

Embracing the income protection gaps challenge: options and solutions



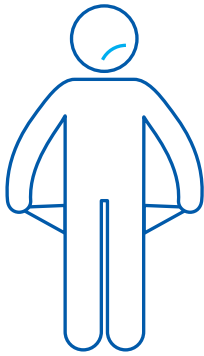
Contents

Executive summary	2
Introduction	6
The Zurich-Oxford income protection gap project	7
A guide to this report: a toolkit of solutions to close income protection gaps	8
The role of insurance distributors and intermediaries	10
Chapter 1 – Guiding the individual	12
Nudges and engagement	13
Financial education	17
Recommendations to guide the individual	21
Chapter 2 – Workplace-based solutions	22
Refining well-being and prevention programs	24
Rising retirement ages: the consequences for employers	27
Recommendations for designing workplace-based solutions	29
Chapter 3 – New policy approaches to close income protection gaps	30
Partnerships to close the income protection gaps	31
Aligning income protection solutions with the future of work	34
Recommended policy action	39
Conclusion	40

The terminology used in this report has been standardized and may differ from common usage in some countries.

Executive summary

Individuals have few guarantees of lifelong financial certainty



without significant personal initiative and long-term planning

The pain of a prolonged spell of ill health can go well beyond bodily ailments. Chronic sickness, injuries, and other conditions that render an individual unfit to work can impact household budgets, savings, and retirement accounts.

Living longer and working more years of one's life is a positive development. It is not without complications, however, as it can also pose a greater risk that individuals will become disabled for at least some part of their career. Governments, employers, and individuals must find ways to address these types of income protection gaps, or 'IPGs.' What's to be done? A study by Zurich Insurance Group and the Smith School of Enterprise and the Environment, University of Oxford sheds light on some solutions.

In one of the most striking social and political trends of 2016-17, we are witnessing something of a backlash against the decades-long shift of financial risks onto the individual. As longevity increases and state-sponsored social safety nets are stretched nearly to the breaking point, individuals have few guarantees of lifelong financial certainty without significant personal initiative and long-term planning. However, household financial decision-making has become a highly complex task, and one which is subject to a number of basic but often unavoidable cognitive biases. Further complicating matters are transformations in the nature of work. The Fourth Industrial Revolution has displaced jobs for both lower- and middle-income workers while also giving rise to the sharing economy. Self-employment has become a prevalent coping mechanism in response to both trends. But while this offers flexible work opportunities, it generally lacks sufficient legal safeguards and fails to provide basic benefits to ensure workers' continuity of income.

In this environment, it is becoming clear that the burden of guaranteeing long-term financial security is simply too great for many individuals to bear. Individual capability is therefore in many ways at the heart of the two main questions posed by this report. First, how should we think about the balance of responsibilities between governments, employers, insurers and other financial institutions, and individual workers and their families in securing household income? Second, in light of this, what types of measures aiming to close the IPGs can we propose to each of these groups?

Motivating individuals

One obvious place to start is with individual employees. Enrolling people in income protection insurance programs automatically, and then ensuring they make regular, adequate contributions, is one proven part of a workable solution.

That said, employees cannot be completely passive bystanders in their financial futures. But in order to be effective planners, they must be equipped with practical knowledge and skills. A successful employee financial education program requires two elements: formal instruction that is followed up with tangible, beneficial action. The ideal is a program of intensive instruction, complemented by one-on-one counselling that integrates goal-setting, that takes place over multiple sessions. Advice should also be tailored to different segments of the workforce so that it is more personalized.



Promoting corporate 'wellness' constitutes an industry worth USD 6 billion annually – in the US alone

Financial education is not restricted to classroom-based instruction; digital materials, including apps and games, in principle also offer possibilities for delivering content. The newest generation of digital tools in the overall area of personal finances is more interactive, using gamification techniques as well as opportunities for continuous microsavings. There is still much room for experimentation with these tools – and a great deal of room to assess their overall effectiveness.

Governments could play a useful role here by putting pressure on the financial industry to create and promote income protection products that are transparent and easy for consumers to understand.

Insurers, too, have a contribution: these need to get better at explaining to consumers the benefits of income protection. Insurers can also help by making financial planning relevant to households, for example, by presenting income protection within the context of overall household finances. And, they shouldn't be afraid to explore new digital approaches that support the case for income protection products.

Employers are a key part of the solution. They can include income protection as part of their employee benefits, maximizing coverage through auto-enrollment and auto-escalation. They are also natural hosts for financial education programs.

Finding workplace solutions

Promoting corporate 'wellness' constitutes an industry worth USD 6 billion annually – in the US alone. It's clear that companies believe encouraging employees to look after themselves is money well spent. Yet for all that, there is not yet clear evidence that some existing corporate wellness programs actually cut costs. This reflects the fact that promoting health can be a minefield. For example, certain types of incentives for employees to participate in wellness programs can have the unintended consequence of discriminating against less healthy workers. Monitoring employees' health too closely can exacerbate the very stress that companies hope to alleviate, ultimately backfiring. Stigmas associated with mental illness also need to be addressed.

Targeting problems at the organizational level enables a broader range of workplace issues to be identified and addressed. In practical terms, this involves much closer collaboration between human resources and health and safety departments within the company, with risk management also being involved. Once these departments collaborate, the goal is to achieve sustainability, rather than securing an immediate return to work that is swiftly followed by renewed absences.

Problems associated with long-term disability are likely to grow more common as people are living and working longer. Many national policymakers, facing budgetary restrictions as public pension obligations rise, are encouraging their citizens to postpone retirement. This might be fine for healthy office workers, who are also more likely to have private insurance cover, but it can be problematic for people who have spent decades doing heavy manual labor. A more nuanced approach is needed to ensure fairness, for example by calculating pensionable age in terms of social insurance contributions that reflect the number of years in work. Good practice for progressive retirement would also entail part-time workers continuing to build up pension savings on a pro-rata basis.

Apart from seeing to it that pension ages are reasonable, governments should consider offering companies incentives to make medical monitoring, health and fitness programs part of their work culture. Given the years many workers are likely to remain in the workforce, employers need to offer flexible retirement options, too, while working to make sure workers facing disabilities, including mental health issues, feel welcome in the workplace.

Insurers should offer pension cover against loss of income, create retirement products that increase income later in life, and work together with employers to assess employee health data.

New approaches to closing income protection gaps

The decline of state welfare creates new opportunities for governments and private insurance providers to collaborate and form partnerships to extend social protection, using fiscal incentives to attract new customers. This strategy is already well established. Some governments use negotiated agreements with private providers to offer fiscal incentives to encourage people to purchase long-term insurance products that bridge IPGs. In Germany, for example, corporate pension plans often offer not only retirement, but also disability and survivor benefits.

Private insurers, often working with employers, can also augment cover to mitigate the risk of IPGs. Here, governments promoting private income protection insurance also have a role by providing the proper regulatory framework.

Governments can also incentivize employers to safeguard the incomes of their disabled employees. Many employers have the resources to take on this responsibility. The best in this regard already offer regular employee health

assessments and fitness programs, and medical facilities are available for early, individual appraisals and rehabilitation.

Independent workers and the self-employed also need ways to save and provide for themselves in the case they become disabled. The sharing economy has afforded flexibility to workers, but it does not usually extend the usual benefits and protections to them. This could be accomplished, for example, through reforms that introduce more sophisticated employment classifications. Workers on IT platforms in particular could negotiate group income protection with insurers to offer plans to registered workers at advantageous prices.

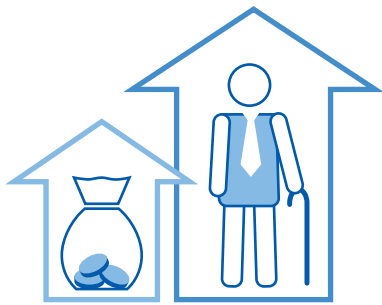
The ability to transfer private IPG insurance cover between employers is needed when workers change location, employer, or profession. This can be mediated by provisions covering whole industries and through professional associations. Portability between different jurisdictions is even more challenging, although social security totalization agreements can allow companies to coordinate pension contributions made in two different jurisdictions, facilitating workers' cross-border mobility.

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

**Zurich Insurance Group/
Smith School of Enterprise and the Environment, University of Oxford**

Introduction

Demand for government support rapidly outpaces supply,

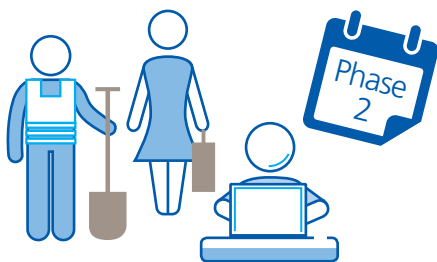


while at the same time, disability levels are rising as populations age

Form a comprehensive, high level view of the challenges of IPGs in various countries and at the global level



Behavioral and institutional factors influencing individuals' decisions on whether or how to protect their household income



The Zurich-Oxford income protection gaps project

The ability to ensure financial security even in the face of crises such as long-term illness or disability plays a crucial role in our lives and the future of our families. The challenges that this brings to governments, businesses, and society as a whole are becoming critical.

This is particularly true as demand for government support – the traditional source of relief – is rapidly outpacing supply, while at the same time, disability levels are rising as populations age.

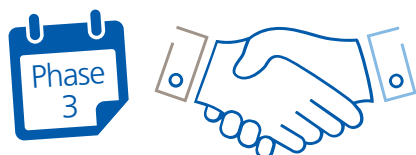
This report marks the culmination of the third and final phase of a three-year alliance between the Smith School of Enterprise and the Environment, University of Oxford and Zurich Insurance Group. As a leading academic institution and a global insurer with expertise on risk and risk management, respectively, we are well-placed to produce research that contributes to the resilience of a global society. That includes finding ways to close income protection gaps (IPGs), which we define as shortfalls in earned income due to the incapacitation (caused by serious illness or disability) or premature death of a household breadwinner. Given the scale and impact of IPGs, it is crucial to gain a deeper understanding of the long-term macro-level trends that have given rise to them, the individual behaviors that further drive them, and their implications for both the public and private sectors.

We define the **income protection gap** as a 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 income replacement sources into account.

Our aim in the first phase of this project, completed in 2015, was to form a comprehensive, high-level view of the challenges of IPGs in various countries and at the global level. In so doing we also aimed to raise awareness of this important issue: namely, that household demand for income protection is rapidly outpacing traditional public sources of supply. Our findings sharpened the focus on a global problem with distinct regional and local characteristics and variations. The first report in this series on IPGs mainly analyzed the supply side – the availability of income protection and social welfare.

Our second study, completed in 2016, sought to understand IPGs from the demand side – the behavioral and institutional factors influencing individuals' decisions on whether or how to protect their household income. We created a wide-ranging survey of workers' knowledge, behavior, and beliefs related to income protection. Aimed at working individuals in 11 countries across five continents (Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, UK, Switzerland and USA)¹, the survey explored financial awareness and behavior, as well as attitudes toward the roles of governments, employers, and individuals in providing income protection. This second phase of our project provided us with a better understanding of the factors that drive workers' decision to acquire income protection. We also discovered significant latent demand, as well as some of the reasons why this demand remains 'untapped.' Finally, we gained a greater appreciation of how all of these factors can vary significantly – not only by socioeconomic characteristics such as age, gender, and income level, but perhaps most importantly from country to country.

