Income protection gaps around the world

ZURICH

UNIVERSITY OF OXFORD

Increasingly more people in the world are facing challenging gaps in their household income when they experience a shortfall due to sickness, disability or another severe reason. The question is: what can they do about it?

Over the course of the last three years, Zurich, in collaboration with the Smith School of Enterprise and the Environment at the University of Oxford, has steered a scope of research to answer this very question and to reveal just how widespread the issue, called income protection gaps, is in various parts of the world.

Our newest report, Embracing the income protection gaps challenge: options and solutions, based on extensive research, outlines practical recommendations to address critical issues and gives insights into how governments, employers, insurers, intermediaries and individuals can work together to close income protection gaps (IPGs).

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Income protection gaps in Australia – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

AUSTRALIA

In Australia 1 in 5 people are registered as disabled; this increases to 2 in 5 people when solely looking at those who are 65 and over. Thus, as the Australian population is aging, the percentage of the population with disabilities increases. The rate of employment is much lower for those who are disabled, creating IPGs when people become disabled and can no longer work.

Demography

Population:	**24.1 million**
HDI:	**Very high/ GINI: Medium**
GDP per capita:	**USD 49,927**
Percentage of population 65 or older:	**15.3%**
Dependency ratio:	**51.7**
Life expectancy at birth	
Men:	**80.4**
Women:	**84.5**
Total fertility rate:	**1.8**
Statutory pensionable age	
Men:	**65 (rising to 67 by 2023)**
Women:	**65 (rising to 67 by 2023)**

Business environment

- ✓ Market size, diverse market opportunities, favourable regulatory environment for employers
- ✓ Ease of doing business (World Bank): 15/190
- ✓ Credit rating (S&P/Moody's/Fitch): AAA/Aaa/AAA

National language:	**English**
Government:	**Federal parliamentary constitutional monarchy**
Currency:	**Australian dollar/AUD**
Population living in urban area:	**89.5%**
Satisfaction with life:	**7.3 (OECD average score)**

Situation summary

Social security system (Superannuation)

Social assistance and mandatory retirement savings scheme (Superannuation Guarantee) that covers all employed aged 18-69 that earn more than AUD$ 450 a month. The self-employed can make voluntary contributions as a way of obtaining tax concessions on retirement savings. Funded by employers (9.5% of employees' earnings), these are commercially invested individual accounts. A non-compulsory life insurance component guarantees benefits in the event of disability resulting in the loss of job and earnings.

Disability support pension

Regularly indexed and means-tested (unless blind and unable to work at least 15 hours per week on minimum wage). Currently up to AUD$ 797.90 is paid every two weeks for a single person aged 21 or older; AUD$ 601.50 for each member of a couple. A non-means tested mobility allowance is additionally available; the standard rate is AUD$ 94.10, if employed for at least 15 hours a week at minimum wage there is a higher rate of AUD$ 131.60. Both are paid fortnightly. A national disability insurance scheme (2012) reviews registered disabled to reassess and rehabilitate claimants.

Survivor's pension (Widow Allowance)

Survivors of an unexpected death can claim a means-tested AUD$ 528.70 fortnightly. The amount varies if there are dependents; with children, up to AUD$571.90 can be claimed. Survivors can also access the Superannuation funds of the deceased.

Work-related injury compensation

Permanent disability compensation: Employer-liability program run by individual states through a public or private carrier. All employed persons are covered. Payment levels vary depending on state, territory or jurisdiction in which the award is made to reflect the degree of impairment, pain and suffering. In some cases lump-sum payments are made for specific permanent injuries.

Temporary disability benefit: As above, payment varies. Commonly, at least 95% of earnings are paid for at least 13 weeks. Benefits may be continued for an extended period at lower levels.

Survivor benefit: Lump-sum payment for each depended survivor. A fortnightly payment is issued for each child under the age of 16 (up to age 25 if a full-time student).

Drivers of IPGs and implications for stakeholders

Disability

The high incidence of registered disability and an aging population (2% increase in over 65s since 2010) increases the likelihood of IPGs as people can no longer work or work for as many hours, requiring social welfare support from the government. High levels of obesity have produced widespread diabetes (estimated 7% of the population). Diabetes can lead to blindness and/or amputation if left untreated. Further, an estimated 45% of Australians will experience a mental health condition in their lifetime; research shows that financial loss can increase a person's risk of mental health problems, creating a negative feedback cycle as ill health leads to IPGs which can further prolong suffering.

Social security

All claims are subject to an asset test: those (single, homeowners) with assets less than AUD$ 200,000 (excluding primary residence) can claim in full. Assets above AUD$ 300,000 disqualify any claim. These assessments are reasonably generous, however households with a second earner are disadvantaged as their earnings are considered and therefore the higher a household's assets, the higher the potential IPG. This policy shift follows federal budget problems and reflects rising social costs. In light of this scheme, social budgets may be tightened and IPGs could increase as a result.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for Australia:

- Reasons to buy IP include increased financial responsibility toward others (e.g. family) and the fact that their other sources of money would be insufficient.
- The ownership of IP insurances among members of the working community with a higher income (>A$50,000) is larger compared to those with a lower income (<A$50,000). Since disability benefits are both means- and asset tested, as are survivors' benefits, income is relevant as a determinant of demand for insurance in Australia. High earners purchase private health insurance.
- Hence the consideration to buy an IP insurance policy is highest among younger members of the working community as well as people with a high income and families with children.

Figure 1: *Top-3 reasons to purchase insurance (illness/disability)*
Base: Illness/disability insurance owners n=281

Figure 2: *Top-3 reasons to purchase insurance (premature death)*
Base: Premature death insurance owners n=257

Figure 3: *Top-3 income sources while experiencing income loss*
Base: Those who suffered income loss n=454

Figure 1

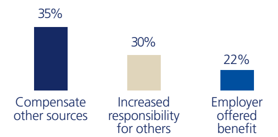


Figure 2

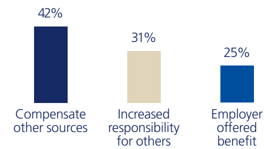
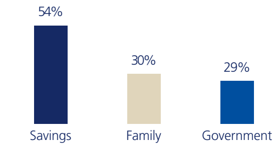


Figure 3



Drivers of IPGs and implications for stakeholders

2016 survey displayed for Australia:

- Those who have experienced an income loss due to serious physical cause (heart attack, cancer, stroke) are more likely to have insurance.
- There is a gender gap in insurance as men are more likely to have insurance than women. A high percentage of women are not the main wage earner in their household. Furthermore, men are more likely to have insurance than women when they are not the main wage earner in the household. The Australian census shows that women give up work during family formation.
- While savings and government benefits are expected to cover (potential) income loss, people prefer to buy IP products from their insurance company.

Figure 4

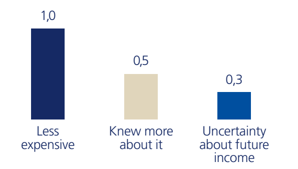


Figure 5

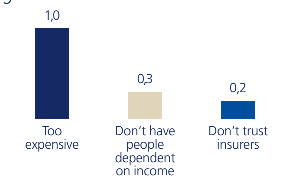


Figure 4: *Top-3 encouragement to purchase IP insurance*
Base: Those who consider IP insurance n=250

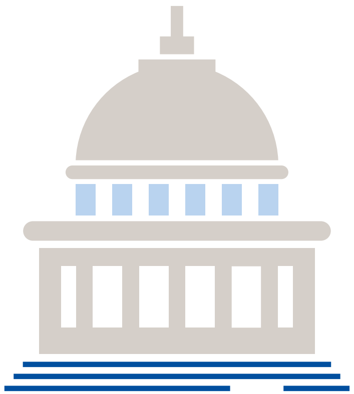
Figure 5: *Top-3 reasons to not consider IP insurance*
Base: Those who do not consider IP insurance n=421

Recommendations for key stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments

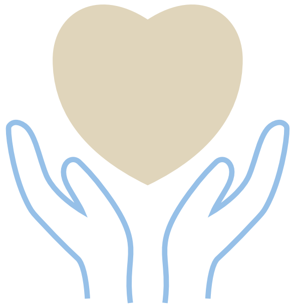
- To improve product clarity: Support the design and marketing of protection products that are transparent and easy for consumers to understand.
- To boost financial literacy: Focus policy attention away from theory-based financial education programs; instead support programs that combine instruction with application and practice of concepts as well as individualized counselling.
- To incentivize employers to extend coverage: Develop fiscal incentives to encourage employers to invest in medical monitoring and health and fitness programs.
- To stimulate employer and insurer interest in preventative measures and rehabilitation services: Encourage or extend employer responsibility for the partially disabled.
- To improve mental health among the public: Raise awareness of mental health issues.



Employers

- To educate the individual: Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.
- To improve messaging: Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods).
- To combat presenteeism: Determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs.
- To combat mental health problems: Raise awareness of mental health issues among employees.
- To enhance corporate wellness programs: Integrate return to work initiatives.

Insurers



- To increase coverage: attach income protection insurance to Superannuation contributions as an addition to the premium protection that is already mandatory.
- To promote best practice: offer Life Code compliant products and safeguard price transparency to protect public trust in market competition.
- To improve coverage of mental health: Raise awareness of mental health issues.

Income protection gaps in Brazil – situation summary

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BRAZIL

Brazil is the most populous country in Latin America, concordantly it has the highest rate of disability (23.9% as of the 2010 population census). Much of this is the result of violence, not age as is common elsewhere. People with disabilities have had a guaranteed right to work since 1983. In general, the state provides multiple types of benefit; the issues surround access and cutbacks to those benefits. Extensions in social security under Presidents Lula and Roussef, which were designed to help the rural poor, have had consequences for national budgets; the election of more conservative governments may signal the erosion or removal of some of the rights discussed here.

Demography

Population:	**207.7 million**
HDI:	**high, GINI high**
GDP per capita :	**USD 8,649.9**
Percentage 65 or older	**8.1%**
Dependency ratio:	**44.4**
Life expectancy at birth	
Men:	**71.0**
Women:	**78.5**
Total fertility rate:	**1.8**
Statutory pensionable age	
Men:	**65 (60 if non-urban / disabled)**
Women:	**60 (55 if non-urban / disabled)**

Business environment

- ✓ Market size, growing middle-class, important cities, solid banking sector
- ✗ China's potential impact
- ✗ Ease of doing business (World Bank): 123/190
- ✓ Credit rating (S&P/Moody's/Fitch): BB/Ba2/BB
- ✓ Credit growth: 22.3% (2008-2016) to 3.3%

National language:	**Portuguese**
Government:	**Federal presidential constitutional republic**
Currency:	**Real/BRL**
Population living in urban area:	**178.4 million – 89%**
Satisfaction with life:	**6.5 OECD average score**

Situation Summary

Social security system

Social insurance and social assistance: The entire population has disability and premature death protection. Social insurance (compulsory affiliation and contributions) covers the employed and social assistance (non-contributory) provides for the poor. Rural workers/unemployed who do not contribute to social insurance can still claim the same insurance benefits as urban workers voluntarily. Multinational corporations offer voluntary/mandatory private pension schemes. Public sector employees are covered by a special system, for example, they are obliged to subscribe to a mandatory disability compensation scheme.

