



## Statutory Sickness Support

A new sick pay system that supports employees and employers

May 2022

## ABOUT THIS REPORT

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This WPI Economics report, commissioned by Unum, contributes to the growing literature that highlights the significant shortcomings of the Statutory Sick Pay system in the UK, and how improvements of how it functions could improve wellbeing, living standards and productivity.

### About Unum

Unum is a leading employee benefits provider offering financial protection through the workplace including Group Income Protection, Life Insurance, Critical Illness, and Corporate Dental cover.

We are committed to workplace wellbeing for both employees and employers. We have a wide range of tools designed to help businesses of all sizes create or enhance their employee wellbeing strategies, including our award-winning [Help@hand](#) app which offers employees fast, direct access to quality health and wellbeing support services, including remote GPs, mental health support and physiotherapy.

Our Income Protection customers also have access to medical and vocational rehabilitation expertise designed to help people stay in work and return to work following illness and injury. Our Employee Assistance Programme provided by LifeWorks, includes help and advice on a range of work/life issues.

Our Critical Illness customers can access our [Cancer Support Service](#), provided by Reframe, providing personalised support for employees with a cancer diagnosis.

Unum is a values-driven, purpose-led organisation, with an operating model centred on doing good for society and being there for people when they need us most.

Being a socially responsible business is at the heart of our 'We are Unum' values and where we aim to excel. We're focussed on providing positive and effective contributions to the communities in which we live and work, and see helping our communities as a natural extension of the commitment we make to our customers every day.

Our mission is to be the most inclusive, diverse and welcoming company in our market – creating a place where people aspire to work, and where everyone is able to contribute their best and succeed, whatever their identity or background.

We are signatories of the HM Treasury Women in Finance Charter, Business in the Community Race at Work Charter and the Armed Forces Covenant, where we hold the Silver Employer Recognition Scheme Award. We are also a Disability Confident Leader, Stonewall Diversity Champion, and have been awarded the Gold Payroll Giving Quality Mark for our charitable initiatives.

At the end of 2021, Unum protected 1.6 million people in the UK and paid claims of £366 million - representing £7 million a week in benefits to our customers - providing security and peace of mind to individuals and their families.

## ABOUT THIS REPORT

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Our parent company, Unum Group provides a broad portfolio of financial protection benefits and services in the workplace through its Unum US, Unum UK, Unum Poland, and Colonial Life businesses. In 2021, Unum Group reported revenues of US\$12 billion and paid US\$8.2 billion in benefits.

For more information, please visit [www.unum.co.uk](http://www.unum.co.uk).

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### About WPI Economics

WPI Economics is a consultancy that provides economics that people understand, policy consulting and data insight. We work with a range of organisations — FTSE100 companies, SMEs, charities, and central and local government — to help them influence and deliver better outcomes through improved public policy design and delivery. Our focus is on important social and economic policy debates, such as net zero, levelling up and poverty, productivity, and mental health. We are driven by a desire to make a difference, both through the work we undertake and by taking our responsibilities as a business seriously. We are an accredited Living Wage employer.

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The people working in our nation's businesses are the engine our country relies on to propel our economy forwards. If our people can't do their job, neither can our economy.

Right now, we're failing to take good care of our people, and it's holding our country back. Far too many people are falling out of work for health reasons, impacting not just our nation's economy, but individuals and their families too.

The UK has a problem with sickness absence. Over 140 million working days were lost to it in 2018.<sup>1</sup> Ill health stopping us working is estimated to cost our economy up to £130 billion a year<sup>2</sup> — that's three times the defence budget.<sup>3</sup> Sickness absence is an enormous drag on our economy — tackling it should be a top priority.

That doesn't mean eliminating it altogether — all of us will need to have time off work now and again to look after our health. What it does mean is ensuring that we're taking great care of our people while they're off sick, and, most importantly, maximising their chances of getting back to the job they love.

At the root of the problem is Statutory Sick Pay. It's a system that turns 40 years old this year,<sup>4</sup> and it's really showing its age. As the world of work has changed, sick pay has failed to keep up. The current system offers no protection at all for the lowest-paid, and misses the opportunity to promote early intervention and empower employers to deliver the right support.

Sick pay in the UK has hit its mid-life crisis — it's time for a change.

This report sets out our approach to that challenge: to move from a system focused purely on **payments**, to one that's designed to deliver proactive and effective **support**. So that's what we called it: Statutory Sickness Support.

A simple package of reforms can transform our country's whole approach to work and health. Sick pay that's fit for the 2030s, not the 1980s, that takes account of flexible working, lets you come back to work part time, and gives every employee better protection than today. And an exciting package of support so that small businesses across the UK can level up the health and wellbeing of their workforce.

Overhauling sick pay will protect our people, boost our businesses, and energise our economy. This report sets out how.



A handwritten signature in black ink, appearing to read 'Mark Till', written in a cursive style.

**Mark Till**

CEO, Unum International

<sup>1</sup> ONS, *Sickness absence in the UK labour market* (2019)

<sup>2</sup> Department for Work and Pensions & Department of Health, *Work, Health and Disability Green Paper Data Pack* (2016), p. 15

<sup>3</sup> House of Commons, *UK Defence Expenditure (Commons Briefing Paper 8175)* (2022), p.5

<sup>4</sup> *Social Security and Housing Benefits Act*, 1982

The UK has a problem with sickness absence. Ill health stopping people from working is estimated to cost our economy up to £130 billion each year.<sup>5</sup> On top of these costs, ill health-related worklessness is estimated to cost government up to £29 billion in foregone tax and National Insurance contributions.<sup>6</sup> Reducing sickness absence could unlock billions in tax receipts and increased economic output.

At the heart of how we manage sickness absence in the UK is Statutory Sick Pay (SSP), the minimum statutory payment made by employers to employees who are absent for health reasons. SSP was introduced in the early 1980s<sup>7</sup> to replace state sickness benefit and is currently paid at a pro-rated rate of £99.35 per week<sup>8</sup> for up to 28 weeks to employees who meet the eligibility criteria.

Because employers are no longer required to record and report payments of SSP,<sup>9</sup> it is difficult to know how much is paid out and to whom. While an estimated 141.4 million working days were lost to sickness<sup>10</sup> in 2018, the number of absences resulting in payment is far smaller as a result of SSP's various eligibility criteria, including 'waiting days' and the exclusion of around 2 million workers<sup>11</sup> with earnings too low to qualify. Around 18 million 'SSP-eligible days' are taken by 6 million employees a year, with direct costs to employers (i.e. employees are off sick and receiving sick pay at the level of SSP) of between £100 million to £250 million.<sup>12</sup>

There are variations in the types of employees who get SSP or who get additional sick pay from their employer. Since SSP's introduction, the proportion of employers choosing to go beyond it and provide enhanced 'occupational sick pay' (OSP) above the minimum has fallen, from 56% in 1988<sup>13</sup> to 28% in 2019.<sup>14</sup> Up to around 70% of employees eligible for SSP are presently paid more through formal or informal arrangements.<sup>15</sup> It is thought that employees in large organisations (more than 250 employees) are 1.5 times more likely to be paid OSP than those in small organisations.<sup>16</sup>

For the vast majority of people, the flat rate SSP payment of £99.35 per week is very low compared to their normal earnings. This 'replacement rate' — the proportion of previous pay covered — is much lower in the UK than in comparable advanced European economies.<sup>17</sup> What's more, as the world of work has evolved, SSP hasn't kept up. Over the last 40 years, the way we all live and work has changed dramatically, with many more of us working flexibly, part-time or in the gig economy. SSP has also not evolved to take account of our ageing population, or to learn from the policy successes in other advanced economies. **The result is a sick pay system that is no longer fit for purpose.**

<sup>5</sup> Department for Work and Pensions & Department of Health, *Work, Health and Disability Green Paper Data Pack* (2016), p. 15

<sup>6</sup> *Work, Health and Disability Green Paper Data Pack* (2016), p. 16

<sup>7</sup> *Social Security and Housing Benefits Act*, 1982

<sup>8</sup> GOV.UK, *Statutory Sick Pay (SSP): What you'll get* (2022)

<sup>9</sup> HM Government, *The Statutory Sick Pay (Maintenance of Records) (Revocation) Regulations 2014* (2014)

<sup>10</sup> ONS, *Sickness absence in the UK labour market* (2019)

<sup>11</sup> TUC, *TUC accuses government of abandoning low-paid workers after it ditches sick pay reforms* (2021)

<sup>12</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*. Available: <http://wpieconomics.com/publications/modelling-ssp/>

<sup>13</sup> House of Commons, *House of Commons Debate* (2. November 1988, vol. 139, col. 645-6W)

<sup>14</sup> HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), p. 35

<sup>15</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*

<sup>16</sup> Department for Work and Pensions and Department of Health and Social Care, *Health in the workplace – patterns of sickness absence, employer support, and employment retention* (2019), p. 26

<sup>17</sup> TUC, *Welfare States: How generous are British benefits compared with other rich nations?* (2016), p. 28

The outdated SSP system and its focus on providing very low levels of payment and not on promoting effective and proactive sickness absence management results in other undesirable policy outcomes. These include higher state expenditure on social security benefits — in effect, subsidising low levels of employer funded sick pay — and the Exchequer costs of the current system at around £850 million a year, meaning that **the direct costs of the current system are likely to be greater for the government than for business.**<sup>18</sup>

The government believes that too low a rate of sick pay undermines the economic incentive for employers to invest in reducing absence.<sup>19</sup> The current system does not encourage or guide employers to provide comprehensive and effective sickness absence management support. Reform of SSP has the potential to strengthen employer incentives to reduce levels of sickness absence. Insurance models offer a way to pool risks and resources with other firms, and allow even the smallest employers to access a comprehensive package of support which has a strong track record of improving absence outcomes.

It is clear that the current system is not working for our economy, for our health, or for our society. We believe that to be successful, a new system must provide:

- A **targeted safety net** that protects workers and encourages returns to work where possible
- **Effective employer incentives** to act and invest in better workplace health
- Support for the **competitiveness of our economy**, reducing costs and supporting innovation
- Increased tax revenue and **reduced spending on social security benefits**
- Broad **cross-party support** and appeal to a range of stakeholders across society.

To deliver on these objectives, we propose moving from the current system, which is primarily concerned with prescribing **payments**, to an enhanced system that goes beyond simply resolving the financial element of SSP and instead encourages proactive and effective **support**. We call our proposed system Statutory Sickness Support.

Statutory Sickness Support would fix our country's broken sick pay system, by:

- **Widening eligibility**, so all workers are protected
- Bringing the rules **up to date**, to allow 'phased returns' and **accommodate flexible working**
- **Simplifying calculation and administration** for employers
- **Strengthening the safety net** to reduce 'income shocks' and alleviate poverty.

<sup>18</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

<sup>19</sup> HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), pp. 34-35

Reforming sick pay in line with our proposals would generate savings for the Exchequer of around £120 million a year as well as projected wider economic benefits of around £500 million.<sup>20</sup> Our proposals would go further however, and Statutory Sickness Support would deliver a shot in the arm for the system by unlocking £500 million to level up SME investment in workplace health across the UK, with:

- Stronger **guidance and support** for employers to manage absence
- A new **conditional rebate of SSP costs** to directly reward employers' efforts
- A **workplace health stimulus package** to enable SME investment in proven support.

Our system would provide better protection for Britain's workers, and especially the low-paid, with the majority of the benefit of our reforms accruing to workers earning less than £25,000 a year. Many more workers would have access to health and wellbeing support at work, reducing the risk and length of absence and supporting a strong economy, benefits system and health service.

