treating conditions earlier, it also reduces the risk of escalation into more serious conditions that then cause people to fall out of work for prolonged periods.

Vocational rehabilitation provided through income protection utilises a biopsychosocial approach. This is important in the context of workplace health because it means looking at a case from all angles, including health alongside personal and workplace factors, to reach the best workplace outcome. It also involves a dedicated case manager to help an individual stay in or return to work, including early intervention to prevent issues worsening. Early symptoms are typically treated with less resource-intensive support, and high-intensity support is provided for worse symptoms. This type of early intervention often prevents the need for more substantial interventions down the line and is generally viewed as the optimal way to allocate resources.

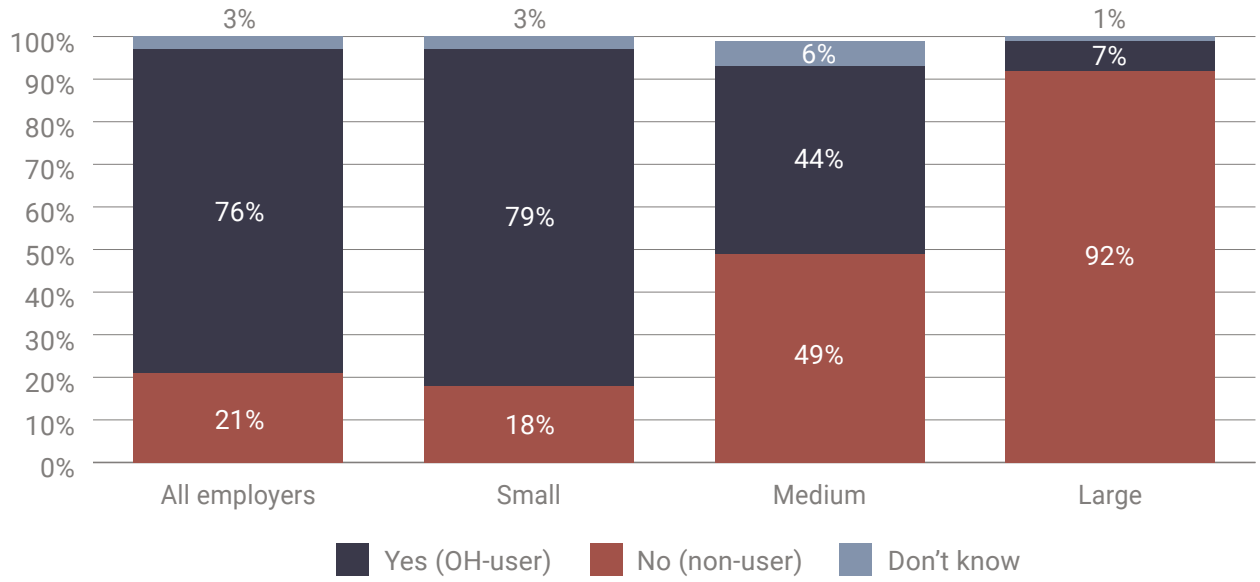
While not in the scope of this report, life and critical illness insurance policies, often offered through the workplace, also provide mental health support, Employee Assistance Programmes (EAPs) and GP services.

The following section sets out the unique contribution that could be made by a policy response underpinned by health and protection insurance.

Supporting workplace health at SMEs

SMEs make up around 60% of the UK's workforce. As a result, any attempt to shift the dial on improving return to work rates for those who are absent for health reasons must consider how to increase the level of workplace health support for those employed at SMEs.[16] Research by Ipsos Mori for the DWP and DHSC shows that SMEs are substantially less likely to make use of OH than larger companies.[17]

Figure 8: Provision of OH services by employer size.



Base (unweighted): All employers (2,564), small employers (1,457), medium employers (584), large employers (523).

Source: Ipsos MORI[18]

Boosting take-up of workplace health solutions at SMEs will require more than one delivery model. Protection and health insurers typically package a range of services available to SMEs and their staff as part of a monthly premium, such as remote GPs, Employee Assistance Programmes (EAPs), and treatments such as physiotherapy. Discussions with intermediaries in the market suggest that insurance is increasingly being sold on the basis of these health services, in addition to any financial benefit. Many, if not all of these services, help to prevent, reduce, and manage sickness absence. Ultimately, for an SME, paying to access many of these services through a single premium will likely be a compelling offer from an administration and cost perspective.

