

Risk Nexus

Income protection gaps:
a rising global challenge



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Cover: Roughly two-thirds of poverty among women who lose their partner and more than one-third of that among surviving men is due to under-provisioning life protection, research suggests.

Foreword



Protection provided for household income against premature death or disability is too often inadequate.”

Globally, we face a complex set of interconnected challenges. For households and families, however, the main challenge is fairly simple: how to put food on the table and meet immediate and long-term needs. For many, income through regular employment provides the obvious solution. But what if an unexpected event such as a disability or even premature death occurs? Are households adequately protected?

Zurich Insurance Group and the Smith School of Enterprise and Environment at Oxford University (SSEE) have come together to study this issue. The evidence suggests that the protection provided for household income against premature death or disability is too often inadequate.

IPGs can have devastating consequences for households and far-reaching social and economic impacts for governments and employers. These are of concern at the global scale, but occur at a local level, and have different consequences depending on the nature of partnerships between governments, employers and individuals. While IPGs are a significant challenge in themselves, they are also closely linked to other pressing issues of our time, such as how to deal with an aging population, the global retirement savings gap, and the continuing challenges posed by the global financial crisis. For these reasons, as a global insurer and academic authority respectively, Zurich and SSEE have committed to a long-term project on the issue.

In this first report, we seek to raise awareness and develop an understanding of the global challenge IPGs pose. Following this, we will develop new insights into the causes and consequences of IPGs. In turn, this research will help us

to formulate targeted and sustainable recommendations for a range of decision-makers to help close income protection gaps. These recommendations will be for households, the public and private sectors, and society as a whole.

This publication summarizes the key findings of a more extensive, academically-focused version that provides further context. The longer report also includes full summaries of each of the 18 countries considered. In addition, we have produced individual country fact sheets, providing at-a-glance information relating to national IPG challenges. These are available on request.

In time, we aim to stimulate the development of new ways of thinking about IPGs and new insights about how solutions to income protection gaps will influence individual decision-making, public policy initiatives, and organizational risk management. We cannot succeed alone; collaboration and dialogue will be needed across a broad range of stakeholders.

This report is designed to help stimulate much-needed discussions and collaboration. We invite you to join us in considering this important global challenge.

Executive summary

“Income protection gap – The reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom that household relies, taking all public and private sources of replacement income into account.”

Zurich Insurance Group/Oxford Smith School, 2015

Loss of earned income, due to death or disability, can be devastating. Therefore, starting in the late 19th century, when a family’s breadwinner no longer can put food on the table, compensation programs replace income lost. Today these programs encompass public schemes, private schemes and public-private partnerships. Unfortunately, these are increasingly failing to protect incomes. This creates what we call Income Protection Gaps (IPGs).

We found that a range of factors contributing to the challenge posed by IPGs. In the developed world, demand for government support – the traditional source of relief – is rapidly outpacing supply. Disability levels are increasing to ever more challenging levels, due both to an aging population and improved medical diagnosis. Yet public budgets, particularly after the global financial crisis (GFC), have failed to keep pace.

Western governments have cut back on protection largely by restricting access to benefits. To pick up the slack, governments look to private schemes. But in general, their uptake has been insufficient to fill the gap, partly owing to misperceptions of risk and the legacy of mostly generous government provisions. Meanwhile, an increasing proportion of workers have little or no income protection at all. Part-time and contract workers, whose numbers are rising, are excluded from most public income protection schemes, which are aimed almost exclusively at full-timers.

In the developing world, government schemes inherited from Europe seem set for similar difficulties. Average age is rising with growing prosperity, and numbers of casual, part-time, and temporary workers remain significant. Government funds are focused more on the impoverished and less on middle-earning workers, threatening to leave a burgeoning middle class exposed.

The impact of IPGs on households, governments, and employers is significant. Families risk falling into poverty. A U.S. study suggests two-thirds of impoverishment among surviving women and more than one-third among surviving men results from inadequate life insurance. Those with long-term disabilities face similar difficulties. Benefits are harder to come by, and returning to previous income levels is far from guaranteed. On average, self-identified disabled persons in the EU are 15 percent more likely to suffer poverty and/or social exclusion than non-disabled.

IPGs can also devastate retirement. With state support declining, families confronting IPGs are often forced to tap their pension savings. Given the global pension-savings gap, rising longevity, plus the declining generosity of pensions schemes, those affected by IPGs thus face a very real possibility of running out of money in their old age.



Employers have a unique opportunity to be a central player in solutions.”

Employers are not immune from the negative impacts of IPGs. Growing gaps mean employees are increasingly vulnerable. For workers employed outside their home countries, public support is often highly problematic. But perhaps the main concern for employers is how IPGs hit productivity. Without adequate protection, and with job prospects much reduced for the disabled, many workers will choose to work through minor disabilities at reduced capacity. This ‘presenteeism’ will cost U.S. businesses more than USD 150 billion per year. Left unchecked, IPGs are likely to have a greater impact on productivity as workforces age.

IPGs will create a growing burden for governments in the future if not addressed adequately today. Most obvious is the demand for support created by premature death or disability, the latter of which will increase as populations age. In addition, labor market challenges faced by disabled workers will also reduce the volume and contributions of active workers who support social security funding. This adds to a much wider sustainability problem for the many welfare systems which rely on those of working age to sustain retirees. As explored for households, the depletion of savings to fill IPGs, combined with increased longevity, means those effected will again turn to the state for support in their later years. Added to all of this, the changing nature of the workforce threatens established welfare systems.

Even at this early stage, a number of areas for action are apparent. At the center of these is a need for collaboration. A global challenge such as IPGs is too big for the public or private sectors to tackle alone. Governments and employers are clearly important, but individuals should also take some responsibility for ensuring against gaps in income protection.

As such, a three-party approach is preferred, allocating responsibilities to each part of the system without overburdening the others.

Key approaches to consider include fostering global dialogue to raise awareness and spur action, tailored local approaches to reflect the diverse nature of IPGs, incentives through tax systems and a joint push to improve awareness among the general public.

Though employers clearly have a role to play in collaborative actions, they also have a unique opportunity to be a central player in solutions. We encourage them to also consider how income and life protection benefits can be used to retain and attract talent in today’s ultra-competitive skills market, and how they might adapt working practices to counter IPGs in an aging workforce.

Several attempts have been made to measure IPGs on a global scale. We believe such estimates are useful but also problematic. The purpose of this report is not to provide exact numbers on IPGs. We instead seek to identify the trends that are aggravating the phenomenon, and challenge the traditional coping mechanisms that are in place. This report aims to raise awareness of IPGs’ threat to households and to the public and private sectors. It also challenges us to consider some broad areas for action that we hope will stimulate thinking and debate, as well as providing insights for our own work in the next phases of this long-term project. Recognizing how widely IPGs vary, this study examines select countries across four geographic regions: continental Europe; the U.S., UK, Ireland and Australia; Latin America, and South Asia.

Section 1:

How is income protected and what is an income protection gap?

Here today, gone tomorrow: income can be a fragile thing. This is why society has developed systems to protect incomes of those families hit by death or disability. By doing so, these systems seek to prevent what we define as ‘income protection gaps’ (IPGs).

In this report, we define income protection gaps as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom that household relies, taking all public and private sources of replacement income into account.

This section outlines how income is protected. It then details the purpose and focus of this report, which frames the subsequent sections.

1.1 How is income protected against death and disability?

Four types of protection provide a replacement income to families that suffer incapacity or premature death: state-sponsored social security; collective insurance; workers’ compensation (sometimes in the form of employers’ liability) and voluntary savings.

State-sponsored social security.

In most European, Latin American and English-speaking OECD countries, the state insures residents against death and disability. Those who don’t contribute to this insurance can apply for means-tested social assistance. In much of southeast Asia, the state requires residents to accrue personal savings schemes, known as provident funds, to perform a similar role.

Continental European and Latin American state insurance schemes are ‘Bismarckian’ – a reference to former German Chancellor Otto von Bismarck, who created this form of modern welfare state [in the nineteenth century]. Insurance payouts are based on premiums paid, which in turn are tied to the insured person’s income level. By contrast, English speaking OECD countries like the UK and Ireland offer flat-rate benefits to all. In southeast Asia, provident funds give support in the event of disability and make a lump-sum, tax-advantaged payout to survivors.

In addition, many governments offer auxiliary payments to surviving or impaired families, to cover caregivers’ allowances, help with mobility and health treatments.

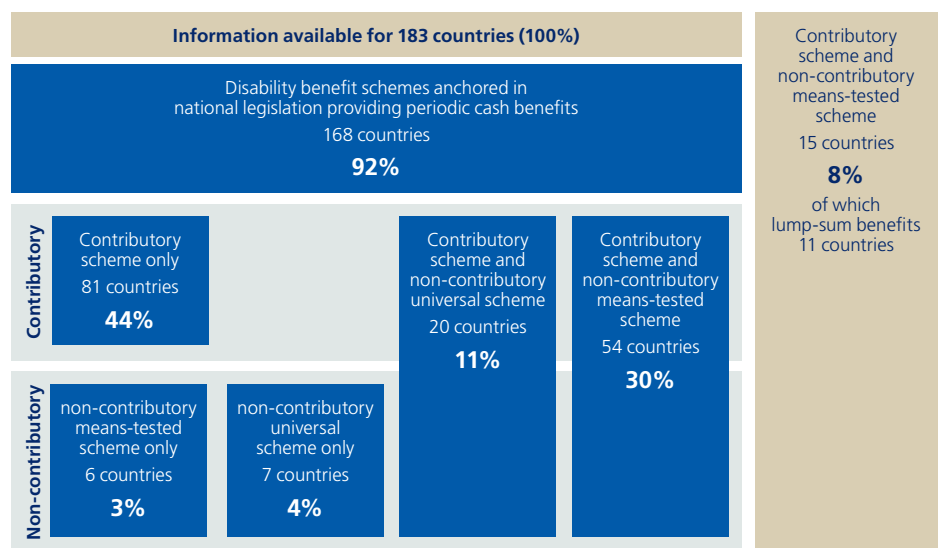
Neither social insurance nor provident funds cover informal (in developing countries, rural) part-time, temporary or casual workers, or the self-employed. This is particularly problematic in Latin American and South Asian countries, where informal work remains widespread. In OECD countries part-time and temporary contract work is also growing.

It is important to note the prevalence of pay as you go (PAYG) welfare systems in much of English-speaking OECD countries, continental Europe and Latin America. These systems require people still working to fund those in retirement, or in need of benefits.

As Figure 1 shows, cash benefits for people with impaired lives are offered in nearly all countries. Of these, contributory schemes cover workers who have paid social insurance contributions. These supplement universal disability pensions, or are supplemented by means-tested

social assistance when contributory benefits are time limited or too low for subsistence. Originally designed in most cases to be financially self-sufficient, many contributory schemes are operating a deficit and this explains why governments are interested in containing claims.