Potential avenues for how public and private sectors could work together to close IPGs



The third and final phase of our project investigates potential avenues for how the public and private sectors could work together to close IPGs. The research presented here and in our earlier reports is used to propose solutions for future engagement with the issue of income protection by employers and the state. Mindful of differing country contexts, we offer broad recommendations that can be tailored to fit specific locations and work situations, and adapted as required. Our proposals notably involve reinforcing public-private partnerships between insurers, employers, and government, by giving employers a central role while protecting the public finances. We also call for early interventions for workers experiencing mental or physical issues, and rehabilitation to promote employee well-being. Above all, we aim to present actionable solutions that achieve a balance between government support, employer (and insurer) provisions, and personal responsibility.

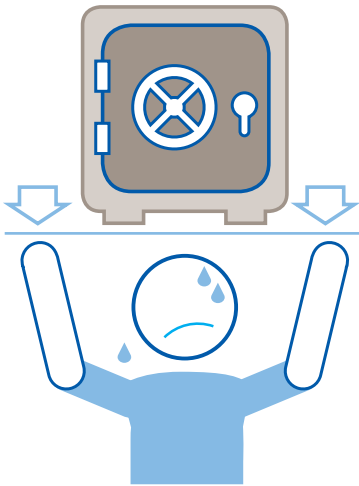
A guide to this report: a toolkit of solutions to close income protection gaps

In one of the most striking social and political trends of 2016-17, we are witnessing something of a backlash against the decades-long shift of financial risks onto the individual.² As longevity increases and state-sponsored social safety nets are stretched nearly to the breaking point, individuals have few guarantees of lifelong financial certainty without significant personal initiative and long-term planning. However, household financial decision-making has become a highly complex task, and one which is subject to a number of basic but often unavoidable cognitive biases. Further complicating matters is the growing uncertainty that characterizes labor markets, particularly for lower- and middle-income workers.

The Fourth Industrial Revolution has not only brought with it widespread automation in sectors that once required large pools of manual labor; it has also begun to displace white-collar jobs. The rise of the sharing economy is part and parcel of this trend, as is the growing prevalence of self-employment as a coping mechanism. While both avenues offer flexible work opportunities, they generally lack sufficient legal safeguards and fail to provide basic benefits to ensure workers' continuity of income.

In this environment, it is becoming clear that the burden of guaranteeing long-term financial security is simply too great for many individuals to bear. Individual capability is therefore in many ways at the heart of the two main questions posed by this report. First, how should we think about the balance of responsibilities between governments, employers, insurers and other financial institutions, and individual workers and their families in securing household income? Second, in light of this, what types of measures aiming to close the IPG can we propose to each of these groups?

This report is divided into three main chapters, each focused on one of three key areas for change: educating and engaging with individual workers; designing and implementing workplace-based solutions for prevention and rehabilitation; and modernizing policies to protect individuals in a 21st century employment landscape. Within each theme, we offer several broad recommendations in a range of areas where multiple stakeholders can work together to close the IPG. The chapters conclude with a more detailed set of recommendations arranged according to three main stakeholder groups: insurers, governments, and employers. This solutions-led approach is by nature designed to encourage uptake, implementation and, for pioneering stakeholders, experimentation with some novel and promising ways to close IPGs.



It is becoming clear that the burden of guaranteeing long-term financial security is simply too great for many individuals to bear

Our overarching recommendations for each major stakeholder group – insurers, employers, and governments – are mutually reinforcing, and can be summarized briefly as follows:

- **For insurers:** develop basic insurance products to be introduced via employers under auto-enrollment, with additional features available for individuals wishing to purchase them.
- **For employers:** enroll the workforce in contribution-based income protection insurance (with an opt-out clause) as part of the employment contract. Provide employees with ongoing financial education and training.
- **For governments:** regulate and certify (or trademark) approved IPG insurance products and use fiscal incentives to encourage compliance. Extend obligations to information technology (IT)-based platforms and agency workers.

Our perspective throughout this report is underpinned by three key insights. First, we are acutely aware of the wide variation in institutional context between countries as well as regions of the world. As we stressed in both of our previous reports, there is considerable diversity in national policy environments, particularly with respect to taxation systems and social policies for the disabled and prematurely bereaved. Moreover, as we found in the second phase of our project, there is even variation within regions that are widely considered to share common legal, cultural, and socioeconomic traditions, for instance within the English-speaking world or continental Europe. These differences in turn go a long way in shaping the financial behaviors of individuals and households. Thus, there is no single one-scheme-fits-all solution; country-specific interventions are needed. Our aim in this report is to provide a global template that can be tailored to local circumstances and needs.

Second, throughout our report we signpost the significance of not just the ‘average’ person but also those who, by dint of education and experience, are adept at dealing with many of the challenges that come with an uncertain future. Equally, we acknowledge the vulnerability of those in the bottom tiers of the labor market who, by nature of their jobs and employment experience, understand only too well their vulnerability to changes in personal fortunes. Some countries have well-established and robust benefit systems and support programs which provide a floor or minimum standard of welfare for those that are most vulnerable in our societies. But, increasingly, this is no longer the case.

Finally, we are also sensitive to some of the behavioral issues that amplify and, in some cases, confound long-term commitments. If most people, most of the time, look to the future in terms of their current commitments and long-term aspirations, we are mindful of the fact that many people are subject to what behavioral economists call biases and anomalies. Well-designed programs that underpin long-term welfare, whether sponsored by employers, governments, or third-party organizations, are increasingly sensitive to these issues. They also look at the ways in which incentives and sanctions can be designed so that people are nudged in a direction that is likely to benefit them in the longer term. This is not a report about behavioral economics or the optimal design of these types of incentives and sanctions. But we take these issues seriously and identify, where appropriate, how we might use the insights from behavioral economics and finance to make a difference to IPGs.

The role of insurance distributors and intermediaries

Although we take the roles of three main stakeholder groups – employers, governments, and insurers – as the building blocks of this report, we recognize that the ecosystem of insurance provision is more complex, with other types of institutions helping to ensure the health of the whole.

Agents, brokers, banks, Employee Benefits Consultants (EBCs), and others have important functions as intermediaries in the insurance market, not just linking supply and demand but importantly advising and educating customers (whether employers or individuals), and feeding market and customer requirements back to insurers. It is worth highlighting some of these roles at the outset, while also noting that there is variety in the cast of players from country to country.

A key theme in this report is the importance of partnerships between stakeholder groups in bridging IPGs (see Chapter 3), and intermediaries are no exception. They can work with insurance companies to create bespoke solutions for employers for risk mitigation and management: for instance, through the design of wellness programs and the measuring

and monitoring of wellness levels. Participation in industry conferences and events is also part of this process.

Awareness raising is another theme running through many of our recommendations in this report. Intermediaries can raise awareness with customers, advising them on finding the appropriate solutions and service for their needs. For example, banks should implement a proper advice on IPGs in their overall advice and financial planning process for individual customers. Brokers and EBCs that advise large companies, and banks that similarly serve small and medium enterprises (SMEs), should likewise offer the right services to support these companies on how to best serve their employees related to IPGs.

When it comes to financial literacy – yet another important topic in this report (see Chapter 1) – insurance distributors and intermediaries can partner with trade and industry associations to promote financial education. Last but not least, insurance distributors and intermediaries can lead by example by supporting and raising awareness among their own employees.



Chapter 1

Guiding the individual

Consumer financial mistakes



are commonplace, widespread and often profoundly harmful to long-term financial well-being

In countries and sectors where income protection insurance is not universally mandated, the challenge of closing the IPG is essentially twofold:



increasing enrollment in benefits programs and sustaining regular, sufficient contributions over time



One of the defining characteristics of the evolution of the social protection landscape over the past half-century has been the growth of personal responsibility in ensuring households' long-term financial well-being. Coinciding with the retreat of the state from the provision of social protection (as discussed in the introduction), financial products have become more complicated. Not only has complexity increased for individual products and features; so too has the range of financial instruments and services available. With their resources – whether time, money, information, or financial acumen – constrained, individuals and households frequently struggle to make sound financial decisions, particularly when it comes to longer-term planning.

In this environment, questions have been raised as to the ability of individuals to navigate the landscape of personal finances. The global financial crisis drew further attention to this concern. Policymakers have attempted to intervene by improving regulation governing consumer financial products and services. In the U.S., for example, the establishment of the Consumer Financial Protection Bureau (CFPB) and the Office of Financial Education demonstrates policymakers' commitment to these issues. However, it remains the case that consumer financial mistakes are commonplace, widespread, and often profoundly harmful to long-term household financial well-being. Given rising disability rates, coupled with greater longevity, and the resulting growth in reliance on retirement savings, this problem will have far-reaching global societal and economic consequences.

On the other hand, we also know that some individuals are capable of skillfully managing their financial future – provided they are equipped with awareness and practical experience. The past decade has seen no shortage of measures to improve individuals'

financial acumen being proposed and tested, evidence of a strong and growing commitment among policymakers, companies, and insurers to better understand the most effective methods to improve consumers' financial decision-making. In this chapter we give an overview of some of the most widespread initiatives and assess their relative success. Based on our assessment, we recommend measures which governments, employers, and insurers can adopt or indeed use as a basis for experimentation and innovation.

Nudges and engagement

In countries and sectors where income protection insurance is not universally mandated, the challenge of closing the IPG is essentially twofold: increasing enrollment in benefits programs and sustaining regular, sufficient contributions over time. As we found from the survey underpinning our 2016 report, any number of factors – not least a lack of awareness and knowledge of income protection insurance products, as well as a number of cognitive biases that distort people's perceptions of risk – commonly keep demand for income protection untapped. Meanwhile, we also found that personal experience of IPGs is one of the most significant predictors of demand for insurance among our survey respondents. More generally, it is far from clear that people make informed decisions and adequately plan for their long-term financial futures if left to their own devices. In this section, we explain some promising mechanisms – some already widely adopted by governments and most gaining in popularity in the private sector as well – to help steer people toward making better financial decisions. Recognizing that such institutional activism may not be welcome in all cultural contexts, we also consider closely related alternatives that give individuals greater ability to make informed choices in their financial lives.

People regularly rely on mental shortcuts and heuristics when making decisions – and they are also influenced by a number of cognitive biases. These insights have long been used in many fields, from public policy to marketing and advertising, in order to steer people toward making choices that are deemed to have some socially desirable outcome. Such ‘nudges,’ as they were dubbed in a highly influential book published nearly a decade ago,³ can be thought of as a form of soft compulsion. A key concept here is ‘choice architecture’ – the (deliberate) organization of the context in which people make decisions.⁴ The popularity of nudges with governments, business, and financial institutions has grown exponentially in the past decade. Still, the concept is not without critics; many fear individual disengagement on the one hand, and government (or corporate) overreach on the other. While there are tradeoffs to be made between soft compulsion and engagement, our experience has shown that it is possible to find a balance that is effective in both raising and sustaining coverage.

Recommendation 1: Nudge workers to enroll in income protection schemes – and sustain adequate coverage over time.