Permanent disability compensation

Following 12 months of contributions, insured workers receive 100% of previous average earnings, based on 80% of the highest-paying previous total monthly earnings. For partial disability, 50% of average earnings are paid. For rural workers, without contribution can claim 100% of minimum wage (BRL 880). The poorest families lacking insurance (monthly household income less than 25% of the legal monthly minimum wage per person) can claim a social assistance disability benefit. Disability assistance is a monthly benefit of the legal monthly minimum wage, which is adjusted according to fluctuations in minimum wage.

Survivor pensions

100% of the old-age or disability pension the deceased received or was entitled to receive is split between eligible survivors. For rural workers the pension is 100% of the minimum wage. The pension is received in 13 payments per year and the length of pension depends on the age of the eligible survivor.

Industrial injury benefit

An employee injured at work has the right to keep their job and salary for a minimum of 12 months after returning to work. For the first 15 days, the employer pays 100% of earnings. After this period, 91% of average earnings are paid (no limit to duration).

Drivers of IPGs and implications for stakeholders

Disability

High rate of registered disability, levels are potentially much higher than reported. The most prevalent disabilities concern visual impairments (78% of disabled persons) and physical disability (29% of disabled persons).

Social security

State coverage of disability and premature death benefits is flat rate and amounts only to 80% of the national minimum wage. Despite this, the system, which was extended to urban and rural workers alike under the government of President Lula da Silva, is contributing to escalating public debt. As Brazil faces a financial crisis, government cutbacks in social assistance seem all but inevitable. In such a stratified society this poses a particular threat to an emerging middle class, as well as poorer workers.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for Brazil:

- Brazil has relatively low income protection insurance coverage and not particularly high demand. This may reflect a small middle class and/or the fact that income cover is attached to health or pension premiums. State benefits are small and the government has pushed promoted private insurance through tax concessions to the middle classes, who have long held private health insurance and pension cover as a result.
- The working community with higher income (>1,950 BRL) feels more knowledgeable about IP compared to those with lower income (<770 BRL). This may reflect the government's push for private insurance, especially towards the affluent.
- Age is not significant as a driver of demand for insurance in Brazil. As state social insurance is earnings-related, it privileges better-off urban workers, with about 84% of graduates covered.
- There is no gender gap in demand for insurance. This may be partly explained by the relative prevalence of female-headed households (due in part to high levels of premature male death).
- Those who have personally experienced a loss of income due to ill health are more likely to have insurance. This is particularly true of psychological causes (mental health and stress). This may be due to the stresses of competitive work and living environments, particularly in light of rapid urbanisation and its socio-economic consequences.
- The key reason for buying IP is that their employer offered IP insurance as part of their benefits package. This may be due in part to the relatively high proportion of German multinational subsidiaries in Brazil.

Figure 1

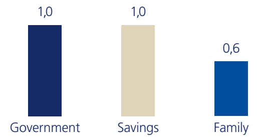


Figure 2

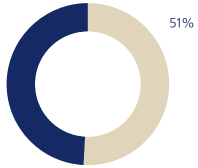


Figure 1: *Expected source of income in case of income loss (top-3)*

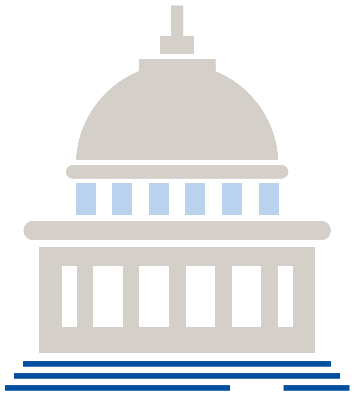
Figure 2: *Expected percentage of income the government would pay*

Recommendations for Key Stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments:

- To improve product clarity: Support the design and marketing of protection products that are transparent and easy for consumers to understand.
- To develop new partnerships to reduce IPGs: Attach life policies and income protection insurance to personal pension plans.
- To stimulate employer and insurer interest in preventative measures and rehabilitation services: encourage or extend employer responsibility for the partially disabled.



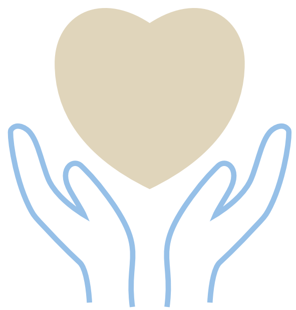
Recommendations for Key Stakeholders

Employers

- To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package, e.g. Pension Week campaign.
- To encourage work in later life: Create flexible retirement options for older workers with impaired lives that involve part-time work and an alternative income; monitor older workers carefully, as an ageing workforce will carry chronic complaints and is less likely to draw them to management's attention.

Insurers

- To optimize offerings for employers: Develop group insurance packages that create income protection as an 'add-on' to private pension schemes.
- To help brokers understand products: Emphasize that the customer of this product is a long-term customer.
- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise), e.g. Pensions Week.
- To ensure income security in later life: Create retirement products (e.g. annuities) designed to increase income above age 75.



Income protection gaps in Chile – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

CHILE

In Chile – 6% of the population is registered disabled, nearly 50% of whom are 65 and over. The most common disabilities are those affecting physical activity and vision (over 50 percent). 20% of the disabled are formally employed (the informal sector is almost the 50 percent of the economy). Estimates suggest improved employment conditions for the disabled would reduce disability impact by 40%. Chile has an aging population. The population under 15 years old has declined by almost 4% (to 21.1 percent) over the last decade, while the population over 65 has risen.

Demography

Population:	**17.9 million**
HDI:	**Very high, GINI high**
GDP per capita:	**USD 13,792**
Percentage 65 or older:	**11.3%**
Dependency ratio:	**45.4**
Life expectancy at birth	
Men:	**79.0**
Women:	**84.7**
Total fertility rate:	**1.7**
Statutory pensionable age	
Men:	**65**
Women:	**60**

Business environment

- ✓ Solid institutional framework and macroeconomic policy; efficient financial system
- ✓ Ease of doing business (World Bank): 57/190
- ✓ Credit rating (S&P/Moody's/Fitch): A+/Aa3/A

National language:	**Spanish**
Government:	**Unitary presidential constitutional republic**
Currency:	**peso/CLP**
Population living in urban areas:	**90%**
Satisfaction with life:	**6.5**

Situation summary

IPGs

Contributors losing 100% earning capacity can claim 70% average monthly salary (mandatory individual account). For social insurance: if total disability, the monthly pension is 50% of the base wage. The minimum monthly disability pension is 123,623.10 pesos if younger than age 70. Non-contributors can claim a social assistance pension of 123,623.10 pesos.

Work-related injury/disease

Handled separately. Disability is compensated at 100% average monthly earnings for one year, 70% thereafter should the disability prove permanent, 35% if only partially so.

Survivor's benefit: 50% of deceased's pension for one year only if under 45.

Chilean insurance market

Life premium volume reached CLP 3.7 trillion (USD 5.4 billion) in 2014. Insurance penetration: premiums in life business reached 2.5 percent of GDP in 2014. Similarly, life business premiums per capita reached USD 360 in 2014 (insurance density).

Drivers of IPGs and implications for stakeholders

Social security system

In 1981, Chile pioneered mandatory funded personal pension accounts (DC) to replace PAYG social insurance. The legacy remains reflected in a multi-tiered social protection system. Means-tested social assistance covers informal workers and the low paid. The pre-1981 earnings-related social insurance scheme, based on tri-partite contributions, is now disappearing as those entitled to its pensions expire. Instead personal savings accounts vested with registered insurance companies and funded by worker contributions (c. 14 percent of salary) cover retirement, disability and survivors' benefits. Time has shown that most workers' accounts are too small to sustain these costs, so a solidarity insurance contribution is paid by government to c. 60 percent of personal accounts as a subsidy.

Disability pension

Individual account: consequent on 66% loss in earning capacity. 70% base salary (average monthly earnings over 6 months) is paid for up to 12 months (ongoing if permanent and reassessed every two years). If partially disabled (50-65% loss of earning capacity), 50% of base salary is paid for up to 3 years; thereafter, a long-term partial disability pension is paid if the disability is assessed as permanent.

Pre-1981 social insurance: if assessed to have a permanent (at least 70% loss of earning capacity) or partial (at least 30% loss in earning capacity) can claim between 50 and 70% base wage.

Survivors' benefit: survivors can claim 60% of potential disability/old age payment.

Recommendations to Empower the Individual

Governments

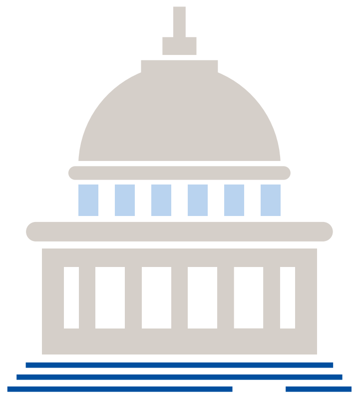
- Support the design and marketing of IP products that are transparent and easy for consumers to understand.

Employers

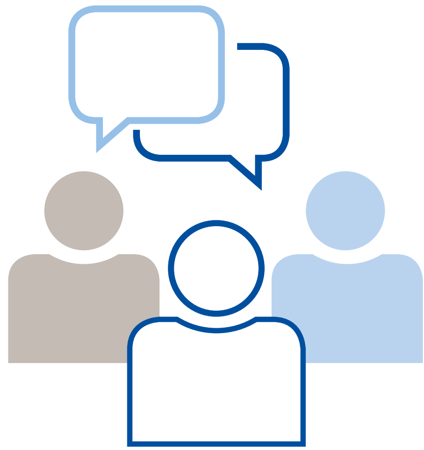
- Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.

Insurers

- Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise).
- Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods).
- Contextualize IP 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.



Recommendations for Designing Workplace-Based Solutions



Governments

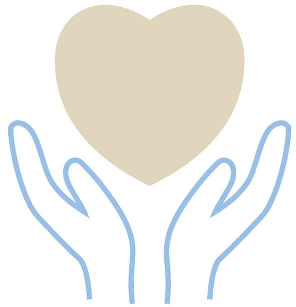
- Provide alternative forms of financial support for those in unwaged caregiving roles, particularly in cases where bereavement forces households into poverty.
- Evaluate employer-sponsored wellbeing programs and rehabilitation.

Employers

- Conduct independent (ideally long-term and independent) assessments of existing wellbeing programs to identify what is effective – and what is not.

Insurers

- Develop programs that reinsure pension income against the long-term risk of contributions lost due to disability, premature death, and progressive retirement
- Share data with industry associations/groups on results of prevention and well-being programs.



Income protection gaps in Germany – situation summary

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GERMANY

Income protection gaps in Germany are growing as the population ages and disability increases. The changes resulting from the aging population require response from social and labour policies. Ever-tighter gatekeeping and low benefits have ensured that there is no explicit disability crisis. However, the burden of disability or premature death on private households is growing. Current policy seeks to extend private solutions and/or to make more employers offer occupational solutions.

Demography

Population:	**82.7 million**
HDI:	**very high, GINI low**
GDP per capita:	**USD 41, 936**
Percentage 65 or older:	**21.4%**
Dependency ratio:	**52.2**
Life expectancy at birth	
Men:	**78.7**
Women:	**83.6**
Total fertility rate:	**1.5**
Statutory pensionable age	
Men:	**65 (67 for insured persons born since 1964)**
Women:	**65 (to reach 67 by 2029)**

Business environment

- ✓ Very low unemployment rate, solid bank sector, capitalization above the European average, largest EU economy
- ✗ Potential impact of China, Greek and Ukraine crises
- ✓ Ease of doing business (World Bank): 17/190
- ✓ Credit rating (S&P/Moody's/Fitch): AAA/Aaa/AAA
- ✓ Credit growth: 1.3% (2012-2016) 2%

National language:	**German**
Government:	**Federal parliamentary constitutional republic**
Currency:	**Euro (EUR)**
Population living in urban area:	**75%**
Satisfaction with life:	**7.0**

Situation summary

Social security system

Earnings-related social insurance covers all employed persons, some self-employed persons, persons on maternity/paternity leave, and military personnel. State-sponsored (Riester) voluntary (DC) personal pensions supplement the main state pension scheme. A growing number of companies offer occupational pensions.

