

The Global Challenge Of The Growing Income Protection Gap

Covering a loss of income due to disability or death is a major problem, and it's one that looks set to grow. What are the causes? And what part can employers play in finding solutions?

In 2015, Zurich and the Smith School of Enterprise and Environment at Oxford University began a study of the income protection gap. The goal of the study was to raise awareness of this pressing global issue and its causes and consequences – and, ultimately, to create sustainable recommendations to close the gap.

Let's start with the study's definition of the income protection gap (IPG):

"The reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account."

Why is this of interest to employers? Here are three reasons why the IPG should be on your radar:

- You have a duty of care to your employees
- The level of care and support available around the world varies greatly. While many expats will have life, disability, and income protection cover provided for them, there is an increasing trend to localize these benefits – which can lead to highly variable levels of cover depending on where the employee is working. And obtaining public assistance for internationally mobile employees can be highly problematic
- There is a trend towards presenteeism, where employees work through minor disabilities at reduced capacity. According to 2015 research by The Work Foundation, sickness presence is more prevalent than absence – 45% of employers reported one or more days' presence, compared with 18% absence. Contributing factors to presenteeism include personal financial difficulty, work-related stress and pressure from managers or colleagues. This trend is expected to cost US businesses more than USD 150 billion a year.

A Growing Problem

Having seen why the IPG is relevant to employers, let's take a look at what's causing the problem to grow.

Huge improvements in medicine and agricultural practices and vastly lower death

rates through war and famine have resulted in unprecedented population growth. Longevity has increased in the majority of regions, placing social welfare systems under strain as the balance between workers and retirees shifts. Against this backdrop, IGPs are on the increase, placing pressure on governments and making employees increasingly vulnerable.

There is also a greater trend towards short-term and part-time jobs, which do not provide any protection for income during illness – most work-related covers only extend to full-time employees.

According to the International Labour Organisation, 73% of the global population lives without adequate social protection coverage.

A Variety Of Approaches

So how is income protected? There are generally four ways:

- State-sponsored social security
- Collective insurance (typically employer sponsored)
- Workers' compensation schemes
- Voluntary savings.

Social security systems vary greatly around the world. Most European, Latin American and English-speaking Organisation for Economic Co-operation and Development (OECD) countries, provide state cover against death and disability that are earnings related and means tested. In South East Asia there is compulsory payment to provident funds.

Most countries offer tax incentives for savings to supplement state benefits, which is particularly important in countries like India and Mexico where state support is low. In fact, the amount countries spend on public social protection varies widely around the world, as shown by the graph.



Types of social benefit provision around the world



Mainly earnings-related benefits

Continental Europe and Latin America



Mainly flat-rate benefits

English-speaking OECD countries



Provident funds

South-east Asia

Source: Zurich/Oxford Smith School, 2015, Income Protection Gaps: A Rising Global Challenge.

Supporting The Globally Mobile

Internationally mobile workers – and consequently their employers – face additional challenges around both income support and pension provision. With the general exception of English-speaking nations, income protection for disabled people and bereaved families is commonly dependent on minimum payments to national and/or private pension systems, with benefits reflecting previous contributions.

Underpayment to social schemes and problems with pension transferability threaten to leave many international workers in complicated and vulnerable situations. In fact, expats are not eligible for benefits at all in some countries.

A Global Issue With Regional Differences

While the IPG is a global issue, it is raising different challenges in different parts of the world. As an example, let's contrast Europe and Latin America.

Europe has traditionally had a high demand for income protection, and this has largely been met by state and employer schemes. However, Europe has the highest average ages in the world, and this is translating into high disability rates, particularly in Eastern Europe, and placing pressure on welfare systems. The financial and Euro crises have reduced tax revenues, and rising demand for income protection is outweighing supply.

Latin America is newer to income protection with a comparatively younger demographic, and demand for cover is outpacing supply. The region has a high proportion of informal workers who receive no state cover. In addition, state schemes focus on supporting the very poor, with the consequence that middle-income earners are not protected.

Addressing The Challenges

As well as seeking to highlight the increasing problem of the income protection gap, the SSEE report looks for ways to address it.

It concludes that a combination of government, employer and individual responsibility will be required to close the gap and proposes five areas to focus on:

- **Increase global dialogue**, using platforms such as the World Economic Forum to discuss IPGs and connected issues like ageing demographics and the private households' savings gap
- **Solutions must be tailored to regions and countries**, because as we have seen, the challenges raised by IPGs vary widely around the world and there is no 'one size fits all' solution
- **Use tax incentives to encourage people to protect incomes**
- **Working together to raise awareness**, as this would increase demand for workplace and individual solutions

Public social protection (excluding healthcare), as % of GDP



Source: ILO World Social Protection Report, 2014/15.

- **Encourage flexibility in labour markets and welfare systems**, to allow people to work for longer.

Employers clearly have an opportunity to play a central role by providing income protection cover for their employees. The report suggests two important additional points for employers to consider:

- **Protecting income to retain and attract talent**, as disability and death cover are both important to employees and demonstrate social value. Additionally, the schemes offered by employers can raise public awareness of new possibilities. This is particularly true for multinational companies that use portable employee benefits schemes to protect their globally mobile employees, and in doing so export their approach to income protection across international borders

- **Preventing disability**, as an ageing workforce brings with it increased disability rates. As well as ensuring adequate income protection if an employee becomes disabled, companies should consider how they could modify work practices to prevent disability and accommodate older and disabled workers. It's also interesting to note that one study* found that the costs associated with lost productivity due to impaired capacity to work are higher than the medical costs of treatment. In addition, general well-being initiatives can

help to reduce risks to employees' physical and mental health.

If you'd like to explore this topic in more detail, you can download the report and find a variety of articles and videos at: www.zurich.com/en/knowledge/topics/protection-gap

References

* <http://www.ncbi.nlm.nih.gov/pubmed/15076658>



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