One basic form of a ‘nudge’⁵ is setting as the default the choice that will lead to the most desirable outcome – in this case, auto-enrollment in group income protection insurance schemes. In many countries, a basic benefit is provided to workers by default: They must actively elect to opt out of the group scheme. Workers who remain then have the option of purchasing additional coverage or top-ups.⁶ This substantially raises worker participation in employer-sponsored schemes, not only for benefits such as income protection but also for pensions. Auto-enrollment also has the advantage of simplifying financial decision-making: It keeps the initial choice of whether to participate in a savings plan at all from becoming needlessly complex by eliminating the

need for repeated decisions about contribution rates and asset allocation. It also resolves procrastination problems.⁷ Setting enrollment as the default option can further be seen as a form of implicit advice – even an endorsement – that people ought to participate in savings or investment plans.⁸

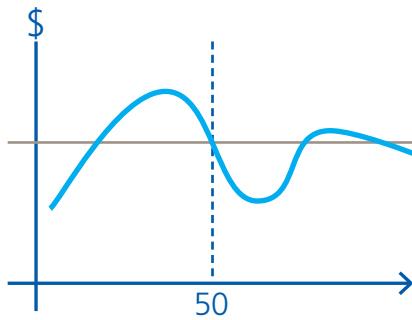
While workers’ baseline participation and up-front engagement in protecting their income may increase with auto-enrollment, their initial choices are rarely reviewed again if they are left to their own devices. For this reason, automatic escalation of contributions – backed, of course, by clear communication when escalations occur, and the possibility of opt-outs – should complement auto-enrollment. Auto-escalation has consistently been found to increase savings rates over time. The key here is to set small and repeatedly higher increments over time.⁹ Whether in the form of auto-enrollment, auto-escalation, or otherwise, successful nudges should only have modest immediate costs: regular contributions to savings and insurance schemes should not have too much impact on a household’s weekly or monthly income.

We propose implementing auto-enrollment and auto-escalation by packaging income protection products as a default feature of other instruments that guarantee long-term financial security, particularly pensions. (It is very important to clarify that any such measures are distinct from cross-selling or bundling. This practice of offering an insurance product as a package or condition of buying another related service without clearly informing customers of the possibility and/or costs of buying the products separately was banned in the EU in 2016 pursuant to the Insurance Distribution Directive [IDD]). In principle, framing different levels of income protection coverage as one feature in an employee benefits package (or pension and savings schemes, as discussed in detail in Chapter 3) could



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If we were to chart the financial mistakes made over an individual's lifetime, we would see that they tend to follow a U-shape with a trough shortly after their 50th birthday

simplify the choice architecture of workers' overall financial planning. The key question here is whether framing income protection insurance as a 'bolt-on' really does help to simplify decision-making in practice – or whether this could backfire. Since income protection insurance contains many features in and of itself, it cannot properly be considered a 'simple' insurance product. It is thus conceivable that by introducing income protection as an add-on 'feature' that is complex in and of itself, consumer financial choice overload would increase still further.¹⁰

Recommendation 2: Choose culturally appropriate nudges.

More generally, we are sensitive to the common criticism that steering people toward or against any given choice, whether done by governments or companies, is a form of 'libertarian paternalism.' The concern here, common in some cultures, is that measures designed to help people make 'better' decisions comes at the expense of their ability to exercise free will. Perhaps an even more profound consequence is that choice architects, whether public or private entities, might be perceived as the final arbiters of what is 'best,' not just for individuals, but for society as a whole. In other words, anything compromising individual freedom of choice might be viewed as the overreach of the 'nanny state' in some cultural contexts. Conversely, we would expect that some cultures are more accepting of the state taking a relatively active in steering people in their decisions if this is deemed beneficial to society as a whole.

Thus, the decision whether to make use of nudges to encourage more people to take up income protection insurance – be it through product or policy design, or through government, private, or hybrid provisions – must be aligned with the prevailing norms and values of a particular organization or country. Regardless, we would point out that no choice can ever be presented in a purely

neutral and unbiased way. In the words of "Nudge" co-author Cass Sunstein: "If anything you do influences the way people choose, then you are a choice architect. ... Choice architects must choose something. You have to meddle." We also believe, however, that far from meddling, designing appropriate choice architecture to encourage uptake and continuity of income protection represents a form of low-hanging fruit in addressing the challenge of closing the IPG.

For those who tend to view traditional nudges as discouraging engagement, it is worth mentioning that they also come with a twist. Enhanced Active Choice shares with traditional nudges the insight that framing and context are key to steering people's decisions. But Enhanced Active Choice 'forces' individuals to choose between options rather than setting a default. The nudge here lies in the strength of the language in which options are expressed: the choice which leads to the desirable outcome is typically phrased in more positive terms, while the remaining options are expressed in discouraging or even off-putting language. Enhanced Active Choice has been tested, piloted and implemented successfully in several industries in the U.S. We suspect, however, that this technique might not translate across all cultural contexts, given that negative language verging on the sarcastic might be seen as aggressive and downright off-putting in some countries.

Recommendation 3: Combine nudges with engagement to encourage informed financial decision-making.

Nudges such as auto-enrollment and auto-escalation are a form of low-hanging fruit, in the sense that they are highly cost-effective ways to achieve a socially beneficial result – in this case, participation in savings schemes. The drawback is that they can discourage people from actively engaging in financial decision-making,

potentially in several ways. Most obviously, because going along with a default is passive by its very nature, it is less likely to foster commitment or even meaningful familiarity with the associated ‘choice.’ For financial products like income protection insurance that tend to require tailoring to individual needs and preferences, the one-size-fits-all approach of defaults may, on its own, even be counterproductive. Some employers might also view sole reliance on auto-enrollment and other defaults as a substitute for more active, collaborative financial planning.¹¹

Fortunately, engagement can be fostered in other ways. Frequent communication with workers by governments and employers alike is key, not least through the education and awareness-raising techniques. We discuss some of these techniques in the section below.

Financial education

Financial literacy programs in the form of formal, theory-based instruction have become popular worldwide. Yet as we noted in our 2016 report, ‘[Understanding Income Protection Gaps](#),’ the effectiveness of principles-based financial education is limited.¹² There are many possible reasons for this. Individuals may lack the motivation to apply theoretical knowledge gained in a classroom or other formal setting.¹³ Alternatively, even if they are willing to use their knowledge to improve their financial behaviors, they may not be equipped to translate abstract concepts into practice. It may also be the case that a one-size-fits-all literacy program does not provide enough information to ensure that all participants’ needs are met. As in any field of endeavor, reinforcement is key to rigorous instruction.

In the end, financial literacy is a form of specialized knowledge – and like many forms of specialized knowledge, it is most effectively gained through experience. If we were to chart the financial mistakes made over an individual’s lifetime, we would see that they tend to follow a U-shape with a trough shortly after their 50th birthday.¹⁴ This is where the problem of IPGs becomes particularly tricky. As we emphasized in our 2016 report, the experience of income loss due to disability, serious illness, or the premature death of a household breadwinner is not usually a recurring event. Because covering income losses is not a repeated expenditure like many common financial obligations, people do not have the benefit of ‘learning by doing.’¹⁵ Competence in managing personal finances must be imparted through a mutually reinforcing combination of formal learning and guided practice.

Recommendation 4: Combine classroom-style financial literacy instruction and hands-on practice and counseling. To succeed, an employee financial education program requires two elements: formal instruction that is followed up with tangible, beneficial action. Formal instruction can go a long way in delivering powerful messages about the detrimental effects of poor financial habits. Quantifying the consequences of using different types of financial products and services can be particularly effective. It’s important to demonstrate both the short-term impact and the cumulative costs and benefits of different financial habits.¹⁶ Information about personal finances must be presented using both ‘rational’ and ‘emotional’ cues. It is critical to follow this up by clearly identifying where and how program participants can acquire income protection, if not directly through their employer (see Chapter 2).

“Nudges such as auto-enrollment and auto-escalation are a form of low-hanging fruit, in the sense that they are highly cost-effective ways to achieve a socially beneficial result.”



“Older workers are less likely to have income protection insurance even though they are at greater risk of IPGs.”

As a complement to this style of learning, a program of intensive instruction that takes place over multiple sessions is ideal.¹⁷ This instruction might take the form of one-on-one counselling on how to write a household budget, or advice on how to minimize daily expenses.¹⁸ This has the benefit of providing people with a less abstract, more intuitive mental toolkit. Financial education that makes use of heuristics, or guidelines governing decision-making, relies on rules of thumb that are straightforward enough to recall and easy to implement. Even more effective is to integrate goal-setting into counselling. Specifically, setting goals that are both short-term and concrete is critical in enabling people to translate knowledge into action.

The workplace is a common, and in many ways ideal, setting for these educational initiatives. But governments

can also help by mounting public awareness campaigns that help educate people about the benefits available to them through the state system, as well as through the healthcare system. One success story in a closely analogous area is the Dutch government’s Pension3Days, a three-day annual event that delivers information in interactive ways, including through workshops, debates, and one-on-one meetings with representatives of various providers and intermediaries.¹⁹

Recommendation 5: Tailor financial education to the needs of different demographic groups. Advice on income protection solutions can be very broadly targeted according to levels of income and education, taking either or both as a proxy for financial acumen.²⁰ For example, despite evidence that formal instruction-based financial

literacy programs are not particularly effective by themselves, studies have found that people with higher incomes are relatively receptive to education (“messaging”) about financial products and services. By contrast, lower-income workers tend to be more receptive to meetings and talking through personal financial issues using tangible examples. It therefore makes sense to target different groups within the workforce using different approaches to communication and engagement. This is particularly pertinent when it comes to income protection, which (as noted in the introduction) is taken up at higher rates by higher-income workers and/or those employed at large companies.

Another way to approach education is to break down the workforce by age. As we showed in our 2016 report, older workers are less likely to have income protection insurance even though they are at greater risk of IPGs. Age, along with an individual's status as a breadwinner within their household, can also be good indicators of life milestones that provide optimal occasions for talking to workers about income protection. Individuals may have difficulty overcoming ‘present bias’²¹ on their own account, but those with dependents can be motivated through emotional appeals; for example, the impacts their savings and spending decisions will have on other family members – particularly children and partners. As we mentioned in our 2016 report, milestones like buying a house, the birth of a child, and taking on other additional financial commitments provide good opportunities to discuss IPG-related issues. Switching jobs, particularly when becoming self-employed, also offers a good

opportunity to introduce income protection as a particularly salient issue to workers who very likely will be reevaluating their finances. Educational strategies can also be tailored to some extent to suit personal preferences by gender. There is some evidence that women tend to be more responsive to direct interpersonal contact, for instance through seminars,²² whereas men tend to prefer information that is presented in a simpler medium that uses only visual or aural cues at a given time.²³

In many of these cases, ‘big data’ – large, complex anonymous datasets that can be tapped in new ways for valuable insights into large groups²⁴ – can be used to support efforts to raise these issues. In particular, it could allow a profile of each individual to be created, based on the characteristics described here, among others, and allowing communication to be tailored to the audience. Data held by employers or insurers could also be used to identify the most promising opportunities (i.e., life milestones) to engage with individuals.

Recommendation 6: Increase the transparency and clarity of income protection products. As mentioned in our 2016 report, a significant proportion of our survey respondents who did not have insurance claimed to not understand income protection products. A substantial number cited a belief that the products were too expensive or that they lacked trust in insurers. In light of these findings, it is not surprising that there have been calls to increase transparency and clarity in consumer financial products’ design and marketing. Such a recommendation seems intuitively sound, but when it comes to income protection insurance, it is only part of the solution. Unlike

notorious cases such as the opacity of credit card interest rates, the essential features of income protection products are, in principle, not inherently difficult to understand. One of the main challenges arises in how income protection insurance, state benefits, and the healthcare system interact. This is a complex (and, of course, jurisdiction-specific) matter. Most individuals are unaware of what their state benefit entitlements are, let alone how these would affect their potential private income protection claims.²⁵

Another issue here is that income protection insurance has a number of close ‘cousins,’ including payment protection, critical illness cover, and various types of life insurance which may appear almost indistinguishable to the uninformed consumer. More generally, as already mentioned, income protection is merely one in a potentially long list of items – savings and investment products, not to mention other regular expenditures and bills – that comprise household financial planning. There are also tradeoffs in making products simpler while ensuring at the same time that they can be tailored to individuals’ specific life circumstances. Thus, enhancing product transparency and clarity must be done together with the financial education and awareness-raising techniques discussed already. In particular, a state-sponsored campaign such as the Dutch Pension3Days – whether it is primarily focused on income protection, or more broadly on retirement savings or overall financial literacy – can support insurers’ efforts by helping to raise awareness about state benefits systems and how they interact with private insurance.

