**Employee benefits**

**Andy Couchman **

Swiss Re data shows that 2014 was another good year for long term group risk insurers. Indeed, it was a record year in many ways.

That said, the sector is not without its issues and there are some at least who look at every new set of sales data with fingers firmly crossed.

Given the breadth of the market and its growing importance to policymakers as well as other stakeholders (including everyone in the individual market, who is now looking at EB for hints and tips as to what it should do to achieve significant growth) I first sought out the views of group risk guru and consultant John Gillman.

*“I have grouped my comments under a number of key headings:*

***Auto-enrolment***

*There was concern that automatic enrolment would possibly lead to the winding up of group income protection (GIP) schemes where eligibility for GIP was linked to eligibility for pension, hence increasing the cost of its provision. Latest figures for scheme membership do not, however, indicate that this has happened to any great extent.*

*So far, auto-enrolment has been declared a success with far fewer employees (approximately 9%) opting out than was expected. This success has encouraged discussion as to whether automatic enrolment would be appropriate for health related benefits.*

*Small and micro employers are now approaching their staging dates. An employer survey conducted by The Pensions Regulator in November 2014 revealed that more than 20% of those due to stage between June and November 2015 had not yet drawn up plans to meet their duties. However, eight in ten smaller medium and small employers had consulted an adviser or intended to do so. In order to help, in March this year the Regulator has launched a new online 11-step guide to help small businesses[[1]](#footnote-1).*

*A positive view of all this is that developments in the pension’s space can prompt employers to consider other employee benefits and may open up new consulting opportunities. Whether auto-enrolment could ever be applied to GIP is another matter. It is difficult to see this happening in the short term give the sheer volume of work it would impose on employers so soon after the pensions exercise. And the insurance industry would have to be enthusiastic in stepping up to the plate for this with a coordinated enthusiastic strategy. This does not appear to be happening at the moment.*

***The benefits and employment landscape generally is changing***

***Statistical data on employment[[2]](#footnote-2)***

*In 2014, there were 5.2 million businesses in the UK of which over 99% were small or medium sized (i.e. employing 0-249 people).About five million of these were micro-businesses (employing 0-9 people) and they accounted for 33% of employment and 19% of turnover.*

*The service industries accounted for 73% of businesses, 79% of employment and 70% of turnover. The manufacturing sector accounted for 5% of businesses, 10% of employment and 16% of turnover. In 2013 there were 346,000 business births and 238,000 business deaths.*

*Since 2000, the number of businesses in the UK has increased each year, by around 3% on average. In 2014, there were 1.8 million more businesses than in 2000, an increase of around 51% over this period. This is the first time ever that there have been more than five million businesses in the UK (an increase of 330,000 since 2013).*

*The proportion of businesses that employ people has fallen since 2000 from around a third, to around a quarter. This decline in the number of employers as a proportion of all businesses is due to the growth in self-employment: the number of sole proprietorships (businesses with no employees) has grown faster than the number of all businesses.*

*The number of businesses with no employees has grown by 68% since 2000, compared with growth of 51% in the total number of businesses.*

***The benefits landscape***

*The Chartered Institute for Personnel and Development has pointed out that increasingly, benefits are no longer regarded solely as a retention tool. Research indicates that there are many factors in an organisation’s employment proposition and that what makes them attractive might depend on the individual employee’s circumstances (such as age or caring responsibilities). This has led to the concept of ‘total reward,’ i.e. that organisations should adopt a bundle of mutually supporting financial and non-financial rewards (such as flexi-time or home working) that are aligned to the needs of the organisation and its employees. Such an approach has led many employers to regard employee benefits as a strategic tool to assist with employee recruitment and retention and/or align employee behaviours with business objectives.*

*Flexible benefits have proved extremely popular. Research conducted in 2012 indicated that 52% of employers had either implemented or were in the process of implementing a flex scheme[[3]](#footnote-3). According to research among HR professionals carried out in 2014, 81% of respondents claimed their organisation offered some form of flexible benefits. Of those not offering such arrangements, 25% claimed to be considering offering it within the next 12 months.[[4]](#footnote-4)*

*Not every employer-facilitated option is delivered via a formal flexible benefits scheme; there are many freestanding options as well. For example, retail discount vouchers can (it is claimed) save careful shoppers up to £1,000 in the course of a year. Similarly, childcare vouchers have proved very popular and carried significant National Insurance advantages (which are now under threat). Added to the mix have been plans involving the purchase of iPads, smartphones and bicycles (through Cycle2Work schemes)[[5]](#footnote-5). There was also a report recently of employees valuing and asking for upskilling and literacy support rather than a wellness programme[[6]](#footnote-6).*

*Most of these non-core voluntary benefits are marketed on the premise that they are relatively inexpensive as far as the employer is concerned offer immediate perceived benefits to employees. Their value is not contingent upon the happening of a usually unpleasant insured event.*