Figure 1: National disability benefit programs (2012/13)



Source: ILO (2014):56

Collective agreements: Many employers offer insurance for death and disability as part of occupational pension systems that mainly provide retirement benefits. More are turning toward defined contribution (DC individual accounts), where a certain amount or percentage of money is set aside each year by a company and employee. This marks a shift away from typically more generous, but less sustainable, defined benefit (DB final salary payments), where payouts are based on an employee's final salary. In Europe and Latin America, collective agreements are legally enforceable.

Work-related impairments or deaths: are commonly compensated under laws that hold employers collectively or individually liable for health and safety at work. Social or commercial insurance covers the risk. Payments may reflect lost earnings, the degree of impairment, number of dependents or any combination of these factors.

Work-related disability and death benefits tend to be more generously compensated than non-work-related ones. However, while these plans are widespread, it is relatively rare that

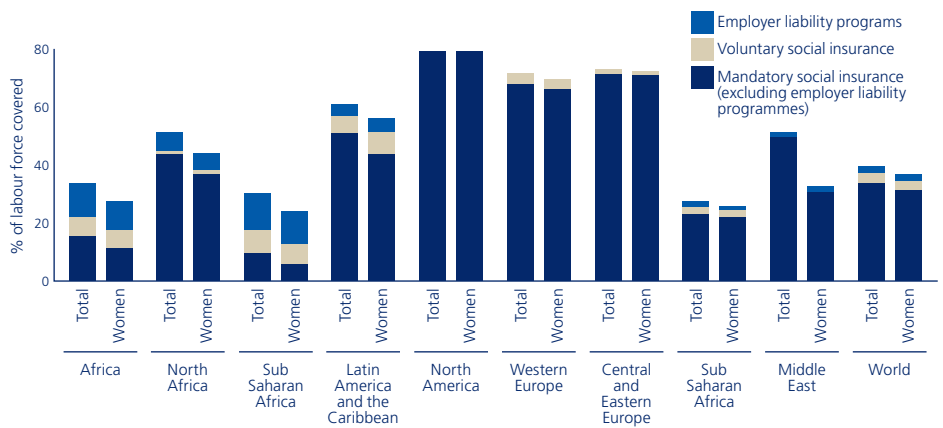
disability and illness are attributed to work-related causes. In the U.S., less than 5 percent of disabling accidents and illnesses are work related. The other 95 percent are not, meaning workers' compensation doesn't cover them.¹

In addition, nearly all countries confine protection to those in formal employment, excluding sub-contractors

(the self-employed) and part-time, temporary or casual workers.

Global cover is illustrated in Figure 2. It shows that mandatory social insurance through workers' compensation schemes are prevalent across the four geographical areas. Notable exceptions include the UK, where employers are instead required to have employers' liability insurance.

Figure 2: Employment injury protection regimes



Source: ILO (2014):49

Voluntary savings: Most countries offer tax incentives to encourage personal savings that supplement state provisions. This is particularly important in developing countries where the state provision is very low, such as in Mexico or India. But it is also coming to play an increasingly important role in providing protection for the middle classes in the developed world, as states restrict access to support.

Private protection products against income interruption also exist for individuals.

IPGs – how to measure?

Put simply, IPGs arise when need for income outstrips supply as a result of disability or (for survivors) premature death of a wage-earner. More income is lost than can be replaced.

Many have tried to estimate the size of protection gaps. We know that there are considerable gaps in many countries. For instance, a study by Swiss Re estimates that in 2012, only 44 percent of U.S. households carried life insurance, down from 62 percent in 1982. The resultant life protection gap in the U.S. thus reached a staggering USD 20 trillion, equivalent to 135 percent of the country's GDP at the time.²

¹Council for Disability Awareness, Long-Term Disability Claims Review, 2012

²The mortality protection gap in the US, Zurich: Swiss Reinsurance Company, http://media.swissre.com/documents/Exp_Pub_mortality_protection_gap_US.pdf



All evidence suggests IPGs are real, and a growing challenge.”

Measuring disability gaps is more problematic, though again, some attempts have been made. An example is KPMG’s 2014 study of the disability protection gap in Australia. According to its findings, while the employed person typically requires insurance of 84 percent of income until retirement age in the event of disability, 35 percent of the population held no disability coverage at all.³ Rice Warner’s ‘Underinsurance in Australia Report 2012’ estimated the gap between cover held and cover required to maintain current living standards to be AUD 7,912 billion for total and permanent disability insurance.⁴

These estimates have to be taken with a pinch of salt. Disability gaps in particular are hard to estimate. Differing definitions of disability, subjective calculations of need, restrictions on inflows into social protection schemes and the exclusion of casual, temporary and part-time workers hamper calculations and comparisons between countries. Nonetheless, all evidence suggests IPGs are real, and a growing challenge.

What are we trying to achieve with this report?

The purpose of this report is not to place exact numbers on IPGs. Instead, we seek to identify the trends which are aggravating the phenomenon, and challenge the traditional coping mechanisms in place. This study aims to raise awareness of IPGs’ threat to households and to the public and private sectors. It also challenges us all to consider some broad areas for action that we hope will stimulate thinking and debate, as well offering insights from our work in the next phases of this long-term project.

Because IPGs vary globally and even by country, the report also contains a section that provides geographical context. This section examines the situation in a range of countries within four broad geographical regions: continental Europe, English-speaking OECD countries, Latin America, and South Asia.



IPGs arise when a wage-earner dies prematurely

³http://www.fsc.org.au/downloads/file/ResearchReportsFile/FSCKPMG_UnderinsuranceDI_lowres.pdf

⁴www.zurich.com.au/content/dam/australia/life_insurance/zurich-australia-whitepaper_australians-and-life-insurnace_misinformed-misinsured.pdf

Section 2: Why IPGs are set to increase as a challenge

IPGs are increasingly becoming a challenge. This is due to a relatively simple yet unsustainable combination of factors: Demand for protection from disability is increasing, driven by an aging population and improved medical diagnoses. But the level of income protection is lagging. In the developed world, public budgets are constrained, while in the developing world, budgets are being focused on other issues. Meanwhile, a significant proportion of today's changing workforce is excluded from social welfare.

2.1 Disability rates are increasing

An estimated 386 million of the world's working-age population have some kind of disability.⁵ Of the adult population in Europe, 25 percent aged 16 or older are health impaired, meaning they face sustained limitations in carrying out daily activities.⁶ In countries with a life expectancy over 70 (about two-thirds of all countries), individuals spend about 12 percent of their life coping with disabilities.⁷

These statistics, already significant, are set to increase considerably, due largely to two trends.

An aging population

Longer lifetimes are a great social achievement, but an older society means an older workforce, which means higher rates of disability.

This is a clear problem in developed regions such as those in continental Europe and English-speaking OECD countries, where de-industrialization has left behind unskilled workers now in their 50s and 60s with physical problems from their jobs.

The EU Labor Force Survey (2011) found that 48 percent of those reporting a longstanding health problem were aged 55-64, and only 12 percent were aged 15-24. Overall, 11 percent of

respondents who described themselves as disabled said their condition limited the hours they could work. The proportion of such workers increased with age.

In emerging regions such as Latin America and southeast Asia, longevity rates are also rising. Since 1959, life expectancy at birth in India has nearly doubled, and the average Latin American lifespan has increased by 15 years since 1970. This aging trend is expected to create the same disability problem in those regions⁸ as in developed countries.

Disability claims also rise as older workers use them to bridge their declining capacity to work, prior to eventual retirement. This is seen especially in countries that have raised state pension ages. There is also some evidence that employers are unwilling to hire older workers with a disability despite wage subsidies, funds to adapt the workplace to accommodate disabled workers, and similar incentives.⁹

In time the rising proportion of retirees to workers will restrict public funding for income protection. Social care costs will rise with an older demographic, diverting funds elsewhere, while PAYG welfare systems will experience a reduction in overall funds, as they are dependent on workers' contributions.

⁵ibid

⁶<http://www.oecd.org/cfe/leed/background-report-people-disabilities.pdf>

⁷<http://www.un.org/disabilities/convention/facts.shtml>

⁸World Bank (2014) Working for a World Free from Poverty <http://data.worldbank.org/indicator/SP.DYN.LE00.IN>

⁹Clayton, S. et al. (2011) Effectiveness of return-to-work interventions for disabled people: a review of government initiatives focused on changing the behavior of employers. *European Journal of Public Health*, 22, 3:434-9



Governments are making less money available, non-full-time workers are generally not covered, and private insurance uptake is inadequate to fill the void.”

According to the UN: “by 2050, seven Asian countries, 24 European countries, and four countries of Latin America and the Caribbean are expected to have below two workers per retiree, underscoring the fiscal and political pressures that the health care systems as well as the old-age and social protection systems of many countries are likely to face in the not-too-distant future.”¹⁰

Better diagnoses and understanding of disabilities

Improved education and better public understanding of health have contributed to rising rates of reported disability. In particular, mental health claims have increased. These now form the leading cause of disability for 20- to 34-year-olds (70 percent of claims according to one OECD study).¹¹ Mental illness can also lead to premature death due to suicide.

As a disability, mental health can become a vicious circle. People with mental health problems are less likely find work than other disability claimants.¹² And becoming or remaining unemployed can, by itself, worsen mental health problems.¹³ Meanwhile, deregulating the labor market may create opportunities for disabled people capable of part-time or temporary work, but job insecurity imposes psychological burdens, and so the cycle continues.

2.2 Levels of available funding are declining

Governments are making less money available, non-full-time workers are generally not covered, and private insurance uptake is inadequate to fill the void.

Governments are curtailing support

The combination of rising disability rates, along with increased pressure to ‘balance the books’ that accelerated following the 2008 global financial crisis has hit governments hard. Public social expenditure among

OECD member-states has risen from 15.4 percent of GDP in 1980 to 21.6 percent at the end of 2014.¹⁴

Governments, particularly in the developed world, have reacted – not so much by cutting benefit rates to the disabled, however. Instead they have restricted the number of new claimants. The scope of work-incapacity benefits has been redefined and reduced. In Italy, the basis for calculating new claims has changed. In the UK, Sweden, Switzerland, Germany and the Netherlands, stricter access, time-limited benefits and regular claimant reassessments have contained numbers of new claimants following the global financial crisis.¹⁵ Australia has also recently restricted access to disability benefits. In the U.S., the Americans with Disabilities Act Amendment Act (ADAAA) requires employers to make reasonable accommodations so that the ‘disabled’ can return to work.

Budget tightening has also affected premature death benefits. Widow(er)s in Chile and the UK do not receive state help if under 45 years of age, and benefits are earnings-tested and/or time limited in Germany, the UK, Ireland, Poland, and the U.S. In Sweden they were recently abolished.

A relatively low proportion of disabled people receive state benefits (see Figure 3). In OECD countries, only 25 percent of those who identify themselves as disabled receive state benefits. Proportions are very small in Greece and Spain, where the 2008 financial crisis was most severe. The comparatively low incidence of reported disability in those countries probably reflects the number of ‘discouraged claimants,’ including a significant number of disabled unable to access even small benefits, and fear losing their job if they admit to any impairment. As discussed later in this report, this phenomenon can significantly affect productivity.