“One of the strongest predictors of whether people held income protection insurance was whether they had personal experience with IPGs.”

Recommendation 7: Experiment with digital methods to bolster education, provide regular nudges and enhance engagement. Financial education is not restricted to classroom-based instruction; audiovisual and/or digital materials, including apps and games, in principle also offer possibilities for delivering content. It is exceedingly challenging for people to imagine the consequences of lower-probability, usually one-off risks – to say nothing of the difficulties of making the link between these future effects and their present financial behavior. This was underpinned by the results of our 2016 survey. Here we found that one of the strongest predictors of whether people held income protection insurance was whether they had personal experience with IPGs. The key question here was whether it is possible to replicate the experience of income protection gaps *ex ante* to encourage greater uptake of insurance. Digital methods are widely seen as one way to achieve this. However, to date little research has been conducted on the absolute and relative effectiveness of these methods.

Digital methods are mainly being tested in the area of financial scenario building. A suite of websites, apps, and other digital tools allow individuals to simulate trajectories of the long-term health of their household finances by entering a few initial conditions and assumptions.²⁶ These tools can at least in principle be considered a substitute or proxy for experiential learning. By demonstrating *ex ante* the magnitude of IPGs and linking them to small but consequential decisions made in the present, these tools can spare individuals the pain of learning *post hoc* through what could be the traumatic experience of an income loss due to disability, illness, or the premature death of a breadwinner.

For example, many defined contribution pension plans already provide a tool for employees to simulate the possible impact on retirement benefits through participating in their company's plan and from voluntary additional contributions. However, these tools usually lack a feature to simulate the impact of adding savings from other sources. This would be the case, for example, for an employee who has recently joined the plan with vested rights from other companies, sometimes even with an estimate of benefits from state programs. These tools leave employees with a very narrow view of their financial situation and make it difficult, even for those aware of the need for such planning, to develop an appropriate savings pattern.

These tools are an important means of promoting individuals' awareness of their financial situation, and can complement financial education programs. But there is no strong evidence to suggest that they are effective in encouraging people to take meaningful action to protect their income.²⁷ The newest generation of digital tools in the overall area of personal finances is more interactive, using gamification techniques as well as opportunities for continuous microsavings. A key question in the area of gamification is whether techniques used for other financial products and services – such as scores and progress checklists, or the use of social media to create investment discussion groups – work well with income protection. For example, lottery-style games take the form of partnerships with credit unions and banks. They provide incentives to save (and win prizes), thereby encouraging uptake of other financial products with a given credit union or bank. There is still a great deal of room for to experiment with all of these tools, and it will take some time before their effectiveness can be determined.

Chapter 1: Summary of recommendations to guide the individual

Governments:

- Policy attention should not focus on theory-based financial literacy programs; support instead financial education that combines instruction with application and practice of concepts; ideally include individualized counselling.
- Design and support policy nudges in forms that are appropriate to local country context.
- Support the design and marketing of income protection products that are transparent and easy for consumers to understand.

Employers:

- Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.
- Choose nudges in forms that are appropriate to local country context as well as different industries and sectors of the workforce.
- Design methods to better inform employees about what benefits are available to them and how income protection insurance fits into the package (whether from the state, employer or otherwise).
- Support experimentation with scenario-building apps and other as-yet-unproven digital methods.

Insurers:

- Design methods to better inform consumers about what benefits are available to them and how income protection insurance fits into the package (whether from the state, employer or otherwise).
- Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods).
- Contextualize income protection insurance within wider portfolio of household spending.
- Target messaging and engagement with appropriate framing: e.g., link consequences of people's financial decisions to others in their household.
- Support experimentation with scenario-building apps and other as-yet-unproven digital methods.



Chapter 2

Workplace-based solutions

A changing policy environment and an ageing workforce are increasingly putting the onus on companies to take the primary responsibility for the rehabilitating and accommodating the disabled in the workplace. However, many companies face considerable challenges in designing, implementing, managing and monitoring the success of such programs. This is particularly true where firms have no real experience in managing issues such as employees' mental health. That said, business is increasingly focused on promoting

employees' well-being. Rather than merely accommodating impairments after they happen, proactive measures can raise the status of collective health within a business.

Studies of employer-sponsored innovations in the field of income protection and disability prevention are rare outside the U.S. This is partly because public expectation in Europe has traditionally been that the state deal with these matters. Companies' strategies are also highly diverse.

More generally, however, because these innovations are relatively new, the impacts of existing initiatives have only recently begun to be evaluated. In this chapter we focus on two broad areas, together with policy measures associated with them:

- As retirement ages rise, how will older workers be accommodated?
- What programs exist within companies to manage employees' physical and mental well-being?

Box 1: Corporate initiatives

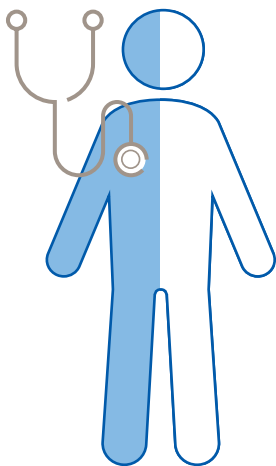
Major multinational companies are paying attention to the implications of employee physical or mental impairment. Companies develop international plans to guarantee equitable treatment for workers posted overseas for premature death, medical treatment and rehabilitation for staff who develop chronic illnesses and income replacement for salary loss. Some countries already specify such compensation in their laws, so the challenge is to standardize benefits across different jurisdictions and also to cover pre-existing conditions (although this is less common for blue-collar workers). Monitoring and responding to problems linked to stress and mental health are particularly challenging.

Through a series of discussions with several major multinational companies, we have gained important insights into the current practices of employers to manage the physical and mental health of their employees. Of particular interest is preventive measures being developed as companies increasingly recognize the advantages of a proactive approach over post hoc rehabilitation. Here are some examples of initiatives developed by the following companies:

- L'Oréal launched its 'Share and Care' program in 2013. The first phase the program included a minimum death benefit, and 24 months' salary in cases of total and permanent disability. The second phase of the program, due to be completed in 2020, will introduce more flexible working arrangements. It will also provide stress management training to all personnel, offer regular medical checkups, and an employee assistance program. An employee survey is conducted every three years to assess the program's effectiveness, including its impact on employee mental and physical well-being.
- Richemont uses 'Office Vibe' surveys to assess employee well-being. Richemont's Resilience and Wellbeing program, which aims to raise awareness of well-being issues among employees, is currently under design. The aim is to extend the project globally, and then to determine action once results can be assessed.
- ABB has created a Global Health Challenge that promotes 10,000 steps per day, and, like many other companies, also supports company sports teams.

Such examples illustrate how large corporations are taking steps to improve employees' health and well-being, with many willing to invest in facilities beyond medical care to forestall future employee health problems. Some constraints remain, however. For example, as mentioned in Chapter 1, quantifying returns on the expenditure involved is difficult, and it is hard to convince senior management of the effectiveness of such programs. And in some cultures, medical examinations and surveys about personal well-being are considered intrusive. Sports and exercise equipment can be made available, but are not necessarily used. But these initiatives illustrate programs introduced by large companies who want to guarantee equitable treatment for their employees across different jurisdictions and thus face different challenges to smaller firms with fewer resources who only operate in one jurisdiction. Even so, the interest taken indicates how employers can become more involved in promoting employee health and well-being, setting examples for future initiatives by others.

Immediately prior to the implementation of the Affordable Care Act, **fewer than half** of eligible U.S. workers took advantage of medical screenings,



and **less than one-fifth** took part in interventions



Refining well-being and prevention programs

The corporate wellness industry is worth USD 6 billion annually in the U.S. alone.²⁸ Company well-being programs typically have two core components: screening and lifestyle interventions. Screenings include regular medical check-ups, while interventions encourage people to change their behavior: for example, eating healthier food, giving up drinking and smoking, and exercising more. Most companies tend to view these programs very favorably – largely, it seems, on the basis of observational studies, which measure only visible effects without attempting to demonstrate a link to probable causes.²⁹

Meanwhile, the more rigorous work assessing wellness programs' contribution to medical cost savings has been done mainly in the U.S., where employee well-being programs are now encouraged under the Affordable Care Act. About half of large U.S. companies (i.e., those with 200 employees or more) now offer such programs.³⁰ Two issues are noteworthy: program participation rates appear to be low; and even in cases where participation is relatively high, it is far from clear that these programs actually serve their purpose of improving people's health, thereby reducing healthcare costs. In other words, even as some of the components of standard corporate well-being programs appear to lead to the outcomes companies would like to see, others may need to be rethought. Furthermore, a handful of relatively new tools could be more widely tested. While we encourage experimentation, given that there is ample room for innovation in these areas, caution is advised, as companies' well-intentioned efforts can often backfire.

Recommendation 1: Evaluate the risks and rewards of coercion.

Immediately prior to the implementation of the major provisions of the Affordable Care Act in 2014, fewer than half of eligible U.S. workers took advantage of medical screenings, and less than one-fifth took part in interventions.³¹ Many companies are therefore experimenting with ways to increase people's willingness to actively participate in these programs.³² Incentives can come in the form of rewards or 'carrots', like discounts on health insurance premiums, or through coercion or 'sticks', typically in the form of penalties applied to insurance or taxes. In a classic case of loss aversion, sanctions rather than rewards are usually more effective.³³ But perhaps not surprisingly, several legal challenges have been filed against companies that use sanctions-based tactics in the U.S. To date no case has yet succeeded in court. But despite prohibitions contained in the Affordable Care Act, suspicions still linger that penalty-based wellness programs allow discrimination against less healthy workers.³⁴

One tool that shows some promise in encouraging more lasting changes to people's health habits is a 'commitment contract,' whereby an individual agrees to a certain long-term goal that entails a behavioral change (e.g., regular gym attendance) or a specific target (e.g., predefined weight loss). Employees make regular payments, which might be matched by the employer, into a designated fund. If employees meet their goal, their funds are returned to them; otherwise they may forfeit their money, which in many cases can be donated to an outside organization.³⁵ There is much room for experimentation here given the wide range of possible design features. And as in the case of incentives for participation described above, the risks associated with penalty-based regimes apply here, too.

An estimated **one-fifth** of the working population in Organization for Economic Co-Operation and Development (OECD) member countries has had to contend with a moderate to severe mental disorder



Recommendation 2: Gain awareness of which measures aimed at cost-cutting actually cut costs.