Ultimately, for a small business, paying to access many of these services through a single premium is likely to be a compelling offer from an admin and cost perspective.

Health insurance is a low administration product, not requiring employers to put in place significant HR infrastructure, and so is likely to be attractive to many smaller employers. Furthermore, the confidential nature of health insurance means that employees may be more likely to access treatment earlier and, therefore, stop conditions worsening. This is particularly true for illnesses that are potentially stigmatising, such as mental ill health.

In addition, the fact that 90% of Group Income Protection (GIP) policies belong to SMEs helps demonstrate the product's potential in driving better workplace health among these businesses. Currently, around one-third of GIP policies cover businesses with fewer than 10 workers.[19]

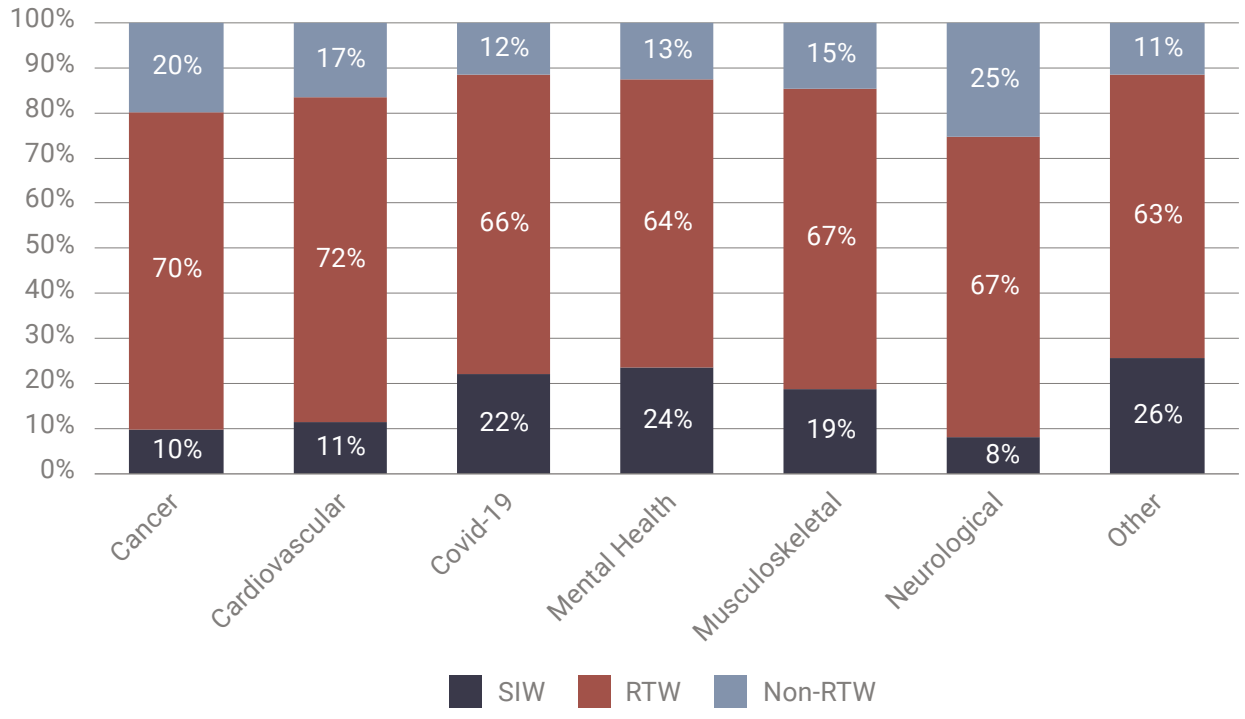
As a result, insurance as a route to boosting access to workplace health interventions should not be overlooked by policymakers in favour of a singular focus on occupational health.

Supporting take-up of vocational rehabilitation

There is significant evidence supporting the effectiveness of vocational rehabilitation[20] as a way to help return people to work, particularly for musculoskeletal conditions. This evidence was summarised by Gordon Waddell and Kim Burton in 2006[21] and has subsequently been confirmed by further studies.[22] A key feature of vocational rehabilitation is that returning an individual to work is identified as the key health outcome rather than strictly treating a specific condition or illness. This again draws from previous work by Waddell and Burton on the benefits that work presents to health.

