

WHAT SHOULD AN EFFECTIVE **SICK PAY SYSTEM** LOOK LIKE?

CIPD recommendations for
ensuring a financial safety
net for workers during illness



The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 160,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.



Policy discussion paper

What should an effective sick pay system look like? CIPD recommendations for ensuring a financial safety net for workers during illness

Contents

1	Introduction	2
2	Policy recommendations overview	2
3	Lessons from COVID-19	4
4	Wider context of the cost of sickness absence	6
5	Far-reaching reforms are needed: our recommendations	10
6	Conclusion	28

Acknowledgements

This report was written by Rachel Suff, Senior Policy Adviser, with input from Claire McCartney, Senior Policy Adviser, and Ben Willmott, Head of Public Policy, CIPD.

The CIPD is very grateful to the following organisations, experts and people professionals who gave their time to support this research and take part in a CIPD Policy Forum roundtable:

Jill Bottomley, Director, The HR Dept

Duncan Brown, Associate, Institute for Employment Studies

James Davies, Partner, Lewis Silkin

Louise Gavin, People Strategy Adviser, Kent County Council

Simon Jones, Director, Ariadne Associates

Martin Kirke, Non-executive Director, Coach, Business Adviser with previous senior HR roles

Jon Lenney, Director of Workforce and Organisational Development, Manchester Local Care Organisation

James Saville, Director of Human Resources, University of Edinburgh

Publication information

When citing this report, please use the following citation:

CIPD. (2021) *What should an effective sick pay system look like? CIPD recommendations for ensuring a financial safety net for workers during illness* London: Chartered Institute of Personnel and Development.



1 Introduction

The 2017 *Taylor Review of Modern Working Practices* highlighted the need for regulatory changes to support people with long-term health conditions to remain in quality work. It rightly framed entitlement to a basic level of paid sick leave as part of the UK's fundamental employment protection for those who are not genuinely self-employed.

Since then, the COVID-19 pandemic has underlined the urgency for reforms to improve the financial safety net for employees who are unable to work when sick. The vulnerability of many workers forced to rely on Statutory Sick Pay (SSP), or not being able to access it at all, exposed the fault lines in the UK system. The pandemic has also highlighted the need for self-employed people to contribute to, and benefit from, some form of income replacement support when sick.

Despite reform of SSP being a key focus of several UK government consultations,¹ the 2021 response to the consultation on [reducing ill-health-related job loss](#) stated that there are no plans to take forward any substantive proposals to improve the system.

It is the CIPD's view that there's a strong case for implementing all of the proposed reforms from that consultation. This paper examines what SSP reforms are needed and makes recommendations to outline how public policy and employer practice should work together to support people's health and employment outcomes.

This policy paper draws on the views of key stakeholders inside and outside of the HR profession. These views were gathered in two ways. First, the CIPD surveyed a sample of employers in its regular *Labour Market Outlook* survey. Second, we consulted a range of stakeholders including HR directors, lawyers and policy experts through a CIPD Policy Forum roundtable.

2 Policy recommendations overview

Table 1: Policy recommendations overview

For UK Government	
Review and reform Statutory Sick Pay (SSP)	Extend protection to those on the lowest incomes and act now to: <ul style="list-style-type: none">• expand eligibility for SSP by abolishing the lower earnings limit (LEL)• raise the level of SSP to be closer to the equivalent of someone earning the National Minimum Wage/National Living Wage.
See pages 11 to 13 for more.	
	Carry out a further consultation on wider reform of SSP, including issues such as: <ul style="list-style-type: none">• whether or not SSP should be linked to earnings level• amending SSP rules to allow for phased returns to work• permanent removal of the three qualifying days for payment of SSP• if/how SMEs can be better supported, in particular very small employers• whether or not there should be a new payment structure whereby financial responsibility is shared between the state and employers. Explore (via consultation) various cost-sharing options.
See pages 16 to 17 for more.	

¹ Including the [Improving Lives Green Paper](#), a related command paper, and a 2019 consultation on [reducing ill-health-related job loss](#).