Based on conservative assumptions, economic benefits could be in excess of £1 billion in year one, accompanied by £400 million in Exchequer benefit (reduced spending and increased tax receipts). By year five, economic benefits could be up to £3.9 billion, and over £1 billion in Exchequer savings.<sup>21</sup>

<sup>20</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

<sup>21</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

Sickness absence and health-related job loss together have an enormous impact on the UK economy, resulting in lost productivity and tax revenues as well as a range of additional costs for workers, employers and the NHS. Combatting this policy challenge is crucial to maintaining growth.

Ill health stopping people from working is estimated to cost our economy up to £130 billion each year<sup>22</sup> — roughly equivalent to total planned pre-pandemic health spending in England<sup>23</sup> or more than three times the defence budget.<sup>24</sup> On top of these costs, ill health-related worklessness is estimated to cost government up to £29 billion in foregone tax and National Insurance

contributions.<sup>25</sup> Tackling the policy challenge of sickness absence is a clear policy imperative — with the potential to unlock billions in tax receipts and increased economic output.

For families, we know that being out of work for health reasons is also a major driver of poverty; half (50%) of people in poverty live in a family where someone is disabled.<sup>27</sup> More broadly, we know that work can be good for health<sup>28</sup> and worklessness is strongly correlated with serious negative health outcomes.<sup>29</sup> For employers, there are very large benefits to reducing sickness absence. As well as the clear implications in terms of lost output, there are broader knock-on effects of potentially positive impacts on mental health, reduced presenteeism and increased productivity.<sup>30</sup>

<sup>22</sup> Department for Work and Pensions & Department of Health, *Work, Health and Disability Green Paper Data Pack* (2016), p. 15

<sup>23</sup> The King's Fund, The Health Foundation, and Nuffield Trust, *Budget 2018: What it means for health and social care* (2018), p. 3

<sup>24</sup> House of Commons, *UK Defence Expenditure (Commons Briefing Paper 8175)* (2022), p.5

<sup>25</sup> *Work, Health and Disability Green Paper Data Pack* (2016), p. 16

<sup>26</sup> Department for Work and Pensions & Department of Health, *Work, Health and Disability Green Paper Data Pack* (2016), pp. 15-16

<sup>27</sup> Social Metrics Commission, *Measuring Poverty* (2020), p. 11

<sup>28</sup> Department for Work and Pensions & Department of Health, *Improving Lives: the Work, Health and Disability Green Paper* (2016), p. 10

<sup>29</sup> Benach, J., Carles, M. and Santana, V., *Employment Conditions and Health Inequalities: Final Report to the WHO Commission on the Social Determinants of Health* (2007), pp. 105-106

<sup>30</sup> Deloitte, *Mental health and employers* (2022), p.8, 23

## Estimated annual economic costs of ill health preventing work among working age people, 2016<sup>26</sup>

|                     | Cost element         | Description   | Estimated cost   |
|---------------------|----------------------|---|------------------|
| Costs to UK economy | Sickness absence     | Lost output due to sickness absence                               | £15-20bn         |
|                     | Economic inactivity  | Lost output due to working age ill health that prevents work      | £73-103bn        |
|                     | NHS costs            | Extra treatment costs for conditions affecting ability to work    | £7bn             |
|                     | Informal care giving | Lost output due to working age carers caring for working age sick | < £1bn           |
|                     | <b>Total cost</b>    |   | <b>£95-130bn</b> |
| Costs to government | Benefit payments     | Employment and Support Allowance and associated benefits          | £19bn            |
|                     | NHS costs (as above) | Extra treatment costs for conditions affecting ability to work    | £7bn             |
|                     | Exchequer flowbacks  | Tax receipts foregone due to health-related worklessness          | £21-29bn         |
|                     | <b>Total cost</b>    |   | <b>£47-55bn</b>  |

## SICK PAY IN THE UK — WHO GETS IT, AND HOW MUCH?

SSP was introduced in the early 1980s.<sup>31</sup> It is paid at a pro-rated rate of £99.35 per week<sup>32</sup> to those who meet the eligibility criteria. These include that an employee earning at least £123 a week, must have been ill for 3 consecutive days and then take a full day off sick following these 3 days. SSP can be paid for up to 28 weeks.

For those without access to an occupational sick pay (OSP) scheme (enhanced sick pay in excess of that prescribed by SSP paid voluntarily by employers), these eligibility criteria reduce the likelihood of payment in the event of sickness. The flat rate of SSP means that those who receive it get a very low rate of pay compared to what they would typically take home.

The requirement for businesses to record and report payment of SSP was removed in 2014,<sup>33</sup> which makes the exact scale of SSP in payment and the associated costs for businesses hard to quantify. What we can estimate confidently is that eligibility for SSP is likely to be relatively limited as compared to the total number of sick days taken. In 2018, an estimated 141.4 million working days were lost to sickness.<sup>34</sup> However, the vast majority of those sick days (around 70%) are not eligible for SSP, primarily because of the 'waiting days' eligibility criterion.<sup>35</sup>

Eligibility is further reduced by the fact that some of those off sick for 4 days or more will not be classed as employees, are earning less than the earnings threshold, or are ineligible because of one of the other criteria for claiming SSP. Bringing all of these together, there are around 18 million 'SSP-eligible days' taken by around six million people each year.<sup>37</sup>

### Distribution of sickness absence by spell length, 2017<sup>36</sup>



Source: WPI analysis of Office for National Statistics, Social Survey Division. (2018). Annual Population Survey, 2004-2017: Secure Access. [data collection]. 13th Edition. UK Data Service. SN: 6721, <http://doi.org/10.5255/UKDA-SN-6721-12>

<sup>31</sup> Social Security and Housing Benefits Act, 1982

<sup>32</sup> GOV.UK, *Statutory Sick Pay (SSP): What you'll get* (2022)

<sup>33</sup> HM Government, *The Statutory Sick Pay (Maintenance of Records) (Revocation) Regulations 2014* (2014)

<sup>34</sup> ONS, *Sickness absence in the UK labour market* (2019)

<sup>35</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*

<sup>36</sup> *Ibid*

<sup>37</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*

## SICK PAY IN THE UK — WHO GETS IT, AND HOW MUCH?

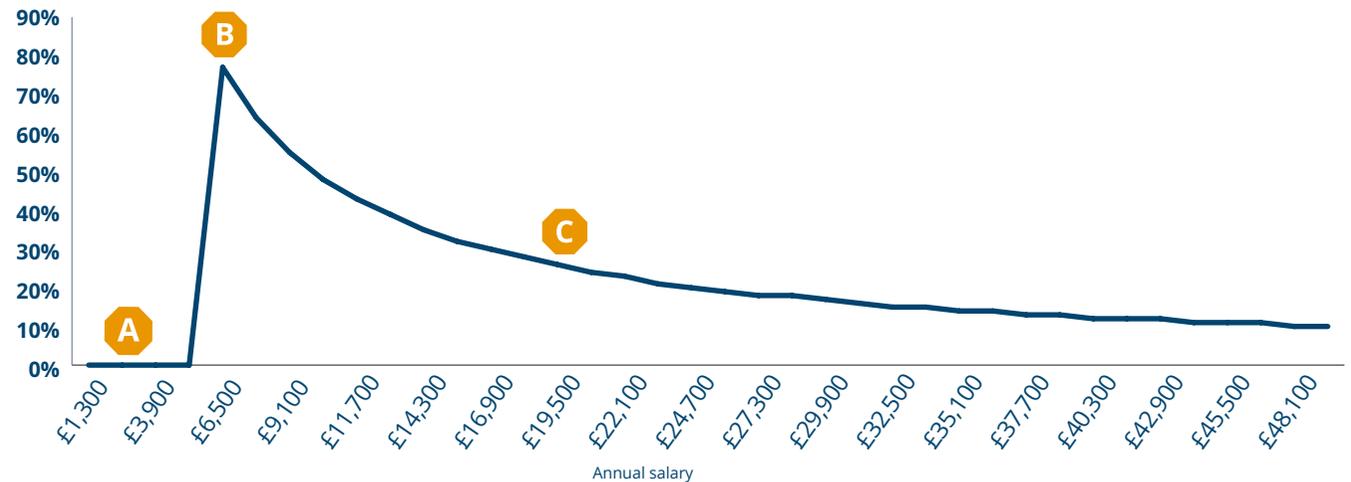
### Distributional impact of SSP

As highlighted above, eligibility for SSP requires an individual to be earning at least £123 a week — the so-called 'Lower Earnings Limit (LEL)'. Beyond the point at which a worker becomes eligible for SSP (£123 a week, or a salary of slightly over £6,000 a year), the flat rate makes SSP unrelated to their previous level of pay. This means the amount the vast majority of people receive in SSP is very low compared to their normal earnings. We can think of this as the 'replacement rate' — the proportion of previous pay covered.

The flat rate of SSP creates clearly undesirable effects in practice:

- A** 2 million employees with earnings below the LEL — **70% of them women**<sup>38</sup> — are not eligible for SSP at all
- B** The replacement rate of SSP has a very sharp peak at around the eligibility threshold
- C** After this point, the replacement rate falls very quickly, meaning that for employees earning more than £18,000 a year, the weekly replacement rate is less than 30%.

### Replacement rate of SSP (%) by gross annual salary



Source: WPI Economics modelling

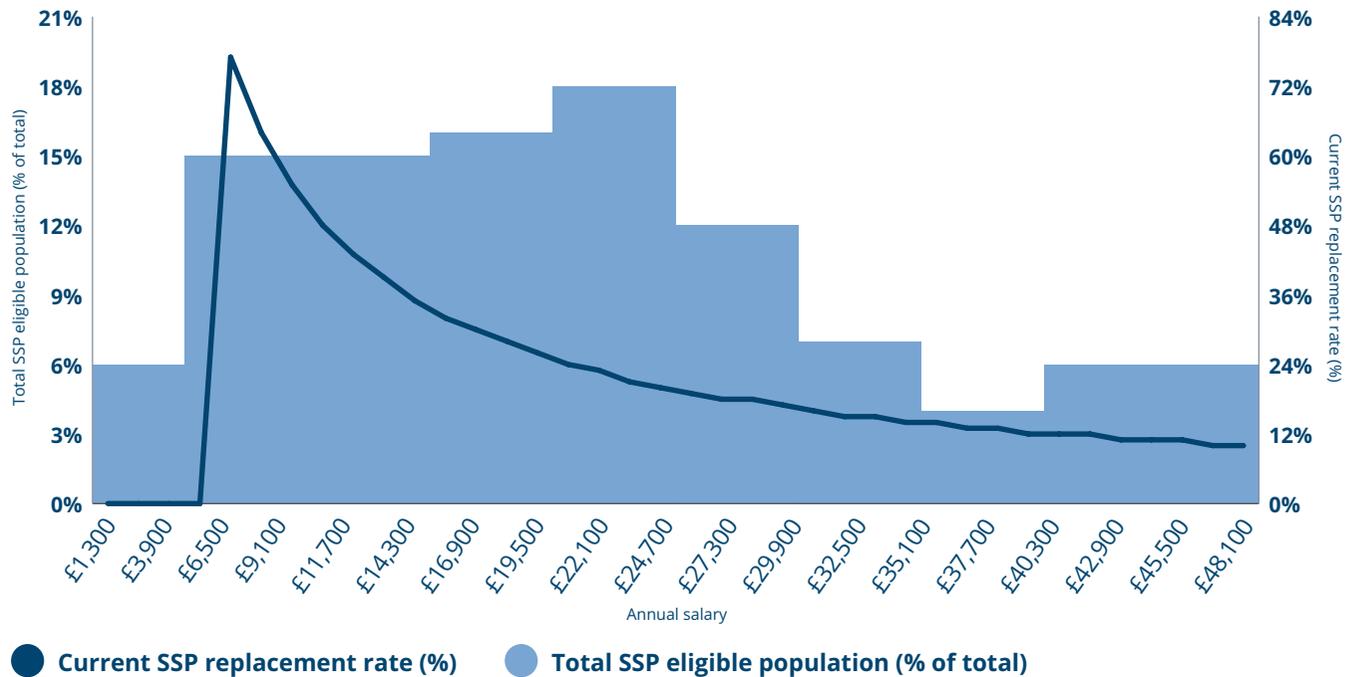
<sup>38</sup> TUC, *TUC accuses government of abandoning low-paid workers after it ditches sick pay reforms* (2021)

## SICK PAY IN THE UK — WHO GETS IT, AND HOW MUCH?

To put it another way, on an annualised basis, an employee working full time and earning around the National Living Wage would go from a salary of about £18,500 to sick pay of around £5,500.