¹⁰United Nations Department of Economic and Social Affairs/Population Division 7 World Population Prospects: The 2015 Revision, Key Findings and Advance Tables – http://esa.un.org/unpd/wpp/Publications/Files/Key_Findings_WPP_2015.pdf

¹¹OECD, (2010) *Sickness, Disability and Work: Breaking the Barriers* Paris, OECD: 62-3

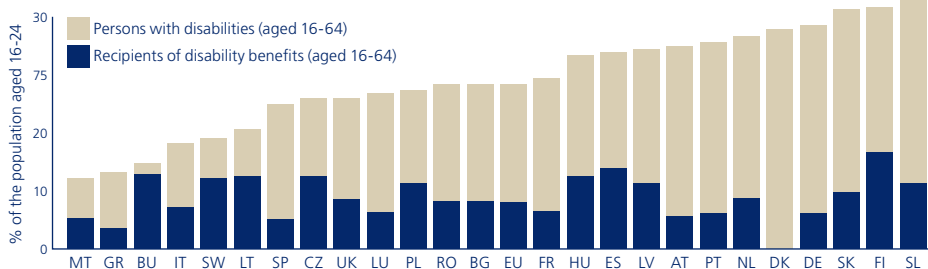
¹²OECD (2007): 100

¹³TUC, (2005) Annual Report.

¹⁴OECD – https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG

¹⁵Burkhauser et al. (2014) ‘Disability benefit growth and disability reform’ *Journal of Labor Policy*, 3 (4). Also OECD (2014), *Society at a Glance 2014*: OECD Social Indicators, OECD Paris. http://dx.doi.org/10.1787/soc_glance-2014-en

Figure 3: Proportion of disabled relative to those receiving state benefits



Source: ILO (2014):57

In developing regions such as Latin America and South Asia, economic expansion has increased the number of middle class within the population as a whole. However, high rates of poverty preoccupy governments in these countries, meaning protection for middle class citizens has failed to keep pace with their expanding numbers. In Brazil, for example, where inequality remains high, support is focused on the rural poor, who, without contributing to the welfare system, enjoy the same benefits as urban workers. Pensions for Brazil's rural poor also increased by 50 percent between 2003-2010. In Malaysia and India, policy and funding focus on primary education, diet and providing shelter for those below the poverty line who need it most.

2.2.1 Changing employment opportunities are leaving a growing number of households exposed

The growth of informal, part-time or temporary work is a key factor increasing IPGs. Such jobs are not covered by state protection schemes.

Lifelong full-time jobs are becoming less common in OECD countries. In 2014, one in five adults between the ages of 25-54 in Italy, Australia, Germany, the UK and Ireland worked part-time: in Poland one in four (and in Chile, one in three) had temporary job status.¹⁶

Proportions are higher among younger groups. Informal employment is particularly prominent in Latin America – notably Mexico – and South Asia. According to the ILO, informal employment in Latin America and the Caribbean was nearly 50 percent in 2011, and even higher for the young. Six in 10 people aged 15-24 have an informal job. The ILO estimates that, even if the region's rate of economic growth continues at the strong pace seen in the past decade, it will still take up to 55 years to halve the rates of workers in informal jobs.¹⁷

In the developed world, changes in the workforce have taken place in part due to labor market deregulation, which has aimed to increase employment levels. New information technology systems are also encouraging self-employment, allowing people to work from home and receive project-based payments.

¹⁶OECD statistical database: <http://stats.oecd.org/index.aspx>

¹⁷http://www.ilo.org/americas/publicaciones/WCMS_213162/lang-en/index.htm

Those returning to work with disabilities often face poor prospects



As more young people work in atypical situations, their employment is no longer covered by social insurance programs and these workers are not paying contributions required to sustain PAYG schemes.

The increased mobility of the workforce also causes problems for income support. In multinational companies, employees frequently may move to different workplaces around the world. But, with the 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 benefit levels reflecting previous contributions. Underpayment to schemes and problems transferring pensions, particularly across continents, threatens to leave international workers in complicated and vulnerable situations.

2.2.2 Persistent underinsurance

Given rising demand and governments' reduced ability to fund income protection schemes, increased demand and uptake of private solutions in order to fill the void might be expected. But as shown in Section 1, no such trend is seen in insurance industry sales.

The Association of British Insurers says fewer than 1.2 million people – or 4 percent of the 31 million people in work in that country – have bought individual income protection insurance. Only 2 million more people – 6.5 percent – are covered by group income protection insurance through their employer.¹⁸

Even in Australia, which has long been considered a model for income protection insurance, 45 percent of employees are underinsured by USD 728 a month in terms of income protection, and half are underinsured by more than USD 72,000 for life cover.¹⁹ While some 83 percent of Australians say they have supplementary insurance to cover their car, only 31 percent insure their ability to earn an income.

There are a number of reasons for this. First, slower economic growth is making it harder for workers in many developed countries to protect themselves. Real wages over the past decade have been largely flat in developed economies and have even fallen in some, notably the UK.²⁰

¹⁸<https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Welfare-reform>

¹⁹<http://www.lifewise.org.au/facts-research>

²⁰LO Global Wage Report 2014/15 http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_324678.pdf

²¹http://www.demos.co.uk/files/Control_Shift.pdf?1363023121

Another significant reason is that people also have high expectations regarding the state's role as a provider, particularly in Europe. In 2013, Zurich and the UK think tank Demos conducted a joint project which highlighted this.²¹ In Anglo-Saxon countries such as the UK and the U.S., responsibility for risk shifted during previous decades from the individual to

the state in areas such as public health, community security and even long-term financial planning.

Building on this, in a 2015 study Zurich surveyed 6,000 Europeans in six countries on their perceptions of income interruption risk and coverage options (see case study).

Case study – Mind the gap²²

Zurich's Mind the Gap survey showed that two in three Europeans expect the state to provide financial support to those who are unable to work. In Italy and Spain, expectations placed on the state are even higher, with four out of five expecting their government to be the main provider of assistance. In some countries such as Switzerland, only 54 percent of respondents say that they would rely on the state. Intriguingly, while respondents in Switzerland, the UK and Germany were generally confident in their government's ability to deliver on its social obligations, trust in state social welfare programs was much lower in Ireland. In Spain, 83 percent believed the state should be the main source of support for disability, but only 7 percent believe the government can deliver a comfortable and secure lifestyle.

Seven in 10 respondents believe that they would get less than 75 percent of their last household income if they became work disabled. Two in five thought they would get less than half. Six in 10 (58 percent) said that they would need the equivalent or more than their income to maintain their current lifestyle.

This curious discrepancy between confidence in the state and knowledge of its limits probably lies in misperceptions of the likelihood of income interruption, something that the survey also highlighted. Half of the total respondents believed their personal risk of losing their ability to work is less than 10 percent. In reality, up to one in four Europeans may become unable to work for some period in their working lives.

The survey also supports other key insights within this report: for example, a link between the global financial crisis and increasing mental health issues, with many respondents saying that debt, fear of getting ill and stress levels had increased as a result of the economic downturn.

The impact of behavioral biases on income protection choices and likely levers which could influence these is an area ripe for investigation, but beyond

the scope of this report. However, it will become a focus area going forward as we continue to investigate IPGs.

²²For more information about the protection gap survey, see <http://knowledge.zurich.com/protection-gap/finding-solutions-to-the-protection-gap/>

Section 3: Why should we care? The growing consequences of IPGs

Inability to protect the incomes of the disabled or dependents following the death of the main income provider is not a pleasant prospect. It recalls the days when most disabled and dependents of the deceased had to eke out a living on the fringes of society, existing on a pittance and charity.

If the situation described in Section 2 continues unchecked, however, it suggests risking poverty for those unfortunate enough to experience IPGs.

IPGs obviously harm households. That in itself could be enough to induce those in the public and private sectors to act. But IPGs' impact goes much deeper. This Section describes gaps in income protection that have far-reaching fundamental consequences for both the public and private sector.

3.1 The impact of IPGs on households

The ways an IPG can weigh on households are numerous, and may vary in severity. We outline some of the key issues here that are worth highlighting.

Death of the main wage earner

Roughly two-thirds of poverty among women who lose their partner, and more than one-third of that among surviving men is due to under-provisioning life protection, according to a 2001 study based in the U.S.²³ One-third of households drop into a lower income quintile after an unexpected adult death in the UK, and 20 percent fall into poverty.²⁴

In Latin America, households are also at risk from the financial effects of premature death. In 2013, for the average working person with dependents, the region's life insurance gap was estimated at USD 60,628. Given that this protection

gap has increased by 10 percent on average per year since 2003, we can only expect it to increase.²⁵ This gap may be influenced by the higher levels of state support seen in some parts of the region. However, as has been noted, these arrangements may soon face pressures similar to those affecting systems in the developed world.

To a limited extent, survivors are entitled to public support – in many countries, however, this support is only available to those whose partners have contributed to schemes through formal, full-time employment. In some countries, survivors who are still young receive no state assistance, while survivors in general may receive earnings- or means-tested benefits, which are time limited. Moreover, benefit levels themselves vary considerably.

Many survivors thus have no choice to avert poverty other than to take on extra employment. In developed countries, gender may be largely irrelevant if one or the other partner dies, particularly given the propensity for professionals to marry professionals. Indeed, in Hong Kong and Singapore, as in Europe and Australasia, there are currently more female graduates than male graduates. However, especially in some countries, cultural differences, lower educational attainment and lower rates of labor market participation among women pose a problem for female survivors of a deceased male breadwinner.

²³Bernheim, B.D., Carman, L.G., Gokhale, J. and Kotlikoff, L.J. (2001) The Mismatch between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances, NBER Working Paper No. 8544, Cambridge, MA

²⁴Cordon, A., Hirst, M., Nice, K. (2008) Financial Implications of the Death of a Partner Working Paper no. ESRC 2288 12.08: 153-5 <http://www.york.ac.uk/inst/spru/research/pdf/Bereavement.pdf>

²⁵http://www.swissre.com/media/news_releases/nr_20130924_mortality_protection_gap_latam.html



Employment rates for the disabled and non-disabled in Europe are disparate, with a marked drop for even moderate disabilities.”

Disability can also ‘disable’ income. An accident or illness may cause not only physical, but also financial problems

Eligibility problems

Particularly in emerging economies, qualifying for state benefits is a challenge, with large proportions of uncovered informal and part-time workers. Despite expanding cover, only 37 percent of workers are currently covered for non-work-related incapacity in Mexico and only 10 percent in some South Asian countries, such as India.

In the developed world, it is becoming tougher to qualify for acceptance into disability registers. In Germany, for example, 50 percent of applications are rejected, while 65 percent of Americans’ initial SSDI claim applications were denied in 2012.²⁶

Lower benefit rates

In some countries, such as English-speaking OECD members, disability benefits are relatively low. More than 60 percent of working families in the UK would see their income drop substantially if they relied on state

support alone as their income safety net.²⁷ The average monthly benefit in the U.S. is USD 1,256 for men and USD 993 for women.²⁸ Other countries hit particularly hard by the global financial crisis have made ‘emergency benefit cuts.’ In Spain, for example, if a person is no longer able to work in any profession at all (absolute permanent disability), the monthly benefit is only EUR 1,071.²⁹

The long-term financial risks of disability

Those returning to work with lasting physical or mental disabilities often face poor prospects. A full recovery to pre-disability work capability and income is far from certain, while pressures on government spending make it unlikely state support can make up the shortfall.