One ground-breaking U.S. study of well-being programs at 600 companies (with 50 employees or more) found neither sustained improvements in employee health nor a significant change in medical spending.³⁶ Other reviews of the results of several dozen previous pieces of research have drawn similar conclusions.³⁷ And not surprisingly, the most successful lifestyle interventions tend to have an element of selection bias, with individuals who are most motivated to lose weight, quit smoking or become physically fit electing to participate.³⁸

It is crucial to point out here that no evaluation of the long-term (i.e., 10 years or more) health effects and cost savings has yet been conducted – the best evidence available still tracks short- to medium- term results.³⁹ One clear instance, which has in isolated cases been shown to lower corporate healthcare costs, is the management of certain chronic diseases.⁴⁰ The longest study of this type of company wellness program monitored an initiative by PepsiCo for seven years. It found that the average annual cost reduction per employee was USD 360.⁴¹ However, some evidence also suggests that regular checkups are cost neutral. Requiring regular physical evaluations can help people identify and manage many chronic health problems – but the resulting series of checkups and treatments can also lead to higher short-term costs, which can offset longer-term savings.⁴²

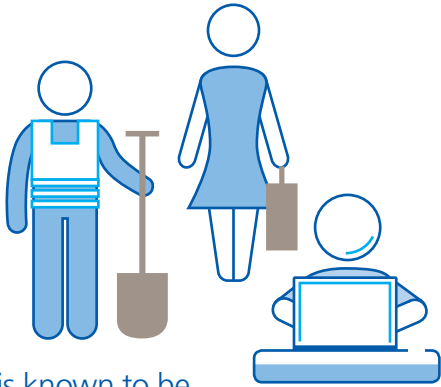
When it comes to monitoring health and fitness, care should be taken to avoid unintended consequences with potentially high human – and ultimately, financial – costs. Devices to track health and fitness are a case in point, as they can have perverse, stress-inducing

effects. Typically, employers offer incentives to employees who volunteer to use wearable devices and apps to monitor physical activity and markers of health such as blood pressure, heart rate, and sleep patterns. But as mentioned, in cases where incentives take the form of penalties, loss aversion can be expected to kick in and induce its own form of stress. Monitoring exercise can similarly have unintended consequences. Tracking exercise is also commonly perceived to eat into people's free time. Bringing sports and fitness, which are, after all, leisure activities, under the purview of employers erodes the barrier between work and personal life, with the latter suffering at the expense of the former.

Recommendation 3: Promote awareness of mental health – and a culture of acceptance around it.

Mental health issues are widely recognized as one of the most pressing challenges facing the modern workplace. This is an expansive category covering not only medically diagnosed conditions such as depression, bipolar disorder and schizophrenia, but also stress and anxiety, whether related to work or to traumatic or disruptive life events. An estimated one-fifth of the working population in Organization for Economic Co-Operation and Development (OECD) member countries has had to contend with a moderate to severe mental disorder.⁴³ Meanwhile, the stresses associated with the modern workplace are underscored by a running theme in this project: the precarious nature of the labor market, and the global economy as a whole. In particular, the erosion of job security associated with the rise of self-employment is a considerable source of stress for many sharing economy workers. And as we discuss at length in our 2016 report, a more subtle but pervasive consequence of many mental health problems is a rise in presenteeism, whereby workers with

Productive employment



is known to be one of the best preventative measures for good mental health

a mental condition are less productive even though they are physically present at work. Such presenteeism can easily have negative consequences on the health of the individuals concerned.

Many employees with mental health issues might prefer to work rather than disclose their condition to their employer.

A persistent lack of understanding and acceptance ensures that mental health issues remain a key driver of IPGs. Progress has been made in developing an understanding of the needs of the mentally ill, and in communicating those needs to employers. For those diagnosed with mental health conditions, workplace adjustments are integral to encouraging a return to work, as well as employee retention; indeed, in many jurisdictions including the UK, accommodating those suffering from medically diagnosed mental disorders is covered under the 2010 Equality Act. Ensuring that workers take advantage of the annual leave allotted to them is certainly effective from both a preventative and rehabilitative standpoint. Not surprisingly, though, productive employment is known to be one of the best preventative measures for good mental health.⁴⁴

The greatest way to improve retention rates and better working conditions for those with mental health conditions is to remove the stigma attached to mental health issues. This is ultimately a society-wide challenge. Governments have a clear role in continuing to promote awareness and treatment, even in the face of fiscal challenges. Employers and insurers can also play a part through holistic well-being programs as described earlier in this chapter, and by promoting awareness such as the 'Tackle Your Feelings' campaign in Ireland, which aims to destigmatize mental health problems in a campaign that includes having rugby players talk about mental illness. And, as obvious as it may seem, it is worth noting that there is extensive anecdotal

evidence suggesting that having a sympathetic line manager is crucial in providing a supportive environment in which workers feel they can be open about their condition. Ultimately, more work needs to be done to develop best practices for employers in this area.

Recommendation 4: Integrate return to work (i.e., rehabilitation) initiatives into well-being programs.

The damaging effect of prolonged work absence in transforming temporary physical or mental problems into permanent chronic complaints has long been recognized.⁴⁵ Once regarded as an individual medical problem, disability is now recognized as an issue requiring active workplace-based 'return to work' interventions, which put more emphasis on the role and responsibilities of the employer. However, recent research in the U.S. indicates that many employers still interpret the problem in terms of individual function and adaptability that may undermine productivity. This raises the risk of presenteeism, as impaired workers see little advantage to be gained by reporting their problems to their supervisor.⁴⁶ As we wrote in our two previous reports, failure to address the issue of presenteeism represents a material risk to companies and governments as well as individuals: it lowers productivity by 20 to 60 percent, depending on the type of illness and the type of work affected. It may even be the case that the indirect costs of presenteeism could be greater than the direct medical costs of chronic disease.

Targeting problems at the organizational level enables a broader range of workplace issues to be identified and addressed. Solutions are best achieved when problems are solved collaboratively on an individualized basis.⁴⁷ At the corporate level, clinical (scientific) evidence and business management need to work in tandem. In practical terms, this involves much closer collaboration between human resources

and health and safety departments within the company, with risk management also being involved. Once these departments collaborate, the goal is to achieve sustainability, rather than securing an immediate return to work, swiftly followed by renewed absences.⁴⁸ Governments also have a role to play in encouraging return to work, as we discuss in Chapter 3. Indeed, as the 2017 'Taylor Review of Modern Working Practices in the UK' points out, the ideal would be collaboration between employers (and employers' associations) and agencies at various levels of government.

Rising retirement ages: the consequences for employers

As life expectancy has grown and returns on pension savings have fallen, efforts to restore pension fund solvency have entailed raising the pensionable age. Studies project the proportion of the EU's future labor force aged over 55 will rise over the next 50 years, and governments are promoting progressive retirement schemes to contain age-related social expenditure.⁴⁹ In several European countries (with the exception of France), pensionable age is now expected to reach the age of 70 in the near future. Overall, workforce participation among older workers in the EU has increased by about 10 percent since the global financial crisis.⁵⁰ This may in part reflect the success of the European Union's Active Ageing initiative, which has assiduously promoted flexible working as an alternative to retirement. Under a variety of progressive retirement schemes, imposed by law or negotiated with the social partners, older workers aged 55-64 are empowered to negotiate part-time working as an alternative to complete retirement.⁵¹ Reduced earnings are variously being supplemented by a drawing on a proportion of retirement pensions

(part-pension), through unemployment benefits or by using personal savings. In countries like Germany where a part-pension offers the main source of supplemental income in such cases, this can undermine financial security in old age.

Reinsurance against the risk of early partial retirement may therefore prove an attractive option. As we discussed in our previous reports, raising the pensionable age is not an automatic 'fix' by itself as a way to help close IPGs for older workers, given that the risk of (particularly chronic) illness and disability rises with age. In following section we suggest a number of measures to accompany increases in state pension ages that could help to ensure that workers take the appropriate measures to protect income toward the end of their working lives.

Recommendation 5: Focus policy measures on 'progressive retirement.'

Efforts by policymakers in Europe's developed economies to encourage workers to prolong working lives appear to be having some impact. However, higher participation rates remain more evident in English-speaking countries than elsewhere, and workers in other countries where pension coverage is limited are obliged to keep working past any putative retirement age. In addition, the impacts of state policy are hardly uniform. Some evidence suggests that rising labor market participation by wives prolongs the working life of their husbands.⁵² In practice, the decision to retire is influenced by a variety of factors including personal health, income and assets, and work decisions – including involuntary redundancy, obligations to care for others, and job satisfaction.⁵³

Box 2: PON Group

Pon is a family-owned trading company based in the Netherlands with 13,000 employees working in 80 companies across 30 countries.

Motivated by changes in Dutch health and disability protection programs, the growing costs of workers compensation, the rising age of the workforce and the prospect of retirement age rising to 70, in 2016 Pon introduced a health promotion program – the Net Employability Standard – for all its employees that covers personal lifestyle and workplace-based healthchecks including:

- diet, smoking and drinking (alcohol) habits, weight, exercise, holidays, domestic situations

- eyesight, hearing, lung function, brain function, physical fitness
- workstation ergonomics.

The company offers sports facilities and employs occupational health experts, physical therapists and psychologists, among others, as sub-contractors. It also collaborates (with insurers) on co-partnerships for health innovation and explores together with large firms the possibilities for return to work programs for cancer survivors. Outcomes include reduced absenteeism and lower health insurance premiums as the company aims to invest in health rather than healthcare.

Raising the pensionable age, however, may exacerbate other problems, specifically IPGs. As discussed already here and in our 2016 report, the risk of chronic physical and mental impairment rises with age. In particular, people in manual trades are more likely to face medical complaints as they age, while white-collar, middle-class workers typically are able to sustain a prolonged working life. Employers need to monitor older workers more carefully, given that ageing workers are likely to be more susceptible to chronic illnesses – these may include mental health, muscular-skeletal, cardio-vascular and nervous system disorders, and cancer – which can limit the capacity to work.⁵⁴ An ageing workforce and rising pensionable ages also mean employers must adopt flexible integration strategies. This is particularly true for workers forced to supplement reduced earnings from pension savings from a comparatively early age (55). The German mini-jobs, for example, offer only minimal social insurance protection. This may lead to ‘insider-outsider’ problems for future pension cohorts.⁵⁵

Good practice for progressive retirement would entail part-time workers continuing to build up pension savings on a pro-rata basis.

Recommendation 6: Avoid a one-size-fits-all approach to retirement. Prolonging formal labor market participation requires sensitive handling and nuanced distinctions between those who benefit and those who do not. Certainly, greater flexibility in processing labor market withdrawal, whether temporary or permanent, for reasons of retirement or disability, is highly desirable if negotiated to the satisfaction of both parties. As a rule of thumb, there is much to be said for calculating pensionable age in terms of social insurance contributions that reflect the number of years in work, as is the case in France, for example. Workers in manual trades generally enter the labor market earlier, are more liable to contract chronic medical problems and have a shorter life expectancy (and therefore fewer pensionable years) than those in the professions. As matters stand, therefore, those most at risk from IPGs (older blue-collar workers) are

those least likely to have private insurance against such risks. They may not be able to use pension savings to supplement reduced earnings if they try to take progressive retirement. The risk of presenteeism⁵⁶ is high, possibly accommodated by sympathetic colleagues who help to cover for the affected individuals.

Rather than assuming that everyone should stay in wage-earning work at all costs, a broader perspective is needed. Many older women (and men) do important unpaid jobs, including caring for elderly parents and grandchildren. Older adults may stop working to care for their grandchildren⁵⁷ and by doing so enhance the ability of the intermediate generation to work.⁵⁸ A lack of financial support in older age is likely to lead to working longer but, depending on occupation, may also be detrimental to health and well-being in later life.⁵⁹ Far from insisting on all retirees reaching a specific age before drawing their pensions, it would be fairer from a social standpoint to focus such pressure on individuals best able to work into their old age.



Chapter 2: Summary of recommendations for designing workplace-based solutions

Governments

- Promote staged pensionable ages that reflect past years in employment, current work capacity and life expectancy.
- Provide alternative forms of financial support for those in unwaged caregiving roles, particularly in cases where bereavement forces households into poverty.
- Continue state contributions/ fiscal incentives to secure the old age income of those involved in progressive retirement options in later working life.
- Evaluate employer-sponsored well-being programs and rehabilitation.
- Develop fiscal incentives to encourage employers to invest in medical monitoring, and health and fitness programs.
- Provide incentives, possibly including quotas, for employers to take on workers with disabilities.