Table 1: Policy recommendations overview (continued)

For UK Government (continued)	
<p>Strengthen employer compliance with, and state enforcement of, SSP</p>	<p>Expedite the introduction of a well-resourced single enforcement body (SEB) to carry out proactive inspections in high-risk sectors to boost employer compliance with SSP. This should include an increase in the number of inspectors to one per 10,000 workers. Further, increase Acas's budget to boost its ability to advise small employers and individuals on people management and employment rights, including on SSP statutory obligations.</p>
<p>See pages 16 to 17 for more.</p>	
<p>Explore the potential for the insurance sector to play a stronger role in protecting incomes</p>	<p>Carry out a further review to explore if the insurance industry could develop group income protection schemes that overcome some of the perceived barriers such as cost, particularly for smaller employers.</p>
<p>See pages 26 to 28 for more.</p>	
<p>Explore ways to improve income protection for the self-employed when unable to work through ill health or injury</p>	<ul style="list-style-type: none"> • Investigate opportunities to improve income protection for the self-employed during ill health or injury. • Work with stakeholders to take forward the recommendations set out in the Taylor Review, including the potential for portable benefits platforms to provide a safety net.
<p>See pages 26 to 28 for more.</p>	
For employers	
<p>Develop an effective occupational sick pay scheme as part of your health and wellbeing strategy and sickness absence framework</p>	<p>If they don't already have one, employers should consider the benefits of introducing an occupational sick pay scheme to provide income protection beyond the statutory minimum for employees who can't work when sick. Employers should ensure the design of their scheme, including the qualifying criteria and duration of payments, supports the effective return to work and rehabilitation of individuals.</p>
<p>See pages 17 to 22 for more.</p>	
<p>Implement a financial wellbeing strategy aligned to your health and wellbeing framework, and tailor it to reflect the diversity and needs of your workforce</p>	<ul style="list-style-type: none"> • Cover elements such as paying a living wage, providing benefits that treat the causes and symptoms of financial distress, and offering financial communication and education. See CIPD resources for guidance on how to get started. • Train and guide line managers to ensure they have the knowledge and skills to effectively manage sickness absence and the return-to-work process. See CIPD guide for more information.
<p>See page 10 for more.</p>	



- 1
- 2
- 3
- 4
- 5
- 6



3 Lessons from COVID-19

The pandemic exposed the inadequacy of SSP in the UK and underlined the urgent need for reform.

SSP in recent years has been driven by policies of austerity and the narrative of 'benefits scroungers'; many private sector employers followed suit and reduced their sick pay provisions. One of the few benefits of the pandemic has been that it has highlighted the problems of sick pay policies which genuinely sick employees can't afford to use. Twice as many employers have improved sick pay policies in the pandemic as cut them, despite the financial pressures. Government needs to do likewise and maintain a higher level of payment.

CIPD Policy Forum roundtable participant

The impact of COVID-19 on sickness absence in UK organisations is almost incalculable. The CIPD/Simplyhealth 2021 *Health and Wellbeing at Work* survey shows that the pandemic significantly contributed to absence levels in most organisations:

- just one in ten reported no absence due to COVID-19-related illness, quarantine, self-isolation or shielding over the previous 12 months
- a small proportion lost more than 25% of working time
- around two-fifths (39%) of organisations included COVID-19 (confirmed cases, self-isolation, quarantine, shielding) among their top three causes of short-term absence
- 16% included it among their top three causes of long-term absence.

Has the UK's SSP system risen to the challenge of COVID-19?

The pandemic has thrown an already ailing and financially inadequate SSP regime into sharp relief. The UK Government introduced a number of welcome, albeit temporary, reforms to [SSP in response to COVID-19](#), including:

- extending entitlement to employees who need to self-isolate
- extending eligibility for SSP to 'clinically extremely vulnerable' people who were shielding (until 1 April 2021)
- removing the usual three-day waiting period before SSP is payable
- introducing a Coronavirus Statutory Sick Pay Rebate Scheme whereby employers with fewer than 250 employees could claim back up to two weeks' SSP.