The wide variance in replacement rates makes it important to understand the incomes of those who are off work sick and likely to be eligible for and in receipt of SSP. Little robust evidence currently exists on this. Our estimates using Annual Population Survey data are shown below, and overlay the proportion of the SSP population at each point of the income distribution, with the replacement rates shown above. Around 75% of the SSP-eligible population earn less than £25,000 a year.

**Replacement rate of SSP (%) and distribution of SSP-eligible population by income<sup>39</sup>**



<sup>39</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

### Relevance and cost to businesses

To understand the costs of the SSP system to business, we need to assess the extent to which these costs actually ‘bite’ for employers. For those employers who already voluntarily pay enhanced sick pay well above the minimum requirements, the level of SSP is unlikely to impact their behaviour or costs. The rate of SSP only represents an actual or ‘biting’ cost for those employers who only pay the minimum mandated amount of sick pay.

One analogy might be the National Minimum Wage or National Living Wage. While this is a legally enforced statutory minimum rate of pay for all employees, increases have no relevance to the costs of employment in respect of employees who already earn significantly more.

Since SSP’s introduction, the proportion of employers choosing to go beyond it and provide OSP has fallen, from 56% in 1988<sup>40</sup> to 28% in 2019.<sup>41</sup>

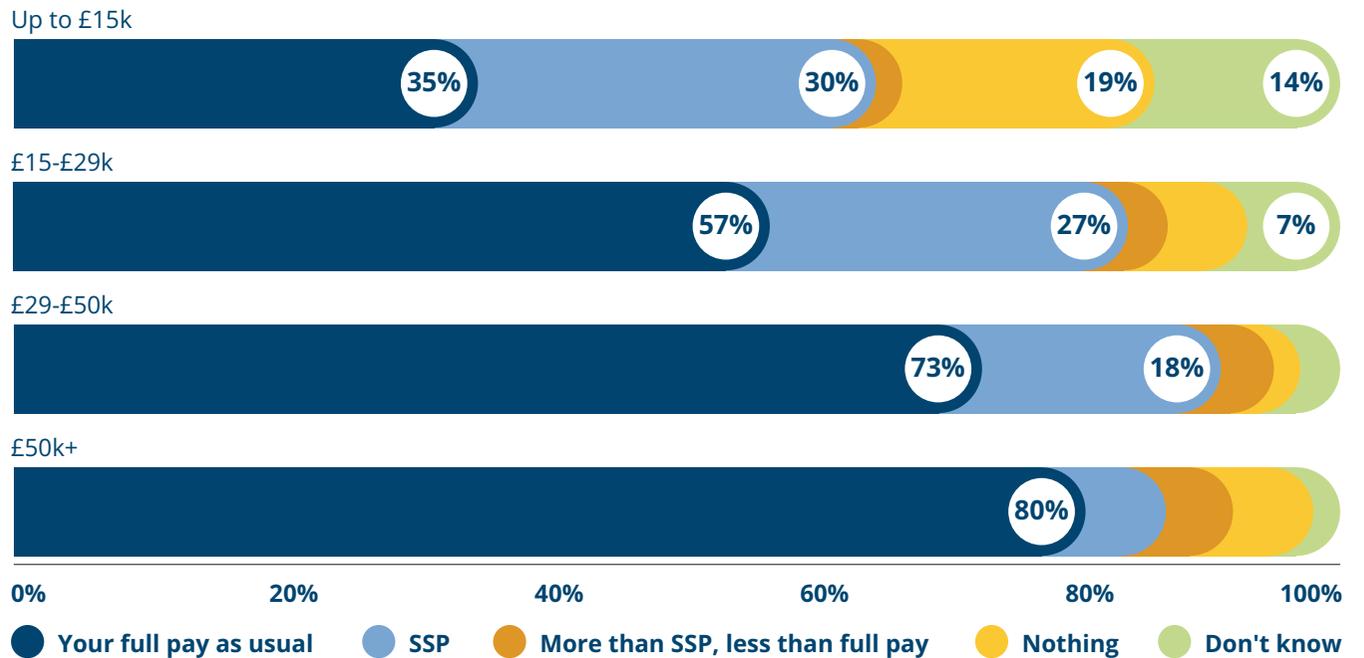
Despite this, the number of employees employed in businesses relying on the statutory minimum is smaller than this would suggest. For example, survey evidence suggests that six in ten workers (57%) receive their usual full pay when they are off sick, whether through the operation of formal OSP schemes, or more informal arrangements where pay simply continues in the case of absence.

<sup>40</sup> House of Commons, *House of Commons Debate* (2 November 1988, vol. 139, col. 645-6W)

<sup>41</sup> HM Government, *Health is everyone’s business: proposals to reduce ill health-related job loss* (2019), p. 35

SICK PAY IN THE UK  
— WHO GETS IT, AND HOW MUCH?

Employee-reported sick pay arrangements by income bracket, 2021<sup>42</sup>



Source: TUC, Sick Pay that Works

<sup>42</sup> TUC, based on polling by Britain Thinks

<sup>43</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

<sup>44</sup> Department for Work and Pensions and Department of Health and Social Care, *Health in the workplace – patterns of sickness absence, employer support, and employment retention* (2019), p. 26

<sup>45</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

Based on this evidence, up to around 70% of employees eligible for SSP are presently paid more through formal or informal arrangements.<sup>43</sup> It is thought that employees in large organisations (more than 250 employees) are 1.5 times more likely to be paid above the level of SSP than those in small organisations.<sup>44</sup>

The total direct employer costs in respect of employees for whom the costs of SSP are ‘binding’ (i.e. employees who are off sick and receiving sick pay at the level of SSP) fall somewhere in the range of £100 million to £250 million a year.<sup>45</sup>

The introduction of Statutory Sick Pay in the early 1980s<sup>46</sup> was a landmark reform — for the first time making all employers directly responsible for the financial security of employees off sick from work. The consequences of this change were far-reaching. Almost 40 years later, Statutory Sick Pay remains one of the main ways by which the relationship between an employer and a sick or disabled employee is currently regulated, while various state benefits have come and gone.

But, as the world of work has evolved, Statutory Sick Pay has failed to keep up. Over the last 40 years, the way we all live and work has changed dramatically, with many more of us working flexibly, part-time or in the gig economy. SSP has also not evolved to take or ageing population into account, or to learn from the policy successes in other advanced economies. The result is a sick pay system that is no longer fit for purpose.

This chapter provides an overview of some of the adverse impacts of the current system.



### Higher levels of insecurity and poverty

The pandemic has brought into sharp focus the extent to which those in receipt of SSP suffer from a lack of a safety net. The equivalent gross hourly rate for those on SSP is only £2.76.<sup>47</sup> This is much lower than similar advanced economies.

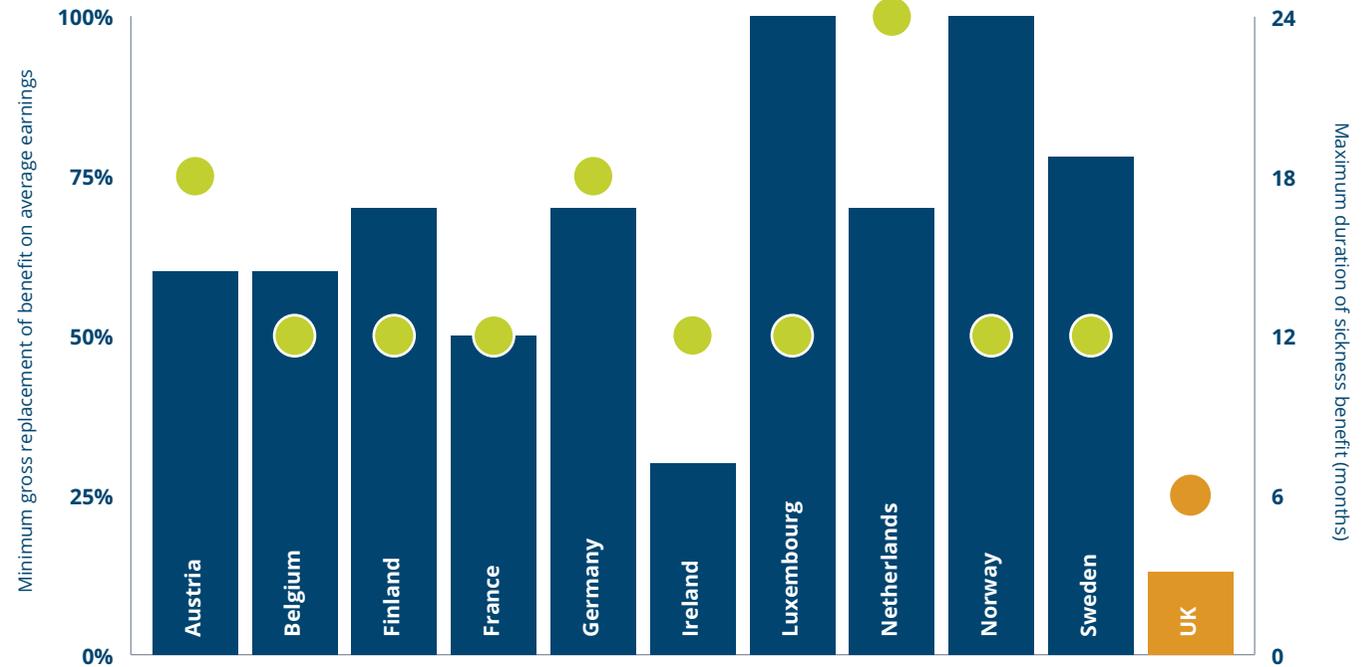
In many other developed countries, the sick pay system prevents a sharp fall in income that risks making a worker's financial circumstances precarious.<sup>48</sup> A Trades Union Congress analysis highlighted the low replacement rate in the UK compared to similar European nations.

<sup>46</sup> [Social Security and Housing Benefits Act 1982](#)

<sup>47</sup> This represents the weekly SSP payment of £99.35 spread over a 36-hour week

<sup>48</sup> [Institute for Public Policy Research, \*Working Well: A Plan to Reduce Long-Term Sickness Absence\* \(2017\), p. 42](#)

Comparison of sickness benefit and sick pay protection in selected developed countries, 2012<sup>49</sup>



Where replacement rate varies over period of sickness or between groups of employees, the highest rate is reported. Durations expressed as the nearest number of complete months to the statutory maximum. Where a range exists, the upper bound is reported.

UK: flat-rate benefit (replacement rate based on average earnings). France: employer makes up difference between benefit and salary, so replacement rate is 100% in practice.

<sup>49</sup> Adapted from TUC, *Welfare States: How generous are British benefits compared with other rich nations?* (2016), p. 28

The existing evidence base paints a worrying picture of the human impact of low sick pay.