Income protection insurers are one of the main routes of access to vocational rehabilitation in the UK. Data on over 16,000 vocational rehabilitation cases collected by the ABI helps to shed light on the performance of these types of interventions at scale. We can see that the majority of those who use vocational rehabilitation return to work (RTW) or stay in work (SIW). This remains consistent across a range of conditions, including musculoskeletal, mental health, cancer and cardiovascular. The dataset also shows that the largest proportion of people accessing vocational rehabilitation (38%) were aged 35-49. Nearly a third (31%) were over 50 years old, and a quarter (25%) were 25-34.[23]

Figure 9: Return To Work outcomes by condition



Source: ABI[24]

Given the evidence base supporting vocational rehabilitation in improving RTW outcomes and the extent to which access to vocational rehabilitation is linked to income protection take-up, policy should look to support income protection as a means of increasing access to vocational rehabilitation and boosting retention for those absent for health reasons.

Ensuring there is a financial safety for the period that people cannot work

Even with the best preventative support and early intervention, some people who become ill will need to take a period of sickness absence to recover. Insurance can provide treatment and financial support to people during this time and then support them back to work when they're ready. To give an example, a cancer patient may need to take time off work to receive treatment and recover from their illness. During this time, their income protection policy would pay them a monthly amount related to their salary. Then, once the individual has finished treatment and is well enough to return to work, vocational rehabilitation would become available to support them back into the workplace.

Whilst the focus of this report is health outcomes, the financial security provided by income protection is its primary benefit. ABI stats show that in 2022, 22,500 income protection claims were paid, worth around a total of £780 million.[25] Increasing take-up of income protection can help strengthen the financial safety net for more people and ensure they have economic security while they recover from illness. Without a safety net, any loss of income, or feared loss of income, runs the risk of causing an individual's mental health to deteriorate.

Quantifying the benefits

The next section quantifies some of the benefits delivered by protection and health insurers and how these accrue to the taxpayer, business, and wider economy. It then goes beyond this to ask what the benefits would be if we managed to increase take-up of protection and health insurance even further.

CHAPTER 3

The value of health and protection

The scale and impact of insurance

Data collected by the ABI suggests that in 2021, 1.6 million people accessed health services through insurance 5.5 million times. These services will be accessed by both policyholders and family members who are covered by the policy, including children and older relatives.

Policyholders and extended beneficiaries can access a whole range of different health services depending on the type of policy. These are summarised in the box below:

Box 1: Health services available through health and protection insurance

Preventing and treating mental health and musculoskeletal conditions is a priority for health and protection insurers and so they offer:

- Talking therapies, CBT and counselling support aim to tackle stress and anxiety as well as acute conditions.
- Physiotherapy, including consultations and referrals.
- Occupational therapies, functional capacity assessments, and specific workplace support for severe illnesses such as cancer.
- Virtual GP services and Employee Assistance Programmes.
- A range of preventative services, including fitness and nutritionist support.

There are some services specific to different types of products:

- Income protection insurance is designed to help manage workplace absence and often offers vocational rehabilitation to keep people healthy and in work.
- Health insurance offers access to, or funding towards, a range of in-patient and out-patient services. These range from diagnosis to treatment and comprehensive support for the treatment of severe illnesses such as cancer.

Source: ABI[26]

Where do the benefits come from?

By providing access to preventative and rehabilitative services and financial support when experiencing a health-related loss of income, insurance can reduce both the amount of time that people need to take off work and the chances that someone who is long-term sick will need to exit the labour market because of their health.