However, the UK Government didn't raise the SSP rate, which is very low compared with the majority of other European countries. Neither did it remove the lower earnings limit (LEL), which requires an employee to earn an average of at least £120 per week. This means many low-earners, including many part-time workers, can't access SSP.

A number of organisations, including the [CIPD](#), the [CBI](#), the [Joseph Rowntree Foundation](#), the [TUC](#) and the [Resolution Foundation](#), have called for urgent reform to widen eligibility for SSP and raise the level at which it's paid.

The impact of inadequate SSP

These and other organisations, including the [RSA](#), have also warned about financial insecurity and inadequate SSP undermining people's ability to self-isolate during COVID-19.



1

2

3

4

5

6

CIPD research in 2020 showed that a quarter (23%) of workers who would receive either SSP or no pay in the event of absence due to COVID would struggle to pay bills or buy food within just one week, rising to a third (33%) for a two-week period of sickness absence. According to a [Fabian Society report](#), SSP replaced less than 20% of average earnings and UK employees lose £4 billion a year due to not receiving their full pay while off sick. In a TUC survey, a quarter (24%) of people who self-identified as key workers only received the minimum safety net during COVID-19, while a third (33%) didn't receive their usual wage if they were unable to work because of illness.

Evidence on the ability of, and financial impact on, workers to self-isolate varied as government policy and public health messaging shifted over the course of the pandemic. In August 2020 the Government's [Multidisciplinary Task and Finish Group on Mass Testing](#) reported that just 20% of those with COVID-19 symptoms in England reported fully self-isolating. That report flags financial support as one of the key factors influencing adherence to this critical public health measure to help control the spread of the virus.

Subsequently, in September 2020, the UK Government introduced a new legal duty to self-isolate in England, with fines imposed for breaking the law. March 2021 [ONS](#) data from the COVID Test and Trace Cases Insights Survey showed that most people did report fully isolating although a significant proportion suffered a financial hit, including 14% who were not paid at all during the isolation period.

At the same time, the Government introduced a £500 [Test and Trace Support Payment](#) (different support was available in Northern Ireland, Scotland and Wales) for low-earners who would be unlikely to be eligible for SSP, payable through local councils. However, a series of [Freedom of Information requests by the CIPD](#) found that just one in three claims for financial support made by workers in England told to self-isolate by the NHS Test and Trace service were paid out, with low-income workers facing a 'postcode lottery' over whether or not they received help. In total, 37,270 claims had been made to the 34 authorities that were sent FOIs. At that time, of the 31,111 claims that had been decided upon, 10,916 (35%) were paid out. The FOI requests also found large disparities in the rates that different local authorities approved applications through the scheme. Camden Council, for example, approved 75% of applications, while only 23% of applications received by Liverpool City Council were approved, and Sandwell Council approved just 16%.

The exposure of the inadequacy of the current SSP system during the height of the pandemic supports our call for urgent reforms. However, it's vital that these reforms consider the wider and longer-term context of the cost of sickness absence and economic inactivity to individuals, employers and the economy, as explored in the next section.

The pandemic has shifted attitudes on the balance of state/ employer/employee for income support towards the former, while also showing the complete inadequacy of SSP for people to live on, which is not a smart policy when the next pandemic strikes.

CIPD Policy Forum Roundtable participant



SSP in the UK

SSP was first introduced in 1983 to provide a prescribed amount of pay to employees unable to work due to short-term illness. There have been a number of changes to the scheme since, most notably in 1986 when employers' liability to pay SSP was extended from eight weeks of sickness absence per tax year to 28 weeks. In 1991, the SSP reimbursement rate was reduced from 100% to 80%. In 1994 this was abolished for all but small employers in the belief that reimbursement of SSP acted '*as a disincentive to employers to take positive action to improve the health, wellbeing and attendance records of their employees*'. Today, no employer can reclaim SSP from government.

To be eligible for SSP, an individual must be an 'employee' or agency worker, earn on average at least £120 per week, and have been ill or self-isolating for at least seven consecutive days.