Employers

- As official pensionable age is postponed, create flexible retirement options for older workers with impaired lives that involve part-time work and an alternative income.
- Create contributory employee assistance plans for employee support when confronting family, legal or financial crisis outside work (prevent presenteeism) – or as a source of benefit corresponding to predefined health-related need.
- Monitor older workers carefully, as an ageing workforce will carry chronic illnesses and is less likely to draw them to management's attention.
- Be aware of increasing responsibilities for accommodating workers with physical and/ or mental problems. Careful management creates mutual benefits.
- Determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs.
- Include annual health checks and fitness facilities in corporate wellness programs, including assessment of anxiety and stress.
- Review internal organization to allow Human Resources and Health & Safety to coordinate activities.
- Focus efforts on proven methods for managing chronic diseases and on exploring new approaches to stress and lifestyle management.
- Conduct independent (ideally long-term and independent) assessments of existing well-being programs to identify what is effective – and what is not.
- Proceed cautiously with devices and apps to monitor health, given that this also has the perverse effect of raising the very stress levels companies are presumably seeking to minimize.

Insurers

- Develop programs that insure pension income against the long-term risk of contributions lost due to disability, premature death and progressive retirement.
- Create retirement products (e.g., annuities) designed to increase income in later life (75+).
- Share data with industry associations/groups on results of prevention and well-being programs.
- Include mental health cover in group insurance policies.
- Establish partnerships with employers to assess employee health data.

Chapter 3

New policy approaches to close income protection gaps

Contemporary transformations in the nature of employment are challenging income protection in all its dimensions. In its most recent review of global labor market prospects, the OECD called for modernizing social security to adapt worker protection to fragmented employment and high job mobility.⁶⁰ The success of such reforms is contingent on the capacity of governments, employers, and insurers to adapt established social policies to the changing nature of work. For governments confined by constraints on public expenditure, this will be particularly challenging. Rising self-employment can undermine employee rights and damage state revenues.⁶¹ As workers' incomes fall, they pay less tax and social insurance. As self-employment rises, taxes and contributions become more difficult, and expensive, to collect. With digital platforms gaining global reach and ownership often geographically mobile, collecting corporate taxes also can be problematic.

Yet the convention persists that the state is ultimately responsible for protecting its citizens. This is true not only in Europe, where the welfare state has a long tradition, but also across Latin America. Partnership with private insurers offers potential solutions, but consumer protection demands that market provisions be regulated and transparency guaranteed. Any market solution must involve state regulation

that is based on the welfare culture specific to respective countries. For employers, the commercial value to be gained by safeguarding workers' well-being extends beyond the basic desire to retain employees with essential knowledge, experience, and skills. Corporate reputations are also at stake, an important consideration for businesses, and reputations suffer if a company foists the care of injured and impaired employees onto public support. This situation offers insurers opportunities to extend and consolidate coverage for workers. In partnership, all three sectors can collaborate to achieve positive outcomes.

Partnerships to close the income protection gaps

Recommendation 1: Create state-sponsored extensions of private insurance cover. As argued in our 2015 report 'Mapping Income Protection Gaps,'⁶² the decline of state welfare creates new opportunities for governments and private insurance providers to collaborate and form partnerships to extend social protection, using fiscal incentives to attract new customers. This strategy is already well established. Occupational pension schemes, for example, show how employers can meet part of the costs of old age through tax-privileged insurance systems of various types. In Germany, all

occupational pension plans may, and usually do, provide retirement, disability and survivor benefits. The German example is not unique. Occupational pensions and survivors' benefits are commonly linked. Using negotiated agreements with private providers, some governments offer fiscal incentives to encourage people to purchase long-term insurance products that bridge IPGs, personal pension plans being the most obvious example. In Singapore, Hong Kong, and Malaysia, personal savings generate the means to pay for all types of welfare, including income protection.

Tax-privileged savings and insurance remain central to safeguarding household income. However, with austerity measures in place in many countries, governments have had to safeguard welfare funds. As a result, they have tightened access to state benefits and are increasingly focusing fiscal incentives on lower-paid workers. At the same time, extensive tax concessions to those with private insurance damage state revenues. Preferential tax treatment for investments offers a possible alternative to tax-free contributions to private insurance schemes. Encouraging personal cover, however, has been a dominant trend in recent years and is likely to remain so. In Australia (see Box 3 on page 32), attaching life cover to mandatory personal pensions illustrates how such a strategy might be developed to offer income protection against IPGs.

Box 3: Australia: combining cover for disability and old age

In Australia, all contributors to the country's mandatory Superannuation ('Super') scheme are provided with default cover against the risks of total and permanent disablement (TPD) and premature death, and also receive a form of limited income protection known as salary continuance. This additional cover operates on an opt out basis, although this is currently under review. Tax privileges under salary sacrifice encourage lower-paid workers to supplement their Super savings. The mandatory element of Australian cover is limited. But some Super schemes also offer elective life insurance and cover the costs of specialist medical treatments and

rehabilitation programs (although the Australian government has recently introduced a social insurance disability scheme). For Australian employers choosing a Superannuation scheme, the managerial cost of adding additional premium is marginal.

The scheme's strengths include basic protection against the risks of total disability or premature death, offered by default, with premiums deducted from members' accounts and – in some cases – supplementary cover. For major funds, automatic cover for large numbers of subscribers offers economies of scale. Its weaknesses stem from the opaque nature of provisions and the minimal cover

provided by law, which means that members, including the self-employed, are responsible for paying TPD insurance or supplementary life premiums – and in practice, many do not. Nonetheless, the success and popularity of the Superannuation scheme, which has been in existence for 30 years, explains why life cover is much more extensive in Australia than in the UK – and why protection against permanent disability or premature death, being so closely linked with retirement savings, gets more attention in Australia than in other English-speaking countries.

Governments promoting private income protection insurance must provide the proper regulatory framework. Thanks to variability in taxation, it is hard to transfer benefits across borders. Putative pan-EU personal pension products hold some promise this regard, but achieving these in reality is still subject to discussion and many consumers already have a traditional pension. Therefore consumer protection remains essential to sustain public trust in market competition as the means to distribute goods and services within national borders. To secure transparent costs, the identification of approved products (in the UK, 'kite-marking') offers one route forward. The introduction of a professionally competent regulator to oversee the operation of financial services in accordance with the law is another. As savings and insurance products are complex, so they are not understood and, notably where personal initiative is involved, lack of knowledge undermines trust and deters participation.

Recommendation 2: Promote return to work as a matter of state policy.

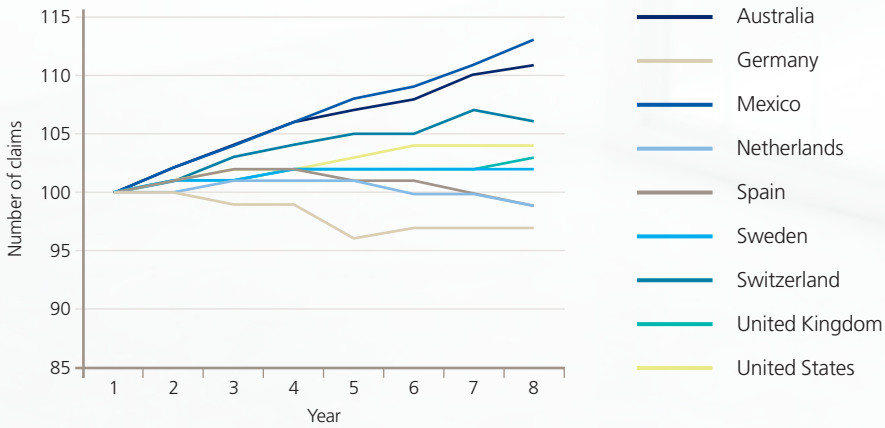
As described in our 2015 report,⁶³ governments can promote quick appraisals of medical problems to ensure workers get back to work as soon as it is prudent and feasible. Medical assessment within 48 hours of a reported disability or illness should be a regulatory requirement for all employers. New claimants to disability benefits respond best to this strategy. It reduces costs to the state, while protecting personal savings for old age. Chart 1⁶⁴ shows that there are pronounced differences between countries where a timely return to work is actively promoted (the Netherlands, Germany and Sweden) and those countries where such initiatives are underdeveloped (Mexico, Australia and the U.S.). In general terms, Chart 1 reinforces the message presented in our 2015 report⁶⁵ – policy strategies reflect different sociopolitical and institutional contexts. Different policy environments that determine access to medical care or cover for dependents, for example,

shape access to support and benefits, whether public or private. As our 2016 report demonstrated, this creates strong country effects when assessing disability rates in specific states.

Recommendation 3: Extend employer responsibilities for medically impaired employees.

An alternative strategy to contain claims is to incentivize employers to safeguard the incomes of their disabled employees. Many employers have the resources to take on this responsibility. The best in this regard already offer regular employee health assessments and fitness programs, and medical facilities are available for early, individual appraisals and rehabilitation. In the Netherlands (see Box 4 on page 34), employers are legally required to safeguard the incomes of injured or ill employees for an extensive period, or accept higher health insurance premiums. This encourages early interventions and makes rehabilitation to secure a return to work a priority.

Chart 1: Claims to state disability benefits between 2007 and 2014: population aged 16-64 in selected OECD countries



Source: OECD Social Benefits Recipients Database 2016



“Using classification systems that distinguish between the different typologies of employment and classes of workers could also govern access to many public protection plans appropriate to the country, location or profession.”

Box 4: Promoting a timely return to work in the Netherlands

Social security reforms in the Netherlands have encouraged employers, rather than government, to take responsibility for disabled workers. Dutch employers are required to pay for the first two years of incapacity at 70 percent of salary. By mandating employers to cover both the incomes and rehabilitation costs of disabled workers (or pay higher social insurance contributions), the Dutch government has encouraged highly regulated cooperation between companies and the private insurance sector.

This has reduced the numbers of people with impairments receiving state benefits. All Dutch companies must employ a company doctor. Immediate medical/psychiatric assessments facilitate an eventual return to work. Insurers take the lead in monitoring the physical and psychological health of workers, arranging medical assessments and individualised rehabilitation or retraining programs, specialist care and treatments.

So far, this chapter has addressed the problems of medical impairment and premature death for workers with conventional permanent work contracts within one jurisdiction. Small companies do not have the resources to offer medical appraisals, fitness programs, and related income protection. Plausible solutions for them might include collective agreements (where appropriate) of pooled insurance plans that extend over whole industrial sectors, with terms and conditions that could be underwritten by the state. The insurance industry could take the initiative and develop flexible insurance products to protect against disability or premature death, to be offered to small firms via associations or professional organizations at advantageous prices. The object would be to provide basic cover with optional additions in order to retain an element of choice while also extending protection further down the income stream. Pooling of cover by employment sectors reduces problems created by job mobility while also containing administrative costs for insurers, thanks to economies of scale. If such schemes could be

promoted by auto-enrollment at the employer’s initiative or as legal requirement (with opt-out clauses), this would also offer financial advantages to all parties.

Aligning income protection solutions with the future of work

The OECD is currently calling for all income protection systems, public and private, to modernize, aiming to foster flexibility and mobility by enabling individuals to accumulate contributions from multiple jobs and align social protection with labor market activation.⁶⁶ Reform is urgently required and partnerships between insurers and governments could offer a fruitful way forward.

In particular, while our recommendations have so far focused on workers in conventional full-time jobs, this does not cover self-employment and those working in the sharing economy. Their numbers are substantial and these workers are a neglected element in the world of income protection. Yet autonomous work on a part-time basis

is popular and necessary for those unable to take on full-time employment. For qualified personnel such as agency nurses, self-employed social workers and sub-contracted tradespeople, part-time self-employment, including opportunities managed on an IT platform, can work very well. However, as in any market, consumer protection guarantees need to be enforced and the workers involved need protection.