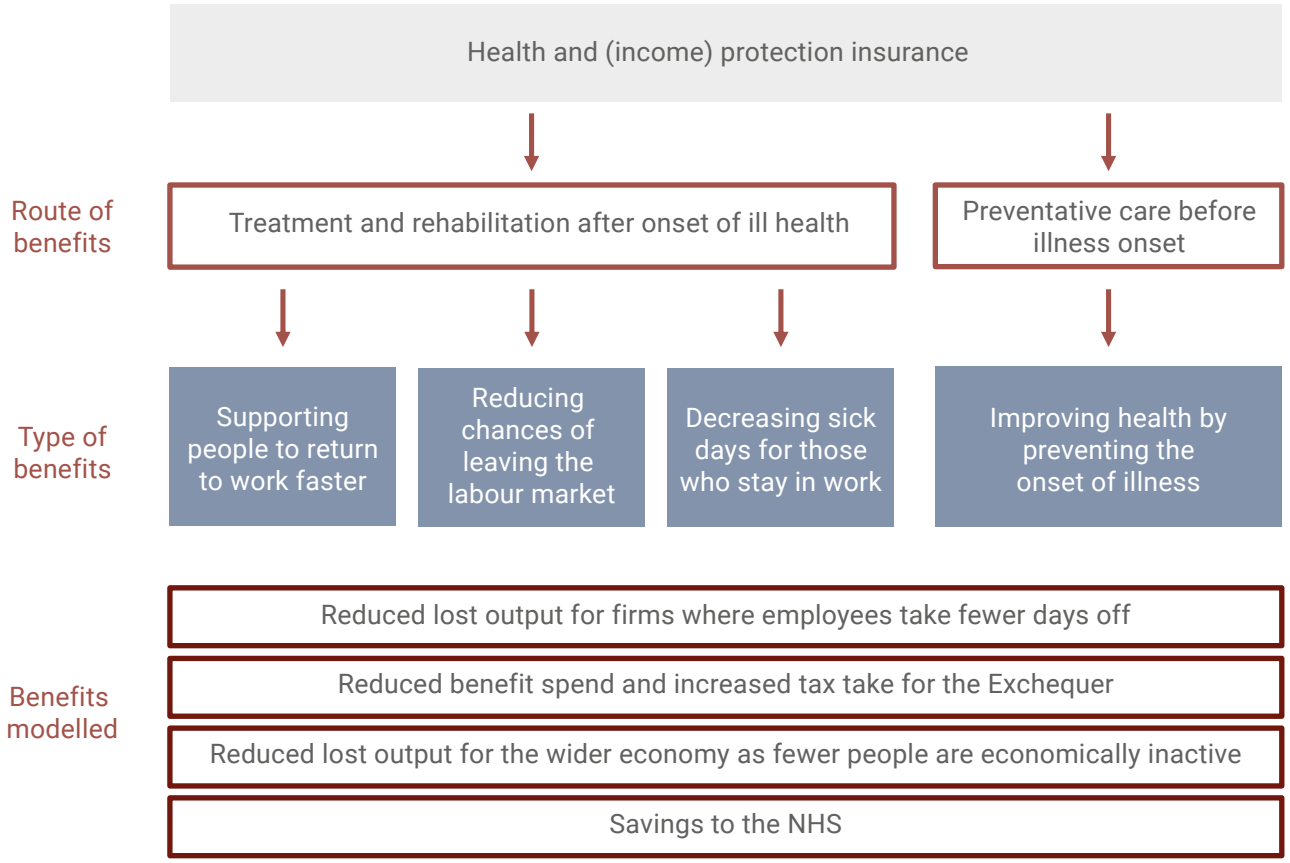
The primary beneficiaries of these impacts are the individuals themselves. Their health is better in both the short- and long-term, and they are less likely to experience both short- and long-term reductions in living standards. However, there are also broader benefits to this:

- For employers who, as a result of lower levels of health-related absence, see lower lost output;
- For the Exchequer, who sees lower benefit claims and higher taxes;
- For the NHS, where improvements in health lead to lower costs for those supported by insurance-provided services; and

- For the broader economy that, as a result of fewer people being economically inactive, sees lower lost output.

This is summarised in figure **10** below.

Figure 10: Logic model of the impacts and benefits associated with access to services available from health and protection insurance



Source: WPI Economics

It is important to note that the benefits to the wider economy and Exchequer increase over time. This is because when people are supported to remain in work, rather than moving onto long-term social security, the benefits are felt over subsequent years, as well as the year in which the support was provided.

Of course, there are also broader benefits than this, including increased peace of mind and lower strains on family finances, which all come with a range of financial and wellbeing benefits. Whilst potentially significant, these are not modelled here.