Assuming a job can be found, wage levels suggest a lingering income gap of varying degree for disabled workers. Poor health and difficult labor market conditions (employers also may stigmatize mental disabilities) can put disabled workers at a disadvantage.³⁰ Those who return to work often find employment in temporary, part-time and generally lower-paid and less secure jobs.³¹



Most countries offer tax incentives to encourage personal saving

²⁶U.S. Social Security Administration, Disabled Worker Beneficiary Data, December 2012

²⁷(https://www.abi.org.uk/~/_/media/Files/Documents/Publications/Public/2014/Protection/Welfare%20Reform%20for%20the%2021st%20Century.pdf)

²⁸http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp

²⁹https://www.zurich.com/_/media/dbe/corporate/docs/whitepapers/income-protection-gap-brochure-2015.pdf?la=en

³⁰Lindsay, C. and Houston, D. (eds.) (2013), Disability Benefits, Welfare Reform and Employment Policy, Basingstoke, Palgrave Macmillan: Introduction.

³¹OECD (2010): 60

³²These figures are from 2007

³³http://www.idea.net.org/cir/uploads/File/IDRM_Americas_2004.pdf

³⁴<http://www.un.org/disabilities/default.asp?id=18>

³⁵OECD (2010): 60

³⁶OECD:2007,100

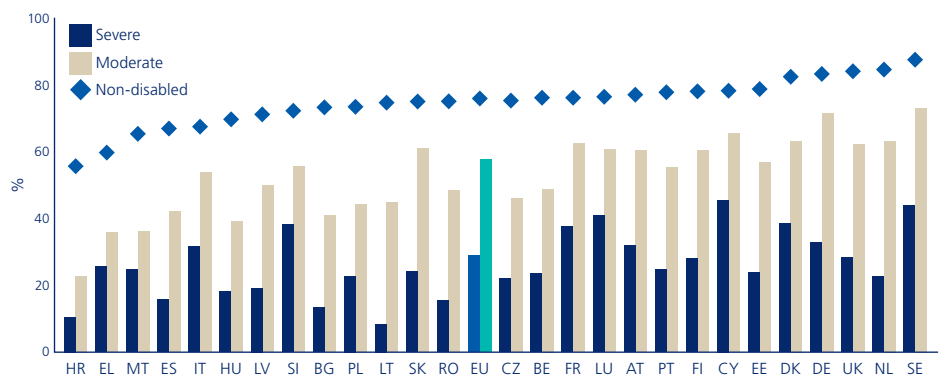
Even before the global financial crisis,³² the UK and Australia provided disabled with an income 70 percent of the non-disabled equivalent, made worse by high living costs in these countries. In some areas the gap is lower: in Switzerland and Norway it was 90 percent and in Poland, 80 percent.

But a 2004 U.S. survey found that only 35 percent of working-age persons with disabilities were working, compared with 78 percent of those without disabilities. Two-thirds of unemployed respondents with disabilities said they would like to work but could not find jobs.³³ Of the some 70 million persons with disabilities

in India, only about 100,000 have succeeded in obtaining employment in industry.³⁴ Meanwhile, recessions in 1994 and 2008 reduced the employment chances of disabled men by 19 percent and by 12 percent for disabled women; the men's financial circumstances declined by more than 50 percent during those years.³⁵

Employment rates for the disabled and non-disabled in Europe are disparate (see Figure 4), with a marked drop for even moderate disabilities. Those in poor mental health have the hardest time finding work.³⁶

Figure 4: Employment rate by degree of disability: Europe (age 20-64), 2011

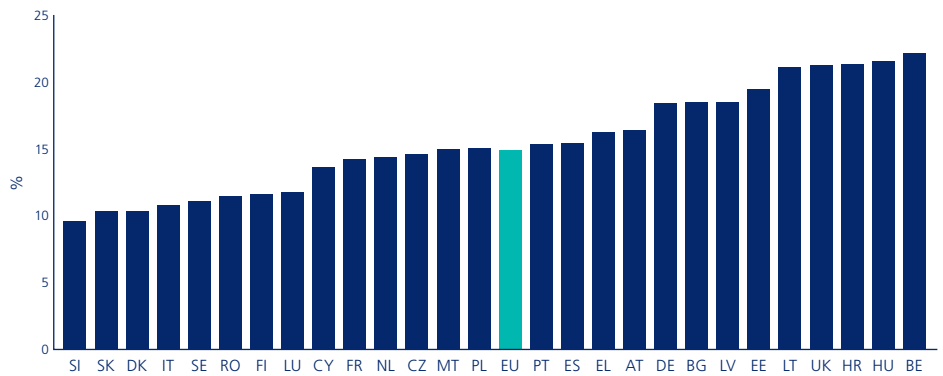


Source: Academic Network of European Disability Experts (ANED) (2014): 33

IPGs arising from disability may therefore be long and severe, especially as household costs may in fact rise due expenses related to the need for caregivers. The net result is likely to be a significant drop in living standards. In the EU, people who identify

themselves as disabled are on average 15 percent more likely to face poverty and/or social exclusion compared with the non-disabled.³⁷ In Australia, 20 percent of mortgage defaults in 2010 were due to illness or an accident affecting a member of the household.³⁸

Figure 5: Poverty and social exclusion gaps between persons with and without disability



Gap: percentage of persons with disabilities – percentage of persons without disabilities; Age 16-64, 2011
Source: ANED (2014): 187; N.B. Switzerland and Ireland not included

IPGs and funding for longer lives

The ‘savings gap’ between retirement funds and actual requirement is well documented. It has become a key topic for discussion as pension arrangements become more sustainable (hence the increasing prevalence of DC-type pensions), and consequentially less generous, while expected lifespans continue to increase. EU savers eligible for retirement between 2011 and 2015 have an absolute pension gap of EUR 1.9 trillion (USD 2.4 trillion), according to a study.³⁹ In the U.S., baby boomers (born 1948–1964) and Generation Xers (born 1965–1974) lack USD 4.3 trillion to replace employment income, according to the Employee Benefit Research Institute.⁴⁰ Similarly, Latin America has long been known for relatively low household savings rates.

To make up the shortfall caused by an IPG, people increasingly turn to personal savings. As state support grows increasingly hard to come by and people’s propensity to buy private protection remains low, personal reserves appear an obvious next step. This type of funding

may provide a short-term solution.

However, with savings already stretched, the extra burden caused by covering the impact of disability or premature death could mean those affected run out of money later in life.

3.2 The consequences for employers

Employers will feel the burden of IPGs through reduced employee productivity. For example, a lack of adequate protection and poor job prospects will induce employees not to disclose disabilities. Instead, they will continue working at reduced capacity. This type of ‘presenteeism’ is widespread. One study estimates the annual cost to US business at more than USD 150 billion per year.⁴¹ In the UK, the cost of ‘presenteeism’ where mental health problems are involved has been estimated at GBP 15.1 billion per year.⁴² A recent OECD study describes in detail the toll on productivity taken by people who work while suffering emotional or physical health problems: 69 percent of those who work with even moderate health

³⁹Aviva, Tackling the Savings gap: Engagement and Empowerment, 2012

⁴⁰VanDerhei, 2012, p. 3

⁴¹<https://hbr.org/2004/10/presenteeism-at-work-but-out-of-it>

⁴²<http://www.health-matters.co.uk/news/the-cost-of-presenteeism---bupa-report>

⁴³OECD 2015, Fit Mind, Fit Job, From evidence to practice in Mental Health and Work

⁴⁴<http://www.ncbi.nlm.nih.gov/pubmed/15076658>

⁴⁵<http://www.papworthtrust.org.uk/sites/default/files/UK%20Disability%20facts%20and%20figures%20report%202014.pdf>

⁴⁶<http://www.cipd.co.uk/research/absence-management-survey.aspx>

⁴⁷<https://www.gov.uk/government/publications/jobs-and-skills-in-2030>



The growing problems IPGs present, and the increasing impact these have on households, governments and employers, make clear that there is an urgent need for action.”

problems report accomplishing less than they would have liked, compared to just 26 percent with no health problems.⁴³

Another study finds that the costs associated with lost productivity due to impaired capacity to work are higher than medical costs of treatment.⁴⁴

Risks will increase as the workforce ages, given that older workers are more likely to suffer disabilities. These include acute medical conditions and chronic back pain – some of the leading causes of long-term disability.⁴⁵ If IPGs are left unchecked, the result will be rising productivity that hits employers.⁴⁶ As soon as 2020, companies could have four generations working alongside each other, by which time the largest age group will be in their mid-50s rather than their 40s.⁴⁷

Apart from demographics, a number of other factors will contribute to an aging workforce. These include higher mandatory retirement ages and reduced retirement funds from increasingly prevalent DC, as opposed to DB pensions. Recent research has also suggested that working longer may even have benefits, for example, helping to keep an older population mentally active to stave off cognitive decline.⁴⁸

Multinational companies with an international workforce are especially vulnerable to the impact of IPGs. Virtually all countries require minimum contributions – often over a period of years – to qualify for benefits. This means internationally-mobile workers can be penalized by a lack of contribution in their country of residence. Meanwhile, accessing state protection from their home welfare systems can also be complicated, particularly for those working across continents.

3.3 The consequences for government

Governments, as well as their citizens and employees, have a fundamental interest in productivity and growth. This is particularly crucial in the low-growth environment affecting many countries. High rates of productivity growth are the product of a skilled and adaptive workforce and long-term investment in productive capacity. Income protection gaps threaten growth and productivity through the type of ‘presenteeism’ just described. IPGs also contribute to increased welfare costs, which divert public resources away from long-term investments.

IPGs place increasing burdens on government welfare schemes in a number of ways:

- Demand for benefits due to death or disability, with disabilities likely to increase as populations age.
- Declining contributions as disabled workers [earning less, or forced to drop out of the workforce] reduce the number of workers contributing, and the amounts, particularly a problem for many PAYG welfare systems.
- Depletion of savings to fill IPGs, and increased longevity, means those facing IPGs will again turn to the state for support in their old age.

The growing problems IPGs present, and the increasing impact these have on households, governments and employers, make clear that there is an urgent need for action. The next section explores areas for action for the public and private sector to address this challenge.

⁴⁸Rohwedder, Susann and Robert J. Willis. 2010. “Mental Retirement.” *Journal of Economic Perspectives*. 24:119-138

Section 4:

Closing the gap: areas for action for governments and employers

There are no short-term fixes for the problems outlined in this report. Before suggesting solutions, IPGs need to be assessed, and factors creating them need to be examined. Only then can we suggest the most effective and sustainable solutions.

Even at this early stage, there are already a number of areas where action can be taken to start to address the issues.