SSP is paid by employers from the fourth day of sickness absence at a flat rate of £96.35 per week (for April 2021 to April 2022) for a maximum of 28 weeks. The SSP rate is uplifted every April.

The estimated cost to employers of SSP in an independent review of sickness absence was £1.5 billion a year.

4 Wider context of the cost of sickness absence

Responsibility for income support during illness

The question of how responsibility for income replacement during sickness absence should be apportioned between the state, the employer and the individual is not a new one. But it's yet to be resolved, certainly in terms of UK public policy. Over a decade ago Professor Dame Carol Black and David Frost's independent review of sickness absence stated:

...it's important to focus on whether the costs of sickness absence are borne more by employees, employers or the state, as this then helps to highlight who has the greatest incentives to act to reduce sickness absence, and whether these incentives can be improved.

It's not reasonable to expect individuals to fund this so, pragmatically, there is a question around what we think is a reasonable level of income protection and for how long. The more we can provide from taxation, the better. There needs to be a balance between employers and the state, but the question is, what balance provides the most economically beneficial system?

The state has to provide a decent floor for people who fall sick and, at the moment, as the pandemic has shown, it is not enough to live on.



There's also economic value for providing support from a state/employer perspective – it keeps people in work and can make a real contribution to society and employment as well.

CIPD Policy Forum roundtable participants

The design of an effective statutory framework will be influenced by the national context, including a country's welfare, tax and political systems, as well as the established sick pay systems. Statutory paid sick leave, and other financial support for workers when incapacitated, should not exist in isolation but operate as part of an integrated approach to encourage an effective rehabilitation and return-to-work process.

A [2016 study](#) by the European Agency for Health and Safety at Work (EU-OSHA) identifies four groupings of countries with varying levels of maturity in this regard.

The most advanced cluster of countries, including Germany, Austria, the Netherlands and Denmark, has a comprehensive framework in place and has '*recognised the need to address the issue of long-term sickness absence leading to permanent exclusion from the labour market and have developed appropriate regulations, policies, programmes and institutions to deal with it*'.

The UK is grouped with the second category of countries, including France and Italy, which '*have well-developed legal and/or institutional frameworks for rehabilitation and return to work, but coordination across the different steps of the return-to-work process, from medical rehabilitation to reintegration at the workplace, is limited*'. As a result, return-to-work considerations are generally '*only dealt with in a targeted manner at the end of the sickness absence, with limited provisions for early intervention*'.

Ireland, meanwhile, is part of EU-OSHA's third grouping of countries, characterised by '*a less developed framework for rehabilitation and return to work, with a general lack of coordination to ensure the return to work of workers from sickness absence*', although '*demonstrating signs of a developing discussion related to the need to deal with sickness absence and return to work*'.

EU-OSHA points out that returning to work can be a complicated process, involving budget considerations, HR and occupational health (OH). For small companies, the process can become particularly complex, especially if they do not have an internal OH or HR function. Any reform to the statutory framework must seek to encourage the right attitudes and behaviour in employers to support effective rehabilitation and return-to-work processes, while taking account of the difficulties this can pose to employers.

Public attitude to payments support has shifted post-COVID, and there's greater expectation from people for the state to help. Second, there is a medium-term concern that we will find ourselves in an economy where automation and AI is competing with people's jobs, so in a society where you want there to be jobs for people, you need to ensure the costs of employing people are competitive. If you put too high a cost on an employer to employ someone, it will accelerate the removal of jobs that AI and tech is already starting to do.

CIPD Policy Forum roundtable participant



- 1
- 2
- 3
- 4
- 5
- 6

Encouraging the right attitudes and behaviour in employers

Any proposals to reform the SSP system need to engender the right behaviour on the part of employers and individuals. Reimbursement of SSP by the UK state to employers was abolished more than 20 years ago primarily because it acted as a disincentive for organisations to take responsibility for the effective return to work of absent employees. This rationale was endorsed by an [independent review of sickness absence](#) in 2011.