Disability compensation

Compensation is paid for full working incapacity; a person is not able to work three hours a day on any job. The insured must have had minimum five years' contributions and 36 months' contributions in the last five years before disability begun. The disability pension equals total individual's earnings points (1 point is awarded if the individual's annual earnings match to the average national earnings; if higher or lower, a score of higher or lower than 1 is given) multiplied by the 'pension factor' (1 for full earning incapacity or 0.5 for partial) and the pension value (monthly benefit amount for one year of averaged covered earnings).

Survivors' pensions

The pension is based on the total of the deceased's earnings' points multiplied by the 'pension factor' and the pension value.

Situation summary

Work-related injuries

Temporary disability benefit: 80% of the insured's last gross wage up to the last net income is paid from the day after the disability began (employer pays for the first six weeks). The benefit is paid for up to 78 weeks.

Permanent disability benefit: If a temporary disability becomes permanent, 66.7% of the insured's earnings in the year before the disability are paid for total (100%) disability. If permanently partially disabled a percentage of the full pension is paid based on the assessed loss of earning capacity (>20%).

Survivors' pensions: 30% of the deceased's income is paid to the widow or surviving civil partner for up to 2 years (ceasing on remarriage). Higher pensions at 66.7% of the deceased's last earnings are paid for up to three months after the day of death. Any widow aged 47 or older, disabled, or caring for a child, will receive 40% of the deceased's last earnings after three months.

Drivers of IPGs and implications for stakeholders

Disability

Germany's population is aging; 21% of the population is over 65 and the median age is 47 years old. Thus, social, labour and immigration policies must adapt to an aging population. Ever tighter benefits have ensured that there is no disability crisis as such, but marginal cases are transferred onto means-tested 'Minimum Income Benefit for Jobseekers' and labour market activation with little hope of finding work. The burden of disability or premature death on private households is growing. Current policy seeks to extend private solutions, to make more employers offer occupational solutions.

Social security

As mentioned, Germany's state social insurance offers income-related protection for all risks (including long-term care) covering all in insurable employment and their families. Its past generosity has crowded out private supplementation, at least until very recently. As restrictions begin to reduce benefits, IPGs open up and the government is pushing for private solutions and more employers to offer occupational solutions

For higher incomes, economic incentives encourage private protection to supplement state benefits for health and pensions. Tax-privileged occupational schemes and personal (Riester, DC) pensions offer life cover and disability insurance.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for Germany:

- Due to change in the labour markets and ever restricting social security, age is a significant factor in explaining the demand for insurance. Young people are less likely to be I secure employment on permanent contracts, thus are less protected as they have little or no resort to state help as a right.
- Consideration to gain IP insurance is lower above the over 40s. Even though people above 40 years old are more likely to know someone who is/was unable to work. This may result from changing policy and as mentioned above, changes in the labour market, as older workers are well protected – those born post 1962 are subject to the new policies.
- There is a gender gap in the demand for insurance – this may be partly explained by reference to household and work status, as men are more likely to be the primary wage earner in their household.
- Those who have experienced a loss of income due to a psychological cause (mental health, stress) is a significant driver of demand for insurance

Figure 1

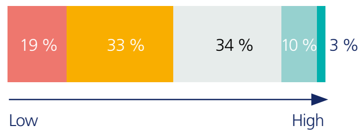


Figure 2

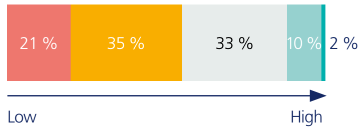


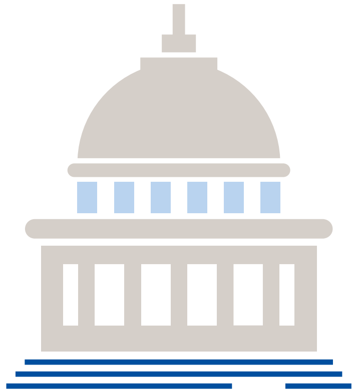
Figure 1: *Knowledge about insurance covering income in case of illness/disability*

Figure 2: *Knowledge about insurance covering income in case of premature death*

Recommendations for key stakeholders

Governments

- Tailor financial education to the needs of different demographic groups.
- Increase the transparency and clarity of income protection products.
- Experiment with digital methods to bolster education, provide regular nudges and enhance engagement.

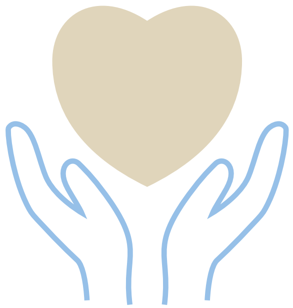


Employers

- Focus policy measures on 'progressive retirement.'
- Avoid a one-size-fits-all approach to retirement.

Insurers

- Redefine the employer-employee relationship in the sharing economy'
- Harness the potential of IT platforms to enable 'portability' across jobs and jurisdictions.



Income protection gaps in Hong Kong – situation summary

Income protection gaps (IPGs) can have destructive results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

HONG KONG

Over 6 years there has been a 60% increase in disability in Hong Kong, over 70% of these cases are aged above 50. Rising rates of disability in recent years are probably attributable to the aging population; given disability rates are higher for older people. Social security is based on a relatively young provident fund system (introduced in 2002). Benefits are modest and the younger the resident, the more reliant on provident fund savings they are, should premature death or disability occur.

Demographics

Population:	**7.3 million**
HDI:	**Very high, GINI Medium**
GDP per capita:	**USD 43, 681**
Percentage 65 or older:	**15.56%**
Dependency ratio:	**38.6**
Life expectancy at birth	
Men:	**81.4**
Women:	**87.3**
Total fertility rate:	**1.2**
Statutory pensionable age	
Men:	**65**
Women:	**65**

Business environment

- ✓ Favorable regulatory environment for employers; China accessibility;
- ✗ Big wealth inequalities and potential effect of China slowdown
- ✓ Ease of doing business (World Bank): 4/190
- ✓ Credit rating (S&P/Moody's/Fitch): AAA/Aa2/AA+
- ✓ Credit growth: 8% (2012-2017) to 13%

National language:	**Cantonese**
Government:	**System of special administrative**
Currency:	**Hong Kong dollar/HKD**
Population living in urban area:	**100%**

Situation summary

Social security system

Old-age pensions including a tax-funded universal old-age allowance. The Old age allowance is either non-means tested and HKD 1,290 a month is paid or means tested and HKD 2, 495 a month is paid. Social assistance provides an old-age benefit of between HKD 3,340– HKD 5,690 a month for a person living alone, less if living with other family members. Additionally there are provident funds, which are personal funds, contributed by employer and employee, that may be accessed for a range of welfare needs as well as pensions. These are an alternative to occupational pension schemes run by the employer.

Work-related Injury Compensation

Employer-liability system sources funds for the total cost.

Disability pension (allowance)

HKD 1,650 a month (normal rate) or HKD 3,300 a month (high rate). Also, social assistance (income and asset tested) provides a disability benefit of HKD 3,340 – HKD 6,095 a month for a person living alone, less if living with other family members (HKD 3,340- HKD 5,630).

Private provident funds or mandatory occupational schemes

Offer occupational benefits (a lump sum of total employee and employer contributions plus accrued interest) on retirement or following disablement or unexpected death of fund owner.

Permanent disability benefits

For a total disability (100%), a lump sum payment of 48 months of insured earnings is paid if 56 or older; 72 months if aged 40-55; or 96 months if below 40. The minimum-maximum lump sum for a permanent total disability is HKD 426,880- HKD 1,251,360 if ≥56; HKD 1,877,040 if 40-55; or HKD 2,502,720 if <40.

Situation summary

Temporary disability benefits

Individual receives 80% of the difference between their monthly earnings before and after the accident for up to 36 months (after which the disability is measured as if it were permanent).

Survivor benefits

A lump sum of 36 months of the deceased's earnings if the deceased was aged 56 or older; 60 months if aged 40 to 55; or 84 months if younger than age 40. The minimum lump sum is HKD 375,950, regardless of age, and is additional to the provident fund balances of the deceased.

Drivers of IPGs and implications for stakeholders

Disability

The registered incidence of disability in Hong Kong has increased dramatically in the last half a decade (60% in 6 years). Some of this increase may be understood as resulting from an aging population, although it may also be the result of the government making access to real compensation easier. IPGs are a risk as the population ages and disability becomes a more probable scenario that could damage employment.

Social security

Hong Kong is a densely populated urban community with a very low welfare safety net. Social insurance/assistance is small and could not be relied upon in the case of disability or premature death. Provident funds have no guaranteed returns, and are privately run for those regularly employed.

2016 survey displayed for Hong Kong:

- Six in ten currently own an IP insurance policy to protect their family against income loss in case of premature death. While almost half protected their income in case of illness/disability.
- One in two people bought their IP because other sources (e.g., savings) of money would be insufficient in case they experience income loss.
- Due to the central importance of provident funds, age/gender do not have a significant effect on demand for insurance. The younger the respondent, the more reliant on provident fund savings should premature death or disability occur.
- Main wage earners are more likely to have insurance than those who aren't the main wage earner. Household status may be more significant in Hong Kong than in Malaysia due to the role of the financial sector as a major source of employment: as financial firms are frequently international, there is also a high probability that a major part of IP cover is offered by employers.

Figure 1

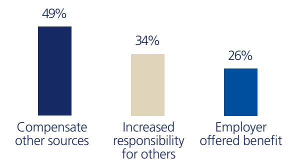


Figure 2

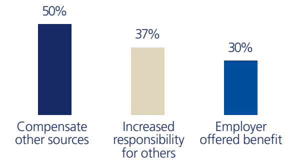


Figure 1: *Top-3 reasons to purchase insurance (illness/disability)*
Base: Illness/disability insurance owners n=647

Figure 2: *Top-3 reasons to purchase insurance (premature death)*
Base: Premature death insurance owners n=498

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Drivers of IPGs and implications for stakeholders

2016 survey displayed for Hong Kong:

- Education (number of years studying) does not have a significant effect on the probability of having insurance, while financial literacy and income has a positive and significant effect on the probability of having insurance. Here again, given that Hong Kong is a major financial centre, the likelihood of survey respondents working in the sector with a high income is great. These workers are more likely to be highly educated and, of course, broadly financially literate.
- Having experienced a personal loss of income due to a psychological cause (stress, mental health) are more likely to have insurance. Those who know someone who has experienced a loss of income are also more likely to have insurance. Hong Kong is a densely populated urban community with a very low safety net (in welfare terms) thus, is likely to be a stressful working as well as living environment.