Recommendation 4: Redefine the employer-employee relationship in the sharing economy. Many employers contracting self-employed labor and owners of IT platforms resist any idea that they are 'employers' in any legal sense, repudiating obligations to comply with state social protection systems or to offer workers private cover against risks that could affect their ability to work. The legal situation requires clarification, as stressed in the 2017 Taylor Review of Modern Working Practices in the UK.⁶⁷ Any reform requires more sophisticated employment classifications specifying distinct sets of legal employment rights, social protections and tax obligations. In the UK, for example, different classifications include not only employed and self-employed, but 'worker,' 'agency worker' and 'employee shareholder.' Where an IT platform is essentially an agency in all but name, it should be identified as such. In Germany, the separate classification of 'dependent contractor' offers a distinct identity that enables some benefit rights to be established. Specific identities would enable insurers to develop basic income protection products to be offered to registered participants via IT platforms. Using classification systems that distinguish between the different typologies of employment and classes of workers could also govern access to many public protection plans appropriate to the country, location or profession. While legal status is currently a melting pot, it is unlikely to remain so indefinitely.

In cases where a company might use an IT platform to set rates of pay and determine the conditions of work, it must bear some of the responsibility for adverse outcomes. A self-employed worker would be hard pressed to offer compensation in the case of injuries to customers or third parties. Governments should license service providers, IT-based or otherwise, who comply with consumer protection requirements and consumers should be advised to use products and services provided by licensed and qualified personnel. This is already required in many European countries and should be extended universally.

The sharing economy per se is not a threat to collective well-being, but regulation is needed for platforms to function in a socially responsible way. There is nothing inherently 'wrong' with IT platforms as such – on the contrary, to ban such platforms, as some regions of Sweden and Spain have done, is to lose a valuable source of innovation and to restrict work choices. The central issue at stake is the status of people in sectors of the sharing economy, who create enormous profits for shareholders, sometimes at the expense of their workers and, indirectly, the state. Elements of





the employer – employee relationship must be maintained.⁶⁸ In the case of IT platform-based car hire services, local licensing processes offer the means to enforce basic terms and conditions. As those registered on IT platforms work in competition with each other, the likelihood that trade unions or other representative bodies are able to organize and negotiate on behalf of the workers is small. IT platforms that recruit on a professional basis could negotiate group income protection with insurers to offer plans to registered workers at advantageous prices. Box 5 on page 37 offers a rare example of such workers taking matters into their own hands.

Recommendation 5: Harness the potential of IT platforms to enable ‘portability’ across jobs and jurisdictions. The ability to transfer private IPG insurance cover between employers (‘portability’) is needed when workers change location, employer, or profession. This can be mediated by provisions covering whole industries and through professional associations. The growth of IT platforms offers the means to secure such improvements to achieve economies of scale in terms of transaction costs and general administrative expenses. Terms and conditions might be negotiated by the social partners, where appropriate, or generated by employers’ organizations. As an alternative, or in addition, there could be a central state-run registry that supervises and records membership and contributions, thus allowing insurers and the public access to information about personal premiums, claims and associated transactions.

Portability between different jurisdictions is even more challenging as different states grant tax-exempt status for contributions to and benefits from public and private insurance in very different ways.⁶⁹ A multinational agreement to generate a system of taxed contributions, tax-exempt investment returns, and taxes on benefits (TET) is attractive, albeit very unlikely; governments are unwilling to surrender their right to legislate and administer fiscal policy. Moreover, as systems of state benefits and medical care vary widely from country to country, multinationals have a hard time sustaining uniform systems of income protection for employees when they are transferred between jurisdictions. Social security totalization agreements can allow companies to co-ordinate pension contributions made in two different jurisdictions, facilitating labour mobility. While this offers some protection against the risk of losing a wage-earning member of one's household, these agreements are only bilateral and are strictly limited. The means to broaden their scope would therefore be a step forward.

Recommendation 6: Collect robust national data to help measure income protection gaps. Measuring IPGs at the national level – let alone on a global scale – has defied efforts to quantify the size of the gap in a single summary statistic, as we noted in our 2015 report. 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 all contribute to making comparisons between countries especially difficult. However, the most significant obstacle to measuring IPGs is the lack of national data on the economic, social and policy trends that determine the size of the gap. We believe an important step in narrowing IPGs lies in creating some 'baseline' data – preferably in a way that lends itself to international comparison – so that progress can be tracked and sound arguments made for taking action. Data could therefore be gathered at the national level, perhaps with the assistance of international bodies such as the International Labour Organization (ILO) or the OECD.

“As systems of state benefits and medical care vary widely from country to country, multinationals have a hard time sustaining uniform systems of income protection for employees when they are transferred between jurisdictions.”

Box 5: New York income protection among self-employed taxi drivers

The Independent Drivers Guild represents over 45,000 for-hire vehicle drivers in New York City. It has recruited app-based taxi and limousine drivers registered under several IT platforms and created a system of personal security accounts. The worker-controlled benefits exchange is designed to protect members in the event of accident or disability. The platforms charge a small supplement to each fare that is credited to a driver's personal

account, accessible as and when the need arises.² The guild also runs instruction classes in health and well-being, and road safety, paid by its Black Car Fund. It also offers legal assistance and roadside support in the event of accident. However, this is a private arrangement and does not extend any requirements beyond those immediately involved in the agreement.

“The proposed ‘baselining’ project should ideally act as a stimulus for each country to rethink, update and upgrade its social protection system to improve the financial security of citizens.”

This proposed ‘baselining’ project should ideally act as a stimulus for each country to rethink, update and upgrade its social protection system to improve the financial security of citizens. Although this data would ideally be comparable across countries, any comparison of income protection is bound to be controversial. Each system has evolved from that country’s own individual economic, social, cultural, political and historical circumstances. There is no single ideal approach to support or compensation that can be applied universally. However, it is our hope that the act of aggregating data that can be easily communicated to policymakers will ultimately help countries to make beneficial policy choices.

Recommendation 7: Keep an eye on the long-term results of global experiments with universal basic income (UBI). The concept of offering all working age adults a basic income has been revived as labor markets have become more fragmented. A few pilot projects are currently in place in Canada (Ontario), the Netherlands (Utrecht), Italy (Livorno), and in Finland (the town of Oulu, where about 2,000 jobless people were randomly selected to receive a basic income), among others. The Scottish government may commission a feasibility study for Glasgow and Fife. All these experiments are very small and none, to date, have generated any results. Does the UBI system promise better support for the disabled and/or prematurely bereaved?

Such an approach does avoid some problems that work-activation programs

for the disabled may create. Sanctions and ‘docking’ benefits for minor transgressions of benefit rules (such as taking a temporary job) discourage both able-bodied and disabled from finding work for fear of losing their (often meager) incomes, and being forced to rely on charity during the weeks it takes to reassess their benefit rights. Trying to start a business is equally risky for the same reasons. Moreover, constant official assessments of a disabled person’s state of health is highly labor intensive and, as governments increasingly outsource this service, regulating of these processes increases public costs to little purpose. UBI would also promote gender equality as most unpaid care is undertaken by women. And if we assume (as is commonly argued) that new technologies (automation, for example, driverless cars) will lead to a future with fewer job opportunities, work activation as a cure-all for social dependency makes little sense.

Some problems with UBI seem insurmountable and are largely cost issues. If UBI were to replace all current benefit payments (including, notably, child benefits, health treatments and premiums paid to the disabled), it could reduce incomes of people with impaired work capacity, pushing them below the poverty line. Or, should access to special medical treatments or personalized transport be retained for all for disabled people, risking a sharp increase in costs, this could have tax implications that are probably politically unacceptable. If we seek to protect the interests of the physically or mentally impaired, then UBI does not appear to offer a way forward.⁷⁰

Chapter 3: Summary of recommended policy action

Recommended action for governments

Policy objectives: new regulation to extend protection, particularly in the sharing economy

- To encourage long-term personal savings, including funds for income protection, possibly via tax-privileged investment products.
- To trademark best practice in insurance/savings products while safeguarding price transparency to protect public trust in market competition.
- To foster the auto-enrollment of all employees in a registered default scheme to offer basic income protection insurance cover, with an opt-out option.
- To promote early interventions and case management approaches for the partially disabled or in the event of premature death.
- To identify different employment rights and tax obligations, and secure worker registration within collectively recognized sectors on IT platforms.
- To strengthen penalties against IT companies using contracts to prevent litigation.
- To facilitate the portability of IPG protection across borders and between firms.

Policy delivery: new partnerships to reduce income protection gaps. This can take multiple forms

- To attach life policies/IPG insurance to personal pension plans.

- To encourage/extend employer responsibility for the partially disabled to stimulate employer and insurer interest in preventative measures and rehabilitation services.
- To promote negotiated agreements between social partners and the state that create income protection for impaired lives and the prematurely bereaved.

In general:

- Integrate policy frameworks and create coherent legal obligations to coordinate different policies (employment, public health, occupational health and social security).
- ‘Baseline’ data: governments should do more to collect data related to IPGs; ideally be harmonized across countries; organizations such as the ILO or OECD could play facilitating roles – to create greater transparency.
- Include IPGs in the European Pillar of Social Rights.

Recommended action for employers

- Consider auto-enrollment of employees into an IPG protection plan.
- Develop a default fund with flat-rate contributions for other employees, with the opportunity to ‘opt out’ if so desired.
- Create and maintain a core set of benefits for all employees, promoting equity and preventing social dumping, based on salary scales in each country. Create profit sharing plans to reflect productivity growth, thereby fostering rehabilitation and inclusion.

- Recalibrate office organization to integrate action between human resources/occupational health/risk management to engage with government initiatives
- Portable cover for internationally seconded workers.
- Recognize variable coverage required in different countries by internationally seconded workers.
- Consider a global insurer to guarantee income protection/rehabilitation across different countries.
- Facilitate savings transfers across different sectors of employment as required.

Recommended action for insurers

- Consistent exclusion clauses allow mobile employees the same cover in all countries.
- Create multilayered insurance products (with default plan) for employers.
- Develop group insurance packages that create insurance protection insurance as an ‘add-on’ to private pension schemes.
- Offer such package to IT platform owners as well as traditional employers.
- Encourage employers to auto-enroll (with opt-out option) workers into IPG insurance.
- Develop common insurance platforms for use by small employers.
- Promote public/private common medical/occupational health or a physical education training facility for use by small employers.



Conclusion

The recommendations laid out in this report draw on three years' research collaboration between the Oxford Smith School and Zurich Insurance Group. We have addressed IPGs as a global issue with localized attributes. We conclude that, as working lives are changing and state welfare is increasingly outdated, new partnerships between employers, governments and the working population are required to extend protection to more vulnerable groups. In its most recent 'Jobs Outlook,' the OECD agrees: social protection reform is urgently needed.⁷¹ New arrangements must necessarily be tailored to local environments and engage appropriately with the need for transparency, clarity and choice architecture. We strongly support initiatives that build on workplace-based solutions, and that associate protection against death or disability, with occupational retirement or associated benefit plans.

The recommendations put forward in this report represent frameworks for global discussion and a broad template for national action. Accordingly, in parallel to this report, we have produced a series of auxiliary memos, each tailored to one of the 11 countries sampled in our 2016 survey¹. As frequently stated throughout the report, nation-states have long-established conventions that determine who should be held responsible in the event of premature death and work-impeding physical or mental problems. Whether protection should be the responsibility of the individual, the employer, the IT platform, or governments is therefore a matter for collective negotiation within individual countries.