*Conventional benefits such as GIP have, therefore, have had to compete with numerous alternative methods of improving employee engagement.*

***Other important trends and indicators***

***Age demographics***

*Recent figures confirmed that government labour-market policies, such as the Age Discrimination Act of 2006 and the Equality Act of 2010, have enabled older workers to stay in the labour market longer. Two thirds of the increase in employment since May 2010 has been among those aged 50 and over. Younger workers meanwhile experienced the biggest drop in employment during the recession and have not yet recovered to pre-2008 levels. A recent report found that young people might be held back by a lack of ‘employability’ skills including literacy, numeracy and self-management and that a positive proactive approach to work was lacking. Attitude and ability appeared to hinder them more than age. [[7]](#footnote-7)*

*An increasing number of employees intend to work past what was previously a Normal Retirement Date – some because they do not want to retire but many others because they simply cannot afford to. More than three in five (61%) UK employees expect to work beyond the traditional retirement age of 65. A survey by Canada Life Group Insurance reveals that more than one in five (22%) workers say that they will ‘definitely’ continue to work as they get older.*

*Only 12% say that they would not work past the age of 65 under any circumstances, a sign that working beyond the age of 65 is fast becoming the norm for a majority of people. According to the research, with the UK facing an ageing workforce, employers will need to adapt the working environment accordingly to meet the requirements of an older workforce. Younger respondents are most likely to believe that they will work past 65. Sixty nine per cent of those aged between 21 and 30 believe they will work after 65 compared to just 50% of those aged 50-60.*

*Almost nine in ten respondents (88%) cite money worries as the reason they are likely to work past 65. A third (32%) say their pension savings will not be sufficient to fund retirement while 14% feel unprepared for retirement and are unsure how long their money will last. More than one in ten (14%) believe they cannot rely on a state pension.*

*One effect is the impact on employee health. For example, GRiD research conducted in 2014[[8]](#footnote-8) found that one third of respondents reported that, overall, their workforce was getting older. Importantly for the health perspective was the finding that over a quarter believed that they had seen an increase in absence due to age related conditions (such as diabetes and arthritis).*

*Overall, other implications include:*

* *Possible increases in the cost of health-related insurances. Research conducted in 2014 suggested that 43% of respondents expected higher costs[[9]](#footnote-9).*
* *The need to revisit traditional benefit structures (such as continuation of cover until retirement age).*
* *Changing employee attitudes to the value of benefits with 48% of employers planning to offer more choice[[10]](#footnote-10).*

*Research among employers conducted in 2014[[11]](#footnote-11) indicated that well-being and productivity strategies are also firmly in the spotlight, with some industries positively encouraging older employees to stay on for their knowledge and experience. This provides a strong wellness business case focusing on the initiatives, tools, governance, communications and reporting strategies required to deliver a successful model. Introducing proactive health screening programmes around preventative and chronic disease management may become part of an overall integrated health and wellness strategy.*

***No more ‘jobs for life’***

*The ‘paternalistic’ approach to employee benefits and welfare was often linked to the likelihood of an employee staying with the same employer (or at least in the same profession) for their entire working career. An employee could therefore see the value of a pension related to service and other benefits (such as life insurance) that protected the family in the event of death.*

*Nowadays (and for probably the last three decades) we have tended to change jobs more frequently since the benefits heydays of the early1970s. Average employment tenure in Britain was just over eight years in 1992 and was still the same in 2002. Average tenure for men rose between 2004 and 2011 from about 8.5 years to just over nine years in 2011. For women over the same period it rose from seven years to just over eight. The UK has for some time had the shortest average job tenure in Europe.[[12]](#footnote-12)Interestingly, in 2002 Greek workers had the longest tenure in Europe of nearly 13 years (no surprises there). Median tenure in the United States in January 2014 was 4.6 years.[[13]](#footnote-13)*

***The growth of self-employment (and businesses with no employees)***

*As has already been noted in the employment statistics above, the self-employed community has been growing rapidly. Some commentators have cited this as an example of the economy not doing very well – people losing their jobs or unable to find employment and therefore taking refuge in self-employment.*

*The picture is somewhat more complicated than this. It has been pointed out that[[14]](#footnote-14):*

* *Self-employment growth in the last five years has mainly come from the ‘professional’ class segment. This demonstrates a shift from the manufacturing to the service industries where survival in self-employment is less difficult.*
* *The increasing sophistication of technology enabling working from home or in a variety of environments (without the need for additional support).*
* *People are leading longer and healthier lives – the number of over-65s in self-employment has expanded by 140% since 2000, more than double the rate of any other age group.*
* *There has been a baby boom – births in 2012 were the highest in 40 years and many parents are seeking the advantages of flexible working, which self-employment can bring.*