- Two-thirds of respondents surveyed by Mind said that receiving SSP had caused them financial problems. For some it had caused them to go into debt. A quarter of respondents specifically mentioned that SSP had impacted on their ability to buy food or pay their bills.<sup>50</sup>
- A Chartered Institute of Personnel and Development (CIPD) survey found that just under a quarter (23%) of workers who would receive either SSP or no pay in event of sickness absence due to coronavirus would struggle to pay bills or buy food within just a single week. This figure rose to a third (33%) of respondents in the event of needing to take 2 weeks off work.<sup>51</sup>

Research suggests that the impacts of SSP go beyond the financial and can even catalyse a vicious cycle. Three-fifths of respondents to Mind's survey stated that the reduction in income as a result of SSP negatively impacted on their mental health, with a quarter adding that this impact had slowed down their recovery.

"I was signed off due to depression and anxiety. I was meant to take 2 weeks to recover but I couldn't as I was constantly aware that I would not be getting paid much and I'll struggle financially. It really affected me."<sup>52</sup>

<sup>50</sup> Mind, *Statutory Sick Pay: Our Research* (2019)

<sup>51</sup> CIPD, *Some workers face financial hardship in just one week if they have to take time off for Coronavirus* (2020)

<sup>52</sup> Mind, *Statutory Sick Pay: Our Research* (2019)

<sup>53</sup> Case study provided by Reframe Cancer Support. The patient's name has been changed to protect their privacy.

The low rate of SSP impeding recovery is not a phenomenon limited to those with mental health conditions. Cancer patients have also faced worrying challenges as a result of a lack of protection. Cancer support specialists Reframe provide case studies as part of research conducted for this report, such as the one below.

### Hannah's story<sup>53</sup>

Following her cancer diagnosis, Hannah was unable to work as her treatment regime rendered her bedbound. She was only entitled to SSP from her employer, and this had a significant impact on her finances.

A prolonged period away from work caused money to become so tight that Hannah consulted with her treating care team to reduce her treatment dosage so she could return to work part-time.

Hannah returned to work part-time. Because SSP does not accommodate so-called 'phased returns', she was not entitled to any sick pay for the hours she was not able to work. Despite her returning to work part-time, Hannah was still struggling to make ends meet.

With the help of support from Reframe, Hannah was able to make a claim for state benefits and was referred to local food banks. Hannah also needed to contact her energy supplier and tell them about her cancer diagnosis to make sure they wouldn't cut off the supply to her home.

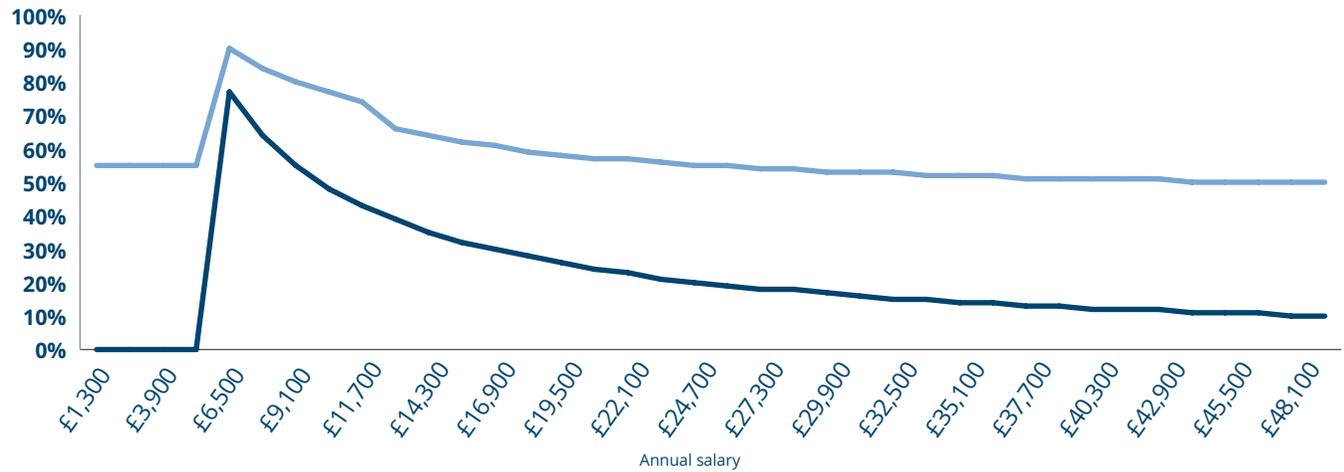
This analysis suggests that, at present, SSP fails to provide a basic safety net for some of the most vulnerable workers in the UK. This is a significant problem on its own and should be particularly concerning in the context of rising costs for essential expenditure such as food and energy.



**Higher welfare spending**

Some of those receiving SSP will be eligible for social security benefits, although not all will realise this or make a claim. Where employees are claiming social security benefits (now likely to be Universal Credit), low replacement rates are counteracted somewhat by the tax and benefits system. As their weekly income falls, the tax they owe decreases and their benefit award may increase. This offsets somewhat the income shock of moving onto SSP and means that net incomes are not as heavily impacted as gross incomes. The below chart shows the theoretical impact of tax and benefits.

**Notional replacement rate of SSP, and effective replacement rate after tax and benefits (%)<sup>54</sup>**



● **Current SSP replacement rate (%)**    ● **SSP replacement rate (%) with UC**

Source: WPI Economics modelling

<sup>54</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

Many employees on SSP, in practice, will not be claiming benefits. This means they will not see a rise that compensates their move onto SSP. Very few of those earning more than £25,000 a year are in families that claim means-tested benefits, and so the vast majority of people earning above £25,000 per year amount face an effective replacement rate lower than 20%.

While it is positive that the benefits system provides an additional emergency safety net for the individual, it comes with a significant burden for the Exchequer. This is a little-raised point in recent discussion of SSP: Its low rate shifts the burden of supporting sick employees towards the state, significantly increasing welfare spending.

Overall, the Exchequer costs of the current system are estimated to be around £850 million a year,<sup>55</sup> including people who are not paid SSP because they are off sick for fewer than 4 days but nonetheless see a reduction in earnings and therefore an increase in benefits such as Universal Credit. **In short, the direct costs of the current system are likely greater for the government than for business.**

On top of this, the current system does not effectively incentivise or support employers to invest in preventing and managing sickness absence, which is likely to increase disability benefit onflow.

Disability benefit spending was projected to be a record £58 billion in 2021/22, of which £33 billion of support was for working-age people.<sup>56</sup>



### Limited employer incentives

Employers play a central role in managing and reducing levels of sickness absence.

A review of international systems of sick pay conducted by the OECD in 2010 concluded that employers should “be given a much more prominent role in sickness monitoring and sickness management [as] they are in a good position to judge what work their employees can still do and what work or workplace adjustments might be needed to [address] the health problem that has arisen.”<sup>57</sup>

<sup>55</sup> *Ibid*

<sup>56</sup> Department for Work and Pensions, *Shaping Future Support: The Health and Disability Green Paper* (2021), pp. 10-13

<sup>57</sup> OECD, *Sickness, Disability and Work – Breaking the Barriers* (2010), p. 14

There is a growing evidence base about the key elements of support needed to help employees with health conditions to remain in work:

- Active management of sickness absence, early intervention and multidisciplinary support
- Adjustments to the workplace, tasks and hours
- Access to expert-led, impartial advice (e.g. on capability, return to work planning)
- Time off and adequate income to support recovery.<sup>58</sup>



### Group Income Protection

A growing number<sup>59</sup> of businesses are using Group Income Protection Insurance to address employee health needs. Group Income Protection is a product which has been specifically designed to prevent and proactively manage sickness absence and support returns to work. Group Income Protection is one solution available to employers to help them take care of an employee if an illness or injury threatens their ability to work.

An employer takes out the policy to cover their promise to provide sick pay to employees if they are unable to work for a prolonged period because of illness or injury. Group Income Protection policies are available to SMEs with as few as three employees, right through to the largest employers, and typically provide:

- **Personalised and tailored early intervention and rehabilitation support** to help an employee back to work, aiming to reduce the length of sickness absence
- **Preventative services designed to improve general employee health and wellbeing**, empower

employees to better manage existing health conditions, or improve line manager capability to deal with absence and health issues

- A **financial benefit if the employee is unable to work due to illness or injury**, meaning that — in addition to financial security and peace of mind — the employee will continue to contribute to society through tax and National Insurance contributions, and be less reliant on means-tested state welfare benefits.

A Group Income Protection premium is a known expense that can be budgeted for, providing certainty for business over costs and ensuring that employees are protected when absence occurs regardless of other pressures on the business.

There are also often a range of preventative and rehabilitation services available as needed, even in advance of any potential claim against the policy. Because the support services are arranged by the insurer, the employer does not face the difficulties of evaluating and procuring them themselves, and benefits from the insurer's economies of scale.

<sup>58</sup> Adapted from HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), pp. 12-13

<sup>59</sup> Visavadia, H., 'Swiss Re: Group risk policies rose 4.1% in 2021', Cover (20 April 2022)

While many employers are already proactively and effectively supporting their staff at work, there are wide variation in employers' capability across the UK, with smaller employers typically at a particular disadvantage. This is often because smaller employers are more likely to:

- Lack time, staff, and capital to invest in expert support or health interventions
- Be unsure whether the benefits of investing in employee health outweighs the cost
- Have more limited knowledge about their legal responsibilities surrounding managing sickness absence
- Have less access to expert advice, such as occupational health support.<sup>60</sup>

Given the positive impact that services like Group Income Protection can have, the importance of employers playing a greater role in supporting employees in returning to work is clear. However, employers will only be engaged in these types of activities where there is an incentive for them to do so. The government believes that too low a rate of sick pay undermines the economic incentive for employers to invest in reducing absence.<sup>61</sup> Even putting aside the low rate of SSP, the current system is also only focused on prescribing payments. It also does not encourage or guide employers to provide comprehensive and effective sickness absence management support.

Reform of SSP has the potential to strengthen employer incentives to reduce levels of sickness absence. Insurance models offer a way to pool risks and resources with other firms, and allow even the smallest employers to access a comprehensive package of support which has a strong track record of improving absence outcomes. Insurance models have also been shown internationally to improve absence levels over time through 'experience rating' — in the Netherlands, this effect reduced disability benefit onflows an estimated 15%.<sup>62</sup> At a population level, anything approaching this scale of impact in the UK would be strongly positive for a whole range of economic, health and social outcomes.

<sup>60</sup> Adapted from HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), pp. 14-15

<sup>61</sup> HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), pp. 34-35

<sup>62</sup> Koning, P. and Lindeboom, M., 'The Rise and Fall of Disability Insurance Enrolment in the Netherlands' in *Journal of Economic Perspectives*, Vol. 29, No. 2 (2015), p. 159

## OUR FIVE SUCCESS CRITERIA

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### What should a new system achieve?

It is clear that the current system is not working for our economy, for our health or for our society.

To help us design a more effective system, we need to be clear about what we want to achieve. As part of our research, we held discussions with a wide range of stakeholders. Based on what we heard, we believe that a new system needs to deliver five key criteria in order to succeed:



**Targeted safety net:** The rate of sick pay needs to be sufficient to ensure that those who are unable to work due to sickness are protected from poverty and insecurity, while encouraging a return to work where possible. Differing employer capabilities mean a new system needs to provide a responsible baseline, rather than an overly prescriptive solution.



**Employer action:** The workplace is vital for addressing the UK's levels of sickness absence. Maximising the role of employers needs to be at the heart of future sick pay policy as a result. This needs to be delivered through a mixture of incentives and support for businesses.