Figure 3

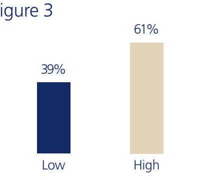


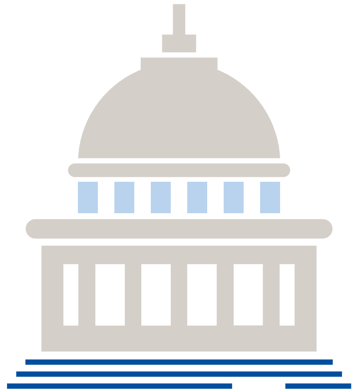
Figure 3: *Education*

Recommendations for Key Stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments

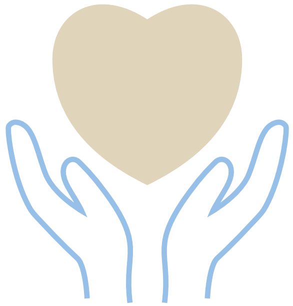
- To improve product clarity: Support the design and marketing of protection products that are transparent and easy for consumers to understand – through Financial Needs Analysis.
- To boost financial literacy: Focus policy attention (e.g. through Hong Kong Investor Education Center) away from theory-based financial education programs; instead support programs that combine instruction with application and practice of concepts as well as individualized counselling.
- To guide the individual: Design and support policy ‘nudges’, e.g. the auto-enrolment of all employees in a registered default scheme to offer basic IPI cover, with an opt-out option.



Employers

- To boost financial literacy: Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.
- To guide the individual: Choose 'nudges' in forms that are appropriate to local country context as well as different industries and sectors of the workforce; 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.
- To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.
- To encourage the development of digital methods: Support experimentation with scenario-building apps and other as-yet-unproven digital tools.

Insurers



- To improve product clarity: Design and market protection products that are transparent and easy for consumers to understand.
- To create optimal products: Design multi-layered insurance products (with default plan) for employers; develop group insurance packages that create IPI as an 'add-on' to private pension schemes.
- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise); contextualize income protection insurance within wider portfolio of household spending.
- To improve messaging: Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods); target engagement with appropriate framing (e.g. link consequences of people's financial decisions to others in their household).
- To encourage the development of digital methods: Support experimentation with scenario-building apps and other as-yet-unproven digital tools.

Income protection gaps in Italy – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

ITALY

In Italy – registered rates of disability are around 5%. Among the registered disabled of working age just under 30% are in employment. Disability benefits alter in accordance with the cost of living and, in 2015, those of working age can claim around 280 Euros per month. Those with established working records can gain a sum based on average earnings over the previous five years and the number of contributory years. As the population is ageing and the economy has encountered problems, benefits have become less generous in more recent years.

Demography

Population:	**60.6 million**
HDI:	**very high, GINI medium**
GDP per capita:	**USD 30,527**
Percentage 65 or older:	**22.7%**
Dependency ratio:	**57.0**
Life expectancy at birth	
Man:	**81.1**
Woman:	**86**
Total fertility rate:	**1.4**
Statutory pensionable age	
Man:	**66**
Woman:	**66 (women in public sector) (65 in private)**

Business environment

- ✓ Favorable regulatory environment to employers, foreign trade, retail investment protection
- ✗ Potential effect of Greek crisis
- ✓ Ease of doing business (World Bank): 50/190
- ✓ Credit rating (S&P/Moody's/Fitch): BBB-/Baa2/BBB+
- ✓ Credit growth: 0.2% (2012-2017) to 1.6%

National language:	**Italian**
Government:	**Unitary parliamentary constitutional republic**
Currency:	**euro/EUR**
Population living in urban area:	**70%**
Satisfaction with life:	**5.8**

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Situation summary

Retirement savings

Notional defined contribution (NDC) and social insurance system.

Social security system

Prior to 1995, Italian workers were covered by a classical earnings-related social insurance scheme. From 1996, all workers joined a mandatory Notional Defined Contribution scheme (NDC). Older workers with complete social insurance contributions can claim disability support based on average annual earnings over the previous five years and the number of contributory years with compensation for low pay. NDC pays out according to sum saved (adjusted by a notional co-efficient) and years of membership, on a similar basis. Members with 18 years of social insurance contributions receive a proportion from both schemes. Disability and old age pensions are calculated on the same basis Voluntary coverage exists for contract and professional workers and a special scheme exists for public sector workers. Social assistance (means-tested) helps the very poor.

Work-related injury/disease

Is covered by a mandatory national scheme of employer insurance, administered by a private agency (INAIL) with benefits reflecting age, gender, degree of disability and previous year's average earnings..

Temporary disability benefit (injury at work):

For those who were insured under the pre-1995 social insurance scheme, 60% of the insured's average daily wage is paid for 90 days, thereafter, 75%. Under NDC plans, all payments reflect total past contributions, adjusted for age.

Survivor pension: Under the social insurance scheme

60% of previous earnings is paid to the survivor (80% with one child, 100% with two, capped for higher incomes), and/or orphaned children. Under NDC plans, all payments reflect total past contributions, adjusted for age.

Drivers of IPGs and implications for stakeholders

Disability

Rising rates of disability stem in part from Italy's aging population. Women and elderly people are the principal groups among persons who claim to have functional limitations, impairments or severe chronic diseases (54.7% and 61.1% respectively). We should note that fewer women of working age are able to claim any state benefits. The percentage of persons with severe limitations is higher amongst elderly women (37.8%) compared with elderly men (22.7%).

Social security

Italy's IPGs problem has been exacerbated by a weak economy badly hit by the global financial crisis. State benefits are being cut and female pension ages are rising. Unemployment is high. Roughly 40% of the workforce under the age of 30 is out of work. However, recent legislation has extended the social protection of permanent workers to part-timers and subcontractors, the Italian labour market is divided between insiders and outsiders – protected workers and the under-employed remainder.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for Italy:

- The working community with higher monthly gross incomes (>€2,000) feels more knowledgeable about IP compared to those with lower income (<€2,000). Hence, the ownership of IP insurance among members of the community with children and higher income is larger compared to singles and lower income.
- Age is significant in explaining demand for insurance. Young people are less likely to be in secure employment due to a lack of permanent job contracts and so are not covered by the NDC scheme as a high proportion are in temporary or part-time work. Congruently, people above 40 years old are more likely to expect the government to pay monthly benefits for more than five years in case of income loss compared to those who are younger than 40 years old. This age-based divide reflects not only poorer employment prospects of the young, but also the changing basis of income protection following the transition in 1996 from social insurance to the NDC system.

Figure 1

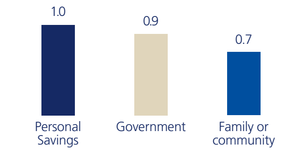


Figure 2

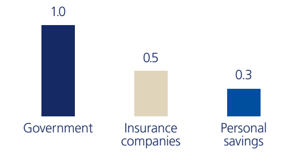
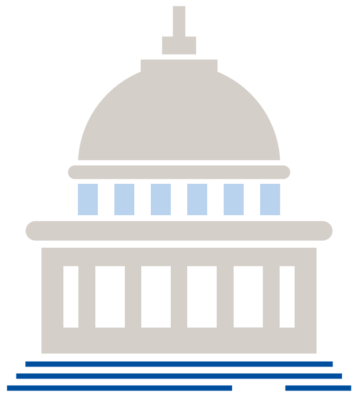


Figure 1: *Organization you think ought to cover income loss (top-3)*
Figure 2: *Organization you want to cover income loss (top-3)*

Recommendations for Key Stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments



- To improve product clarity: Support the design and marketing of protection products that are transparent and easy for consumers to understand.
- To boost financial literacy: Focus policy attention away from theory-based financial education programs; instead support programs that combine instruction with application and practice of concepts as well as individualized counselling
- To guide the individual: Design and support policy 'nudges', e.g. the auto-enrolment of all employees in a registered default scheme to offer basic IPI cover, with an opt-out option.
- To support unwaged caregivers: Provide alternative forms of financial support, particularly in cases where bereavement forces households into poverty
- To create an environment for optimal workplace-based solutions: Introduce a financial incentive for employers to provide group income protection insurance.
- To incentivize employers to extend coverage: Develop fiscal incentives to encourage employers to invest in medical monitoring and health and fitness programs, and to offer life insurance products.
- To encourage retention of older workers: Continue state contributions for progressive retirement options.

ITALY

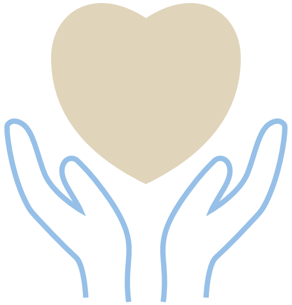
- To encourage retention of the disabled: Provide incentives, including quotas, for employers to take on workers with disabilities.
- To create coherent legal obligations: Integrate policy frameworks to co-ordinate different policies (employment; public health; occupational health: social security).
- To develop new partnerships to reduce IPGs: Attach life policies and income protection insurance to personal pension plans; promote negotiated agreements between social partners and the state.
- To extend protection for alternative work arrangements: Encourage long-term personal savings, including funds for income protection, via tax-privileged products for part-time, temporary, and agency workers.
- To extend protection to a mobile workforce: Facilitate the portability of protection across borders and between firms.
- To lend further policy support: Promote the inclusion of IPGs in European Pillar of Social Rights.
- To collect high-quality data related to IPGs: Improve data collection and harmonization with other countries, using organizations such as the ILO or OECD to facilitate and create greater transparency.

Employers

- To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.
- To guide the individual: Choose 'nudges' in forms that are appropriate to local country context as well as different industries and sectors of the workforce; 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.
- To assess existing wellness programs: Conduct independent (ideally long-term and independent) reviews to determine what is effective – and what is not.
- To optimize wellness programs: Include annual health checks and fitness facilities, including assessment of anxiety and stress; focus efforts on proven methods for managing manifest diseases and on exploring new approaches to stress and lifestyle management; 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.
- To prevent presenteeism: Create contributory Employee Assistance Plans for employee support when confronting family, legal or financial crisis outside work, or as a source of benefit corresponding to predefined health-related need; determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs.
- To encourage work in later life: Create flexible retirement options for older workers with impaired lives that involve part-time work and an alternative income; monitor older workers carefully, as an ageing workforce will carry chronic complaints and is less likely to draw them to management's attention.
- To extend protection: Create and maintain a core set of benefits for all employees, promoting equity and preventing social dumping, based on salary scales in each country.
- To ensure coverage of cross-border workers: Create portable schemes for internationally seconded workers.
- To foster rehabilitation and inclusion: Create profit sharing plans to reflect productivity growth.
- To engage with government initiatives: Recalibrate office organization to integrate action between HR/ occupational health/ risk management.

Insurers

- To create optimal products: Design multi-layered insurance products (with default plan) for employers; develop group insurance packages that create IPI as an 'add-on' to private pension schemes.
- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise); contextualize income protection insurance within wider portfolio of household spending.
- To improve messaging: Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods); target engagement with appropriate framing (e.g. link consequences of people's financial decisions to others in their household).
- To encourage the development of digital methods: Support experimentation with scenario-building apps and other as-yet-unproven digital tools.
- To support improvements to corporate wellness programs: Share data with industry associations and groups on results of prevention and wellbeing programs.
- To improve coverage for mental illness: Include mental health cover in group insurance policies.
- To promote long-term savings: Develop programs that reinsure 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+).
- To optimize offerings for employers: Create multi-layered insurance products (with default plan); develop group insurance packages that create income protection as an 'add-on' to private pension schemes.
- To ensure coverage in the gig economy: Offer benefits package mentioned above to IT platform owners as well as traditional employers.
- To ensure coverage for mobile workers: Make consistent exclusion clauses that give employees the same cover in all countries.
- To ensure coverage at smaller companies: Develop common insurance platforms for use by small employers; promote public/private common medical / occupational health or P.E. training facility for use by small employers.