*Some estimates suggest that self-employment could exceed the public sector workforce by 2018.*

***Attraction of self-insurance***

*For employers with large workforces, self-insurance of GIP can make sense. The Equality Act 2010 (and its precursor the Disability Discrimination Act 1995) forced employers to ensure that they made ‘reasonable adjustments’ in the workplace to accommodate any employee (or potential employee) with a disability. This resulted in a more focused approach to health risk management (often in partnership with both in-house and outsourced occupational health professionals). After quantifying the risk related to long -term sickness absence some organisations decided that this could be managed in-house without the costs associated with insurance. If fact, any employer who meets sickness absence costs out of payroll is self-insuring but they would not necessarily describe it as such.*

***Employee over-optimism***

*Research indicates that employees tend to be over-optimistic both as to what the State or their employer will provide if they are unable to work for a long period[[15]](#footnote-15). People generally also underestimate the likelihood of long-term incapacity even though it is much more likely than death before age 65.*

***Group income protection market penetration***

*One way of investigating how well traditional health-related insurance benefits have been seen to meet employer needs over the years is to look at published statistics such as numbers of covered lives and number of schemes in force. The periods chosen endeavour to compare pre-recession years (the years up to and including 2008) and post-recession periods.*

*It is important to remember, however, that the recession was unusual because there was not a big rise in unemployment. In 1984 unemployment peaked at 11.9% and in 1993 it reached 10.7%[[16]](#footnote-16). During the most recent downturn the peak was 8.5% in 2011 (it is currently 5.7%).*

*The following table sets out the number of GIP schemes in force between 2005 and 2014[[17]](#footnote-17):*

***Group income protection insurance***

***Number of schemes (thousands)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *2005* | *2006* | *2007* | *2008* | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* |
| *19.5* | *19.0* | *18.9* | *18.6* | *17.8* | *17.5* | *17.3* | *17.2* | *17.2* | *17.1* |

*Numbers of schemes declined steadily from about 19.5 thousand in 2005 but steadied at just over 17 thousand from 2011 onwards. In other words, almost 2.5 thousand schemes have closed over a nine-year period. The main culprit seems to have been the effect of the recession on small businesses, with scheme numbers declining steadily from 2008 onwards.*

*Here is a table setting out the number of covered lives over the same period[[18]](#footnote-18):*

***Group income protection insurance***

***Numbers of lives covered (millions)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *2005* | *2006* | *2007* | *2008* | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* |
| *1.68* | *1.73* | *1.72* | *1.76* | *1.78* | *1.79* | *1.83* | *1.96* | *2.03* | *2.08* |

*Membership numbers have enjoyed a steady climb from 1.68 million covered lives in 2005 to 2.08 million in 2014 (the climb continuing even through the early recession years).*

*This must be put into the perspective, however, of a working population of approaching 30 million. Even taking into account the fact that many employers self-insure, this is disappointingly low penetration.*

*The GIP figures are doubly disappointing because of the incredible efforts insurers have been making in expanding their offering from merely a commoditized insurance product to a valuable risk management tool.*

*For example, alongside the GIP Scheme employers often also have access to:*

* *Employee assistance programmes*
* *Absence management services*
* *Limited term payment arrangements*
* *Speedily arranged cognitive behavioural therapy*
* *Financial incentives to encourage early intervention*
* *Direct payment of benefits to claimants*
* *Support packages and help lines for employees*
* *Absence management assessment services*
* *More streamlined underwriting procedures*

*Often these are available at no extra cost and can be very successfully integrated with an employer’s existing health strategies such as occupational health.*

*Insurers have also moved to recognise the need and value of limited payment policies as well as the need to encourage the inclusion of Income Protection as part of the flexible benefits menu.*

***The future***

*Employers have been facilitators of benefits for decades, and this role is set to continue and increase in importance as organisations try to tailor benefits to play a key part in improving individual employee engagement. Evidence for this can be seen in the growth of flex and the success of a wide range of relatively new benefit options.*

*For insurers this means, inter alia, the end of the old automatic demarcation lines between 'Group' and 'Individual' business. In their marketing strategies, insurers must now look at, and segment, the working population in a more sophisticated fashion. ‘Number of employees’, for example, is no longer a useful segment definition (if, indeed, it ever was).*

*These trends do not herald the end of the importance of insurance in employee benefit strategies. On the contrary, they open up fresh opportunities:*

1. *The growth in self-employment and micro-businesses presents a great opportunity in view of the clear need such people have to protect their livelihood in the event of incapacity.*
2. *Small to medium size businesses face the similar risks with regard to the business owner and key employees, and pensions auto-enrolment opens up prospects for the discussion of protection products.*
3. *Notwithstanding the attraction of self insurance, the trend towards government pushing back responsibility for health management to employers (and individuals) will highlight the value of the risk management tools that come as part of the GIP proposition.*
4. *The election of a Conservative government means that the rollout of Universal Credit will continue. This creates opportunities for the re-design of existing GIP schemes (and possibly increasing employee pressure for better protection from their employer as the state retreats).*
5. *An ageing workforce and a workforce expressing changing needs (such as concern regarding elder care) present opportunities for new products and services. Keeping employees fit and productive becomes more and more important, offering the real possibility of partnerships with providers rather than simply transactional insurance arrangements.”*