The EU-OSHA [2016 study](#) makes clear that paid sick leave policies have to be part of a much wider and integrated policy framework to effectively support effective rehabilitation and return to work. Under a comprehensive national framework, financial incentives can motivate action by employers – for example, by increasing their responsibility for compensation of sickness absence. In some countries, employers have to pay for sickness absence compensation for a relatively long time (up to two years in the Netherlands), giving them ‘*a strong and immediate incentive to put in place effective return-to-work procedures*’. In other countries, this obligation is shorter in time but is accompanied by other responsibilities, from making workplace adaptations to preparing an individual work plan.

In the UK, SSP is payable by the employer to eligible workers for up to 28 weeks, one of the longest periods compared with other European countries. However, paying a higher amount of SSP, potentially for a shorter period of time, would reflect a more effective approach to encourage a quicker and more sustainable return to work.

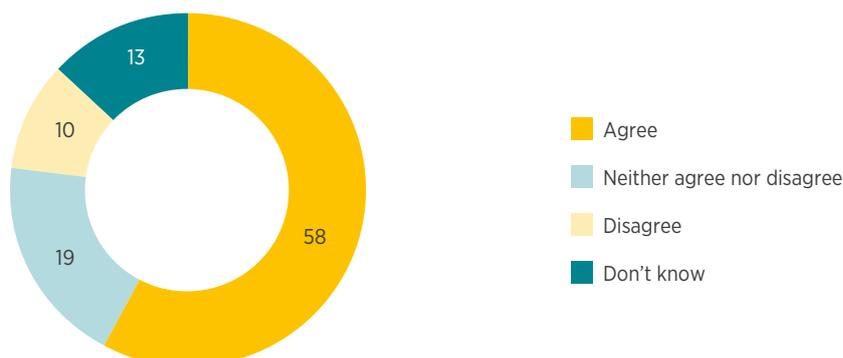
While supporting effective rehabilitation and return to work, reforms should also aim to improve attitudes to health and wellbeing in order to promote good work and support people’s health and employment outcomes.

Attitudes to worker health and wellbeing in the UK

A 2021 [UK Government research study](#) examined employer behaviours and practices relating to sickness absence and health. It found attitudes towards employee wellbeing to be generally positive: 90% said it was their responsibility to encourage employees to be healthy, and 61% agreed with the statement ‘*the financial benefits of spending money on employee health and wellbeing outweigh the costs*’.

How far employers’ sense of responsibility extends to providing financial support was explored in the CIPD’s spring 2021 *Labour Market Outlook* survey, which chimes with the government research. As Figure 1 shows, almost six in ten (58%) agreed with the principle that ‘*providing a financial safety net for employees in the event of ill health is the right thing to do*’, with just 10% disagreeing.

Figure 1: ‘My organisation believes that providing a financial safety net for employees in the event of ill health is the right thing to do’ (%)



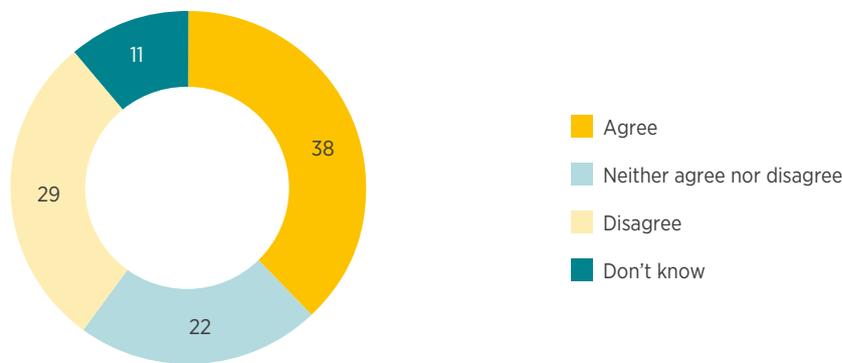
Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

What should an effective sick pay system look like?

What form that financial safety net should take is another question, and can range from SSP and occupational sick pay (OSP) to various types of 'group risk' insurance product to support people when ill and unable to work, such as group income protection.