**Business benefit:** The system needs to support a globally competitive economy and businesses, meaning that it must work for employers as much as it works for employees. That means that it should help reduce costs to business and the wider economy, as well as support hiring, investment and innovation.



**Exchequer benefit:** Reform needs to improve the UK's fiscal position, by increasing tax revenue and reducing spending on means-tested benefits. Financial support to businesses from Government should minimise the potential for deadweight loss.



**Broad support:** Reform should forge a new political consensus and appeal to a range of stakeholders across society, much in the same way as reforms to the private pensions system that arose from the Turner Commission.

### Changing SSP alone will not be enough

Given the significant issues with the current system of SSP, it is no surprise that many have called for tweaks to the current system. Some of the previously suggested proposals have been highlighted in past government consultations.<sup>63</sup> These ideas offer improvements on the current system, but none satisfies our five criteria or creates the step change impact needed to tackle UK sickness absence.

### Analysis of selected existing proposals for SSP reform<sup>64</sup>

|                                     | Impact of change   | Numbers affected  | Cost to business       | Commentary   |
|-------------------------------------|--|---|------------------------|--|
| <b>Remove waiting days</b>          | Sick pay payable from day 1 of absence                       | Doubles the number of SSP-eligible days to around 36 million                                      | Up to £500 million     | Extends support to those with short spells of absence. Increases costs for businesses — but does little to incentivise companies to provide more support to those with longer spells of absence (costs for these employees would be unaffected)<br>Replacement rate still very low |
| <b>Remove time limit</b>            | Allows for very long-term SSP beyond 28 weeks                | Low — few spells last this long   | Less than £100 million | No additional early intervention incentive and no increase to support before 28 weeks<br>Replacement rate still very low   |
| <b>Increasing flexibility</b>       | Allows ‘phased returns’ to work (i.e. part-wages, part-SSP). | Unknown — but likely moderate   | Likely to be low       | Helpful in supporting those transitioning back to work or managing fluctuating conditions<br>Limited additional incentive for employers to improve support<br>Replacement rate still very low  |
| <b>Paid at National Living Wage</b> | SSP paid to eligible staff at NLW rate                       | All those currently receiving SSP<br>Also brings into scope many currently handled by OSP schemes | Up to £1 billion       | May increase incentives for firms to invest in absence support, but rate increase alone does not guarantee this. Could create ‘perverse incentives’.   |

<sup>63</sup> HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), pp. 25-35

<sup>64</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*

## OUR FIVE SUCCESS CRITERIA

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Each of these options offers some improvement on the current SSP system, but in isolation most are unlikely to have a significant positive impact on return-to-work outcomes or levels of protection for sick employees, with the exception of increasing the rate to match the National Living Wage.

This would represent a significant increase in employee protection but comes at a total direct employer cost of around £1 billion a year.<sup>65</sup> Without mitigation of these costs and the provision of significant return to work support, it is unlikely that such a business burden would be desirable or politically feasible.

The same is true when implementing all the above options together as a package. This option would improve living standards and provide more flexible financial support, plus deliver Exchequer savings. However, the combined cost would be high, and such a package offers little support for businesses to improve return to work outcomes. We judge this package to offer little direct business benefit, and so it also does not meet our five success criteria.

### Assessment of current system and package of selected SSP reforms against success criteria

|                     | Current SSP system | Package of selected SSP reforms |
|---------------------|--------------------|---------------------------------|
| Targeted safety net | Very poor          | Moderate                        |
| Employer action     | Very poor          | Moderate                        |
| Business benefit    | Moderate           | Poor                            |
| Exchequer benefit   | Poor               | Adequate                        |
| Broad support       | Very poor          | Poor                            |

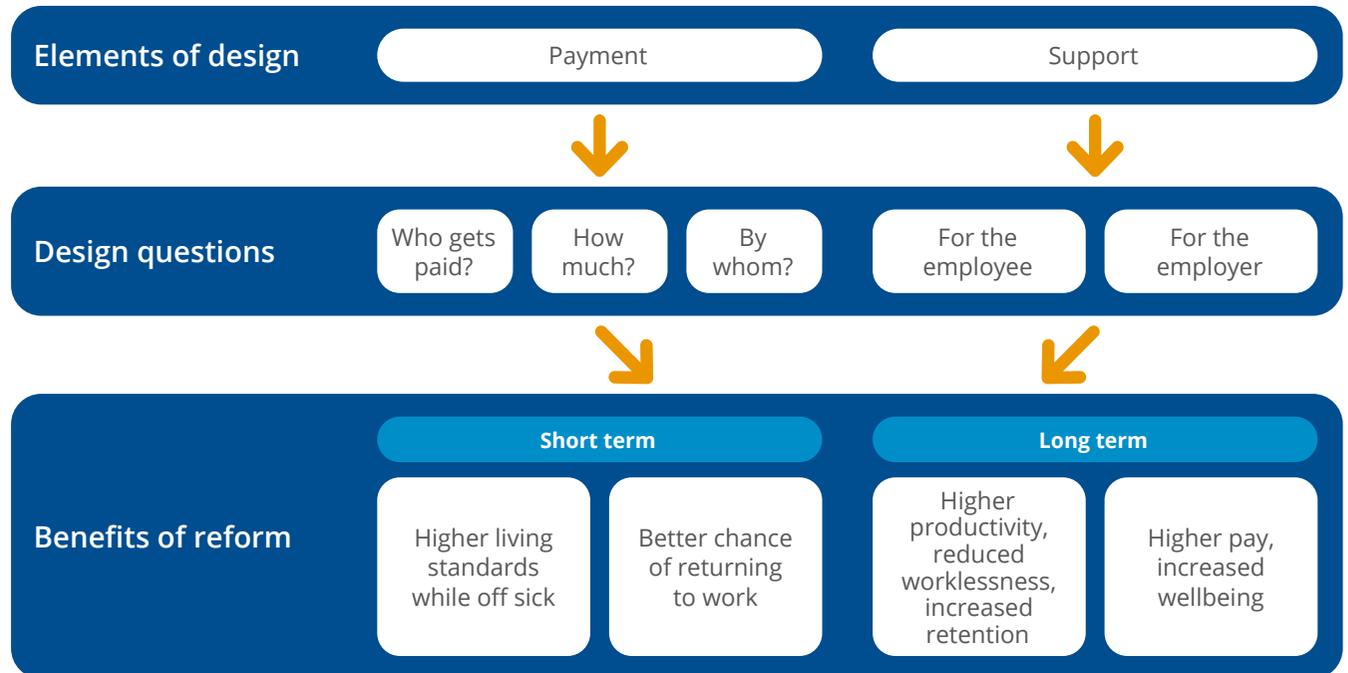
<sup>65</sup> *Ibid*

Minor tweaks to the current SSP system can't achieve the step change needed, and are unlikely to secure widespread support from the business community or politicians.

To bring about the scale of change needed in our system, changes to the system of SSP payments need to be partnered with a wider system of proactive support that makes it easier for employers and employees to work together to secure a sustainable return to work where possible.

To be successful, a new system needs to consider questions relating to:

- **Payment:** Who gets paid, how much, and by whom/ what mechanism
- **Support:** Both for employers and employees to prevent sickness absence and to manage health issues proactively and effectively if they arise.



### Payment

A new system must consider three issues:

- Who is eligible
- How much they get paid
- Who pays them.

### Who is eligible?

The current system was designed for a different era, when workers were more likely to receive their week's wages in cash and without the diversity of working practices and hours that characterises today's labour market. A new system should be easier and fairer, while controlling employer costs and minimising legislative complexity for policymakers.

Under our proposal:



**Eligibility is enhanced:** By extending eligibility to include workers with earnings below the Lower Earnings Limit of £123 per week, around 2 million more workers (70% of them women)<sup>66</sup> would gain protection in the event of sickness that they currently lack today. This policy is supported by the Trades Union Congress and Federation of Small Businesses.<sup>67</sup>



**Flexibility is built in:** By shifting to an hourly rather than weekly calculation, and allowing sick pay and regular earnings simultaneously, the system will easily take account of part-time or flexible working. Employees will have the option of a 'phased return' to work, which can be make a return to work more sustainable and successful.



**Calculation is simpler:** The existing concept of 'qualifying days' makes calculating sick pay for employees with working patterns that change week to week very difficult. The new system could do away with this anachronism entirely with no adverse effects.



**Waiting days remain:** While there is a strong argument for extending eligibility forwards to the first day of sickness absence, in practise this approach would be inordinately expensive as the vast majority of spells last for fewer than 4 days. On balance, we believe that maintaining waiting days is the right approach for now, but this could be revisited later.



**Length of entitlement remains:** Although extending sick pay beyond the current 28 weeks appears to provide greater employee protection at little overall cost, there are a number of issues with this approach. While the overall business cost is low, individual businesses could see unfortunate and unavoidable 'peaks' of very long-term, very expensive absence. At the same time, changes to SSP duration have knock-on impacts to the welfare system, and this would likely mean long consultations and difficult legislative change.

<sup>66</sup> TUC, *TUC accuses government of abandoning low-paid workers after it ditches sick pay reforms* (2021)

<sup>67</sup> FSB, *FSB and TUC call on Chancellor to deliver sick pay for all* (2022)

### How much are people paid?

The generosity of sick pay has a number of important first and second order effects. Put simply, low rates of sick pay (as in the current system) help to control employer costs at the expense of protections for sick employees, while for higher rates of sick pay the reverse is true. The second order effects are more complicated. As seen in the previous chapter, the current system's low flat rate has a negative Exchequer impact through increased spending on means-tested benefits, and could affect value judgements for employers about the benefits of increased investment in absence management.

The mechanism by which to set a new rate presents its own challenges. A flat rate is the simplest to administer and can effectively control costs, but — as now — carries the risk of creating undesirable outcomes for certain workers depending on where it is set. A percentage replacement rate could deliver a more appropriate safety net for different groups, but costs could spiral if not capped. Without a 'floor', some workers would receive a lower level of protection than they have today, which is likely not to be politically acceptable. These options are considered in more detail below.

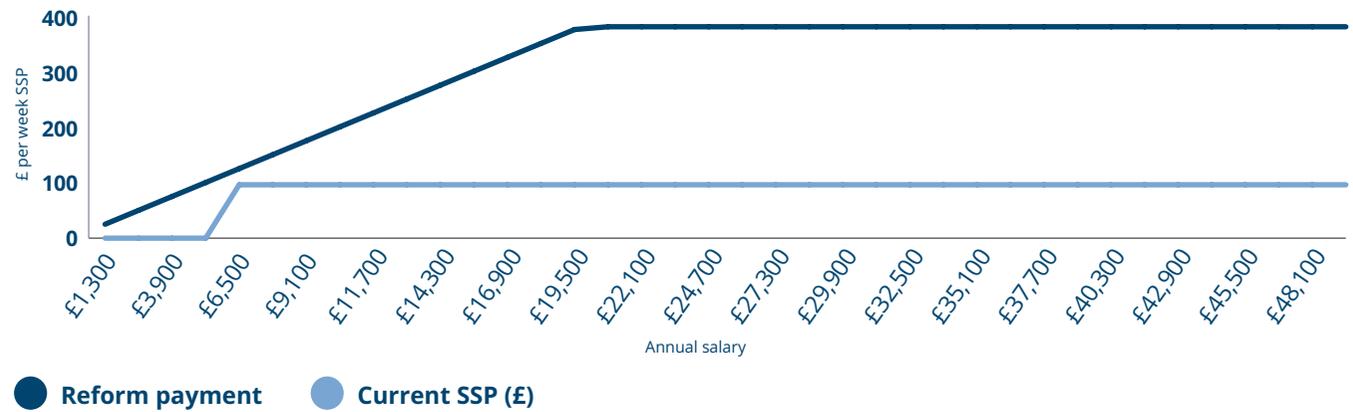
### Option 1 — Paid at Minimum Wage

One common suggestion is to simply increase the level of sick pay to the equivalent of the hourly rate of the applicable National Minimum Wage or National Living Wage. This is administratively straightforward and increases worker protection substantially.

