

Issue 93: Income Protection Benefits – time to think again?

In the current challenging economic climate, companies are looking for ways to control and manage costs while still meeting their wider business objectives.

Income protection (IP, also known as PHI or long-term disability) came under the spotlight when the Employment Equality (Age) Regulations Act 2006 encouraged many employers to extend the age limit for payment of benefits up to the age of 70. Some employers found the additional cost completely unaffordable and decided to restrict or remove IP benefits.

Hewitt has now identified two new factors which will impact on the future cost of providing IP benefits.

Not surprisingly, the overall economic and business climate is the key factor influencing the number and duration of IP claims. Insurers increase IP premiums (i.e. the cost of providing the insurance) for companies whose industry is not flourishing or where the company itself is contracting. In a time of recession, we expect to see substantial increases to IP premium rates to reflect the gloomy market outlook. A major driver is that more claims are expected from stress or depression arising from difficult working conditions or job pressures.

The second major factor is that IP premium rates include an allowance for future investment returns on premiums. While the assumptions underlying premium rates are expected to be fairly stable over time, a sustained market movement towards lower interest rates will prompt an increase in premiums. This effect will be more significant for companies with benefits payable for longer.

*Hewitt expects
an increase in
Income
Protection
Premiums.*

*Can you still
afford your
current Income
Protection benefit
design?*

What does this mean for you?

This is an ideal time to review whether your IP benefits plan still fits with your budget and your business culture - that is, before you are faced with a substantial increase in premium.

A number of issues need to be looked at. Do your employees value the plan? Does it work with your other ill-health benefits and your absence management processes? Is it well managed and communicated? Could you get more value for less cost from a re-design of the plan and/or its interactions with other benefits?

Hewitt has already been working with clients to review their IP plans in order to make sure they really deliver results. In some cases, a re-design has brought cost savings to the employer while still being well-received by employees.

How can we help you?

Hewitt can work with you to get the best from your IP plan. We have a wide range of tools and services that can help you, including:

- Advice on benefit re-design, including providing market information, scenario cost estimates and provider reviews.
- A listening exercise to help you identify and focus on what really matters to employees.
- Communications advice, to help you make sure that employees understand and value the benefits you provide.
- Advice on getting more from your insurer.
- Health management advice, to help you dovetail your IP plan with other health and welfare programmes.

If you have any questions on this Spotlight please contact your usual Hewitt contact or [Deborah Cowell](mailto:Deborah.Cowell@hewitt.com) (+44 (0) 1372 733684).

If you would like to receive these bulletins by e-mail, please contact spotlight.enquiries@hewitt.com.