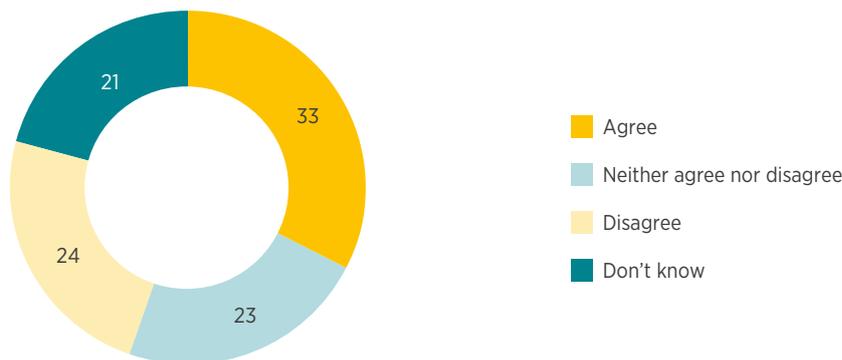
However, when we explored attitudes to employer investment in ill-health-related insurance products in more detail, there was considerably less support for implementing such initiatives. As Figure 2 shows, almost four in ten (38%) agreed with the statement: *'It's not the role of an employer to provide insurance products to help employees protect their income in the event of ill health; that's the role of employees/the state.'* A third (33%) also agreed that *'the administrative burden associated with providing health insurance products for employees is a major barrier to their introduction'* (see Figure 3).

Figure 2: 'It's not the role of an employer to provide insurance products to help employees protect their income in the event of ill health; that's the role of employees/the state' (%)



Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

Figure 3: 'The administrative burden associated with providing health insurance products for employees is a major barrier to their introduction' (%)



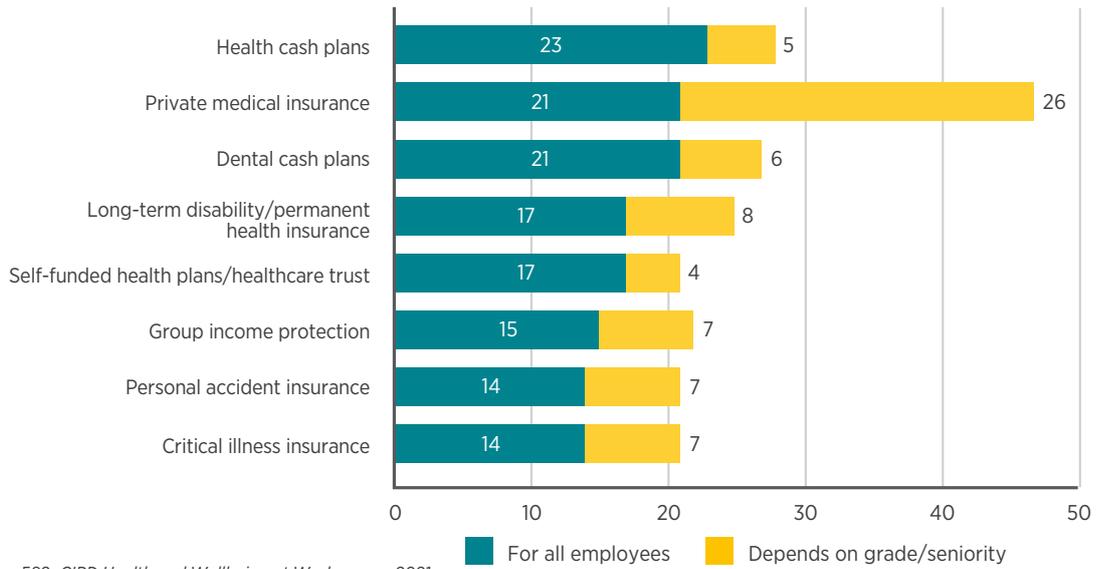
Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

The CIPD/Simplyhealth 2021 *Health and Wellbeing at Work* survey found that, in practice, just under two-thirds (64%) of organisations offer some sort of insurance or protection initiatives, at least to some groups of staff. Figure 4 shows a breakdown of some of these products, with private medical insurance the most commonly offered type of provision. These can be offered to all employees or are only provided based on grade and/or seniority. Insurance and protection benefits remain considerably more common in the private sector.