Income protection gaps in Malaysia – situation summary

Income protection gaps (IPGs) can have destructive results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

MALAYSIA

As of March 2017, the number of persons with a disability registered with the Department of Social Welfare Malaysia was 419,805, or 1.31% of the population. By 2030, 15% of the population of Malaysia will be older than 60. Malaysian households headed by an elderly person experience a higher incidence of poverty (22.7%), as people are forced to stretch their limited savings to cover longer lives and disability. Each worker pays a fixed proportion of income into two personal provident funds with state-guaranteed returns (20% may be privately invested in approved unit trusts) that finance basic welfare requirements. The provident fund system is old and well established: it was founded in 1951 by the British and updated (in terms of age of access and drawdowns) in 2012. The first social insurance was introduced in the 1980s, but it is for the poor alone and benefit rates are very low. The personal savings habit is thus culturally ingrained, and reinforced with state protection and regulation.

Demography

Population:	**32 million**
HDI:	**High, GINI High**
GDP per capita:	**USD 9,502**
Percentage 65 or older:	**6.2%**
Dependency ratio:	**44.7**
Life expectancy at birth	
Men:	**72.7**
Women:	**77.4**
Total fertility rate:	**2.0**
Statutory pensionable age	
Men:	**55**
Women:	**55**

Business environment

- ✓ Macroeconomic environment, education, institutions, financial system, good supervision and regulation, infrastructure
- ✗ China slowdown might affect pace of technological innovation
- ✓ Ease of doing business (World Bank): 23/190
- ✓ Credit rating (S&P/Moody's/Fitch): A-/A3/A-
- ✓ Credit growth: 9.0% (2012-2017) to 9.2%

National language:	**Malay**
Government:	**Constitutional monarchy of the federal parliament**
Currency:	**ringgit/MYR**
Population living in urban area:	**75.37%**

Situation summary

Social security system

Social Security Organization (SOSCO), a statutory body under the Ministry of Human Resources, runs social insurance for workers earning less than MYR 4,000 per month, which offers medical and cash benefits, and provides medical devices and rehabilitation to employees. Contribution rates are meagre and benefits are very low. Social assistance covers non-contributors.

Employee Provident Fund (EPF)

Contributory pension savings for employees not covered by the civil service National Pension Scheme. Employees and employers make matching contributions totalling almost a quarter (23%) of monthly income. Voluntary membership is available to the self-employed. These contributions are divided between the two personal funds with a state-guaranteed 2.5% pa return. Provident fund savings are used for pension (upon reaching 55) and survivor's benefit, and may also be used to fund state approved welfare expenses such as house purchase, education, health care, and even travel (notably the Hajj).

Occupational pension

Supplementary pension provision is mostly limited to large employers. Employers may provide additional retirement benefits by toping up their EPF contributions or setting up self-administered trust funds.

Work-related injury insurance

Work-related injury insurance is provided under the Employer's Liability Scheme (ELS) and covers two types of earnings-related benefits – employment injury compensation and sickness; and maternity benefits. The contribution rate is 1.25 % of the employee's monthly earnings to cover medical costs, temporary/permanent disability benefit, provide for caregivers 'allowance, rehabilitation, dependents' benefits and funeral benefits.

Permanent disability compensation: 90% of the average daily wage from SOCSO (which covers very poor workers), and long-term care subsidy. The minimum and maximum daily subsidy is MYR 30 and MYR 118.50, respectively. The full value of provident funds can be accessed in the event of permanent disability.

Temporary disability compensation: 80% of the average daily wage from SOCSO, the minimum and maximum daily subsidy is MYR 30 and MYR 105.33, respectively.

Survivors' benefits: For work-related fatalities, survivors receive 40% to 65% of the average daily wage (spouse before remarriage or children until 21 years old), plus the value of both provident fund accounts.

Drivers of IPGs and implications for stakeholders

Disability

IPGs occur in prolonged old age in households lacking adequate resources. As the population of Malaysia lives longer they are reliant on their families for support, as they can no longer work through old age/ disability. Thus, relatively modest savings have to be stretched across more people; such a case is illustrated as Malaysian households headed by an elderly person experience a higher incidence of poverty (22.7%).

Social security

Malaysian workers rely solely on their provident funds for welfare thus, IPGs occur in cases of early disability/ death before sufficient savings have accumulated in the provident funds. Malaysians are encouraged to personally save and do not look to the government for help as in many countries unless they are too poor to contribute to the SOCSO.

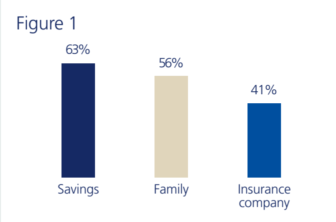
2016 survey displayed for Malaysia:

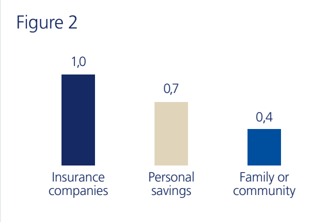
- 45% currently own an IP insurance policy to protect their family against income loss in case of premature death. While three in five protected their income in case of illness/disability.
- Given such heavy reliance on personal resources for income protection, neither household status (primary/secondary wage earner) nor work status is significant in explaining demand for insurance in Malaysia. For the same reason, there is not a significant gender gap in demand.
- Hence, age is not a significant driver of demand for insurance in Malaysia. Loss of earned income poses a considerable risk that is not age-related: those who are uninsured and disabled have little recourse beyond personal savings, particularly in retirement.
- Those who have personally experienced a loss of income due to ill health are more likely to have insurance – and this is particularly true of psychological causes (mental health and stress). This is likely due to the stresses of competitive work and living environments, particularly in light of rapid urbanisation and its socio-economic consequences.
- Financial literacy has a positive and significant effect on the probability of having insurance. One consequence of the provident fund system is that all become very involved in their personal financial situations, thereby raising workers' overall familiarity with household financial planning more broadly.
- As personal savings are encouraged and the government is not expected to cover potential income loss (unlike other countries). People initially expect insurance companies to cover (potential) income loss and they are also the preferred parties from which to buy IP products.

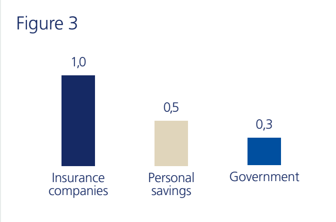
Figure 1: *Top-3 income sources while experiencing income loss*
Base: Those who suffered from income loss
n = 400

Figure 2: *Organization you think ought to cover income loss (top-3)*

Figure 3: *Organization you would want to cover income loss (top-3)*



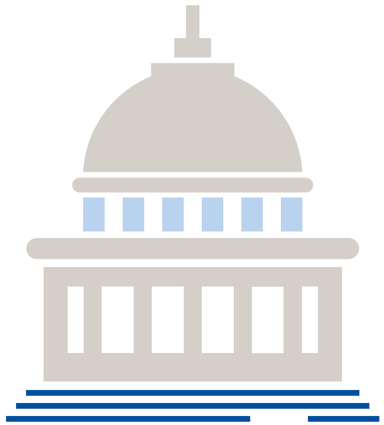




Recommendations for key stakeholders

Governments

- To guide the individual: Design and support policy ‘nudges’, e.g. the auto-enrolment of all employees in a registered default scheme to offer basic income protection, with an opt-out option.
- To boost financial literacy: Focus policy attention away from theory-based financial education programs; instead support programs that combine instruction with application and practice of concepts as well as individualized counselling
- To support unwaged caregivers: Provide alternative forms of financial support, particularly in cases where bereavement forces households into poverty.
- To extend coverage for older workers: Promote staged pensionable ages that reflect past years in employment, current work capacity and life expectancy.



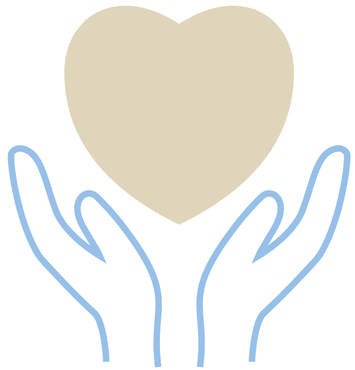
Employers

- To guide the individual: Consider the auto-enrolment of all employees in a registered default scheme to offer basic income protection cover, with an opt-out option.
- To boost financial literacy: Design financial education programs that combine instruction with application and practice of concepts as well as individualized counselling.
- To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.
- To optimize wellness programs: Include annual health checks and fitness facilities, including assessment of anxiety and stress; focus efforts on proven methods for managing manifest diseases and on exploring new approaches to stress and lifestyle management.
- To encourage work in later life: Create flexible retirement options for older workers with impaired lives that involve part-time work and an alternative income.

Recommendations for key stakeholders

Insurers

- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise); contextualize income protection insurance within wider portfolio of household spending and provident fund savings.
- To improve messaging: Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods); target engagement with appropriate framing (e.g. link consequences of people's financial decisions to others in their household).
- To improve coverage for mental illness: Include mental health cover in group insurance policies.
- To ensure income security in later life: Create retirement products (e.g. annuities) designed to increase income above age 75.
- To optimize offerings for employers: Develop group insurance packages that create income protection as an 'add-on' to private pension schemes.



Income protection gaps in Mexico – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

MEXICO

The registered disability rate in Mexico is 7.5% and mainly comprises older people (60 years and older – 51.4%), and adults (30-59 years – 33.7%). As Mexico's population is ageing, this percentage will increase over the next decade. The National Program for the Development of People with Disabilities 2009-2012 – 'PRONADIS' – sought to transfer disability treatment from a passive assistance model to a social model focused on full rights for people with disabilities. As the state benefit for permanent disability/survivor is capped at a flat rate, IPGs most affect the middle and upper class.

Demography

Population :	**127.5 million**
HDI:	**high, GINI high (very)**
GDP per capita:	**USD 8,201**
Percentage 65 or older:	**6.6%**
Dependency ratio:	**51.1**
Life expectancy at birth Man:	**74.6**
Woman:	**79.4**
Total fertility rate:	**2.2**
Statutory pensionable age Man:	**65**
Woman:	**65**

Business environment

- ✓ Market size, U.S. accessibility, transport infrastructure, favorable regulatory environment for employers
- ✓ Ease of doing business (World Bank): 47/190
- ✓ Credit rating (S&P/Moody's/Fitch): BBB+/A3/BBB+
- ✓ Credit growth: 15%% (2012-2017) to 6.9%

National language:	**Spanish**
Government:	**Federal presidential constitutional republic**
Currency:	**peso/MXN**
Population living in urban area:	**80%**
Satisfaction with life:	**6.2**

Situation summary

Retirement savings and social security system

In Mexico, both disabled and survivors' benefits are covered by the social security pension, mandatory for formally employed workers (35% of the working population) and the self- employed. The pension scheme was changed in 1997. Previously determined on a DB basis (based on final salary), it now takes the form of DC individual accounts and amounts available are determined by years of contribution plus accrued interest (following the Chilean model). However, those with established contributions under the previous scheme may elect to claim the old pension – and many currently do as this is considerably higher, forming a risk for future state revenue balances. Means-tested social assistance covers the very poor.

Work-related injury/disease

Covered by the general social security scheme. The three types of benefits below are based on workers covered by the old system and does not apply to those who entered the labor market after 1997, whose access to benefits depends on their DC pension savings.

