

EMPLOYERS' guide to...

The Impact of Incapacity Benefit Changes on Group Income Protection

The Welfare Reform Bill was presented to Parliament on 4th July 2006 and was put on to the statute books on 3rd May 2007.

The Background

There are currently over 2.7 million people on incapacity benefits.

Around 80 to 90 per cent of those who come onto benefits expect to work again, yet many never do.

Source: DWP Longitudinal Study 2005

The longer a person remains on benefits, the less chance they have of coming off benefits and returning to work.

Currently the benefits system reinforces this by offering more money the longer someone is on benefits and by requiring people to prove their ongoing incapacity, rather than actively encouraging and supporting people to take steps towards a return to work.

Source: *The Scientific and Conceptual Basis of Incapacity Benefits*. Waddell and Aylward.

The Government, through the Department for Work and Pensions (DWP) is keen to address these issues and so is proposing a range of measures in three key areas:

1. increasing the number of people who remain in work when they fall sick or become disabled;
2. increasing the number leaving benefits and finding employment; and
3. better addressing the needs of all those who need extra help and support.

This approach will be underpinned by a new Employment and Support Allowance (ESA), which will replace Incapacity Benefit for all new claimants.



The diagram on the spreadsheet below shows the key differences between the old and new benefit structures:

Potential Impact of Incapacity Benefit Changes on SPSB

Current Arrangements

Week																																																										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59
Statutory Sick Pay																												Higher Rate Short Term Incapacity Benefit																								Long Term Incapacity Benefit						
28 weeks																												24 weeks																								Ongoing						
£72.55pw																												£72.55pw - basic rate £37.90pw - adult dependency £9.25pw - first dependent child £11.35pw - subsequent dependent children																								£81.35pw - basic rate £48.65pw - adult dependency £9.25pw - first dependent child £11.35pw - subsequent dependent children £17.10pw - age addition under 35 £8.55pw - age addition age 35-45						

Future Arrangements (current figures)

Week																																																										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59
Statutory Sick Pay																												Assessment Period 'payment'													Basic Allowance plus																	
																																									(a) WRAC - Work Related Activity Component or																	
																																									(b) Support Component																	
28 weeks																												13 weeks													Ongoing																	
£72.55pw																												equivalent of Jobseekers allowance age 25+ £59.15pw 18 - 24 £46.85pw 16 - 17 £35.65pw													Basic Allowance = £59.15 Basic Allowance plus WRAC = LtsIB+ (greater than current LtsIB) Support Component = WRAC+ (greater than WRAC)																	

Please note these maybe subject to change



How it works

The employee will continue to receive Statutory Sick Pay, which remains unchanged, for the first 28 weeks of absence. Following this there will be a 13 week assessment period which, in addition to using means testing or a claimant's National Insurance Contributions history to establish eligibility, will require the claimant to show the extent to which their illness or condition prevents them from working.

The assessment will produce one of three results:

1. the person has a limited capability for work
2. the person has a limited capability for a work-related activity
3. the person does not qualify for benefit.

The first of these categories will include those claimants who can be rehabilitated back into work, while the second refers to the most severely incapacitated who realistically do not have much chance of being able to work.

Those in category 1 will receive Basic Benefit plus WRAC, receipt of this additional benefit will be conditional on them attending further regular 'work focused interviews' and 'work focused health related assessments'.

Those who fall into category 2 will receive Basic Benefit plus the Support Component. This is anticipated to equate to a higher level of benefit than the current rate of Single Persons State Incapacity Benefit (SPSIB), and greater than the Basic plus Work-Related Activity Component (WRAC) (see below).

What is Unum doing?

Incapacity Benefit changes are the third piece of major legislation affecting Group Risk since April 2006, following Pensions Simplification and Anti-Age Discrimination. We at Unum are once again ensuring we carefully consider the impact of these changes on our customers and intermediaries. We are already in consultation with a number of our intermediary partners to ensure we change our products to offer employers the **least impact** with the **greatest flexibility**.

Customer Impact

The changes resulting will affect **all** Group Income Protection (GIP) customers, principally because SPSIB will no longer exist. SPSIB is used as an offset in the benefit basis of most policies', the most common being 75% of salary less SPSIB. It also forms part of the overall limitation of benefit where there is no offset e.g. 50% salary is subject to a maximum of 75% salary less SPSIB.

The introduction of the benefits being dependant on work-related activity in part have already prompted discussion amongst intermediaries, employers and insurers around GIP scheme design.

Gross pay policies – the benefits are defined as a percentage of gross pay.