Next I sought an insurer’s view and turned to Paul Avis of Canada Life. Like John, Paul is another who is keen to give us more than a soundbite – and this is such a fascinating and complex market, that this is very welcome. I first asked:

**Should auto-enrolment be extended to protection? Or is it sufficient to recognise that it should lead to more interest in protection anyway? What marketing and engagement lessons can we learn from auto-enrolment?**

*“On the face of it, the group risk market is in good health and the messages are positive. Following a 9.8% increase in market premiums in 2013, in 2014 the group life market grew once again, by 8.9%. On the back of pension automatic enrolment (AE) scheme expansions for larger employers, the industry has had a dividend, as organisations simply extended cover to the previously non-insured workforce. This has meant that the group life market has expanded by both employees covered and premiums, so in theory there is little concern to us. An almost 20% rise in two years would be the envy of most market places.*

*However, there are areas where further analysis of market growth shows that problems exist. For example, in a period of low inflation rates and therefore increasing capitalised costs for ‘Death in Service’ or ‘Spouses’ Pensions’, the requirement for additional investment has driven premium growth but not employee or scheme numbers. The Swiss Re survey has shown that premiums in this relatively small part of the market have grown by 30% since 2010 while total insured benefits have fallen by 20%. So, something is not right here. Is this real growth, seemingly not? Perhaps this product’s days are numbered due to these increased costs, as well as the move by some organisations to replace the benefit with increased lump sums.*

*The proposed reduction in the lifetime allowance to £1m (down from £1.8m in 2005) may lead to a further increase in excepted scheme numbers, with some advisers recommending this as a blanket option. Excepted scheme premiums and numbers have already grown by 28% and 37% respectively during 2013-2014. They may be being used as an alternative to or in addition to registered schemes. Excepted policies are a specialist product and we believe that specific legal and taxation advice on a scheme by scheme basis is a sensible way to assess whether this is the appropriate route to take. Obviously, excepted schemes should never be used for tax avoidance or evasion.*

*In the cases above, are we therefore talking genuine growth or is growth due to wider environmental issues refining the customer need?*

*In my view, the only real way we can measure genuine growth in the Group Life market is to look at the number of new employers purchasing this product. Premium amounts and the number of employees covered are not the real issues, as both are doing very well (certainly much better than individual term assurance, which is a market facing different challenges). Our challenge is to get new, smaller employers to engage with us. So, if you were me, you would ask, ‘What is our starting point - what do customers think?’*

*Our 2014 employer research showed that there is still a great deal of work to be done in getting the message across in the larger employer segments (companies employing 150 - 2,000 people), as almost a fifth (18%) know little about group life insurance. GRID SME (5-50 employees) data of 2014 showed that 50% of employers in this category were not aware of these benefits and expected the cost of providing group life to be 3% of salary costs.*

*So, with half of employers of this size not fully aware of group risk benefits and holding an incorrect view of how expensive these benefits would be, we looked to find a way to help to educate them. And then it hit us! We have been commenting on the AE pension and group risk opportunity since 2011 and had made our terms for scheme expansion in the existing insured market so easy that we experienced a great level of premium and employee growth. But we hadn’t applied the same thought process to the ‘new to pension’ market, except at a PR/thought leadership level! With the new news in April 2014 that we were market leader, we now needed to figure out how to extend the same thought process to the AE SME pension discussion.*

*As a fully intermediated insurer, we conducted an extensive research programme in the summer of 2014, including over 100 telephone interviews with smaller advisers and 20 in-depth interviews with larger advisers. The findings astonished and encouraged us: we were on the right track! Over 95% of the smaller advisers surveyed had considered their AE stance and 50% of these would seek to proactively sell group risk alongside discussions about AE pensions. 10% were actively seeking accountancy leads and partnerships and 6% were considering running seminars. Larger advisers, post RDR commissions removal and DWP pension charge capping, were seeing AE as a three year fee and client attainment window. They were already reworking their revenue and earnings models. Group risk, private medical insurance/cash plans sales, financial education for workplace programmes, getting funds under management, High net worth personal financial planning and complex pension planning (SSAS/EPP/SIPP) were all being considered. AE pension discussions were the new ‘land grab’ to get the corporate client on board.*

*So we asked ourselves, what would appeal to an SME decision maker at the end of a long pension AE discussion? Promotion of group income protection (GIP) could be seen as too complex a concept to get over quickly as part of the pension discussion. So we discounted GIP. We also excluded group critical illness (GCI), as the product complexity and P11d aspects could be a step to far for the client at this time. So, what would work?*

