

# Group Income Protection

Group Income Protection (GIP), previously known as Permanent Health Insurance, is an employee benefit which has evolved over recent years. It now provides more than just an income for employees unable to work. There are many bolt-ons such as Employee Assistance Programmes and legal assistance for employers that make this benefit more valuable than ever before.

All types of employee benefits can have a positive effect on an employee's health and morale. A recent survey undertaken by a major insurer\* found that a large percentage of those questioned feel that by offering benefits, the employer values their employees and this in itself is believed to increase satisfaction levels and morale within a workforce, thus reducing sickness absence.

A survey\*\* recorded the top ten responses to the question 'Which benefits are most important to you?' – these were:

1. Pension
2. Private Medical Insurance
3. Extended Holiday
4. GIP
5. Critical Illness Cover
6. Life Assurance
7. 2nd Opinion Medical Service
8. Free Eye Test and Gym Membership
9. Maternity Provision
10. Advice on Childcare

The main reason why employers should consider offering GIP, as an underpin to their long-term absence policies, is helping to manage the cost of absence. This is a difficult figure to quantify since it isn't just the cost of the income to the absentee. For example, there is the cost of employing temporary staff to cover the absence, as well as the loss of income the individual may have generated.

- Each year 160 million working days are lost due to sickness (short-term and long-term)
- Absence due to work-related ill health is thought to cost over £12 billion each year
- It is suggested that every pound spent on promoting health in the workplace could lead to a £2.50 saving for businesses

## Claims management and rehabilitation

GIP no longer just pays an income to an absent employee while they are unwell. Insurers offer numerous ways to provide assistance and rehabilitate absent individuals back to health and when ready, back to work. The 'early intervention' feature within GIP insurance schemes will help to ensure employees are quickly given help. This can significantly decrease the length of absence.

## Scheme design

The design of the GIP policy should of course be consistent with the employer's long-term absence policy. When reviewing GIP a good starting point is to check that the long-term absence policy is in accordance with the employer's objectives and practice; the policy is invariably a right of employment and hence any reduction would constitute a variation of an employee's employment terms and conditions and consultation and members' consent will be needed.

Introducing extended deferred periods or offering a lower percentage of salary as the benefit will generate a premium saving. Typically we see schemes which pay a claimant a benefit ranging from 30% of salary to 80%.

Costs can be reduced by amending the terms of the policy, introducing such features as

- Rehabilitation and Return to Work Services
- Absence Management Tools
- Lump Sum Commutation to settle a claim

Although some of the following will increase costs, additional benefits can be added, such as:

- Insuring Pension Contributions and Employer NICs
- Adding an Employee Assistance Programme
- Health Risk Assessment Tools (heart, nutrition, fitness advice)
- Once Only Underwriting
- Access to Legal Assistance Helpline and Documents
- Pay Direct Benefits
- Employee/Employer Dual Benefits

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### A job for life - not any more

Research has shown that the current average length of time an employee spends in a job is between five and seven years. For this reason limited term GIP schemes are now more commonly purchased. By limiting the claims term from 'a claim will be paid until an absentee reaches retirement,' to perhaps a five year term or even shorter, a premium saving will be generated.

### Scheme size

Smaller employers are also able to take out a GIP scheme. We work with insurers who will allow groups of three or more employees to take out a group scheme. The advantage of this is that group schemes usually have enhanced underwriting terms and premium discounts applied to them that individual policies would not be given. We are also able to implement schemes for start up companies which will have no employees on day one.

Generally, it is estimated that a new GIP scheme will cost the employer between 0.5% and 1.5% of the total salary roll (of those who are included within the scheme) per annum. This is based on an average policy with 'middle of the road' benefits being provided. There are numerous factors that can increase or decrease this estimated figure.

Some schemes can be almost cost neutral due to the reduction in sickness absence they generate. Sickness absence is generally accepted to cost UK businesses between £12 and £14 billion pounds per year.

### Moving an existing scheme

Having current claimants does not restrict the scheme from moving away from the holding insurer. Regular market reviews are important to ensure the premium is competitive and that the benefits offered are the most appropriate of those available.

When insurers take on schemes it is agreed that they take on the risk of claimants no matter how long the claim lasts. Therefore, if the scheme later moves away, the holding insurer would retain the existing claimant(s) and continue to provide them with relevant assistance and their income.

### Variables that will affect GIP premiums

Costs of GIP can vary significantly; some of the major factors affecting cost are listed below.

- Members' ages
- Members' salary
- Industry of employment
- Occupations
- Benefit design
- Pension contribution cover
- Employer NIC cover
- Deferred period
- Claims term
- Capital option
- Claims history
- Salary cap

### What will it cost?

There are numerous factors within a GIP scheme that will affect its cost and we would be happy to work with you to assist with the scheme design, ensuring that you purchase a scheme which both covers your needs and is affordable.

### For further information

If you wish to consider implementing a GIP scheme, please do not hesitate to contact your usual Barnett Waddingham contact or email [employeebenefits@Barnett-Waddingham.co.uk](mailto:employeebenefits@Barnett-Waddingham.co.uk).

[www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)

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