A collaborative approach

As this report points out, IPGs pose a challenge that neither the public nor private sector can address alone. Collaboration is needed. Governments and employers are clearly important. But individuals, too, should take responsibility for protecting themselves against the risks of such gaps in income. This calls for an approach involving three parties.

Based on the findings of this report, we believe focusing on these areas will offer the best outcomes for a collaborative approach:

- **Increase global dialogue** – IPGs are becoming a truly global challenge. Stakeholders should use global platforms such as the World Economic Forum to highlight the issue and encourage action. Discussions must take IPGs in their full context into account, including the connection such gaps have with other global challenges, such as aging demographics and private households' savings gap.
- **Solutions must be tailored to regions and countries** – IPGs present a global challenge but also vary widely by region and even by country. Income protection systems are diverse and often based on very different principles. Local IPGs require local solutions, there is no 'one-size-fits-all' solution. While action at a global level is valuable, collaborations will need to also take place on the regional and country levels.

- **Use tax incentives to encourage people to protect incomes** – In the likely absence of increased public funding, governments can use tax incentives to encourage employers and/or third-party providers, both for-profit and not-for-profit, to address any gaps. Private providers offer a variety of models: These providers may include traditional insurers and also non-profit affinity groups, which pool coverage for employees not covered by workplace plans and rely on commercial vendors on a fee-for-service basis.

Zurich has led recent calls in the UK to provide incentives for income protection through the tax system. In 2014, Zurich stated that an annual GBP 50 tax rebate, available for two years, should be offered to those who buy cover privately. The rebate should also be given to employers who offer the cover to staff. The cost to UK government of introducing this would be GBP 300 million. However, if coverage grew from the roughly 2 million people covered by group income protection (8.5 percent of working-age taxpayers) to around 8.6 million people covered, taxpayer savings would total around GBP 725 million: GBP 370 million due to a reduction in welfare payments, and GBP 355 million resulting from higher income tax and National Insurance contributions.⁴⁹

⁴⁹<http://www.zurich.co.uk/internet/life/sitecollectiondocuments/news/income%20protection%20report.pdf>

Increased workforce mobility causes problems for income support



Government incentives reduce the price of income protection policies, and they signal to individuals and employers that this is a good thing to do. In itself, this encourages people to have this coverage, and combats the mistaken idea that the risk of disability is low and can be safely ignored.

- **Working together to raise awareness** – Greater individual awareness of IPG risks and an increased appetite for responsibility would likely go a long way toward addressing the challenge; it would increase demand for workplace and individual solutions. Governments could raise public awareness about the costs and consequences of inadequate income protection insurance, provide information, and provide model systems of assessment and decision-making tailored to individual circumstances. Equally, governments can outsource these types of programs to the private sector, subject to tests of quality, which might include a duty of care, disclosure of conflicts of interest, and transparency as regards costs and benefits of competing products.
- **Encourage flexibility in labor markets and welfare systems** – Inflexible labor markets contribute to IPGs. In previous decades, a trend toward early retirement placed greater burdens on welfare systems, while older workers with disabilities found employment hard to find. As longevity

increases, neither governments, employers (who rely on older workers for valuable skills and experience) nor individuals can afford to allow the status quo to continue. To address IPGs, it is vital that labor markets and welfare systems provide greater flexibility that will allow people to work longer.

Considerations for employers

Employers clearly have a role to play in collaborative solutions. However, with governments struggling to fill the void and behavioral bias continuing to dissuade individuals from seeking this type of insurance from the private sector, businesses also have a clear opportunity to play a central role in finding solutions. Employers therefore should consider the following additional points that have a bearing on IPGs:

- **Protecting income to retain and attract talent** – Disability and death coverage protects employers. These are also attractive benefits in today's highly-competitive skills market and tell a positive story in the increasingly important area of social value.

As a first step, employers should raise awareness and demand among leaders by highlighting the costs of productivity loss related to IPGs, such as 'presenteeism,' potentially with internal research in larger companies. This process should also include a review of current income protection offerings.



To meet the challenge of rising disability and treatment costs, BMW is piloting production lines specifically catering to older workers.”

In addition, employee benefit schemes can mitigate the risks faced by internationally mobile workers, including the perils of IPGs. Multinational corporations export their occupational schemes to Latin America: American companies operating in Europe offer unit-linked savings plans in similar fashion. Employer-based initiatives can raise public awareness about new possibilities. Multinational companies that offer benefits that are portable across international borders can thus gain a further competitive advantage in attracting and retaining top staff.

The potential for employers to increase income protection through workplace solutions not only depends on changing risk perceptions by employees. It is also connected to the ability of insurers to innovate and adapt to the changing needs of the workforce. Recommended actions for the insurance industry in closing the IPG gap will increasingly come into scope as our project develops.

- **Preventing disability** – An aging workforce will bring with it increased disability rates, which, as noted, due to IPGs will reduce productivity. One solution is to ensure adequate income protection when a worker is disabled. However, prevention is better than cure. Companies should

therefore consider modifying working practices to accommodate older and disabled workers.

BMW offers an example of how this might be done. The automaker employee’s average age is expected to rise from 39 to 47 by 2017. By 2020, 45 percent of its workforce will be over 50. To meet the challenge of rising disability and treatment costs, BMW is piloting production lines specifically catering to older workers. Facilities include ergonomic back supports, mobile tool-trolleys that help to prevent strain in reaching for tools and enhanced lighting for the visually challenged. It hopes to expand the program to 4,000 workers in production areas across German-speaking countries.

Preventing disability is not just for older workers. Employees of all ages face risks, in the long and short term, to their physical and mental health. Employers should consider general programs to promote well-being, such as Google’s ‘Optimize your life’ launched in 2010. Emotional and physical health are its two core principles. Emotional health is encouraged through life coaching, deep-sleep sessions and employee counselling. Physical well-being is promoted through fitness and nutrition, onsite general practitioners and dentists, and quit-smoking sessions.⁵⁰

⁵⁰<http://www.employeebenefits.co.uk/employee-benefits-live-google-focuses-on-emotional-wellbeing-to-make-staff-healthiest-on-the-planet/13682.article>

Section 5: IPGs by region

There are gaps in income protection all around the world. Here we consider the geographical context in selected countries in four regions: Europe, English-speaking OECD countries, Latin America, and South Asia. In each, we examine their demand for protection, what the state is offering, and recent market and policy trends.

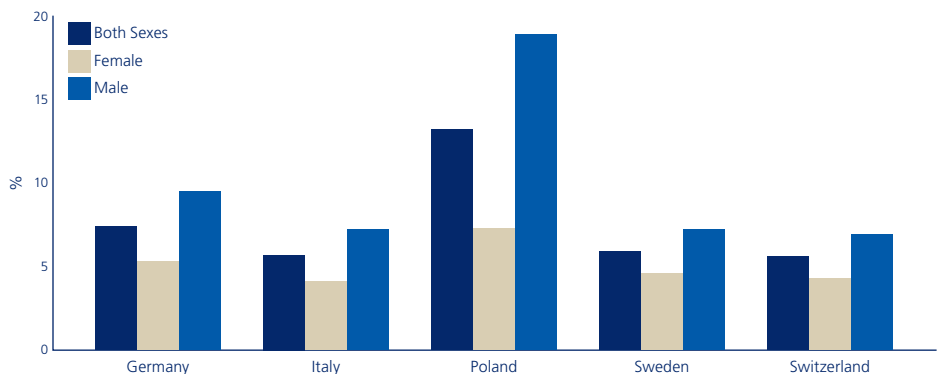
Europe

Europe has high demand and, traditionally, a high supply of income protection. Nonetheless, rising demand is increasingly outweighing supply. Labor market changes and rising costs threaten established systems. In particular, aging societies threaten those welfare systems founded on unfunded PAYG principles, as aging retirees have a shrinking proportion of workers to fund them. The result is a widening gap.

Demography and disability

Demographically, Europe is old: the continent has one of the highest average ages in the world. In western Europe, arguably thanks to state welfare systems, premature death rates are comparatively low, as the following chart shows.

Figure 6: Continental Europe: premature (15-60) death rates



Source: WHO 2013

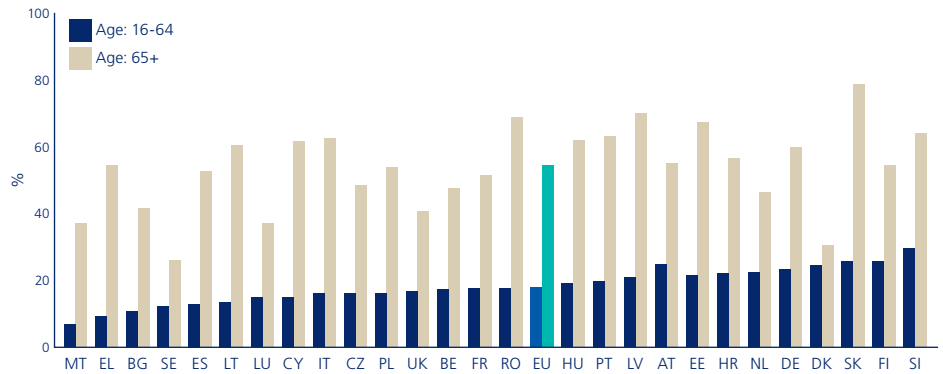
However, as discussed in the following text, aging populations are translating into high disability rates, particularly

in East European countries (possibly a legacy of old Soviet-era industrial systems).



Disabled people have poor access to employment, despite EU policy initiatives aimed at returning people with impairments to work.”

Figure 7: Persons with disabilities by age group, 2011 (Europe)



Source: Academic Network of European Disability Experts (ANED) (2014): 18

Disabled people have poor access to employment, despite EU policy initiatives aimed at returning people with impairments to work.

In continental Europe, permanent work contracts and collective labor agreements are legally safeguarded. However, protection does not extend to part-time or temporary jobs, and these are becoming more common.

5.1 State-sponsored protection

Welfare states originated in Europe and these schemes have exerted global influence. Different income protection schemes reflect different principles. European (Bismarckian-style) social insurance dominates in Germany, France, Spain, Italy and the Netherlands. It is characterized by earnings related contributions and benefits. In contrast, more redistribution is found in the Nordic countries, which prioritize social equality. In all these countries, with the exception of Sweden, income protection in cases of disability or premature death of a wage earner is tied to pension insurance. Gaps emerge where occupational supplements are partial or voluntary.

Former Soviet satellite states in Eastern Europe generally run smaller, weaker versions of Bismarckian systems: state protection is low.

All EU member states provide separate schemes for work injuries: these vary in scope, organization and financial structure. Most (especially in Eastern Europe) run a state-sponsored self-funded insurance system, while Scandinavia and some southern countries (Portugal, Cyprus and Malta) include tax-funded subsidies. In Denmark, Finland, Belgium, the Netherlands and Spain (as in the UK), work injury compensation is insured by private commercial companies. Sometimes the employer is required to pay a full- or part-salary for an initial period, after which time benefits are paid as a percentage of earnings. In Austria, France, Italy and Portugal, benefits increase if disability continues after a predefined period. A person suffering from a permanent disability may receive permanent disability benefits based on lost earnings alone (Austria, Belgium, France, Germany and Spain) or with additional compensation for lost quality of life (Denmark, Finland, Italy, Sweden).