*Group life was the resounding response from the adviser as being the simplest, quickest entry (and some would say benchmark) benefit to get on board. So, we began to probe what was needed to encourage a SME to consider anything other than pension AE compliance and we came up with four ‘critical success factors:’*

* ***Cost*** *– improved understanding is needed, as the 3% of salary roll cost perception shown in the GRID research (5), confirmed that cost is a challenge for the employer. Providing simple cost options, identified as a % of salary roll, to align with the pension discussion is needed. It would open the way for a meaningful discussion – ‘OK, so you have to pay 1%, moving to 3%, of salary for the pension, but would you like to provide £25,000 death benefits for just a further 0.1% of salary costs? Or, you could provide cover of 2x salary for 0.4%’. That is the kind of discussion needed. Tax efficiency and premium breakdowns per capita, pre and post-tax, could show just how affordable group life is.*
* ***Simplicity*** *- this is needed for the client understanding and engagement to be immediate. We wanted to demystify the Trust establishment work needed to gain the best tax advantages for scheme members, so, in March 2015, we launched our Master Trust to alleviate this issue.*
* ***Reward*** *- for the adviser is necessary but seen as a challenge to group life market growth, as historically the 4%-10% of premium commissions received to implement and run a group life scheme, were not seen as attractive. We already offer up to a 30% commission, paid for every year the contract is in force, but were advisers aware of this? And so, to remedy this, we needed to make advisers aware that these schemes provide an on-going income.*
* ***Minimal administration*** *– our ‘CLASS’ online system already hosts over 7% of all group risk schemes and provides the simplest, quickest way to undertake SME business profitably. It takes about 15 minutes to do a quote (as existing business schemes have complex scheme design needs), so we challenged ourselves: could the quote and on risk process be completed in under five minutes? The answer is yes, we have achieved this. We are now working on a simple, not necessarily adviser-based, renewal process.*

*So in summary, the time for genuine growth in group life is right here, right now! With 1.1m employers about to go through pension AE staging, offering new benefits for the first time, we are pleading you to do your bit and have that Group Life discussion when implementing the pension. The smart advisers are thinking post 2018 revenue and, by extending the benefits discussion beyond AE pensions, they are positioning themselves beyond the initial fee for implementation.*

*For our part, we will provide advisers with four quote options automatically; with a simple explanation of the product and tax advantages; up to 30% on-going commission and a simpler inception and renewal process. So in answer to the question ‘What should we do to grow the group risk market?’, I think we have done it. Research tells me that advisers will do their bit and I am now optimistic that, on every advised AE pension discussion, a simple group life quote will form part of that discussion.”*

**Next I asked Paul whether the group market is less innovative than the personal/individual market? Is that a fair criticism and how important will innovation be going forward?**

*“We believe there is much more to insurance than simply providing financial benefits. Group risk claims do not happen every day, so we aim to provide value and engagement throughout the policy year by including additional services that can be used daily by employees, and often their immediate family members too, at no charge to them.*

*We work with our service partners to ensure the non-financial benefits are understood and used by employees and their family members. To demonstrate this we have a dynamic communications programme which includes a variety of material, all available on our website.*

*Group life insurance (GLI)*

*As the GLI market leader we recognise that setting up a scheme correctly is crucial to obtaining the best tax advantages, which requires having suitable trust documentation. Our website contains draft documentation that can be used to establish your scheme, although we always recommend seeking legal advice to ensure it is suitable for you.*

*In addition to the benefit payment on the death of an employee, we offer the following support at a difficult time for the employee’s family and relatives:*

* *A 24/7 bereavement helpline for the deceased’s family, with up to four face–to-face counselling sessions.*
* *A helpline to provide support in dealing with all aspects of obtaining probate.*

*Group income protection (GIP)*

*Alongside paying a financial benefit for long-term absences, we want to ensure the best outcome for employers and their employees, so our GIP product offers:*

* *Access to a medically trained, experienced, regionally-based rehabilitation team.*
* *Regional claims management consultants who work with employers on every claim, ensuring clear communication of decisions, progress and forecasting likely absence durations.*

*All of the following services are offered to all employees, whether insured by the GIP policy or not. Our ambition is for employees and employers to make the most of what we offer.*

* *EmployeeCare, our employee assistance programme provided by Capita, gives employees access to a 24/7 counselling helpline. It also offers up to 4 face-to-face counselling sessions (per employee, per issue, per year).*
* *Online health risk assessment and portal supports workplace health and wellbeing initiatives.*
* *Best Doctors® second medical opinion service supports decisions on diagnosis and treatment for employees and their family members, which can reduce the need for medical treatments.*
* *Treatment Sourcing Service provided by MCD, to help employees and their family members to access cost-effective private healthcare.*