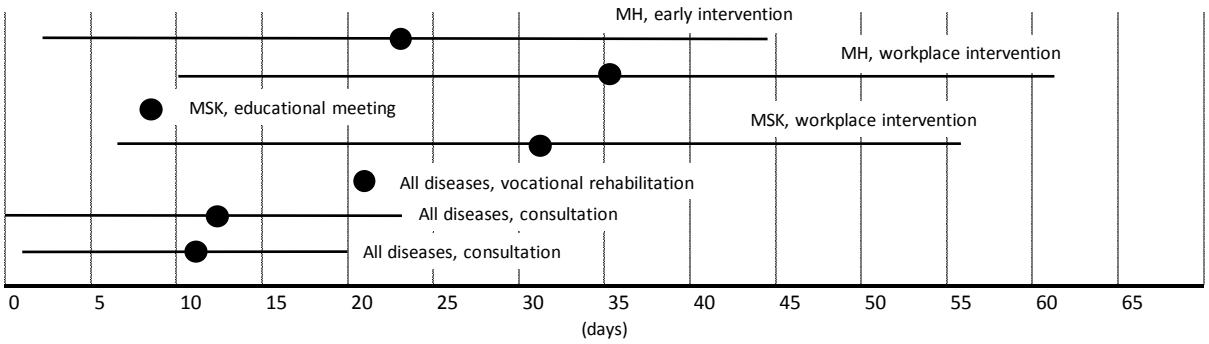
To translate these conceptual benefits into tangible estimates of their value, we have used evidence from the ABI on the coverage of health and protection insurance and the success they have in supporting people who receive health-related services through insurers to stay in and return to work. To understand the difference that these services make compared to those without access to them, we have developed a range of assumptions based on a wide range of evidence of the effectiveness of both preventative and rehabilitative health services. The range of estimates is demonstrated on the following page, and the key assumptions used in our modelling are shown below.

Estimates of the benefits below are the mid-point of the central and low estimates, with a further cautious assumption that the overall benefits are half that identified in the existing literature. This ensures that we have conservative estimates of the overall benefits.

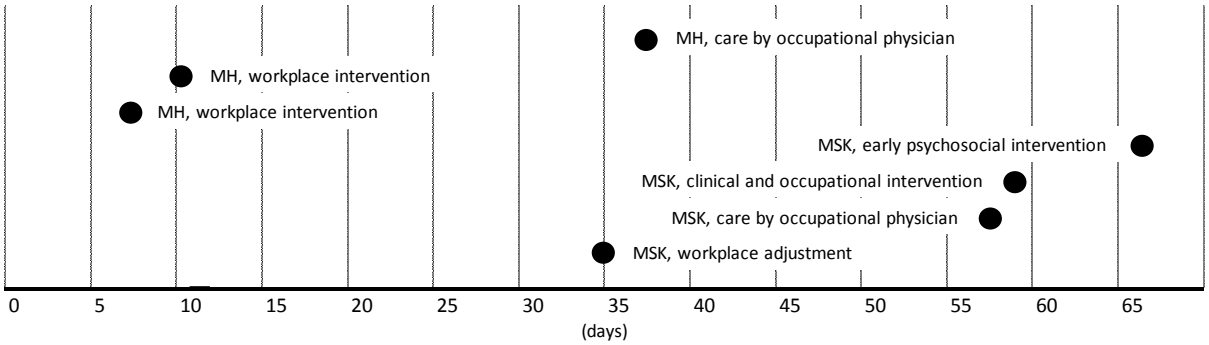
Table 1: Existing literature used in benefit calculations

Policy	Applies to who?	Existing literature
Fewer days off sick because of preventative care	Those who receive preventative care services from insurers	Central: 15-42 day reduction depending on condition type Low: 1-11 day reduction depending on condition type
Speedier return to work for those needing to take time off	Those who have needed to take time off sick and would have been likely to return to work in the absence of insurance	Central: 19% - 54% improvement in time to return to work depending on condition type Low: 3% - 9% improvement in time to return to work depending on condition type
Reduction in likelihood of leaving work because of health for those with long-term absence	Those who have needed to take time off sick and would have **not** been likely to return to work in the absence of insurance	Central: 28%-31% increase in return to work Low: 20% increase in return to work