However, most people earning below £20,000 a year would see a replacement rate of 100% under such a system, and this creates the risk of a 'moral hazard' effect which is likely to undermine the acceptability of such a policy to businesses. The cost for employers would be, as a minimum, around £700 million a year. Assuming that all the costs were borne by employers, there would be Exchequer savings through reduced social security payments and increased taxes of around £220 million a year.<sup>68</sup>

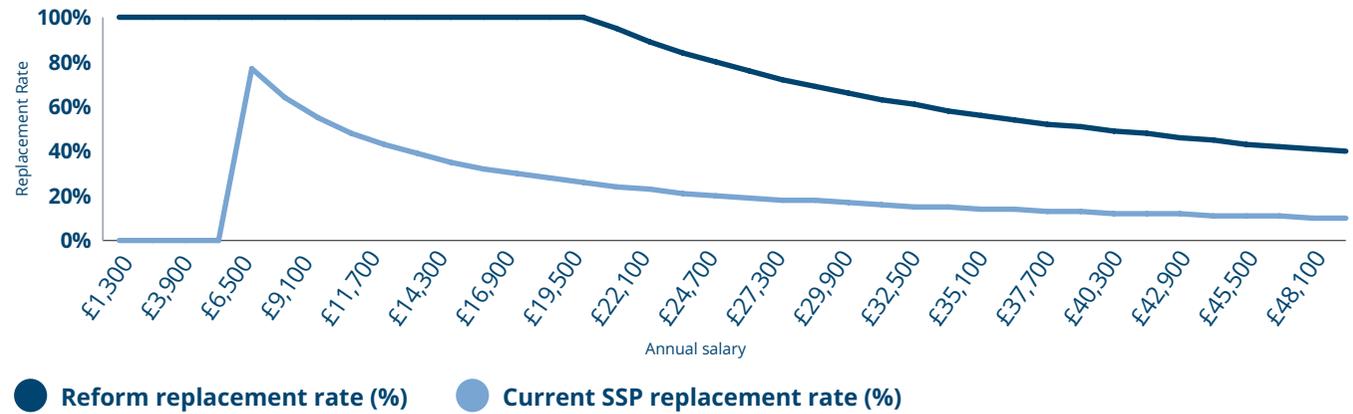
<sup>68</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

Weekly sick pay under 'NLW-equivalent rate' proposal vs. present system (£)



Source: WPI Economics modelling

Replacement rate of 'NLW-equivalent rate' proposal vs. present system (%)



Source: WPI Economics modelling

**Option 2 — Static replacement rate of 60%**

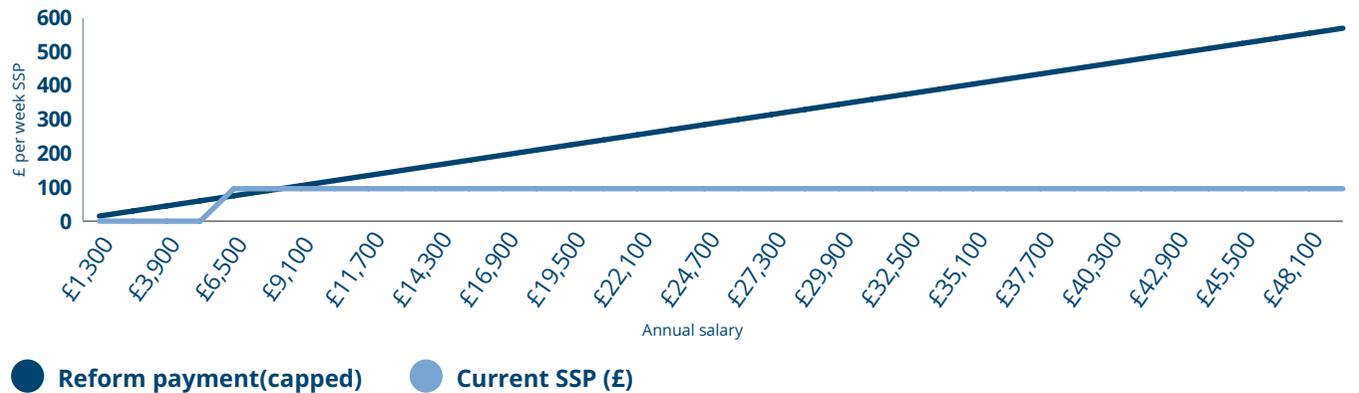
An alternative approach, akin to a ‘Continental’ style social security system, is to target a given replacement rate, paying sick employees a set proportion of their normal salary. This allows living standards to be supported while retaining ‘work incentive’ effects and avoiding moral hazard. Typical European replacement rates average 50%-70%<sup>69</sup>, and similar rates are seen in insurance products.<sup>70</sup>

This approach would also be relatively simple. However, it would be a big departure from the current system in that statutory payments linked to someone’s salary could continue all the way up the income scale, meaning those on higher incomes could receive far higher levels of sick pay than today — at a concomitant business cost. Additional business costs would be around £700 million a year.<sup>71</sup>

At the same time, workers at the lower end of the income distribution could actually see their level of protection decline — those earning just above the Lower Earnings Limit in the present system (quite often people working part-time in jobs earning the National Living Wage) would see the biggest drop.

With some of the UK’s poorest workers losing out under such a scheme, and the majority of the benefits accruing to those with salaries of over £25,000, this option is unlikely to garner cross-party support or be endorsed by trade unions. At a replacement rate of 60%, we estimate Exchequer savings through reduced social security payments and increased taxes of about £150 million a year.<sup>72</sup>

**Weekly sick pay under ‘60% replacement rate’ proposal vs. present system (£)**



Source: WPI Economics modelling

<sup>69</sup> TUC, *Welfare States: How generous are British benefits compared with other rich nations?* (2016), p. 28

<sup>70</sup> MoneyHelper, *What is income protection insurance?* (2022)

<sup>71</sup> WPI Economics, 2022, *Statutory Sick Pay: modelling costs and reforms*

<sup>72</sup> *Ibid*

Replacement rate of 60% vs. present system



● Reform replacement rate (%) ● Current SSP replacement rate (%)

Source: WPI Economics modelling

Option 3 — Targeted Support

The above options highlighted the challenges posed by simplistic solutions and led us to the conclusion that the rate needed to achieve three objectives:

- Achieving replacement rates of between 50% and 70% for most workers
- Acting as true safety net, offering the greatest protection to workers on the lowest earnings who are the least likely to be covered by occupational sick pay schemes
- Avoiding seeing low-paid workers lose out as a result of the new system.

To do this, we propose a new rate based on:

- A universal standard allowance based on the NLW up to 10 hours of work, pro-rated for the number of days off sick — meaning that those on extremely low incomes see very high replacement rates, and there are no losers compared to the current SSP system
- A top-up replacement rate providing 35% of weekly pay on top of the standard allowance, again pro-rated for the number of days off sick, resulting in gross replacement rates for those earning up to £30,000 that exceed 40%
- A weekly cap on costs set at £250 to ensure that costs are managed and that the system is focused on a statutory minimum, rather than trying to replace occupational schemes that are regularly provided for those on higher salaries.

This option achieves our three objectives to provide targeted and effective support. Around 60% of the benefits would be accrued by those on salaries of less than £25,000 a year. It also comes at a substantially lower cost to businesses than either an enhanced flat rate or static replacement rate option, at an additional cost of around £400 million.<sup>73</sup>

Direct Exchequer savings (before any behaviour change) through reduced social security payments and increased taxes would be about £120 million a year. On top of these, WPI Economics modelling projects further savings of at least £500 million a year because of reduced incidence of sickness absence, and fewer people falling out of work and onto sickness and disability benefits.<sup>74</sup>

**Weekly sick pay under 'targeted support' proposal vs. present system (£)**

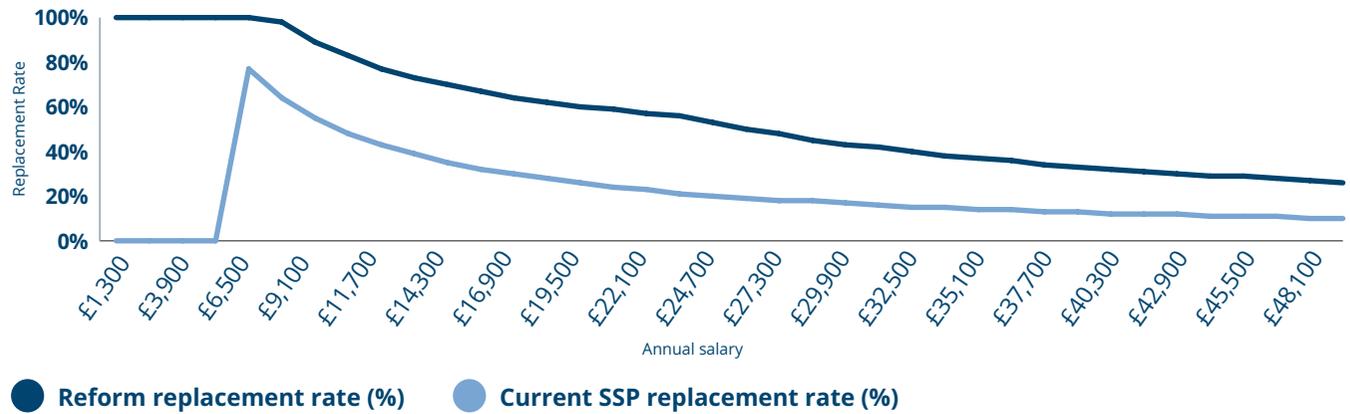


Source: WPI Economics modelling

<sup>73</sup> Ibid

<sup>74</sup> Ibid

Replacement rate of 'targeted support' proposal vs. present system (%)



Source: WPI Economics modelling

Discussing each of the proposed options for rate reform reveals that the status quo represents the worst of all worlds: low levels of worker protection, limited employer incentives and high (largely hidden) taxpayer costs. Our third option provides targeted support at a controlled cost.

## STATUTORY SICKNESS SUPPORT

|                     | Current SSP system | Option 1 — Minimum Wage | Option 2 — Replacement Rate | Option 3 — Targeted Support |
|---------------------|--------------------|-------------------------|-----------------------------|-----------------------------|
| Targeted safety net | No                 | Unbalanced              | Unbalanced                  | Balanced                    |
| Employer action     | No                 | Some                    | Some                        | Some                        |
| Exchequer benefit   | Limited            | Good                    | Good                        | Good                        |
| Broad support       | No                 | Unlikely                | Unlikely                    | Possible                    |

Though the least burdensome, the first order costs for business presented by Option 3 do present a hurdle to securing broad support, and so it is important to consider how changes to the rate of sick pay interact with other elements of the proposed policy design, and the wider existing policy landscape. This means considering of who pays, and the package of business support available.

### Who pays?

The system of employers being responsible for the administration and payment (transfer of funds) of sick pay has worked well, and we do not propose fundamentally changing this. However, the question of who bears the ultimate cost of sick pay is an important one.

Employers bearing a higher proportion of sick pay costs increases burden on business, but brings Exchequer benefits in the form of reduced spending on means-tested benefits and increased tax receipts. Alternatively, the government could choose to bear some or all of the costs of sick pay, though this is likely to have a detrimental fiscal impact.