5.1.1. Recent developments

The global financial crisis and successive Euro crises have created more unemployment (and benefit costs), while reducing tax and social insurance revenue, forcing retrenchment in Bismarckian-style systems. To create jobs, rules governing labor markets have been made in some cases less stringent. To contain public expenditure, access to benefits has been curtailed, pushing marginal disability claimants into unemployment plans. Income ceilings have been reduced, social service privatization accelerated and benefit levels frozen or cut (notably in southern Europe). A focus on rehabilitation has become more widespread, but for those with lasting disabilities, finding full-time work can be challenging.

Labor mobility, promoted by the EU as central to the single market, has emerged as an issue. National taxation systems, labor laws and social security schemes impede progress. Pensions, with their associated protection of the bereaved and the disabled, are notably problematic. Diverse mixes between funded and unfunded, public and private, mandatory and voluntary – all raise administrative costs and create issues for migrant workers. Under the Institutions for Occupational Retirement Provision (IORP) Directive (2003) the European Commission introduced pan-European pension plans: an initiative that has had limited impact. A number of off-the-shelf products have been developed, but have not been widely adopted; multinational corporations such as Siemens, Renault and Bosch prefer to extend their own social protection systems for employees across Europe. This problem remains unresolved.

Case studies

Germany

- Germany is aging rapidly. The average age is 46, among the highest in Europe.
- Older workers tend to be in full-time employment, younger workers are less protected.
- Social insurance is based on a PAYG system, offering income-related protection for all risks, covering all insurable employment and families.
- Disability rates are controlled by tighter gatekeeping – 50 percent of applications are refused and marginal cases are transferred to jobseeker benefits.
- Unemployment among disabled persons is above the EU average. Many who are employed are in temporary and part-time jobs that are not covered by social insurance. Disabled people without the required contributions apply for means-tested minimum income benefit.
- For higher incomes, fiscal incentives encourage private protection to supplement state benefits for health and pensions: 11 percent have private health cover.

Italy

- An aging population with an economy badly hit by the global financial crisis. State benefits are being cut and female pension ages are rising, threatening family care for the old and infirm.
- Unemployment is above the European average (only 36 percent of those aged 55-64 work). Part-time and temporary job contracts not covered by social security are expanding.
- Generous state income protection against disability or premature death provided by PAYG social insurance pensions.

Poland

- Polish IPGs reflect past economic instability that has cut savings and, post-financial crisis, reduced state support.
- Social security payments are earnings-related and cover all, including self-employed. But these payments are time-limited and low.
- Low official disability rates reflect limited support — survey data reveal that 68 percent of Poles have a health problem that affects their working lives. Current employment rates for people with disabilities are less than one-in-three, and their risk of poverty is four times higher than that for non-disabled households.⁵¹ Voluntary insurance is virtually non-existent.
- Recent signs of economic recovery are attracting younger, mobile and better-qualified Poles back home, with demands for better protection likely to follow.

Sweden

- Combined public and private cover continues to protect Swedish citizens against social risk. But access to disability benefits is being restricted to control costs.
- Swedish IPGs threaten marginal cases and part-time or temporary employees not covered by statutory provision or collective agreement
- Training and rehabilitation is focused on the young to prevent a life of social dependency.
- Tighter access has pushed some partially incapacitated people onto the unemployment register: 60 percent of people who self-identify as work impaired are currently in employment, most of which is part time.⁵²
- Shift of state pensions from earnings-related social insurance to PAYG notional defined contributions eliminated survivors' pensions, though occupational pensions can still be claimed.

⁵¹Eurostat (2015) Employment of Disabled People: statistical analysis of the 2011 Labor Force Survey Eurostat statistical working papers.

⁵²Eurostat (2015) Employment of Disabled People: statistical analysis of the 2011 Labor Force Survey Eurostat statistical working papers.



English-speaking OECD countries are aging fast. In 2007, for the first time, the number of people in Britain over 65 years of age outnumbered the number of people under 16.”

Switzerland

- Social protection is among the most comprehensive and generous in Europe. IPGs are correspondingly small. Over 60 percent of those reporting a disability have a job of some type.
- As public referenda are likely to be triggered around any major social security reform, the basic structure of social protection has remained intact.
- Rehabilitation has become a priority. This dates from the 1990s, when a rising incidence of new disability claims during the mid-1990s threatened to overwhelm state pension funds. This effort has been reasonably successful: the number of new disabled people registered peaked in 2005 and new claims subsequently fell by 45 percent.⁵³
- Voluntary social protection is widespread: over half the population buys supplementary health insurance and fiscal incentives encourage voluntary personal pension savings, forming a ‘third pillar’ on top of state and mandatory occupational pensions.
- Workers with insufficient contributions (part-time or ‘mini-job’ workers) can claim means-tested supplements.

English-speaking OECD countries

While English speaking OECD countries’ aging populations, disability rates and premature death rates are comparable with those of continental Europe, IPGs tend to be greater. This problem that has been exacerbated in the wake of the global financial crisis, as unemployment has grown and governments respond to financial challenge.

Demography and disability

English-speaking OECD countries are aging fast. In the UK, the average age has risen from 34 in 1974 to 40 in 2015. In 2007, for the first time, the number of people in Britain over 65 years of age

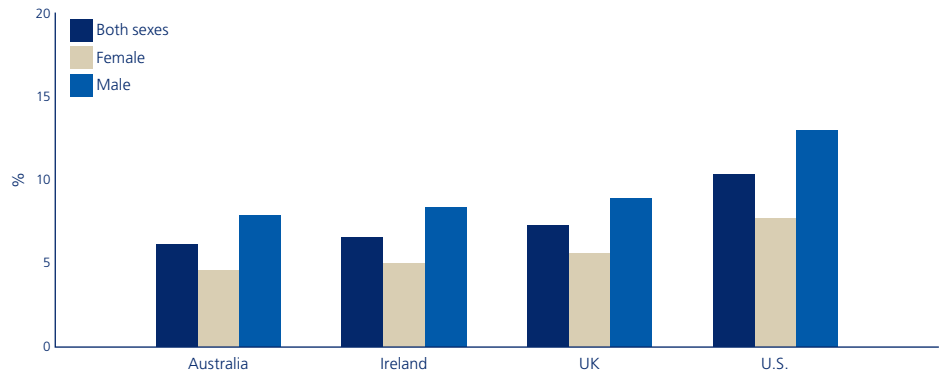
outnumbered the number of people under 16. In the U.S., by 2050, the population aged 65 and over is projected to be 83.7 million, almost double the number in 2012. In Australia, the population over 75 will rise from 6.4 to about 14.4 percent of the population over the next 40 years.⁵⁴ Disability rates are comparable with the EU average, but again, are expected to rise as populations continue to age.

Premature death rates in English-speaking countries are similar to those in continental Europe, with the exception of the U.S., which has a higher level of premature mortality (see Figure 8).

⁵³OECD (2014) Mental Health and Work: Switzerland
Paris, OECD

⁵⁴Pc.gov.au

Figure 8: Premature death rates in English-speaking OECD countries



Source: WHO (2013)

State-sponsored protection

There are four reasons why IPGs in these countries are typically greater.

- Benefit support is low, increasingly hard to access, and does not reflect previous income, except in the U.S.
- Introducing claimants back onto the labor market often means low-grade, insecure, part-time and lower paid work – reducing household income and sometimes creating private debt.
- This risk is exacerbated by the third factor: cutbacks in social services, which lead to higher personal costs. In the UK (and currently being introduced in Australia), personal care packages assume that payments cover adequate care, but that is not always the case.
- Employers' obligations to promote work for disabled people, used in other countries like the Netherlands, Sweden and Switzerland, do not exist in OECD Anglo-Saxon economies.

In the UK and Ireland, low, flat-rate benefits (in the former case, means-tested after one year) are designed to safeguard people from falling into poverty without discouraging employment. These benefits

alone do not sustain the lifestyle of better-off households. In Australia, all benefits are asset-tested, but 'disregards' are higher than those in other countries in this group. U.S. Social Security Disability Insurance (SSDI) benefits are more generous because they include access to state-funded health treatments (Medicare) in a country where medical costs are very high.

Compensation for work-related injuries is more comprehensive: in Australia and the U.S., employers (or their insurers) fund compensation at 95 percent (for three months) and 66.6 percent of previous earnings respectively. Lump sums and/or continued support for survivors are also provided, subject to regulation by individual states; under federal constitutions this type of support varies considerably.

In Ireland and the UK, the cause of the disability makes little difference to state benefits – though the UK does require employers' liability insurance – and survivors' benefits are only available on a means-tested basis. In both these countries, support for surviving spouses is far from automatic, but rather, depends on their earning capacities.



The growing number of claims and the global financial crisis' impact on public budgets have both had a major effect on state support for disability."

While state support is lower, fiscal compensation is given to personal savings schemes in English speaking countries – be these mandatory (as in the Australian Superannuation), quasi-mandatory by auto-enrollment in DC pensions in the UK, or employee-supported – 401(k) plans in the U.S, for example. All are state-regulated and commercially managed, invested and administered schemes. They are variations on a theme of public-private partnerships of social protection designed to secure old age income. But typically they offer protection in the event of premature death or disability – either as part of the main scheme (as in Australia) or as optional 'add-ons.'

Recent developments

The growing number of claims and the global financial crisis' impact on public budgets have both had a major effect on state support for disability. In the U.S., the Social Security Disability Insurance program is expected to become insolvent by 2016 unless new funding is approved.

In the UK and Ireland (EU member Ireland's budget was under surveillance for a time after the financial crisis), benefit levels and essential social services for people with disabilities have faced strains. Initiatives to promote a return to work have achieved greater prominence. Medical conditions are regularly reassessed, and people in the UK and Australia with disabilities, but considered able to work, get work-related training. To date, this has not been the case in the U.S.

Such programs thus far have had limited success: 20 percent of Americans who ended SSDI benefits (or were terminated) applied again within eight years. British claimants' record is comparable, as they seldom regain their full working ability. Access to DC pensions or other personal savings can help short term when disability or premature death occurs. But this becomes a crisis later in life when retirement savings are depleted. With the exception of Australia, where savings are better protected, IPG problems are thus not solved – merely deferred.

Case studies

Australia

Australian support for those suffering disabilities or families affected by death of a wage-earner is means-tested, and bar compensation for work injuries and help for the blind.

In 2012, a National Disability Insurance Scheme was initiated with the aim of raising social participation and labor market activation among all claimants under 65 by offering support tailored to individuals (training, mobility, medical devices) to enable a return to work.

In 2014, a medical re-review of disabled claimants was launched with the aim of redefining disability and promoting a return to the labor market. These policy shifts came in the wake of problems financing the federal budget and reflect rising social costs.

Australia's mandatory superannuation scheme is fully funded by employers and covers all workers in the private sector. Savings may be tapped in the event of permanent incapacity or premature death, but there is no obligation to provide for survivors. Life insurance cover is mandatory.