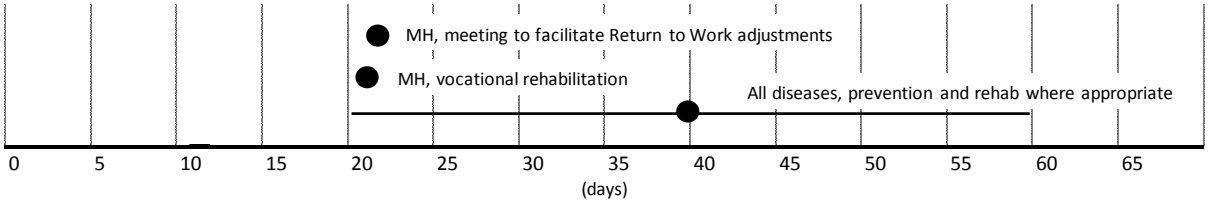
Sickness absence estimates



Time until Return to Work estimates



Return to Work rate



We find that in 2021, services provided by insurers:

- **Increased labour supply by an equivalent of 12,500 FTE workers as a result of fewer people in that year leaving their job** because of their health. If we include workers who received support and so stayed in work in previous years, the total additional labour supply is the equivalent of over 40,000 FTE workers.
- **Reduced long-term sickness absence by around 14 million days**.

Using these assumptions and the findings from the literature, we estimate that **in 2021, the value of benefits from health and protection insurance amounted to £6.1bn**. These were split between businesses themselves, the Exchequer, and the wider economy.

- **Benefits to businesses were valued at £2.6bn** from a reduction in lost output related to sickness absence and lower recruitment costs as a result of fewer employees leaving the workforce.
- **Benefits to the wider economy were valued at £2bn** from a reduction of people having to leave the labour market because of their health and workers supported to stay in their jobs in previous years, continuing to be in employment.
- **Benefits to the Exchequer were valued at £1.5bn** from a combination of reduced benefit claims and increased tax receipts.

Given these findings, it should come as no surprise that increasing the coverage of health and protection insurance would lead to very significant benefits. Overall, we find that if take-up of health and protection insurance were to double over a five-year period, potential overall benefits could amount to £800m in the first year alone. By the fifth year, this would mean 165,000 more people in work, as well as saving 28m days of sickness absence. Combined with the existing impact of insurance-provided services, total benefits would be around twice as large as the current benefits, at around £12.2bn.

Estimates of the NHS costs of sickness absence and health-related inactivity is a relatively poorly developed area of research. For example, existing estimates from the Government rely on a range of simplifying assumptions. This is clearly an important area where insurance-related services provide significant savings to the Exchequer by directly substituting for services that would otherwise have been needed through the NHS, as well as indirectly, by improving health in a way that reduces demand for NHS services.

A full estimate of these costs is beyond the scope of this report. Instead, we have updated and adjusted the existing approach taken by the Government. Based on the impacts on sickness absence and avoidance of long-term absence provided in this report, we estimate that **NHS costs for those supported would be some £1bn higher without the presence of insurance**.

CHAPTER 4

Policies to futureproof workplace health

The previous sections have set out the important role that protection and health insurance plays in society and the dividends that could be delivered by further boosting take-up. This section sets out policy options that could deliver a larger role for the health and protection insurance sector in helping to deliver against the macro challenges society faces, particularly labour market participation and workplace ill health.

A long-term approach

As a society, our ambition should be that the majority of workers have access to financial and practical support to prevent and manage periods of sickness absence and return to work as quickly as possible. In turn, this means employers having access to workplace health solutions, including insurance, which helps them to manage ill health among their workforce, reduce sickness absence, and limit flows onto long-term inactivity. To ensure that we move towards this situation and can reap the financial, economic, and societal benefits that would accrue from it, the Government should set this as its long-term goal for the economy.

In practical terms, given the challenges outlined above, delivering on this will take time and significant policy change. As others have previously highlighted, one way of delivering on this would be to consider a form of mandation (as seen in other countries) or auto-enrolment. Ultimately, when considering OH, health, or protection insurance, there are a number of considerations around delivery which make these different propositions to auto-enrolment in pensions. One consideration is the different ways the product is taxed and the implications these have for the employer and employee. In addition, there is a question as to how to design employee contributions if these are part of an auto-enrolled model. Furthermore, inertia plays a very different role in the context of health-related services where active engagement by the employee is needed. As a result, mandation may be a long-term option, but a range of policy design considerations need to be addressed first.