We have considered four potential approaches to this question.

1. **100% employer-funded:** This option sends a strong signal to businesses that they must act. It substantially increases employer costs without state support.
2. **100% state-funded:** A big departure from the current system, this option would increase taxpayer costs significantly. Some would argue this could reduce employers' incentives to manage sickness absence effectively. This option would likely need to be accompanied by a highly prescriptive system governing absence management to reduce taxpayer spending.
3. **Employer-funded, with targeted state support:** This option would see the Exchequer redeploy some of the savings it makes through reduced social security payments and increased tax take under a more generous employer-funded system to give substantial help to businesses needing the most support to improve their workplace health programme.
4. **Employee contribution:** This option would see employees contribute from their salary to fund an enhanced sick pay system. Given the current political and economic climate, and the present high burden of taxation, this option is unlikely to be politically feasible.

### Assessment of suitability of funding models against key success criteria

|                   | 100% employer-funded | 100% state-funded | Employer-funded with state support | Employee contribution |
|-------------------|----------------------|-------------------|------------------------------------|-----------------------|
| Employer action   | High                 | Low               | High                               | Unknown               |
| Business benefit  | Moderate             | High              | High                               | Moderate              |
| Exchequer benefit | High                 | Low               | High                               | Moderate              |
| Broad support     | Unlikely             | Unlikely          | Possible                           | Unlikely              |

### Support

We have demonstrated the benefits of a reformed rate that provides targeted support for employees at the lower end of the income distribution while still lifting the minimum level of protection for all workers and strongly incentivising proactive sickness absence management. At the same time, we believe there needs to be targeted support for employers to help them meet this challenge and the costs of improving the help and support they are able to offer their staff.

Given the scale of the policy challenge and the modelled Exchequer savings from a reformed rate of sick pay, £500 million should be unlocked to level up the health of employees in SMEs across the UK.<sup>75</sup> There is a strong and growing international and domestic evidence base supporting a wide range of workplace health interventions. In the UK, the government is supporting this work by its joint Work and Health Unit, which by mid-2018 had already launched projects to improve workplace health and disability employment worth around £1 billion.

Stakeholders consulted as part of our research raised a range of potential routes forward. A brief discussion of these can be found below, and is followed by our preferred package.<sup>76</sup>

- 1. Unconditional employer rebate:** This option would see costs fully or partially rebated to SMEs or particular sectors that could be impacted more strongly by increases in sick pay. While it would be effective in supporting businesses to deal with sick pay costs, spending could quickly hit or outpace available funding, and some would argue it could act to diminish the incentives of employers to take effective action to better manage sickness absence. This option would not most efficiently target public funds towards effecting business action.
- 2. State-funded support service:** This option would use the money to create a publicly funded service (likely digitally delivered) to provide advice and support to employers to help them manage sickness absence better. It might also act as a 'gateway' to claim a conditional rebate of sick pay costs. Some local authorities run similar services today. The government previously ran a national service called Fit for Work, but this saw very low take-up from employers. Any new state-funded support service would therefore need to overcome the challenges Fit to Work faced.

- 3. Conditional employer rebate:** This option would provide a targeted rebate of sick pay costs to employers who were able to demonstrate they were effectively managing sickness absence. There are a range of approaches to this, including a rebate confined to a particular employee's absence journey, such as where it can be demonstrated that the employer has supported the employee through interventions such as a return-to-work plan. It may also occur at an organisational level, for instance by rebating sick pay costs incurred by businesses which meet certain prescribed standards. However such a scheme was designed, it would need to both deliver effective behaviour change among employers while also being simple to understand and administer.
- 4. Workplace health stimulus package:** This option would nudge businesses towards existing market solutions for workplace health support. Criteria could be set to support businesses to purchase support which was backed in the government's view by strong evidence. Such a scheme would allow businesses to improve their workplace health offering straight away, with the financial support being obtained either automatically by service providers, or through the tax system. The government has already set an ambition to see more SMEs take up both high-quality occupational health<sup>77</sup> and has indicated that Group Income Protection policies accompanied by high-quality services aimed at preventing ill health and offering return to work assistance offer valuable support.<sup>78</sup>

<sup>75</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

<sup>76</sup> House of Commons, *Written Answer UIN166484* (20 July 2018)

<sup>77</sup> HM Government, *Health is everyone's business: proposals to reduce ill health-related job loss* (2019), p.5

<sup>78</sup> HM Government, *Health is everyone's business – consultation response* (2021), p. 48

**Assessment of suitability of support package approaches against key success criteria**

|                   | Unconditional employer rebate | State-funded support service | Conditional employer rebate | Workplace health stimulus package |
|-------------------|-------------------------------|------------------------------|-----------------------------|-----------------------------------|
| Employer action   | Low-Moderate                  | Low-Moderate                 | High                        | High                              |
| Business benefit  | High                          | Moderate                     | High                        | High                              |
| Exchequer benefit | Low                           | Moderate                     | Moderate                    | Moderate                          |
| Broad support     | Unlikely                      | Unknown                      | Likely                      | Likely                            |

While an unconditional employer rebate would be popular with business, reviving smaller employers’ ability to claim back SSP costs that was progressively abolished over recent decades, it is unlikely to be popular with policymakers who might agree with the principle but could struggle to evidence the measure’s effectiveness in improving employee health overall.

A state-funded support service does have promise — it would present the opportunity to design a leading model to help reintegrate employees back into the workforce and could be embedded within with Jobcentre Plus. However, the government’s previous Fit for Work service failed to see expected take-up from employers,<sup>79</sup> despite being free of charge. A new service might be able to overcome the challenges experienced by Fit for Work, but it will take significant time to design and deliver. It would also place government in conflict with the existing market for workplace health and support, which has seen increased interest since the onset of the coronavirus pandemic and move to hybrid working.

Conditional employer rebates show promise as a way to strongly encourage employer action on sickness absence management. While designing an effective yet easy-to-use scheme does present some challenges, if done correctly it could lead to widespread changes in employer behaviour as it would directly link improvements in absence management to financial reward. The Federation of Small Businesses (FSB) recommends government introduce a sick pay rebate and use this scheme to “prompt positive sickness absence management among employers”.<sup>80</sup>

<sup>79</sup> House of Commons, House of Commons Debate (30 November 2017, vol. 632, col. 501)

<sup>80</sup> FSB, Business without barriers (2022), p. 65

A stimulus package for SMEs would also create a route for businesses who are considering improving their employee health offering, but who are unsure about the cost, to do so straight away and benefit from being able to access government-approved support more cheaply. This would have the advantage of helping businesses to access services that could work to prevent absence, and which serve to make them a more attractive employer in the ongoing war for talent.

The FSB has also found support among SMEs for financial help to access expert advice services such as occupational health, whether through direct subsidy or the tax system. It called for a subsidy scheme to be introduced over the next two years.<sup>81</sup>

### A shot in the arm for workplace health

We believe that British businesses will see reforms to sick pay and sickness absence management as a strong signal to act and further improve the offering they provide to employees, and that the presence of a rebate or stimulus scheme will amplify their motivation further.

Individual businesses will be best placed to understand whether the rebate scheme or the offer of stimulus works best for them. For instance, a business with dedicated HR support that feels confident in its ability to effectively manage the majority of absence cases without outside help might leverage the rebate scheme to secure a refund of its costs and take full credit for its contribution. Alternatively, a business with a less well-developed offering might wish to take advantage of the chance to quickly level up its capabilities with new external support backed by the government.

Both approaches could work well. We therefore recommend that government takes them both forwards in concert with any changes to sick pay, as coordinated action is likely to be a far stronger driver for behaviour change.

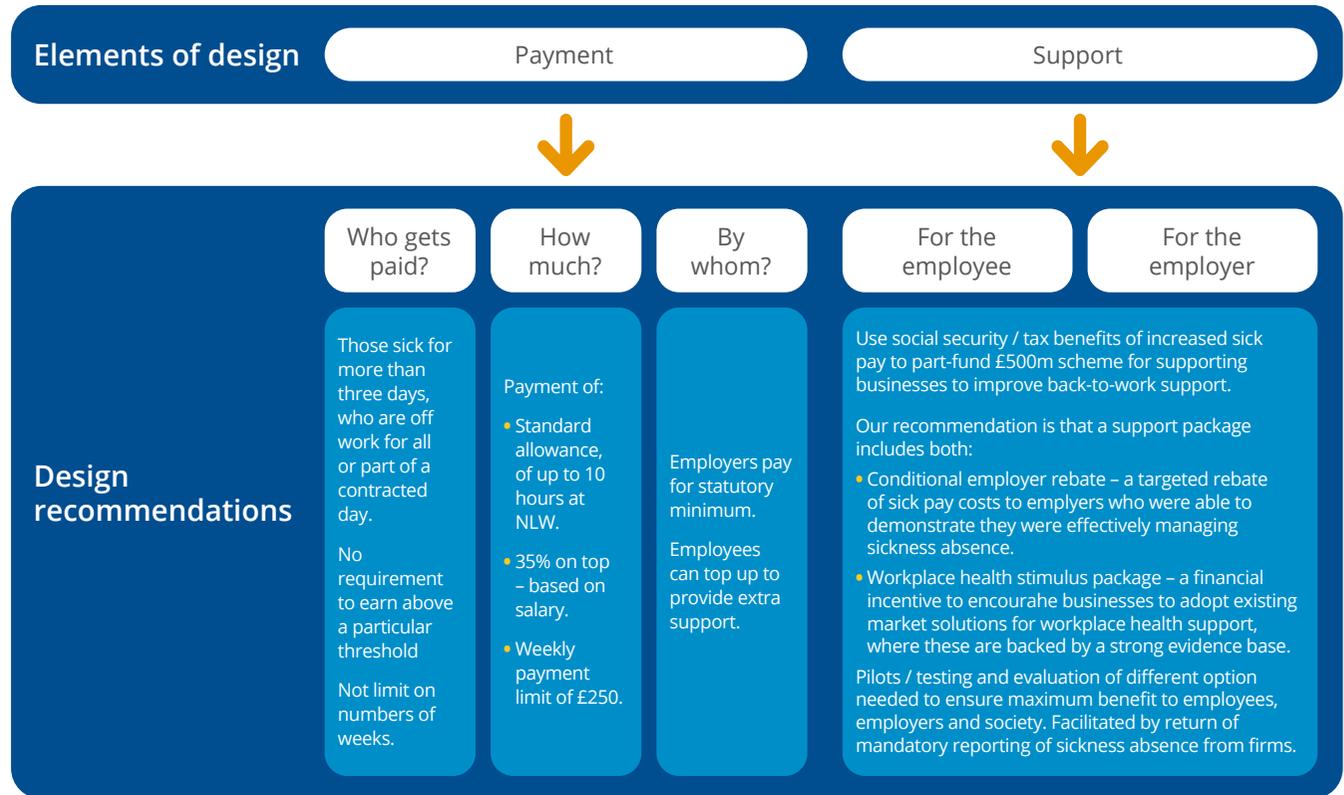
<sup>81</sup> FSB, Business without barriers (2022), p. 73

Summary of recommendations

SSP turns 40 years old this year — and it is a policy that is clearly showing its age. This report has shown that tackling the UK’s sickness absence problem is about moving from a system focused just on pay to one that provides proactive and effective support for both employees and employers. This approach is a

partnership between business, the state and workers themselves, and is designed to boost productivity and living standards across the UK.

While the detail of proposals must be developed in concert with business, trade unions, people with disabilities and their organisations, we believe that Statutory Sickness Support could look like this.



### Costs and benefits

The scale of the potential benefits of our proposed reform for individuals would be significant.