Permanent disability compensation

Disability benefits are payable from the 4th day: benefits cover up to 70% of salary to a maximum of MXN 35,000. If injury is the result of an occupational accident, the employer's insurance premium increases. After 6 months of continuous disability coverage turns into pension.

Temporary disability benefits

100% of the average monthly income of the insured is paid for up to a year or until permanent disability is certified.

Survivor pensions

90% of the permanent disability pension is paid to the widow or partner.

Drivers of IPGs and implications for stakeholders

Disability

The main concern for IPGs is that the Mexican population is aging. The prevalent disabilities stem from high levels of obesity, especially in men have produced widespread diabetes (10-15% of population) that can lead to blindness and/or amputations if not treated. Additionally, there are high levels of mobility problems (45.3%) and visual impairments (26.0%).

Social security

The maximum of 70% of MXN 35,000 for permanent disability benefit payable by social security creates an IPG and extra cover is needed by about 15% of population (middle and upper classes). The proportion of the population achieving a middle-class income has risen markedly over the last decade and there is no relevant private or public insurance to secure an income above MXN 35,000 pesos.

Drivers of IPGs and implications for stakeholders

2016 Survey displayed for Mexico:

- Income is relevant as determinant of demand for insurance, this is undoubtedly due to benefits being capped at MXN 35,000 pesos. The middle/upper class require insurance to not face IPGs in the case of disability or premature death.
- Younger people (25-35 years old) are more likely to have insurance. This is likely because they do not benefit from the old social security system. These young people are also those who report to know a lot or a fair amount about insurance, and they are more likely to have insurance. Therefore unsurprisingly, those who are older than 40 years old are more likely to expect the government to pay monthly benefits in case of income loss for more than five years as opposed to those who are younger.
- Work status: part-time workers are more likely to have insurance than full-time and self-employed people. (Note that part-time workers are more likely to be women and young people, and they report to have almost no knowledge or little knowledge about insurance). The fact that part-time workers are covered by private insurance may be the consequence of either (a) employment in a US/ European subsidiary company where this is automatically offered in the employment contract, encouraged by fiscal incentives; (b) the lack of any comprehensive state insurance scheme for anyone not in the army or civil service (i.e. public sector employment); or (c) the high death rate among males (nearly 50% die before the age of 70 – probably of obesity-related conditions) – or a combination of all of these. The vast majority of the population are informally employed, so our survey may primarily have captured a particular subsection of the population.
- Mexican respondents who have experienced a personal loss of income due to a physical cause (heart attack, cancer, stroke) are more likely to have insurance. Notably, all three of these diseases are consequent on obesity, of which Mexico has the second highest rate in the world.
- There is no gender gap in demand for insurance – but this should be viewed mainly as the product of the way our survey was designed. Given that we sampled only employed people, only working women were included – yet Mexico has the lowest female labour market participation rates in the world.

Figure 1

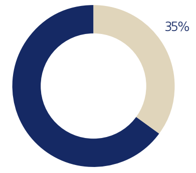


Figure 2

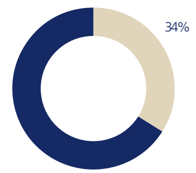


Figure 3

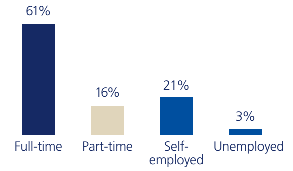


Fig. 1: *Insurance ownership to protect income against illness/disability*

Fig. 2: *Insurance ownership to protect income against premature death*

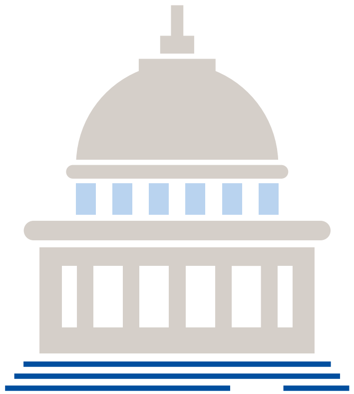
Fig. 3: *Employment*

Recommendations for Key Stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments

To improve product clarity: Support the design and marketing of protection products that are transparent and easy for consumers to understand.



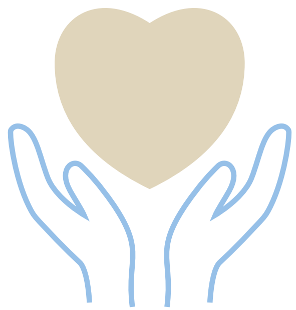
Recommendations for Key Stakeholders

Employers

To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.

Insurers

- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package; contextualize income protection insurance within wider portfolio of household spending.
- To ensure income security in later life: Create retirement products (e.g. annuities) designed to increase income above age 70.
- To optimize offerings for employers: Develop group insurance packages that create income protection as an ‘add-on’ to private pension schemes.



Income protection gaps in Spain – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

SPAIN

Spain has an aging population, with 58% being over 64. All workers in Spain are legally required to pay into a social security system, which provides healthcare, as well as benefits for temporary incapacity, maternity and premature death, among other things. However, these benefits are limited and IPGs are likely as disability rates increase.

Demography

Population:	**46.4 million**
HDI:	**very high, GINI medium**
GDP per capita:	**USD 23,982**
Percentage 65 or older:	**19.1%**
Dependency ratio:	**51.1**
Life expectancy at birth	
Man:	**80.6**
Woman:	**86.3**
Total fertility rate:	**1.3**
Statutory pensionable age	
Man:	**65**
Woman:	**65**

Business environment

- ✓ Ease of doing business (world bank): 32/190
- ✓ Credit rating (S&P/Moody's/Fitch): BBB+/Baa2/BBB+
- ✗ Credit growth: 5.5% (2012-2017) to -1.4%

National language:	**Spanish**
Government:	**Unitary parliamentary constitutional monarchy**
Currency:	**euro/EUR**
Population living in urban area:	**80%**
Satisfaction with life:	**6.4**

Situation summary

Social security system

Social insurance and social assistance system. Special systems for public-sector employees, military personal, self-employed persons, seamen and coal miners. Social assistance is for needy, elderly or disabled residents of Spain.

Disability Benefits

55% of the insured's base earnings is paid if a total incapacity for work in the usual occupation, 100% of the insured's base earnings is paid for incapacity for any work or severe disability requiring constant attendance. Monthly base earnings are the sum of daily earnings multiplied by 365 and divided by 12 (min monthly earnings used to calculate benefit is EUR 764.40 and max is EUR 3,642).

If younger than 31, from the age of 16 individual must have contributed during 33% of the period. If over 31, must have at least 5 years contributions, 20% in the last 10 years. For a total incapacity to work in their usual occupation, 55% of the insured's base earnings are paid. Can also gain partial disability benefit with at least 33% permanent loss of work capacity.

Survivor's pension

52% (70% if dependent children) of the deceased's base earnings used to calculate the old-age or disability pension the deceased was entitled to receive.

Work-related injury

Social insurance system. If the injury is permanent then the benefit is the same as if not work-related, alike the survivors pension.

Work-related temporary disability

The daily benefit is 75% of the insured's daily average earnings in the last month before disability began. The benefit is paid from the day after the disability began for up to 12 months (may be extended by 6 months).

Drivers of IPGs and implications for stakeholders

Disability

It is predicted that most optimistically by 2050 over 55% of the Spanish population will be over 65. This will have a huge impact on increasing disability rates; social and labour policies will have to make adjustments in response to such a trend, as IPGs grow.

Social security

Benefits are limited and on the whole can only compensate between 50 and 70% of previous earnings; IPGs are likely. Furthermore, administrative complexity across Spain's autonomous regions makes accessing benefits more difficult. As a result, Spain records relatively low official levels of disability.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for Spain:

- Survey respondents feel more knowledgeable about Income Protection (IP) against illness (59%) than IP against premature death (50%). About one in four currently owns an IP insurance policy to protect their family against income loss.
- Two in five people bought their IP because of their increased responsibility toward others.
- Spanish respondents with higher incomes and those who are the main wage earner for their household are more likely to have insurance. By contrast, work status has no effect on demand; nor do education or financial literacy levels.
- There is a gender gap: while 31% of men have insurance, only 26% of women in the survey do. The survey points to three possible explanations behind this gender gap: household status, work status, and income differences between men and women.
  - As far as household status is concerned, the survey shows that those respondents who are not the main wage earner in their household, more likely women than men, are less likely to have insurance.

Figure 1

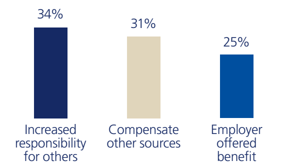


Figure 2

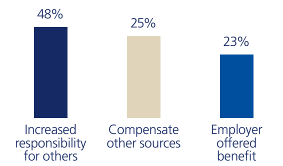


Figure 1: *Top-3 reasons to purchase insurance (illness/disability)*
Base: Illness/disability insurance owners n = 261

Figure 2: *Top-3 reasons to purchase insurance (premature death)*
Base: Premature death insurance owners n = 288

Drivers of IPGs and implications for stakeholders

- As far as work status is concerned, full-time employees are more likely to have insurance than part-time workers. Since women are more likely to have part-time jobs than men, they have less income and are less likely to be the main wage earner in the household.
- One of the reasons behind this gender gap is the current situation of women in the Spanish labour market. With a 21.6% female unemployment rate, and with a higher percentage of women in part-time jobs than men (33% of women versus only 9% of men have a part-time job), men are more likely to have income protection insurance than women.

• Spanish respondents who have experienced a personal loss of income due to a serious physical cause (heart attack, cancer, stroke) are more likely to have insurance.

Figure 3

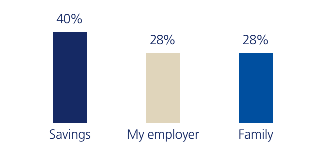


Figure 4

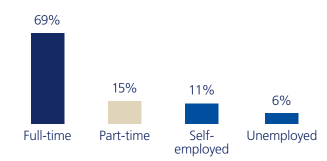


Figure 3: *Top-3 income sources while experiencing income loss. Base: Those who suffered income loss n = 492*

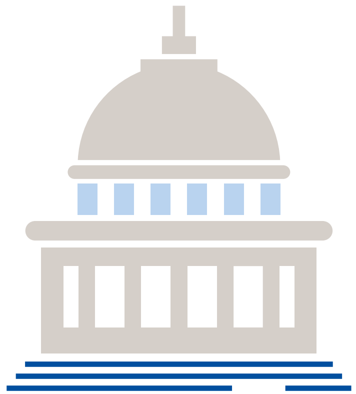
Figure 4: *Employment*

Recommendations for Key Stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments

- To boost financial literacy: Focus policy attention away from theory-based financial education programs; instead support programs that combine instruction with application and practice of concepts as well as individualized counselling.
- To guide the individual: Design and support policy ‘nudges’, particularly the auto-enrolment of all employees in a registered default scheme to offer basic IPI cover, with an opt-out option.
- To create an environment for optimal workplace-based solutions: Introduce a financial incentive for employers to provide group income protection insurance.
- To incentivize employers to extend coverage: Develop fiscal incentives to encourage employers to invest in medical monitoring and health and fitness programs.
- To encourage retention of older workers: Continue state contributions for progressive retirement options.
- To encourage retention of the disabled: Provide incentives, including quotas, for employers to take on workers with disabilities.
- To create coherent legal obligations: Integrate policy frameworks to co-ordinate different policies (employment; public health; occupational health: social security).
- To develop new partnerships to reduce IPGs: Attach life policies and income protection insurance to personal pension plans; promote negotiated agreements between social partners and the state.