Delivering benefits today

There are significant benefits attached to short- to medium-term policy reforms that support the take-up of health and protection insurance over the next decade to ensure they play a larger role in protecting the health and financial security of our workforce and delivering economic and social benefits.

There are a range of different options that could deliver on this goal. To help navigate through these choices, we have developed a policy decision-making framework to guide our assessment of different policy options for boosting take-up. This is drawn from a range of discussions with stakeholders and ABI members. The criteria we have used for judging the effectiveness of a policy are summarised in the table below:

Table 2: Policy decision making framework

Criteria	Description
Overall workplace health impact	Does the intervention help to incentivise and support employers to invest in the wellbeing and health of their staff?
Fiscal impact	Does this save or cost the Exchequer money?
Business benefit	Do employers benefit from this intervention?
Broad support	Can this intervention receive broad support, including from across the political spectrum?

Source: WPI Economics analysis

We then assess each potential intervention according to their likely impact against these criteria based on the best available evidence. The following section uses a colour coding scheme, which is explained below:

Very positive	Somewhat positive	Neutral	Somewhat negative	Very negative

If successful, all these options will increase insurance take-up and, in turn, the demand for services to support workplace health and wellbeing. This means that as consideration of these options (and potential longer-term reforms) is taken forward, it will be critical for the Government to work with industry, the NHS, and employee representative bodies to ensure there is a long-term pipeline of skilled workers to deliver workplace health solutions, fulfilling the skills needs of public healthcare, OH, as well as insured solutions.

Applying the framework

This section applies these criteria to a set of different policies which have been considered as ideas to support a greater role for protection and health insurers and improving employer engagement with workforce health generally.

Tax incentives

One longstanding idea for increasing take-up of health and protection cover has been to incentivise take-up through the tax system. This could come in a range of reforms, such as an employer's NICs incentive for purchasing GIP, removing or reducing Insurance Premium Tax (IPT) on health insurance products, or expanding Benefit in Kind treatment for certain types of insurance.[27] The Government has assessed the use of tax incentives to boost take-up of OH as part of a consultation in mid to late 2023.[28]

The broad proposition of using tax incentives to boost protection and health take-up is considered against the framework below:

Policy	Overall workplace health impact	Fiscal impact	Business benefit	Broad support
Tax incentives				

Previous research with employers by the Social Market Foundation (SMF) found cost was the primary reason preventing take-up of protection and health products by employers.[29] As a result, there is a case to say that any incentives which can reduce the cost would help to boost take-up and, in turn, positively impact workplace health. In addition, by reducing the costs to businesses of investing to support their staff, tax incentives would provide a clear business benefit.

Tax incentives also have an upfront negative fiscal impact by reducing tax revenue. They result in an initial 'deadweight' loss, whereby those already using insurance in absence of the incentive now pay less tax once in receipt of the incentive. While this may be recouped by increased take-up over time, this is uncertain and may depend on large increases in

take-up depending on how the incentive is designed. It is for this reason that tax incentives tend to be unpopular with government, with tax treatment for health and protection products having worsened over the years, such as through changes to salary sacrifice.[30]

As we have set out, government is considering using very limited tax incentives to support greater OH take-up. Given the importance of insurance products for delivering workplace health and as routes to similar services, our recommendation is that government should ensure that any incentives introduced to support OH should also support protection and health insurance take-up.

Reform to SSP

As we have discussed, SSP in the UK results in low replacement rates for those unable to work for health reasons, high taxpayer costs on benefits, and limited employer incentives to invest in workplace health. As a result, increasing the level of SSP (i.e., to National Living Wage) and widening the entitlement (by removing waiting days) has been put forward as a potential mechanism to boost support for those absent for health reasons and deliver a range of other economic and fiscal benefits.[31] The table below assesses these against the framework.

Policy	Overall workplace health impact	Fiscal impact	Business benefit	Broad support
SSP reform				

Higher rates of sick pay in the Netherlands have helped to drive greater insurance take-up which, in turn, improves workplace health.[32] This is because the employer has a much greater incentive to engage with the health of their staff to reduce their sick pay bill. Reducing sickness absence would, in turn, reduce spending on benefits and so have a positive fiscal impact.