- 1
- 2
- 3
- 4
- 5
- 6

Figure 4: Insurance/protection initiatives provided by employers (%)



All of these issues are explored in our recommendations, which include developing an effective OSP scheme and exploring the potential for the insurance sector to play a stronger role in protecting incomes.

Financial wellbeing

We can also view SSP reforms in the wider context of general financial wellbeing. The CIPD’s 2021 *Health and Wellbeing at Work* survey shows a continuing lack of attention to employees’ financial wellbeing in most organisations. Despite the impact of the pandemic on many household incomes, there’s marginal improvement since 2019 in the proportion including financial wellbeing as a serious focus in their wellbeing strategies. And yet nearly a quarter of respondents (23%) report that poor financial wellbeing is a significant cause of employee stress. This is a concern not just from a moral point of view, but also because [research](#) has proven that financial distress impedes people’s performance and productivity at work.

5 Far-reaching reforms are needed: our recommendations

The impact of the pandemic, along with examination of the wider context of sickness absence, shows that deeper reforms are needed in public policy and employer practice to support people’s health and employment outcomes. Indeed, the [OECD](#) says structural paid sick leave reforms will have to reappear on the agenda when the pandemic passes, in order to:

- permanently improve access to paid sick leave for the entire workforce
- promote the prevention of sickness and the return to work of recovered workers
- prepare for future pandemics by improving the adaptability of paid sick leave systems.



1

2

3

4

5

6

Given factors such as an ageing workforce, skills shortages and productivity shortfalls, these are fundamental questions to consider, and with some urgency in the UK.

And yet the biggest surprise – and disappointment – of the [Government's response](#) to its [2019 consultation](#) was its decision that *'now is not the right time to introduce changes to the sick pay system'*. This is despite the stated intention in the original consultation to *'reform SSP so that it is available to all employees who need it, is more flexible in supporting employees and is underpinned by a suitable enforcement framework'*.

In that 2019 consultation the proposed, potentially far-reaching, changes included:

- amending the rules of SSP to allow for phased returns to work following sickness absence
- widening eligibility for SSP to extend protection to those on the lowest incomes, including the extension of SSP to include those earning below the lower earnings limit (LEL)
- a rebate of SSP for SMEs that demonstrate best practice in supporting employees on sickness absence
- strengthening compliance and enforcement of SSP to ensure employees are paid what they are due.

With the possible exception of the latter, none of these trailed reforms will now move forward. It's our view that there's a strong case for implementing all of the proposed reforms. Below we examine these reforms and outline our recommendations to achieve them.

Reform: SSP needs to be financially adequate and linked to earnings level

The UK SSP rate is the [second lowest](#) level of sickness benefit compared with other European states pre-pandemic. Neither is it linked to earnings level. The Government's [Health is Everyone's Business](#) consultation acknowledged the low rate and notes *'a fall in earnings when receiving SSP may pose a significant risk to an individual's financial security and ability to recover from serious illness'*.

We have shown that many individuals with a health condition or disability potentially face financial hardship because the current flat rate of SSP is so much lower than many people's earnings, especially if they don't receive enhanced income via OSP. This could encourage some people to come back to work much earlier than they are ready to, possibly making their condition worse while not adding value to the organisation in terms of their productivity.

Similarly, inadequate SSP could also be contributing to the worrying levels of unhealthy 'presenteeism' (working when ill). Our research shows the overwhelming majority of organisations (84%) had observed 'presenteeism' among employees, both in the workplace (75%) and at home (77%) during the previous 12 months.²

The [CIPD's submission](#) to the October 2020 Comprehensive Spending Review called for urgent regulatory reform to SSP as COVID-19 continued to highlight the inadequacy of the current system in protecting the lowest-paid and most vulnerable, including many part-time workers. Of the UK's 32.5 million strong workforce, 5.6 million people (17.2%) do not currently qualify for SSP (either because they are self-employed or because they don't meet the earnings threshold).³ We urged the Government to extend SSP to include employees earning below the LEL and raise the level of SSP to be significantly closer to the equivalent of someone earning the National Minimum Wage/National Living Wage.