Ireland

Emergency EU/IMF budget controls that followed the financial crisis and ended in 2013 led disability-specific services to be cut, and abolished early retirement. 2015 marked the introduction of the first non-austerity budget in seven years, but there was no increase in disability allowances or support.

As a result, IPG and the risk of poverty among people with disabilities remain above the EU average, mainly due to lack of employment.⁵⁵

Irish state-sponsored social insurance resembles the UK scheme: flat-rate contributions sustain rights to flat-rate benefits supplemented by means-tested social assistance.

As in the UK, all claimants are subject to periodic medical reassessment. Unlike the UK, however, disability claims are admitted after one year on sickness benefits under a separate health insurance scheme.

UK

The UK faces a significant problem with IPGs. State support is low and flat-rate: potential claimants are often not aware of their benefit rights.⁵⁶

In 2009, disability benefits cost more than unemployment benefits.⁵⁷ Government policy is thus now firmly directed toward returning disabled to work. Claimants are regularly medically reassessed and required to train for work if found fit. Disability payments fell from 9.6 percent (2002) to 6.8 percent (2012) of total social spending.⁵⁸

People with disabilities work mostly in low-paid, part-time jobs – this was 42 percent above the EU average in 2014.⁵⁹ Discounting housing costs, official figures for 2010-2012 show 20 percent of households that include a disabled person had incomes below 60 percent of average earnings (commonly used as a poverty line).⁶⁰

One-off bereavement payments follow an unexpected death. Bereavement allowances are paid if the deceased had social security cover, if the claimant cares for children or is older than 45. Survivors of spouses on ESA can claim 50 percent of this benefit under the same conditions.

And 33 percent of households drop into a lower income quintile after an unexpected adult death, with 20 percent falling into poverty.⁶¹

⁵⁵Academic Network of European Disability Experts (ANED) (2014) European comparative data on Europe 2020 & People with disabilities Final report by S. Grammenos from Centre for European Social and Economic Policy (CESEP ASBL) on behalf of the Academic Network of European Disability Experts (ANED)

⁵⁶Unlike other European schemes, workers' representatives are not involved in benefit administration: access to UK benefits is centralised and complex.

⁵⁷Lindsay, C. and Houston, D. (eds.) (2013): op cit.: 1.

⁵⁸EUROSTAT, Social benefits by function: Social benefits per head of population by function: disability <http://ec.europa.eu/eurostat/web/social-protection/data/main-tables> Statistics for the UK do not take into account the Disability Tax Credits (for working disabled) or Income Support with Disability Supplement.

⁵⁹ANED (2014) European comparative data on Europe 2020 & People with disabilities Final report

⁶⁰DWP (2013) Households Below Average Income: 10.

⁶¹Cordon, A., Hirst, M., Nice, K. (2008) Financial Implications of the Death of a Partner Working Paper no. ESRC 2288 12.08: 153-5 <http://www.york.ac.uk/inst/spru/research/pdf/Bereavement.pdf>

U.S.

Social Security Disability Insurance (SSDI) is the largest earnings replacement program for working-age adults. The risk of insolvency in 2016 has led to more restricted access and currently only 40 percent of claims are admitted (and 15 percent of those are on appeal).⁶²

Passed in 2008, the Americans with Disabilities Act Amendment Act (ADAAA) requires employers to make reasonable accommodations so that disabled people can return to work.

SSDI is supplemented by SSI (Supplementary Security Income), a federal social assistance program for those with no or insufficient SSDI contributions. It covers children, the blind, the elderly and people with mental disabilities. Work injury compensation is covered separately.

Although voluntary work retraining with medical help under Vocational Rehabilitation has long been available, in 2011 less than one percent of claimants left the register to return to work.

There is no activity or work-related conditionality attached to SSDI payments, although – thanks to the scheme's potential insolvency – examples set by other countries are receiving serious attention.⁶³

Many employers sponsor joint tax-privileged saving schemes (such as 401k) that can provide support in the event of disability or accidental death – but membership remains voluntary.

Latin America

This region is newer to income protection, but demand is still outpacing supply, and the gap is growing. As a region – with some notable exceptions such as Chile – Latin America's high numbers of informal employees relative to the labor force as a whole is a major driver of IPGs; state systems largely exempt these groups from coverage. In addition, government focus is on the poorer members of society, leaving wage earners in the middle relatively less-well protected.

Demography and disability

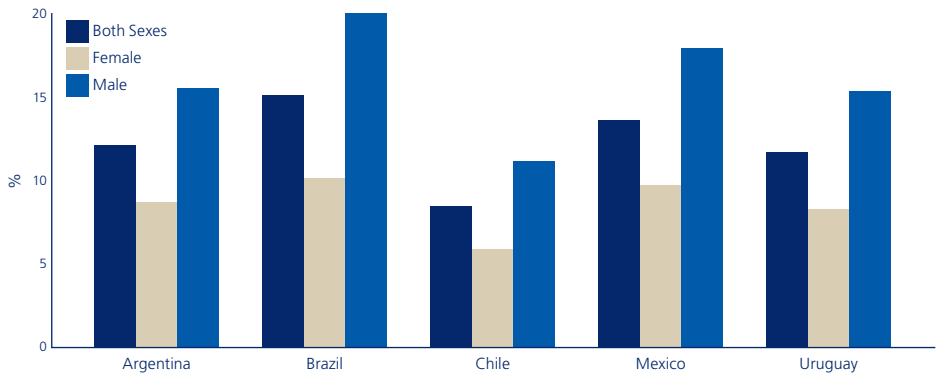
In contrast to Europe, Latin America's population is comparatively young; the median population age, depending on the country, ranges from 27 to 34 years, in contrast to European averages of 39 to 46 years. The risk of premature death is also higher, as Figure 9 shows:

However, the trend toward increased longevity suggests that, in the very near future, an aging population will generate IPG problems similar to those now faced in most EU member countries. As the following chart shows, rates of disability increase with age and greater longevity will mean higher proportions of disabled workers.

⁶²Burkhauser, R.V., Daly, M., McVicar, D., Wilkins, R. (2014) 'Disability benefit growth and disability reform in the U.S. Lessons from other OECD nations' *Journal of Labor Policy* 3: 4.

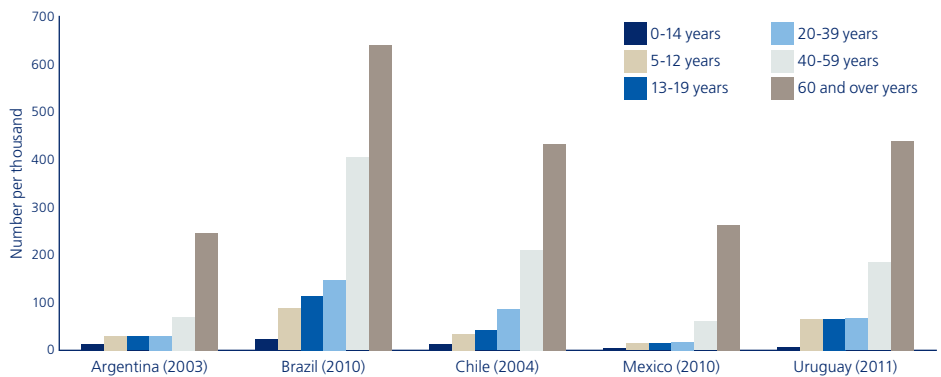
⁶³Morris, Z.A. (2015) *op. cit*

Figure 9: Latin American premature (15-60) death rates



Source: WHO 2013

Figure 10: Latin America: prevalence of disability by age



(Source: ECLAC, 2012) nb. Disability rates are derived from official surveys carried out in different years and thus comparisons between countries is highly problematic. Age distributions within countries remain valid.

State-sponsored protection

For urban households, earnings-related state social security offers safeguards to spouses and dependents in the event of disability or premature death. As in Europe, these benefits are attached to pension insurance (both state and occupational schemes).

A burgeoning urban middle class demands better standards in health and social benefits than many countries have hitherto been able to supply. Wealthier governments use extra revenue to extend protection to the poor, leaving private providers to supplement state provisions. In indirect ways, government

policies have converged to generate public-private pension combinations. In 1981, Chile's military dictatorship famously became the first to scrap social insurance-based pensions in favor of mandatory pre-funded personal accounts but, due to limited scope for personal savings, the government now subsidizes the savings of the lower income savers, and provides a 'solidarity basic pension.' In Brazil, President Lula da Silva extended social insurance pensions to rural non-contributing workers, while offering tax incentives to corporations to create supplementary occupational and personal pension schemes.

In this fashion, governments of both left and right have collaborated with commercial providers to generate a mixture of pre-funded and tax-subsidized income protection to address growing political pressure from voters.

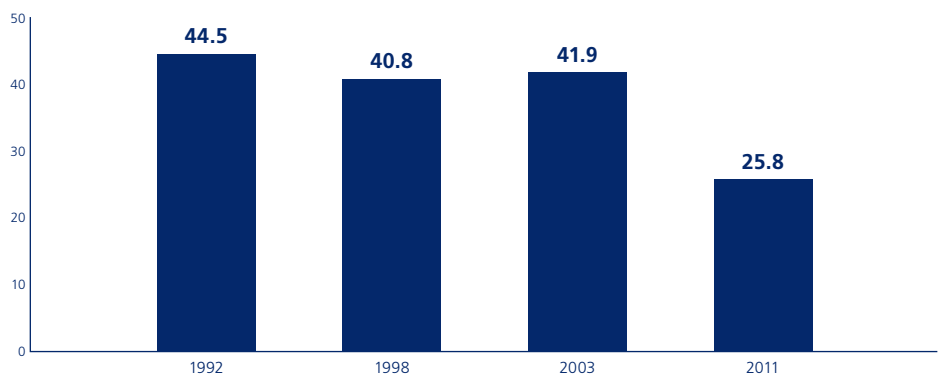
Recent developments

The major IPG threat in Latin America today stems from the fact that all countries have large informal employment sectors, particularly Mexico. There is no systematic income support for this group – hence the low incidence of reported disability in Figure 10 – and the emergency occasioned by disability, disease or sudden death can only be met by recourse to family help or means-tested social assistance. Among the growing numbers of elderly, the family is the main protection against destitution. Yet increasing female labor market participation rates in urban areas make informal family care

more problematic, and personal income protection in the form of state-funded pensions is essential.

Latin American income protection schemes are rooted in European labor law and earnings-related social security plans, which they essentially copy. Those in formal employment enjoy job protection and, in some cases, fringe benefits under collective agreements, such as occupational pensions or additional health provision, all safeguarded by law. Since 2000, economic growth has extended formal employment contracts, mostly in multinational firms employing skilled workers, raising urban household income while improving tax and social insurance revenues. In major economies like Argentina and Brazil, prosperity has spread, social protection cover has been expanded, and poverty rates have fallen in consequence as the following chart shows.