In the short term, wider SSP entitlement and an increased rate would increase costs for business. As a result, there may be hesitancy in political and stakeholder support for increasing SSP – indeed, the Government recently made clear it was not currently committing to higher SSP. To be implemented successfully, any increase in SSP would need to be wrapped up with additional financial support for business so they can invest in the workplace health solutions they need to support their staff.

Mandatory disclosures

Mandating firms to disclose their social impact is a tool used by policymakers to drive company behaviour change. The UK Government, along with others around the world, has mandated that firms disclose their climate impacts alongside Transition Plans to address their contribution to global warming. This supports responsible investors to engage with firms to support and incentivise them to transition towards net zero carbon emissions. A similar approach to leveraging investor stewardship to drive social outcomes can be seen in pay gap reporting.

Some initiatives have explored creating a metric for how well employers support the health and wellbeing of their staff. For example, worker health is one component of Share Action's Long-Term Investors in Peoples' Health (LIPH) initiative, which supports responsible investors to engage in companies' approach to health.[33] This initiative, supported by The Health Foundation, aims to ensure that health becomes a core component of Environmental, Social and Governance (ESG) frameworks, and that investors incorporate health into their asset management approach.[34]

Building on work such as this, government could work with investors to develop disclosure frameworks which help to show how employers are supporting workplace health. In turn, this could help further support responsible investors to engage with their investees to improve their approach to employee health.

Policy	Overall workplace health impact	Fiscal impact	Business benefit	Broad support
Mandatory disclo-sures				

This proposal could help to galvanise improvements in workplace health in the longer term and at no fiscal cost to the Government. The proposition may create an initial compliance cost to firms; however, it also could deliver business benefits through improved productivity and reductions in absenteeism and presenteeism. It has the potential to attract broad support as it goes with the grain of current initiatives around ESG.

Universal Credit and Individual IP reform

Personal cover also has a role to play alongside group cover in boosting access to both financial protection and health services. This is particularly, but not exclusively, important for self-employed people who are unable to access workplace cover and may have low levels of financial resilience.

There is a long-standing issue by which take-up of Individual Income Protection (IIP) is penalised in how it interacts with Universal Credit (UC). Because any money claimed from IIP results in UC being withdrawn on a £1 for £1 basis, as it is treated as unearned income, this acts as a disincentive for low to middle earners to take up IIP. Research from the New Policy Institute in 2019 suggested that 39% of all current IIP policyholders would face their entire entitlement to UC (absent them having IIP) being removed if they claimed on their IIP policy. They also found that two-thirds of IIP policyholders earn between £10,000 and £40,000 per year, disproving the idea that these products are just for the middle classes and high earners.[35] Anecdotally, it should be acknowledged that there has been little evidence since UC's introduction of entitlement being withdrawn due to IIP claims.

It has been proposed that this issue is addressed by reducing the taper rate to the same as earned income in universal credit, which is 55%.

Policy	Overall workplace health impact	Fiscal impact	Business benefit	Broad support
UC and IIP reform				

This policy could help boost take-up of IIP by reducing real or perceived disincentives to lower- and middle-income policyholders, particularly the self-employed, who may otherwise be financially vulnerable. The policy would represent a business benefit as it would result in greater access to return to work services, which deliver benefits to business as per our economic analysis, while only coming at a cost to individuals rather than firms. At present, the issue is widely recognised by industry but not yet addressed by government.

Summary and conclusions

This report has set out the significant prize that could be achieved from boosting take-up of protection and health cover in delivering a range of benefits and helping government achieve its target of improving labour market participation. Based on our policy analysis, we propose a short- to medium-term package of measures to help strengthen access to health and protection cover. This includes:

- Reforming SSP, including by increasing the rate and removing waiting days, creating a stronger safety net underpinned by more support for employers.
- Ensuring that any incentive framework for OH also supports employers to deliver better workplace outcomes through insurance.

- Reforming the interaction between benefits and IIP insurance to reduce disincentives for low and median earners.
- Ensuring that more employees are aware of any health benefits that they have access to – including by making the day one benefits statement an annual event and better utilising the mid-life MOT. A movement towards mandatory health at work disclosures to support investors to drive change among employers.

The social and economic dividends attached to take-up of health and protection cover create an imperative for bold and transformative action to broaden access to this kind of support. In the longer term, it is critical that government, industry, employers, and broader stakeholders work together to ensure a basic level of workplace health support for the vast majority of people.

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