*Our GIP product also offers support to companies. BusinessCare offers online document creation for employment, Health & Safety and business management and a helpline to discuss specific workplace scenarios.*

*Group critical illness (GCI)*

*While GCI makes a payment on diagnosis of a specified condition, we also provide:*

* *The Best Doctors second medical opinion service to insured employees and their family members.*
* *All claimants will be contacted by the RedArc nurse-led service, which provides unlimited ongoing practical and emotional support – a unique complement to Best Doctors.*
* *Treatment Sourcing Servicefor all employees and their family members.*
* *Procedural support for employees, through a claims helpline.*
* *An online, indexed condition guide for potential claimants, which employers can make available on flexible benefit platforms or their intranet.*

*We insure almost 2.7m employees and 21,000 employers. We do not compromise on quality, and we leverage our economies of scale to deliver the best services we can through the partners we have chosen. As you can see there is much more to our group risk offering than the financial aspects of an insurance product.”*

**Did Paul have any other comments about the issues and trends in employee benefits?**

**How does the group risk market grow?**

*“Over the last couple of years the group risk market has done very well on the back of automatic enrolment (AE) for pension schemes, as existing schemes embraced previously non-insured new members. The question is can this continue now the SME (sub-50 employee) employers are beginning to enter the pensions market? Is the combination of an AE capacity crunch and pensions freedoms going to deflect everyone’s attention? We believe that there are new, challenging opportunities to be explored.*

***The background***

*The latest Swiss Re figures show that the group risk market has continued to grow. This table summarises the performance and the change between 2013 and 2014:*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| ***Product*** | ***Schemes*** | ***Annual Change*** | ***Lives covered*** | ***Annual Change*** | ***Annual premiums (£m)*** | ***Annual Change*** |
| ***Group Life*** | *48,568* | *+2.6%* | *8,651,589* | *+1.0%* | *1,250.4* | *+8.9%* |
| ***Group Income Protection*** | *17,119* | *-0.4%* | *2,078,536* | *+1.9%* | *634.2* | *+6.0%* |
| ***Group Critical Illness*** | *2,840* | *+7.0%* | *474,727* | *+24.1%* | *72.6* | *+7.8%* |

*Group critical illness has continued its growth on the back of flexible benefit schemes. Group life and, to a lesser extent, group income protection have grown primarily on the back of the impact of pensions AE on existing schemes. Canada Life’s figures show our group life existing business premiums grew by over £10m due to AE expansions over 2014-15. However this latter source of new business may be beginning to dry up. The success of AE was reflected by more people joining than expected, with just 9% opting out from larger companies that have completed AE implementation.*

*Will this level of opt-outs be sustained in an SME AE world? In the main, this sort of group risk expansion opportunity has already happened, with perhaps a limited opportunity to pick up new members at the approaching three year anniversary.*

*There is the possibility of continuous, steady growth on the back of the economy. When companies expand they are more likely to take on younger employees. ONS statistics show that in 2013 36% of employees aged 22 to 29 were in pension schemes and this rose to 53% in 2014. If this growth continues, it may be reflected in group risk business but younger lives tend to reduce benefit levels and premium rates. Our view is some organic market growth may be seen but, with lower rates and little wage inflation, it is unlikely to be significant.*

***Further automatic enrolment opportunities***

*The area where there is a real opportunity for the market to grow may be where it is currently underperforming. The number of schemes has been broadly stationary. There were 48,071 group life policies in 2010; this rose to just 48,568 in 2014. But this may not be real market growth. Employers with existing registered schemes may also have an excepted policy. This is shown by the fact that, over the same period, there were 1900 new excepted schemes (possibly encouraged by the reductions in the lifetime allowance), while registered scheme numbers actually fell by more than 250.*

*These 48,568 policies also need to be considered in light of the number of potential customers. ONS figures from November 2014 show there are 1,277,360 private sector businesses with employees in the UK. On this measure, the group life penetration rate is less than 4%.*

*In June 2015 AE reaches smaller employers. The Pensions Regulator (TPR) has announced it is to write to over 1.5m businesses to remind them of their duties over the next few years. Those employing staff will be approaching employee benefits afresh, possibly for the first and only time. Cynics may argue that these employers cannot afford pensions let alone anything else. This is probably true for some companies but GRiD’s (Group Risk Development) employer survey showed that only 9% of small employers are not interested in employee benefits.*

*So what do we know about these potential clients? We know many will be looking for advice. TPR tracks how employers are approaching AE and its figures show 60% of small employers plan to look for external advice and 34% of those who have already sought advice went to a financial adviser.*

*The ONS data also show the sectors that these companies work in (see inset 1).*

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*We have to make our products relevant to all the employers now affected by AE. Perhaps the 48,000 computer consultants and 47,000 management consultancies may be attracted to the traditional offering, but something new may be needed to appeal to a wider audience e.g. small shops and cafes.*