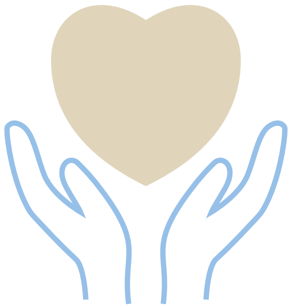
- To extend protection to 'non-traditional' workers: Encourage long-term personal savings for those in temporary and part-time work arrangements, including funds for income protection, via tax-privileged products.
- To stimulate employer and insurer interest in preventative measures and rehabilitation services: encourage or extend employer responsibility for the partially disabled.
- To collect high-quality data related to IPGs: Improve data collection and harmonization with other countries, using organizations such as the ILO or OECD to facilitate and create greater transparency.

Employers

- To educate the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.
- To guide the individual: Choose 'nudges' in forms that are appropriate to local country context as well as different industries and sectors of the workforce; consider auto-enrollment of employees into an IPG protection plan.
- To optimize wellness programs: Include annual health checks and fitness facilities, including assessment of anxiety and stress; focus efforts on proven methods for managing manifest diseases and on exploring new approaches to stress and lifestyle management.
- To encourage work in later life: Create flexible retirement options for older workers with impaired lives that involve part-time work and an alternative income.
- To extend protection: Create and maintain a core set of benefits for all employees, promoting equity and preventing social dumping, based on salary scales in each country.
- To ensure coverage of cross-border workers: Create portable schemes for internationally seconded workers.
- To foster rehabilitation and inclusion: Create profit sharing plans to reflect productivity growth.
- To combat presenteeism: Determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs.
- To engage with government initiatives: Recalibrate office organization to integrate action between HR/ occupational health/ risk management.

Insurers

- To inform consumers: Design methods to better inform consumers about what benefits are available to them and how IP insurance fits into the package (whether from the state, employer, otherwise); contextualize income protection insurance within wider portfolio of household spending'
- To improve messaging: Tailor these methods to appropriate groups (e.g. personal contact vs. digital methods)'
- To promote long-term savings: Develop programs that reinsure pension income against the long-term risk of contributions lost due to disability, premature death, and progressive retirement'
- To promote best practice: offer kitemarked insurance and savings products while safeguarding price transparency to protect public trust in market competition.
- To ensure income security in later life: Create retirement products (e.g. annuities) designed to increase income above age 75'
- To optimize offerings for employers: Create multi-layered insurance products (with default plan);develop group insurance packages that create income protection as an 'add-on' to private pension schemes'

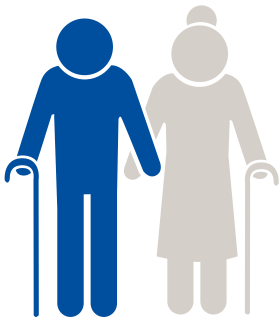


Income protection gaps in the UAE – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

Within the UAE: The UAE does not publish official statistics related to poverty, so the size of the income protection gap is unknown. The Emirates has one of the world's most generous state benefits systems; government jobs, which are held by 90% of the workforce, come with a full benefits package and long-term job security, while income is tax-free and many daily living expenses are subsidised by the state. It is important to note that the state benefits system caters exclusively to (resident) citizens, who account for only 11.5% of the population.



Demographics

Population:	**10.14 million**
HDI:	**0.84, GINI n/a**
GDP per capita:	**USD 40,160**
Percentage 65 or older:	**3.0%**
Dependency ratio:	**1.34%**
Life expectancy at birth	
Men:	**76**
Women:	**79**
Total fertility rate:	**2.32**
Statutory pensionable age	
Citizens:	**49**
Expatriates:	**65**

Business environment

- ✓ Positive demography, favourable regulatory environment for employers
- ✓ Ease of doing business (World Bank): 26/190
- ✓ Credit rating (**Abu Dhabi only**) (S&P/Moody's/Fitch): AA/Aa2/AA
- ✓ Credit growth: 6% (2016)
- ✓ Population living in urban area – 85.8%

Situation summary

Social security system

Social security benefits cover UAE nationals in dependent employment only, and do not extend to foreign workers. State assistance for the following vulnerable groups is provided on a monthly basis: widows, divorcees, disabled and medically unfit persons, the elderly, married students, families of prisoners, the ‘financially unfit’, and ‘abandoned women’. (For example, the Community Development Authority [CDA] of Dubai offers regular benefits to cover daily living expenses; up to AED 50,000 for medical treatments; an emergency cash payment of up to AED 25,000 in life-threatening emergencies; and one-time cash assistance to lower-income families for air conditioning and home furnishings.) Employee benefits may vary in free zones, although by law they must be at least equal to those in the rest of the Emirates.

The General Authority for Pensions and Social Security administers the social security system as laid out in the Pension and Social Security Law of 1999. The state pension only covers only citizens. However, expatriates are legally entitled to an end-of service lump-sum pension which is based on years of service. Many companies also offer their foreign employees a private pension plan.

Notably, benefits may vary across the Emirates given the decentralized nature of policymaking. For example, Abu Dhabi and Dubai have introduced (in 2007 and 2016, respectively) compulsory medical insurance for all foreign workers. They also require employers to offer private insurance, although these benefits are generally basic and do not extend to dependents. A new law extends medical care equivalent to that received by UAE citizens to other GCC nationals.

Disability compensation

People with disabilities are officially referred to as ‘people of determination’. They are entitled to monthly benefits to cover medical care. For disabilities caused by accidents or grievous bodily harm, the percentage of disability is determined by a team of medical experts, and compensation is calculated based on predetermined amounts as a percentage of diya (see below).

Work-related injury/disease

The same as the social insurance/social assistance system. There is a legal guarantee to cover IPGs in cases where the employer is at fault. It is a public legal protection that offers private compensation to supplement state benefits – or replace them, in the case of Income Support. Employers must insure against this risk.

Premature death: Survivors’ benefits

Compensation for loss of life (diya) is set at AED 200,000 (USD 54,443).

Drivers of IPGs and implications for stakeholders

N.B. A modified version of our survey was administered in the UAE. Of 1001 respondents, 70% were men and 97% were in full-time work.

2016 survey displayed for the UAE

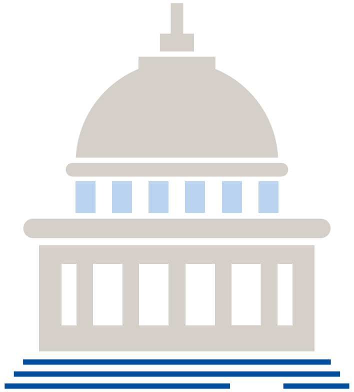
- 25% of respondents had insurance to protect their income should they become ill or disabled. Nearly 20% had coverage in case of premature death.
- A strong majority (72%) got this coverage from their employer.
- Less healthy and older people were more likely to have insurance, in contrast to our results in the main survey.
- The level of untapped demand was similar to the other countries discussed in this report, with a third of respondents saying they would be willing to consider buying insurance, and a willingness to pay an average of 5% of monthly income for it.
- The most common reason respondents gave for holding insurance (75%) is the fact that their employer had offered it to them as a benefit, followed by their feeling that the money they could get from other sources to replace their lost income would be insufficient (27%). Meanwhile, 20% of the respondents reported that their number of dependents had increased since they began their working life.
- The most common reasons given for refusing to buy insurance are the price, followed by the lack of risk awareness and the fact that the insurance is not available through their employer.
- Demand for insurance varied considerably by respondents' country of origin: just over half (51%) of Western expats and about a third (35%) of Asian expats had insurance, while only 14% of UAE nationals and 13% of Arab expats did. This seemingly low level of coverage of Arab nationals should not be surprising, however, given the generosity of state benefits in their home countries.

Recommendations for key stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps.

Governments

- Policy objectives: new regulation to extend protection, particularly in the sharing economy
  - To foster the auto-enrolment of all employees in a registered default scheme to offer basic IPI cover, with an opt-out option

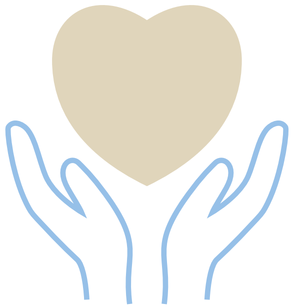


Employers

- 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 IP insurance fits into the package (whether from the state, employer, otherwise).
- Determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs

Insurers

- Contextualize IP 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
- Develop group insurance packages that create IPI as an 'add-on' to private pension schemes



Income protection gaps in the United Kingdom – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labour market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

UNITED KINGDOM

Within the UK: Income protection gaps in the UK are growing as the population ages and social benefits tighten. Overall, the higher the previous earnings, the higher the income protection gap due to flat-rate benefits and strict means and asset tests.

Demographics

Population:	**65.6 million**
HDI:	**Very high, GINI Medium**
GDP per capita:	**USD 39,899**
Percentage 65 or older:	**18.0%**
Dependency ratio:	**55.7**
Life expectancy at birth	
Men:	**79.8**
Women:	**83.5**
Total fertility rate:	**1.8**
Statutory pensionable age	
Men:	**65-68**
Women:	**65-68**

Business environment

- ✓ Positive demography, favorable regulatory environment for employers
- ✗ Uncertainty after 'Brexit' from EU result
- ✓ Ease of doing business (World Bank):7/190
- ✓ Credit rating (S&P/Moody's/Fitch): AA/Aa1/AA
- ✓ Credit growth: 4.5% (2012-2017) to 10%

Population living in urban area:	**54.4 million – 83%**
Satisfaction with life:	**6.5 OECD average score**

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Situation summary

Social security system

National insurance, social assistance system and quasi-mandatory supplementary pensions. Coverage: employed persons with earnings between GBP 155 and GBP 827 per week; also self-employed persons with income of at least GBP 5,965 a year. Voluntary coverage is available.

Onset of disability: Disability compensation

Employment and Support Allowance (ESA): GBP 73.10 (GBP 57.90 if aged 16 to 24) a week is paid after a 7-day waiting period for up to 13 weeks while the capacity for work is assessed. Claimants then divide into two groups: those able to undertake work-related activity, and those requiring full support. ESA is paid for one year for all workers covered by national insurance contributions. Thereafter, payments are income-related (means- and asset-tested) and form part of the overall Universal Credit 'household' income assessment. If the claimant is in the support group, up to GBP 109.30 per week is payable from the 15th week. Caregivers, mobility and housing allowances, etc., are payable in addition as 'Personal Independence Payments.'

Non-contributors aged 16, up to state pension age, can claim means-tested assistance benefits at the same rate and under the same circumstances as contributors. Benefits received are both means and assets tested and depend on whether the recipient is deemed fit for work.

Work-related injury/disease

The same as the social insurance/social assistance system. There is a legal guarantee to cover IPGs in cases where the employer is at fault. It is a public legal protection that offers private compensation to supplement state benefits – or replace them, in the case of Income Support. Employers must insure against this risk.

Premature death

Survivors' benefits: Only paid to survivors over 45 years and/or looking after young children. Payments start at GBP 33.77 per week at 45, rising to GBP 112.55 at 55 and over. The survivor can bring a case for compensation against an employer when liability can be proven.

Drivers of IPGs and implications for stakeholders

Disability

The percentage of people with disability in the UK is 19%. Moreover, the population is aging and the prevalence of disability rises with age, 6% of children are disabled, 16% of the working population and 45% over 65 years of age. Thus, the cases of disability are on the increase, making way for IPGs.