Maximum benefit available is 75% salary less SPSIB, which is the most common benefit basis.

Other common examples are 50% salary or 2/3rds salary.

Impact:

Customers whose benefit basis includes a SPSIB offset may want to remove any tie in with State provision and move to a simpler flat percentage of salary. Others may want to replace SPSIB offset with one relating to the new ESA benefits.

Unum plans to be more flexible on the overall limitation of benefits with either a flat percentage or in some cases no limitation.

Net pay policies – benefits equate to a percentage of net pay from all sources including state benefits. Maximum benefit basis is 90% of net pay.

Fully integrated - benefits equate to a percentage of gross pay from all sources including state benefits. Maximum benefit basis is currently 75% of gross pay.

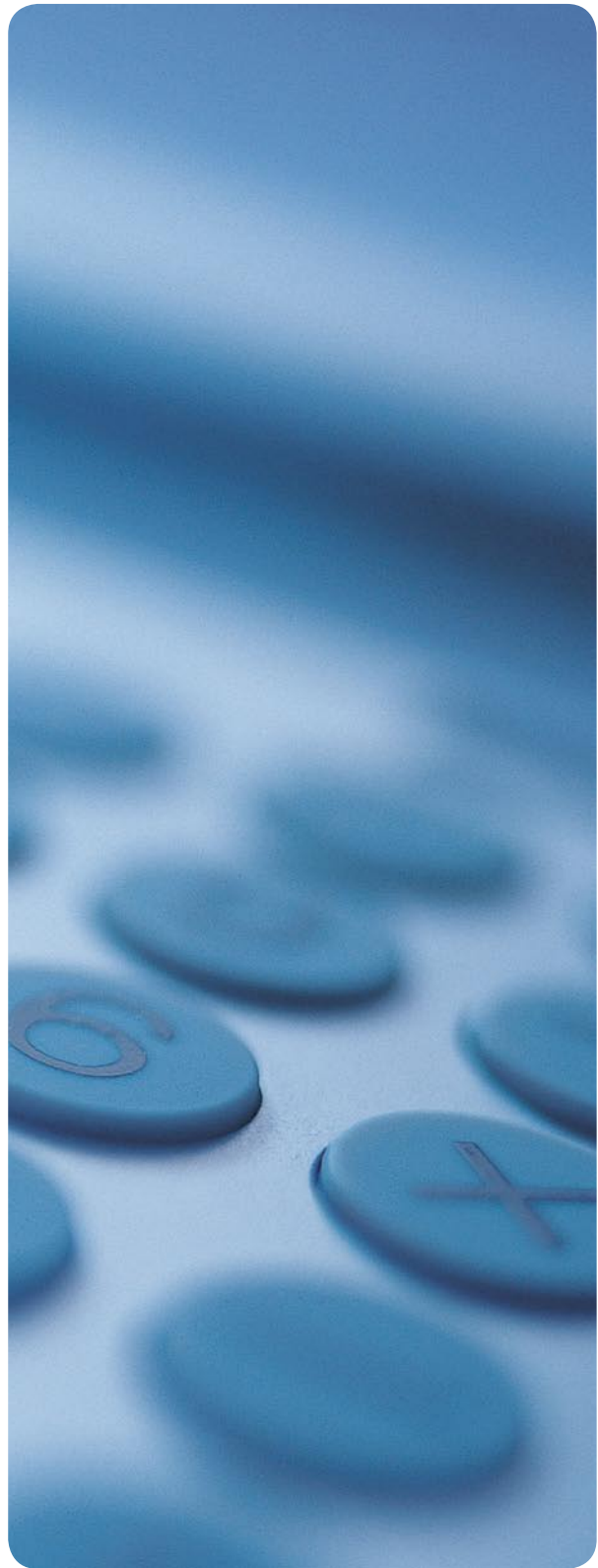
Impact:

Incapacity Benefit changes will almost certainly increase Unum's liability for benefits on Net Pay and Fully Integrated schemes. If the Government's plans to help more people back into the workplace come to fruition, less people will qualify for State benefits but may still have valid claims on their employer's Income Protection policy. The removal of the dependant and age-related benefits from the State provision will also reduce the amount of benefit many receive. All this means there are likely to be cost implications for Net Pay and Fully Integrated policyholders.

Finally

Unum will be offering greater flexibility in policy design increasing our ability to meet our customers' needs and aligning with the new State system, all with minimum impact on customer costs.

For further information please contact your intermediary.



For more information, call your Sales Consultant on 01306 887766 or visit unum.co.uk

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