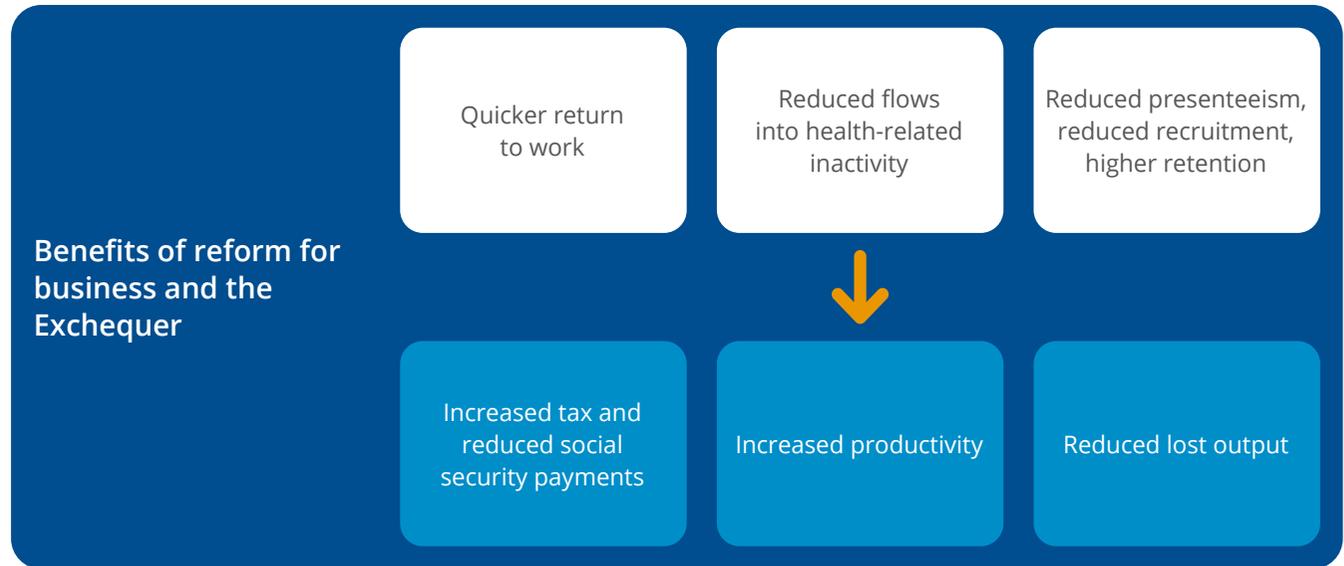
- ✓ Statutory minimum sickness pay replacement rates would increase for all workers — and access would be given to those on low incomes. Flexibility would also increase.
- ✓ The average replacement rate for someone receiving sick pay would increase from 28% on SSP to 63% under the new system.<sup>82</sup>
- ✓ Around 60% of the direct financial benefits of the scheme would go to those earning below £25,000 a year. When on sick leave, these individuals would receive an average of £103 a week — more than under the current SSP system. This would improve their ability to make ends meet.<sup>83</sup>
- ✓ It is very likely that many more workers would also have access to professional support to return to work, thereby increasing the likelihood and speed of a return to work and bringing significant longer-term financial, health and wellbeing benefits.

The reforms would also come with large benefits for employers and the Exchequer, with an understanding that these are key to making the case for reform. Overall, there are three key routes through which businesses and the Exchequer can benefit from the reform.

<sup>82</sup> WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms

<sup>83</sup> *Ibid*

**Benefits of an improved statutory sick pay and support system**



WPI Economics has sought to quantify these benefits, and a summary of their findings can be found below. The underlying methodology for that work is an extension of that used in *Improving Lives: the Work, Health and Disability Green Paper*, and is based on an updated version of its central case.<sup>84</sup>

<sup>84</sup> *Ibid*

### Lower incidence of leaving the workforce

Between 150,000 and 200,000 people a year flow onto disability benefits from work.<sup>85</sup> To understand the potential of this reform, take account of the proportion of those who come directly from sickness absence and are likely to have been on SSP (rather than an occupational scheme). Existing evidence suggests that well-managed sickness absence could lead to return to work rates from long-term sickness absence of 50%-90%.<sup>86</sup> However, given the scale of uncertainty, conservative assumptions indicate that this flow can be reduced by 20% for the group moving from Statutory Sick Pay to long-term disability benefit.<sup>87</sup> Results suggest:

- Initial benefits to the economy of up to **£800 million a year**
- Initial Exchequer benefits of up to **£300 million a year**.

These benefits will increase over time, as more people are supported to stay in work each year. This implies that, after 5 years, the benefits each year will amount to:

- Benefits to the economy in the fifth year are up to **£3.6 billion**
- Exchequer benefits in the fifth year of up to **£1.2 billion**.<sup>88</sup>

### Reduced sickness absence

With 17 million SSP-eligible sick days being taken each year, even a small reduction of these could lead to significant benefits. Again, evidence suggests that effective management of sickness absence can lead to quicker return to work and lower sickness absence.

For example, one study has suggested that using early intervention services such as vocational rehabilitation can reduce the average length of sickness absence by 17%.<sup>89</sup> Using a conservative assumption, of a 10% increase in the speed of return to work for the group on Statutory Sick Pay, suggests:

- Benefits to the economy of up to **£300 million a year**
- Exchequer benefits of up to **£100 million a year**.<sup>90</sup>

### Reduced presenteeism

Existing evidence suggests that the equivalent of 750 million days a year are lost to presenteeism in the UK economy.<sup>91</sup> Even if these costs were reduced by 1% overall, it would lead to very significant economic and social benefits.

We heard evidence from a range of stakeholders on the fact that the current system of SSP is a driver of some of these costs, as poorly managed sickness absence leads to employees attending work, even if they are not well enough. Assuming that the proportion of these costs attributable to those eligible for SSP are similar to the proportion of sickness absence that is attributable to those on SSP, it is expected that:

- Benefits to the economy could be up to **£100 million a year**
- Exchequer benefits could be up to **£50 million a year**.<sup>92</sup>

<sup>85</sup> **WPI Economics analysis.** Evidence suggests that around one in five (22%) of new claims for disability benefits comes following a period of sickness absence (Sissons, P., & Barnes, H., (2013), 'Getting back to work? Claim trajectories and destinations of Employment and Support Allowance claimants', in Journal of Poverty and Social Justice, Vol. 21 (3) (2013): 233-246. Cited in Holmes, E., Pickles, C., & Titley, H., (2015), Employment and Support Allowance: the case for change. (Reform, London). There are around 1,000,000 new claims for social security benefits each year (DWP StatXplore).

<sup>86</sup> **Social Market Foundation, *Insuring a return*** (2021), p. 58

<sup>87</sup> **WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms**

<sup>88</sup> *Ibid*

<sup>89</sup> **CEBR, *Long-term sickness absence costs UK businesses £4.17bn a year*** (2015)

<sup>90</sup> **WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms**

<sup>91</sup> **WPI Economics analysis of Vitality and RAND Europe,** Britain's Healthiest Workplace Survey 2016 data on sector-level presenteeism as cited in 'Health at Work' supplement in Financial Times (2016), p. 13

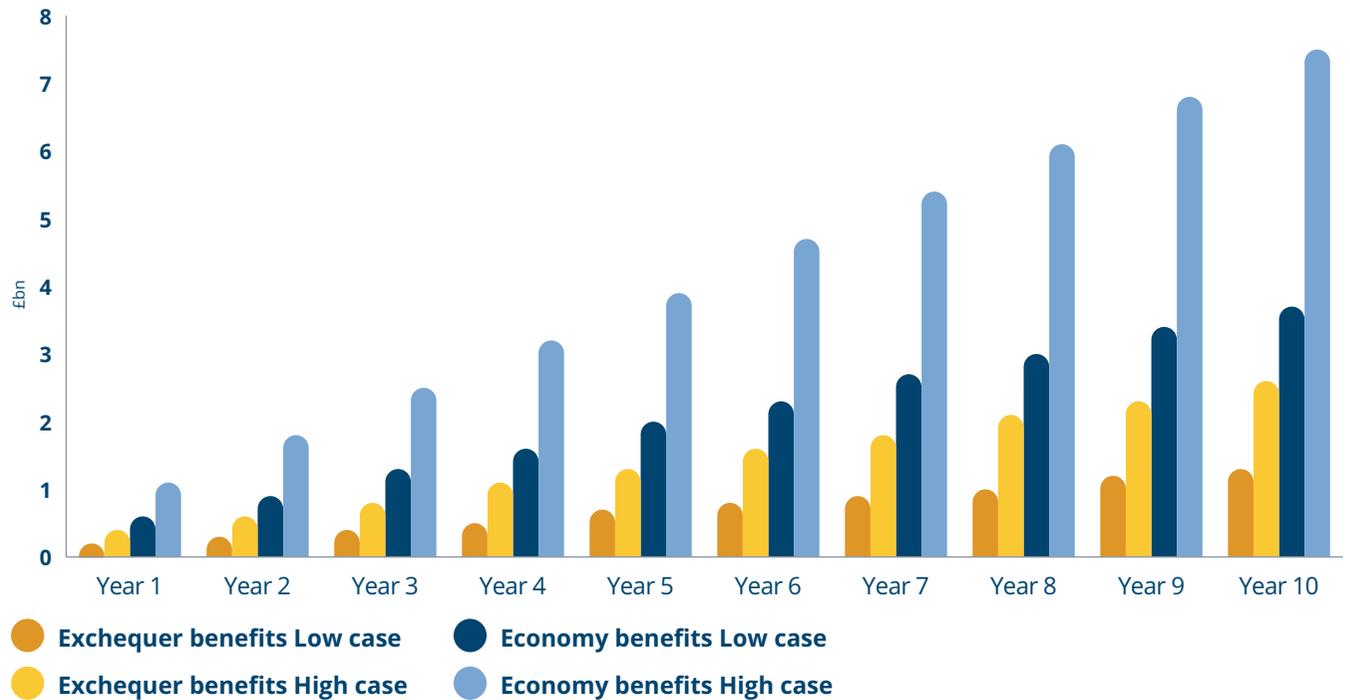
<sup>92</sup> **WPI Economics, 2022, Statutory Sick Pay: modelling costs and reforms**

Overall benefits

The below chart shows projected total economic and Exchequer benefits from the introduction of the Statutory Sickness Support scheme. It illustrates:

- In year one:
  - Benefits to the economy of up to £1.1 billion.
  - Exchequer benefits of up to £400 million.
- In year five:
  - Benefits to the economy of up to £3.9 billion.
  - Exchequer benefits of up to £1.3 billion.

**Projected economic and Exchequer benefits from introduction of Statutory Sickness Support<sup>93</sup>**



<sup>93</sup> *Ibid*

## CONCLUSION

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The UK has a sickness absence problem — one the current sick pay system is making worse. Today's system does not provide adequate financial support to those needing to take time off sick; nor does it incentivise or enable employers to deliver proactive support to help their employees return to work. Plus, it comes with huge hidden costs both through lost output in our economy and through increased social security payments to top up levels of employer-funded sick pay which are among the lowest in Europe.

To truly level up, improve our health, increase productivity and deliver the high-wage, high-skilled economy of the future, this situation must change. To do this, we need to move from an antiquated and anachronistic system of payments to a system that delivers real support.

Our proposed system — Statutory Sickness Support — would deliver universally improved financial support for employees and empower smaller businesses to level up their workplace health offering. It delivers immediate and significant benefits for individuals, businesses, the economy and our public finances.

The case for change is clear — all that's left to do now is deliver it.

## CONCLUSION

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