Our recommendations in this report represent a vision of a plausible means of safeguarding working publics against the risks of income lost due to mental or physical problems, or premature death. Having sketched out the outlines of our vision for the future, we recognize that all our recommendations will require tailoring to national and regional, as well as financial and social cultures. We intend to take up the challenge and produce more contextualized recommendations for specific regions and countries in the future. In all cases, however, our proposals also offer a route forward that does not automatically revert to either completely free markets, which would never cover the risks comprehensively, or to the previous century's model of the welfare state, which can no longer withstand the strain. In so doing our aim has been to contribute fresh, actionable and urgently needed thought leadership on closing the global IPGs.

Endnotes

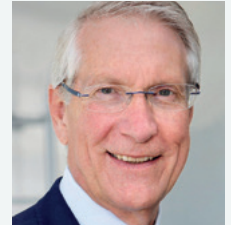
- ¹A modified version of the survey was also carried out in the UAE.
- ²World Economic Forum (2017) *Global Risks Report 2017*, 12th edition.
- ³Thaler, Richard H. and Sunstein, Cass R. (2008), 'Nudge: Improving Decisions About Health, Wealth, and Happiness,' New Haven, CT: Yale University Press.
- ⁴Thaler, Richard H., Sunstein, Cass R., and Balz, John P. (2012), 'Choice Architecture,' in *The Behavioural Foundations of Public Policy*, ed. Elgar Shafir, chapter 25, p.428.
- ⁵Tax incentives and matching employer contributions can be considered two further types of nudge; they will be discussed in greater detail in Chapter 3.
- ⁶An analogous example is the recently reformed Swiss pension system, with 'mini', standard, and 'plus' options from which each worker can choose.
- ⁷Hastings, Justine, Madrian, Brigitte C., and William L. Skimmyhorn (2013), 'Financial Literacy, Financial Education, and Economic Outcomes,' *Annual Review of Economics* 5(1), pp. 347-373.
- ⁸Beshears, John, Choi, James J., Laibson, David I., and Madrian, Brigitte C. (2008), 'The importance of default options for retirement saving outcomes: evidence from the United States,' in: Kay S, Sinha T, eds., 'Lessons from Pension Reform in the Americas,' Oxford University Press, pp. 59-87.
- ⁹Thaler, Richard H. and Benartzi, Shlomo (2004), 'Save More TomorrowTM: Using behavioral economics to increase employee saving,' *Journal of Political Economy* 112(1), 164-187.
- ¹⁰Although there is still some debate as to whether or not 'too much' choice in consumer decision-making in general leads to disengagement, it is our view that 'choice overload' is indeed a real problem for most people when it comes to long-term financial planning.
- ¹¹Keller, Punam A., Harlam, B., Loewenstein, G., and Volpp, Kevin G. (2011), 'Enhanced Active Choice: A New Method to Motivate Behaviour Change,' *Journal of Consumer Psychology*, 21, pp.376-383.
- ¹²See for example meta-studies by Hastings et al. (2013) [cf. note 6 above] and Fernandes, D., Lynch, John G., and Netermeyer, Richard G. (2014), 'Financial Literacy, Financial Education, and Downstream Financial Behaviors,' *Management Science* 60(8), pp. 1861-1883.
- ¹³If this is the case, it has been suggested that pay-for-performance schemes could encourage participants to implement their knowledge. Such schemes have yet to be designed and tested, however.
- ¹⁴Agarwal, Sumit, Driscoll, John C., Gabaix, Xavier, and Laibson, David (2013), 'Learning in the Credit Card Market.' See also Keane, Michael and Thorp, Susan (2016), 'Complex Decision Making: The Roles of Cognitive Limitations, Cognitive Decline and Aging,' in J. Piggott and A. Woodland, eds., 'The Handbook of the Economics of Population Ageing,' ch. 11. The reversal beyond this point reflects the cognitive effects of ageing on people's judgment and decision-making facilities.
- ¹⁵A parallel can be found with pensions, to which people become responsive in their 50s – close to the time at which they are first eligible to draw down their pension savings. By this point in their lives, however, it is generally too late to correct for the cumulative errors of saving too little in previous decades of one's working life.
- ¹⁶Clark, Gordon L. (2014), 'Roepke Lecture in Economic Geography: Financial Literacy in Context,' *Economic Geography* 90(1), pp.1-23.
- ¹⁷Leandro-França Cristineide, Van Solinge, Hannah, Henskens, Kène, and Murta, Sheila G. (2016a), 'Effects of Three Types of Retirement Preparation Program: A Qualitative Study of Civil Servants in Brazil,' *Educational Gerontology*, 42(6), pp.388-400; Leandro-França, Cristineide, Murta, Sheila G., Hershey, Douglas A., and Martins, Leonardo B. (2016b), 'Evaluation of Retirement Planning Programs: A Qualitative Analysis of Methodologies and Efficacy,' *Educational Gerontology*, 42(7), pp.497-512.
- ¹⁸Carpene Fenella, Cole, Shawn A., Shapiro, J., and Zia, Bilal (2017), 'The ABCs of Financial Education: Experimental Evidence on Attitudes, Behavior, and Cognitive Biases,' *Finance and PSD Impact*, no. 40, Washington, DC, World Bank.
- ¹⁹Khambhaita, Priya (2017), 'Consumer Engagement: Lessons from Overseas,' London, Pensions Policy Institute.
- ²⁰Our past research at Oxford suggests close overlaps between education and income levels on one hand, and financial competence on the other, as mentioned above. One rule of thumb, at least in OECD countries, may be that financial acumen is distributed on a 20/60/20 basis. In that case, the top quintile of the population are 'sophisticated investors' who have both relatively high levels of financial knowledge and competence and access to supplementary expert advice. The bottom quintile, meanwhile, lacks all of these resources to the point that their short- and long-term welfare is imperilled. As for the middle 60 percent of the population, they typically have the resources (monetary, educational, and otherwise) to be active financial consumers but without the experience or acumen to overcome common cognitive biases. See Clark, Gordon L., Strauss, Kendra, and Knox-Hayes, Janelle (2012), 'Saving for Retirement,' Oxford University Press.
- ²¹Present bias refers to the tendency to prefer immediate rewards over longer-term ones, even if the short-term reward is significantly smaller. In many cases, the immediate 'reward' is enjoyable in the present but can be detrimental (e.g. to one's finances or health) in the long run.
- ²²Clark, Robert L., d'Ambrosio, Madeleine B., McDermed, Ann A., & Sawant, Kshama (2004), 'Sex differences, financial education and retirement goals,' in Mitchell, Olivia S. and Utkus, Stephen P., 'Pension Design and Structure: Lessons from Behavioural Finance,' Oxford: Oxford University Press.
- ²³Gerrans, Paul and Clark-Murphy, Marilyn (2004), 'Gender differences in retirement savings decisions', *Pension Economics and Finance*, 3(1), pp.145-164.

- ²⁴Cukier, Kenneth and Mayer-Schönberger, Viktor (2013), 'Big Data: A Revolution that Will Transform How We Live, Work, and Think,' London: John Murray.
- ²⁵Association of British Insurers (2014), 'Welfare Reform in the 21st Century.'
- ²⁶See OECD (2016), 'Pensions Outlook 2016,' ch.5 for a review of similar tools for pensions.
- ²⁷Khambhaita (2017).
- ²⁸RAND Corporation (2014), 'Do Workplace Wellness Programs Save Employers Money?' RAND Research Brief.
- ²⁹Baicker, Katherine, Cutler, David, and Song, Zirui, (2010), 'Workplace Wellness Programs Can Generate Savings.' *Health Affairs* 29(2), pp.304-311.
- ³⁰Kaiser Family Health Foundation (2015), '2015 Employer Health Benefits Survey', Section 12, available at <http://www.kff.org/report-section/ehbs-2015-section-twelve-health-risk-assessment-biometrics-screening-and-wellness-programs/>
- ³¹Mattke, Soeren, Liu, Hangsheng, Caloyeras, John, Huang, Christina Y., Van Busum, Kristin R., Khodyakov, Dmitry, Shier, Victoria (2013), 'Workplace Wellness Programs Study,' RAND Corporation, available at http://www.rand.org/pubs/research_reports/RR254.html
- ³²A survey by the U.S.-based Society for Human Resources Management found that about 40 percent of US companies with a well-being program offer their employees incentives on completion. See Society for Human Resources Management (2016), 2016 Employee Benefits Survey.
- ³³Patel, Mitesh S., et al. (2016), 'Framing Financial Incentives to Increase Physical Activity Among Overweight and Obese Adults: A Randomized, Controlled Trial,' *Annals of Internal Medicine* 164(6), pp.385-394. Loss aversion is the human tendency to feel more pain from financial and other material losses than satisfaction from commensurate gains.
- ³⁴Kirkland Anna (2014), 'Critical Perspectives on Wellness,' *Journal of Health Politics, Policy, and Law* 39(5), pp.971-988.
- ³⁵Bond Philip and Sigurdsson, Gustav (2009), 'Commitment Contracts,' *Review of Economic Studies* 41. Halpern, Scott, Asch, David, and Volpp, Kevin (2012), 'Commitment Contracts as a Way to Health,' *British Medical Journal*, vol.344, 18 February. Royer, Heather, Stehr, Mark, and Syndor, Justin (2015), 'Incentives, Commitments, and Habit Formation in Exercise: Evidence from a Field Experiment with Workers at a Fortune 500 Company,' *American Economic Journal: Applied Economics*, 7(3), pp.51-84.
- ³⁶Mattke et al. (2013).
- ³⁷Van Dongen, Johanna M., et al. (2011), 'Systematic review on the financial return of worksite health promotion programmes aimed at improving nutrition and/or increasing physical activity,' *Obesity Reviews* 12(12), pp.1031-1049. Horwitz, Jill R., Kelly, Brenna D., and DiNardo, John E. (2013), 'Wellness Incentives in the Workplace: Cost Savings Through Cost Shifting to Unhealthy Workers,' *Health Affairs* 32(3), pp.468-476.
- ³⁸Osilla, Karen C., et al. (2012), 'Systematic Review of the Impact of Worksite Wellness Programs,' *American Journal of Managed Care*, 18(2), pp.68-81.
- ³⁹It may be that well-being initiatives generate results over many years, often at the point where many participants have switched employers; if that is the case, then calculating their benefits to any given company will be challenging.
- ⁴⁰Accordingly, one recent development in the insurance industry has been the design of a wearable device to monitor diabetics' condition, specifically blood sugar levels that links to an app that gathers this data and also offers corresponding tips for the regular management of the disease. The idea is that this data would be shared with the sufferer's insurer on a regular basis in exchange for a lower, variable insurance premium.
- ⁴¹Caloyeras, John, et al. (2014), 'Managing Manifest Diseases, But Not Health Risks, Saved PepsiCo Money Over Seven Years,' *Health Affairs*, 33(1), pp.124-131.
- ⁴²Gowrisankaran, Gautam, et al. (2013), 'A Hospital System's Wellness Program Linked To Health Plan Enrollment Cut Hospitalizations But Not Overall Costs,' *Health Affairs*, 32(3), pp.477-485.
- ⁴³OECD (2012), 'Sick on the Job? Myths and Realities About Mental Health and Work,' Paris: Organisation for Economic Cooperation and Development.
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About this study

This report, published in October 2017, is the third and final study in a series focusing on income protection gaps (IPGs). The first phase of this project was based on a global mapping of the scope and significance of IPGs for governments, employers and the global economy, summarized in the study 'Income protection gaps: a rising global challenge' released in 2015. The second study, 'Understanding income protection gaps: awareness, behaviour, choices' released in 2016, looked at behavioural and institutional factors influencing individuals' decision on whether or how to protect their household impact.

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