Figure 11: Poverty in Latin American countries (poverty headcount ratio weighted by country population)



Source: Smith School Enterprise and Environment
Poverty rate = USD 4 per day

However, current settlements are neither permanent nor perfect: promises made (notably in Mexico and Brazil) may provoke future fiscal crises. Workers shift between formal and informal jobs. Earnings-related income protection, funded or otherwise, depends on contribution records generated by continuous employment and switching between sectors may not secure sufficient protection in the event of a household emergency. Segmentation between formal and informal labor markets is not

clean and neat. Health impairments tend to mean demotion to less secure jobs. Latin American social assistance budgets have grown (not shrunk) over the past decade, largely thanks to extensions in social pensions that – in countries with older populations like Brazil, Uruguay and Chile – have been extended to protect against old age poverty. Should an economic contraction follow recent growth, middle class households may find income security inadequate.

Case studies

Argentina

- IPG problems are largely confined to the informal sector, which has to turn to means-tested local social assistance in the event of accident, illness or premature death.
- Severance pay is also given for total disability and re-employment by the employer is mandated for the partially impaired.
- Additional rehabilitation for informal workers provided under regional social assistance schemes.⁶⁴

Brazil

- China's economic troubles, along with rising domestic inflation, public debt and social unrest threaten to slow Brazil's economy. A downturn could lead to tighter caps on state protection, increasing the possibility of rising IPG, particularly for urban households, as government policy continues to focus on the rural poor.
- Over the last decade, formal employment has significantly increased but remains at only about 60 percent of the total workforce.⁶⁵
- Spending on social welfare has risen to a very high 11.3 percent of GDP (and health expenditure to 9.7 percent). By contrast, India's social spending is only 2.5 percent.
- State support remains focused on protecting the rural poor. Rural workers, who do not contribute to social insurance, enjoy the same benefit rights as urban workers, who do contribute, receive.

⁶⁴Cerruti, P. et al. (2014) 'Social Assistance and Labor Market Programs in Latin America' Social Protection and Labor Discussion Paper No. 1401, World Bank

⁶⁵Maurizio, R. (2014) Labor Formalisation and Declining Inequality in Argentina and Brazil in the 2000s ILO Working Paper no. 9, ILO, Geneva: 6

Chile

Chile's informal labor market is small and living standards are higher than those in much of the rest of Latin America.

In 1981, Chile was one of the first countries to experiment with a shift away from PAYG social insurance. Its system now comprises personal savings accounts vested with registered insurance companies and funded by earnings-related worker contributions.

Coverage is contributions-dependent. Therefore, informal workers are at most risk of IPG, as they would have to rely on lower, means-tested help in the event of disability or premature death.

As most middle-class and other workers' accounts are insufficient to sustain the costs of disability and premature death, the government pays a solidarity insurance subsidy of about 60 percent of personal accounts.

Social protection covers about 82 percent of the working population, providing for survivors and workers suffering from disability.

Mexico

Very little accurate information is available on the true disability levels in Mexico, as income protection is very low and covers only a minority of the working population.

Most people whose disabilities limit the work they can do join the informal economy or rely on family support. This explains the disability distribution between income quintiles:⁶⁶ Disablement is more common (based on reported cases) among middle-income earners than it is for the very poor.

Social security only covers public-sector employees and formally-employed private sector workers, estimated at 37 percent of the working population in 2010.

Work injuries are not classed as separate where treatment is concerned.

There is no provision for rehabilitation and female labor market activity is generally very low.

In an effort to tackle poverty, a reform program introduced in 2013 increased tax-funded transfers to the poor and created a universal minimum pension. Prioritizing the poor makes state-run income protection or health care to people further up the income scale less likely.

Uruguay

Uruguay stands out among Latin American countries for its high level of coverage in a social protection system that covers 77 percent of the adult population.

A PAYG social insurance system is supplemented by mandatory personal savings to offer additional funded protection in the event of disability, premature death and retirement: 84 percent of workers – all but the lowest paid – were contributing to such accounts by 2011.

The informal sector is limited in Uruguay, but incentives to formalize employment and extend income protection cover remain in place, in line with the broad IPG issues which Latin America faces.

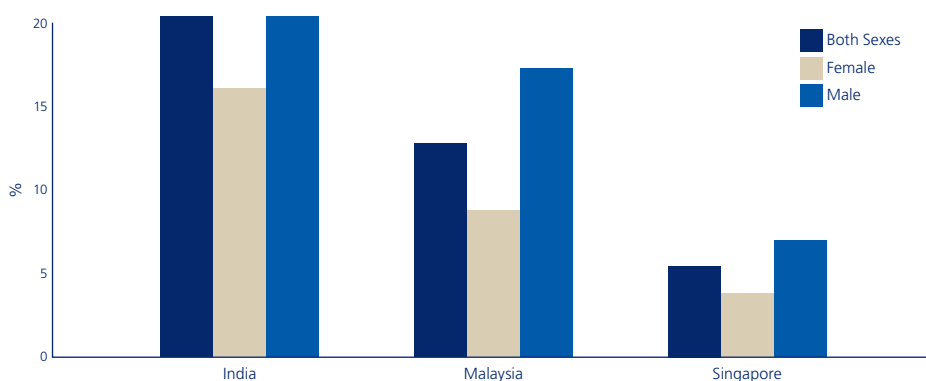
⁶⁶See Summary sheet for Mexico

South Asian countries

According to the ILO, the number of people in South Asia with basic income protection of any type is estimated at around 10 percent. The overall spending on all social programs averages 8 percent of GDP, the lowest of any ILO region. This section covers two urban communities (Singapore, Hong Kong) and two much larger countries (Malaysia, India), so we cannot compare like with like.

The latter two countries have substantial numbers of informal workers and policy necessarily focuses resources primarily on those below the poverty line to guarantee primary-level education, food and shelter for the poorest. Targeted assistance faces substantial difficulties in identifying who should benefit from government schemes focus on basic rights as opposed to income replacement – most notably the right to food and shelter.

Figure 12: Southeast Asian premature (15-60) death rates



Source: WHO (2013)

Demography and disability

As indicated in (Figure 12) premature death remains a serious problem in those countries with more rural communities; poverty is higher in rural areas, which usually lack good access to health care. Poor infrastructure and a huge rural population remain major challenges in India. In Singapore, by contrast, a sophisticated and highly-developed urban community sustains a demographic profile similar to that found in rich European countries such as Switzerland or Sweden.

In India, Malaysia, and Singapore, data providing information on the prevalence of disability is scarce, and where such data do exist, seem not to reflect the actual levels of disability in these countries. For example, Singapore had only around 9,000 persons with disabilities claiming government services in 2006; yet Singapore had a population of about 4.4 million in 2006. Similarly, the official statistics on India suggest a disability rate of only 2.1 percent, much lower than most (if not all) developed countries. This is likely indicative of difficulties in data gathering and lack of infrastructure needed to do so successfully, rather than low rates of disability.

State-sponsored protection

The most common forms of income protection are mandatory national provident funds (NPF): these are prominent in Singapore and Malaysia, and Hong Kong is introducing a mandatory privately-run equivalent in 2000. These funds are also found (in less standard form) throughout India, but, as they are confined to formal workers, they only cover a tiny fraction of the working population.

Introduced during the colonial era to spur economic development, these funded systems originally paid a lump sum to the contributor on retirement, but are now annuitized. Thanks to state ownership in Singapore and Malaysia, administrative costs remain low as schemes are non-competitive and funds, originally directed to government securities, are now partly invested offshore – contributing over 40 percent of GDP in both countries by the late 20th century. In Singapore, and to a lesser extent Malaysia, provident funds have evolved into personal social security savings plans.

Such schemes have helped to develop habits of long-term saving. They have enabled regional growth and extended welfare systems under low-tax economies. Although access to savings before retirement is formally sanctioned, the schemes offer lump sums or draw-down

income in the event of disability or premature death. Indonesia has followed the example set by Singapore and Malaysia, illustrating a regional preference for NPFs over social insurance schemes. Malaysia recently added a social insurance system to complement the Malaysian Employees' Provident Fund, but only for low-paid workers who are generally unable to save enough on their own.

Recent developments

The provident schemes run by Singapore and Malaysia resemble the DC-funded pension systems that have garnered international acclaim in recent years as a solution to the unviable PAYG social security plans. But these plans, introduced in the 1950s and currently reaching maturity, face two problems: demographic aging is forcing national funds to support elderly pensioners for much longer than originally predicted, just like the PAYG schemes found in Europe; and, in Singapore, the rising cost of housing is absorbing too great a proportion of provident savings – leaving the fund owner with inadequate savings for a future pension. Thus southeast Asia's experience mirrors recent European developments, leaving open the question of whether personal-funded solutions offer a realistic alternative to PAYG social security problems.

Case studies

Hong Kong

The current social security scheme, in place since 1966, has two main components. The first is a tax-funded, comprehensive social assistance and public welfare scheme. This offers a universal allowance to all disabled people unable to do any work, supplemented by a means-tested assistance in cases of need, plus medical care if required.

The second component consists of mandatory pension insurance (private provident funds, contributions capped at HKD 30,000) and employer-funded health care insurance and work-related injury compensation.

Provident funds, introduced in 2000, can be liquidated in the event of permanent disability or unexpected death.

India

About 300 million Indians live in poverty (mostly rural areas), and they are the primary focus of social protection policies.

Between 5 and 8 percent of Indians suffer from a disability (55-90 million people). If a breadwinner becomes disabled, household income falls by an estimated 21 percent.⁶⁷

Of the some 70 million persons with disabilities in India, only about 100,000 have found employment in industry.⁶⁸

Around 14 percent of people certified as disabled receive a pension.⁶⁹

To extend protection, national and state governments subsidize self-help, mutual, local and private insurance systems. The Life Insurance Company of India runs one of the largest, covering 3.6 million households (2006) against the risks of disability and premature death.⁷⁰

The private insurance market is still at an early stage of development. (World Bank.)⁷¹

Malaysia

Social protection for employees in Malaysia is tiered according to income. Social security benefits include medical treatment, disability benefits and survivors' benefits.

Although the formal social protection system in Malaysia appears comprehensive, its coverage is patchy and benefit levels low.

Social protection also includes an Employee Provident Fund (EPF) for all regular employees not covered by the civil service pension scheme. The EPF is considered to be well-established and receives contributions from employers and the state.

Singapore

Singapore's Central Provident Fund is a mandatory individual saving system, operated by the Central Provident Fund Board that covers all workers, including the public sector and the self-employed.

A joint contribution of employer and employed at 21 percent of salary funds four accounts that provide for each member to cover retirement, sickness, education and housing costs.

The funds are used to support households in the event of total disability (medically certified) or premature death of the fund holder – either by supplying a draw-down income or through the provision of a lump sum equal to accumulated balances.

Rising housing costs threaten to take up too much of personal savings for Provident Funds to be able to fund later life.

⁶⁷Ghatak, A., Madheswaran, S. (2011) 'Burden of income loss due to ailment in India' Institute for Social and Economic Change Working Paper 269, Bangalore, India

⁶⁸<http://www.un.org/disabilities/default.asp?id=18>

⁶⁹World Bank (2009) People with Disabilities in India Human Development Unit: South East Asia region: 112.

⁷⁰*Ibid.*: 114

⁷¹*Ibid.*: p. xx

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