Inadequate social security

Insufficient compensation offered in the case of disability onset or premature death leads to IPGs. Due to a flat rate and relatively low levels of state benefits, the higher the previous earnings, the bigger the IPG, particularly as the asset test is very strict.

2016 survey displayed for the UK:

- Insufficient social security is acknowledged as a key reason to buy IP insurance: 2 in 5 people bought their IP because other sources of money would be insufficient in the case of income loss.
- However, people expect the government to cover potential income loss.
- Those who would be most vulnerable to IPGs appear to be more cautious and better protected: the working community with children and a higher income (>£35,000) feels more knowledgeable about IP insurance – and they hold more insurance
- People positively evaluate their health: although 42% of the working community is considering buying IP insurance, 43% feels their risk of income loss is lower than 10%.

Figure 1

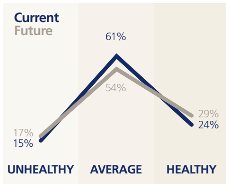


Figure 2

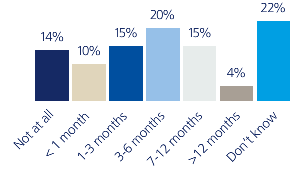


Figure 3

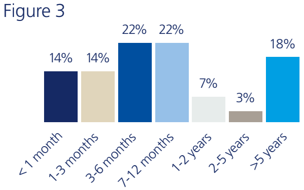


Figure 4

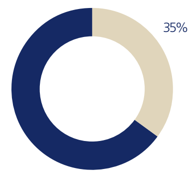


Figure 1: *Perceived health*

Figure 2: *Expected period employer will pay salary in case of income loss*

Figure 3: *Expected period government will pay monthly benefit in case of income loss*

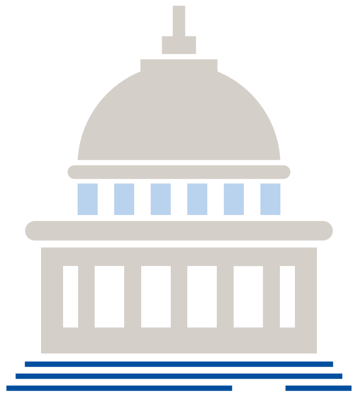
Figure 4: *Expected percentage of income the government would pay*

Recommendations for key stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps

Governments

- To guide the individual: Design and support policy ‘nudges’, drawing on the UK’s depth of experience in this area.
- To create an environment for optimal workplace-based solutions: Introduce a financial incentive for employers to provide group income protection insurance.
- To incentivize employers to extend coverage: Develop fiscal incentives to encourage employers to invest in medical monitoring and health and fitness programs.
- To encourage retention of older workers: Continue state contributions for progressive retirement options.
- To encourage retention of the disabled: Provide incentives, possibly including quotas, for employers to take on workers with disabilities.
- To create coherent legal obligations: Integrate policy frameworks to co-ordinate different policies (employment; public health; occupational health: social security).
- To extend protection, particularly in the sharing economy: Encourage long-term personal savings, including funds for income protection, via tax-privileged products.
- To stimulate employer and insurer interest in preventative measures and rehabilitation services: encourage or extend employer responsibility for the partially disabled.



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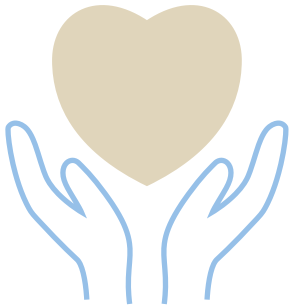
Employers

- To educate the individual: Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.
- To guide the individual: Design methods to better inform employees about what benefits are available to them and how IP insurance fits into the package.
- To extend protection: Create and maintain a core set of benefits for all employees, promoting equity and preventing social dumping, based on salary scales.
- To foster rehabilitation and inclusion: Create profit sharing plans to reflect productivity growth.
- To combat presenteeism: Determine the types of physical and mental health problems that contribute to presenteeism, and estimate their costs.
- To engage with government initiatives: Recalibrate office organization to integrate action between HR/occupational health/risk management.

Insurers



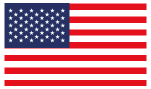
- To promote best practice: offer kitemarked insurance and savings products while safeguarding price transparency to protect public trust in market competition.

Income protection gaps in the United States – situation summary

Income protection gaps (IPGs) can have damaging results for families and extensive social and economic impacts for employers and the government. Income protection gaps are defined here as the reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom the household relies, taking all public and private sources of replacement income into account.

Thus, income protection gaps are concerning at the local, family level where they occur but depend globally on the relationship between governments, employers and individuals. Coupled with an ageing population, rising disability rates, declining state support and the changing labor market income protection gaps are a serious threat to families who may resultantly face poverty and governments working to grow the economy.

UNITED STATES



In the US – nearly 1 in 5 people are considered disabled. The total number has increased by 2 million over the last decade, although the percentage remains unchanged due to population growth. Of those with a disability, only 40% are employed, compared with 80% of adults with no disability. Hence, adults with severe disabilities are more likely to face poverty (10.8%) than those with no disability (3.8%).

Demography

Population:	**323.1 million**
HDI:	**Very high/ GINI medium**
GDP per capita (nominal, World Bank 2014):	**USD 57,466**
Percentage 65 or older:	**15.2%**
Dependency ratio:	**51.5**
Life expectancy at birth	
Men:	**76.4**
Women:	**81.2**
Total fertility rate:	**1.8**
Statutory pensionable age	
Men:	**66**
Women:	**66**

Business environment

- ✓ Market size, credit availability, transport infrastructure, favorable regulatory environment for employers
- ✓ Ease of doing business (World Bank): 8/190
- ✓ Credit rating (S&P/Moody's/Fitch): AA+/Aaa/AAA

National language:	**English**
Government:	**Federal presidential constitutional republic**
Currency:	**U.S. dollar/USD**
Population living in urban area:	**82%**
Satisfaction with life:	**6.9**

Situation summary

Social security system

A national social insurance system (Social Security Disability Insurance) covers employed people including self-employed with at least USD 400 in annual net income and household employees earning at least USD 1,900 (adjusted for past increases in average wages) in annual gross income. This is supplemented by means-tested social security income for those with insufficient contributions to SSDI.

Permanent disability compensation

Contributors assessed as incapable of 'substantial gainful activity' for at least a year can claim the insured's earnings (adjusted for increases in average wages) averaged from age 21 up to the onset of disability, excluding five years of the lowest earnings. Non-contributors younger than 65 who are blind or disabled with low income and limited resources can claim means-tested assistance capped at USD 733. Medicare cover is also supplied.

Temporary/partial disability benefits

SSDI offers full benefit on a temporary basis and adjusts compensation to reflect working ability.

Survivor pensions

Survivor can claim 100% of the old-age or disability pension the deceased received or was entitled to receive if at full retirement age; 75% if caring for one child and below retirement age; 71.5% to 99% between age 60 and full retirement age.

Work-related injury/disease

Employer-liability and social insurance systems run by the states, with 66.6% of earnings paid for total disability in most states. Care-giver allowances and support for dependents are also supplied. Survivors can claim 35%-70% of the deceased earnings; 60%-80% with dependent children.

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Drivers of IPGs and implications for stakeholders

Disability

The most prevalent disabilities are vision and hearing (3.3% and 3.1% of the population, respectively), and problems that restrict mobility problems (12.6%); 8.2% have problems performing physical tasks related to upper-body mobility. IPGs occur as disability benefits are not comparable to previous earnings and claims are frequently rejected. On top of social welfare it is common for employers to offer health protection to permanent employees, plus 401k pension plans, which can be accessed in the event of disability and some offer disability insurance as well.

Social security

SSDI is reasonably generous, but increasingly difficult to access (40% of claims currently admitted are accepted). IPGs affect those whose claims are rejected and whose earning capacity may be impaired. Furthermore, as benefits are related to recipients' earnings since age 21, the average payment is not particularly high. The better paid need extra cover as SSDI represents a significant fall in income.

Drivers of IPGs and implications for stakeholders

2016 survey displayed for the US:

- Younger people (25-35 years old) are more likely to have insurance. These young people are also those who report to know a lot or a fair amount about insurance.
- US respondents who are not the main wage earner in their household are less likely to have insurance. However, work status has no effect on demand for insurance. As social protection is frequently employer-provided, this is not surprising (The key reason cited for buying IP is that their employer offered it as part of their benefits package).
- There is a gender gap due to the higher percentage of women who are not the main wage earner in their household.

Furthermore, men are more likely to have insurance than women when they are not the main wage earner in the household. SSDI (the federal social insurance scheme offering disability benefits) does offer dependents' allowances – meaning support for wives who do not work.

- Education (number of years studying) does not have a significant effect on the probability of having insurance. Meanwhile financial literacy has a negative effect on demand.
- US respondents who have experienced a personal loss of income due to a serious physical cause (heart attack, cancer, stroke) are more likely to have insurance.

Figure 1

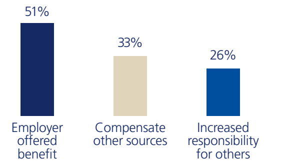
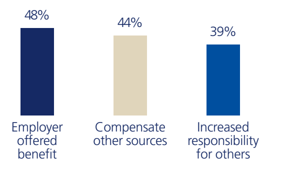


Figure 2



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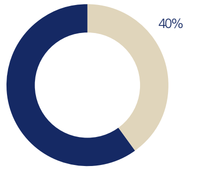

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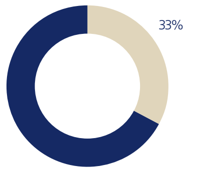


Figure 1: *Top-3 reasons to purchase insurance (illness/disability)*
Base: Illness/disability insurance owners n=414

Figure 2: *Top-3 reasons to purchase insurance (premature death)*
Base: Premature death insurance owners n=343

Figure 3: *Insurance ownership to protect income against illness/disability*

Figure 4: *Insurance ownership to protect income against premature death*

Recommendations for key stakeholders

Below are recommended solution-based approaches in which key stakeholder groups can work together to close income protection gaps

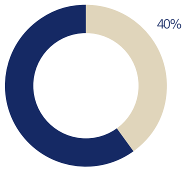
Employers

- Design effective financial education programs with employees to offer ongoing financial advice that combines instruction with practice and engagement.
- 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).
- 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.
- 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.

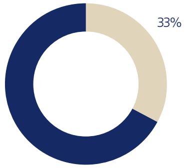
Insurer

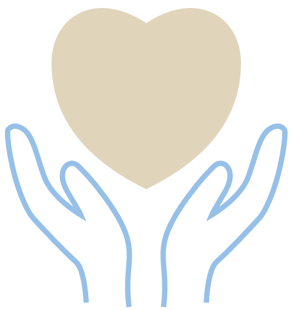
- Target messaging and engagement with appropriate framing: e.g., link consequences of people's financial decisions to others in their household.
- Support experimentation with scenario-building apps and other as-yet-unproven digital methods.
- Develop programs that insure pension income against the long-term risk of contributions lost due to disability, premature death and progressive retirement.
- Include mental health cover in group insurance policies. (Miskel Comment... include it beyond the 12 or 24 month mental health coverage that exists in policies today as many people can live and work with mental health disabilities.
- Develop group insurance packages that create insurance protection insurance as an 'add-on' to private pension schemes.
- Encourage employers to auto-enroll (with opt-out option) workers into IPG insurance.
- Develop common insurance platforms for use by small employers.

Insurance ownership to protect income against premature death



Insurance ownership to protect income against illness/disability





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