*GRiD figures show only 49.8% of employers questioned understood what group life offered. The survey also showed employers believed providing group life cover would cost them 3% of salary roll, whereas costs may be under a tenth of that and when tax advantages are taken into account, it is a very affordable benefit.*

*Addressing the indirect barriers the employer faces is also important. We must make clear to the small employer that a ‘Free Cover Level’ means no medical forms, hassle or loadings. They need to know that the requirement of dealing with HMRC registration does not have to fall on them, as the option of a group life master trust is now widely available.*

*The final hurdle is the adviser’s administration time. We have invested in technology to deliver group risk in a cost efficient way through its CLASS platform and have now extended this to a slimmed down ‘simple’ CLASS offering, where four quotes can be produced in a couple of minutes.*

*In summary, providers and advisers alike can stay in their comfort zone and see premiums possibly drift up over time, through wage inflation and increased recruitment. Or alternatively they can seize the ‘once in a career’ AE opportunity and together encourage real market growth by increasing the number of companies buying Group Protection benefits for their employees.”*

**Finally I asked Paul, where will the group market be in five years’ time?**

*“Everywhere, covering everyone - we hope. We will do our utmost to achieve this goal.  Of that you can be sure!”*

To get other views I put some of these questions to Katharine Moxham of GriD, then to John Ritchie, CEO of Ellipse. First, Katharine Moxham, should auto-enrolment be extended to protection? Or is it sufficient to recognise that it should lead to more interest in protection anyway?

*“Since the introduction of auto-enrolment for pensions in 2012, the debate around whether or not this should extend to protection products - particularly to income protection - has been gathering momentum within the industry, the media and some policymakers. The new Conservative Government will continue to focus on further reducing the welfare bill - perhaps through auto-enrolment for workplace sick-pay.*

*On the surface, such a move could present an unprecedented opportunity for market growth and there is appetite for providing capacity/new models but, ultimately, the issue is far more detailed and considered than that and there is a wide spectrum of opinions across the industry, not to mention a number of significant practicalities to be worked through if such a mandate were to be implemented.*

*‘The State will provide’ is no longer a tenable fall-back position for the majority of UK workers. As an industry, we are immensely proud of the role we play in putting people's working lives back together and it is not unrealistic to say that the industry could play a bigger role in helping the Government reduce the welfare burden. In order to do this, the industry needs two things from Government. Firstly, a nudge to employers to do the right thing in supporting those who are absent from work - perhaps through the Department of Health's Responsibility Deal and the Workplace Wellbeing Charter - and secondly, a nudge to employees to take greater responsibility for their own financial wellbeing and protection.*

*It's happened for pensions and we could see that encouragement extended to other areas of under-provision such as occupational sick pay, but we may need a different mode of travel to get there.”*

**How important will innovation be going forward?**

*“Innovation and adaptation are always important going forward, in order to keep group risk products relevant to employers and to support them in dealing with social, technological and legislative changes. Whether it's the refocus from disability to capability, retuning the underwriting process, or the ever growing associated offerings that are in focus, the group risk protection market can never be accused of standing still.*

*Today's group risk offerings focus as much on mitigating risk and offering support as they do on paying claims. In recent years, we have even refocused medical underwriting to consider an individual's attitude towards managing their health and/or medical conditions rather than just their actual state of health - meaning that far more individuals with health conditions can be included.*

*Death or disability has a life changing impact on staff and their families irrespective of age or role. Crucially, group risk products offer up support such as employee assistance programmes, HR and legal advice, mental health first aid training and fast track access to counselling and physiotherapy, which can be extremely effective in keeping people in the workplace, giving them the help they need to make life changes and supporting them back to work. These services can be used every day - even if a claim is never made - and can drive engagement and release money to spend elsewhere so they merit as much consideration as the insurance pricing itself.”*

**Any other comments about the issues and trends in employee benefits?**

*“A changing and age-diverse workforce continues to drive a need for greater flexibility and employer/employee cost sharing continues to evolve, with the employer role shifting gradually to one of facilitator. Employee contribution towards the cost of benefits is now a clear trend, reflecting how pension funding has shifted over recent years.*

*According to GRiD's latest employer research undertaken in October 2014, more help to support staff health and wellbeing is one of the most popular incentives on employers' wish lists, with almost one in five (19%) employers indicating that they want greater incentives from the new government for this. As we move towards a three-generational workforce, when it comes to promoting health and wellbeing amongst staff, employers have pointed to managing stress (38%), promoting a healthy work/life balance (64%) and introducing more flexible working initiatives (47%) as some of their more important focuses.”*

**Where will the group risk market be in five years’ time?**

*“As auto-enrolment continues apace, it will have the effect of levelling the pensions playing field so that other benefits become the differentiator for recruitment and retention.*

*The Government's Fit for Work service launch brings us to the brink of another new era. Employers who have experience of the new service (which won't help to implement recommendations or source treatment) will come to appreciate where group income protection can better serve their needs by helping them implement back to work programmes and by giving them access to a raft of further support.*

*Employees too will reach a greater understanding of the need to make their own protection provision as cuts to the welfare bill continue.*

*The next development phase for group risk protection is likely to encompass greater support for employers in managing the health and wellbeing of their workforce and encouraging better health behaviours. Going into 2016 and beyond, employers with group risk protection will not only have insured their benefit promise but they will be well placed to move towards supporting prevention as well as cure.”*

Last but certainly not least, John Ritchie’s views were interesting. Ellipse is one of the newer group risk insurers on the block and John’s view are interesting to compare with those of the much longer established Canada Life as set out by Paul Avis.

**Should auto-enrolment be extended to protection or is it sufficient to recognise that auto-enrolment to pensions should lead to more interest in life and disability cover generally.   What marketing engagement lessons can we learn from auto-enrolment?**

*“The main lesson from auto-enrolment to workplace pensions is that the working assumptions and biases of the incumbent providers can be completely wrong. Everything that was said about auto-enrolment workplace pensions by the established commentators and incumbent pension providers was proven to be well wide of the posts. There wasn’t a huge level of opt-out by the lower paid un- pensioned segments of the largest employers stating first. Employees of all ages and pay levels have quickly accepted that long-term saving through an employer’s scheme was the ‘new normal’. New collective pension providers proved that it was both economic and sustainable to provide good value pension structures at significantly lower expenses of administration and fund management than the established market.*

*As to whether auto-enrolment should be extended to disability and life arrangements, players in this market need to get their heads up from their own parochial concerns to appraise the state of welfare budgets and the overall deficit. Auto-enrolment to workplace sick pay can clearly be part of this society’s solution to the single biggest risk that people of working age have in their lives.  It is not only a risk to the individual but also to their dependents. What is needed is a thorough going dialogue between government, regulator and potential providers to derive a sustainable model. Providers of insurance capital will decline participation if they are not sufficiently free to manage their claims.  We have seen in other environments that political risk can be added to the underlying economic risk implicit in disability income protection.*

*Aside from disability lines, we can already see that auto-enrolment to workplace pensions has been a growth stimulus in group life markets. For it to be economic for advisers and insurers to host very large numbers of new schemes, there must be automation of processes at all stages in the policy life cycle.”*

**How important will innovation be going forward?**

*“We already have very efficient products and mechanisms in group risk markets. The claims paid rate in group life is excellent and the industry’s record in rehabilitation and reduction of the economic wastage from short, medium and long-term absence is clear. Innovation is required in the delivery process and most of all in communications. In many ways the framework already exists but we have only begun to deploy these assets.*

*Imagine an employee benefits market where :*

* + *Middleware was available as a simple user configurable / do-it-yourself set up App which could be designed at employer level.*
	+ *Insurers all provide voluntary, simple flex and ‘anytime benefits’ versions of their product spectrum to employers of all sizes.*
	+ *Data links to payroll are secure and reliable.*
	+ *Complete solutions in life and disability products are packaged for employers by size/segmentation.*

*You don’t have to imagine this, all of these components are already available. We simply need to create the co-operative projects across the value chain to enable a fundamentally different employee benefits range of solutions to emerge.”*

 **Where will the group market be in five years’ time?**

*“The group life and disability part of the employee benefits market will be unrecognisable in five years’ time. It will be the method by which the vast majority of working people have access to a decent level of life and disability cover through anytime benefits applications. Premiums will be remitted through payroll and new hybrid individual products will have emerged to enable employees to take covers with them on an individual basis as they leave their employer. Digital guidance accessible through the employer’s platform will be the way in which individuals model how much cover they need and as a result, the worn out cliché that ‘people are sold life cover rather than buy it’ will have been buried for good and all.”*

The group risk and whole employee benefit space has enjoyed good times recently. The question on everyone’s list is whether that is a blip and the sector will return to unexceptional growth at some point (and, if so, when?) or even contraction as employers look even harder at their EB packages.

Or are things happening within EB – some due to AE, some due to employers recognising that investing in workforce health and wellbeing actually makes economic sense, some due to EBCs simply being better at putting benefits across than their individual market counterparts, some simply due to growing macroeconomic confidence and lessons hard learned since 2008.

We don’t know the answers yet, but there is a growing confidence evident and an army of people keen to see just how far EB can develop and how quickly. Even if you’re not personally involved in EB, there are growing reasons why you should take an interest in EB. It’s one of the reasons we majored on this sector in our annual conference on 15 July too.

Read more about group risks at: <http://www.grouprisk.org.uk/>.

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