² CIPD/Simplyhealth 2021 [Health and Wellbeing at Work](#) survey report.

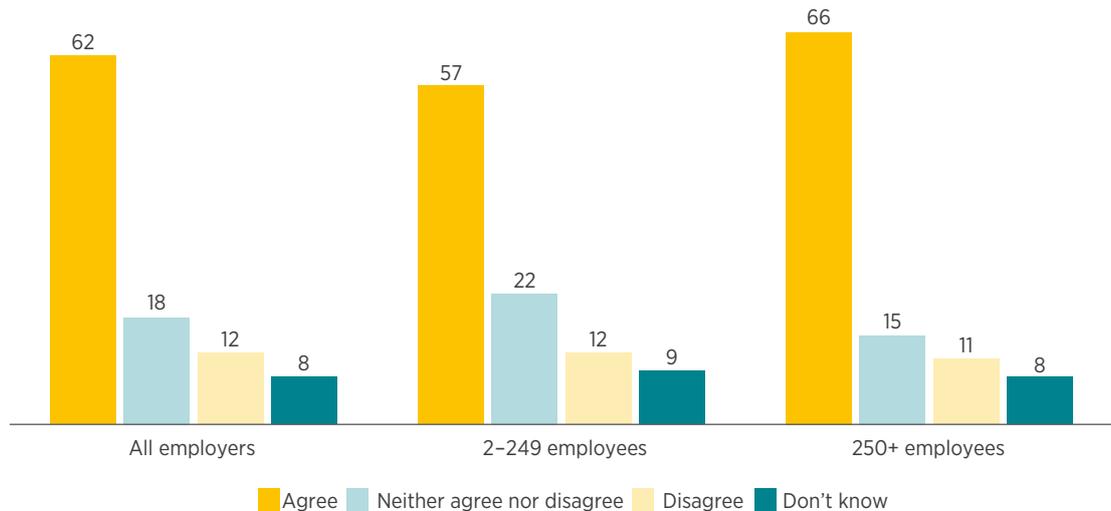
³ CIPD analysis of [Labour Force Survey](#) Jul-Sep 2021.

What should an effective sick pay system look like?

CIPD research shows that the majority of UK employers agree that the current SSP rate is too low and should be increased (see Figure 5). Raising the level of SSP could also act as a stronger incentive for more employers to put in place effective return-to-work strategies.

Whether SSP should be linked to earnings level, as it is in some other countries, should also be considered as part of a further review. There was consensus in our Policy Forum discussion on this issue, with one participant commenting: *'SSP needs to be linked to what earnings are rather than a flat payment because that's how people's lives are constructed; otherwise it doesn't act as income protection.'*

Figure 5: The Statutory Sick Pay rate of £95.85 per week (paid by employer) is too low and should be increased (%)



Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

The question of SSP reform also comes back to our question of how financial responsibility for income support should be apportioned between the state and employer. As one Policy Forum member commented: *'There is also a question around at what point does the employer take responsibility and at what point does the state? There is disparity between private and public sector. Maybe the state steps in if the absence is going to be longer than short to medium term?'*

We are not proposing an exact SSP payment formula here. We understand why reimbursement of SSP to employers by the state was abolished; the system wasn't structured to act as an incentive for employers to take responsibility for effective sickness absence management. But could a new system overcome this unintended consequence, and be designed in a way to encourage the right supportive behaviour by employers, while offering greater protection by the state? Our Policy Forum event discussed various approaches, such as the one below.

For the first 30 days a year, the obligation could be to pay 80% of pay capped with 50% paid by the employer and the rest paid by NI contributions. For those who need longer time off, the payment could be lower – around the Living Wage – and this should be paid by the state. If there was no cost to the employer, there is no incentive to try to get the long-term sick back into work. Having sick pay slightly lower than the pay



you get for coming into work would create an incentive. It could act in a similar way to the furlough scheme, which has given us an effective model for how an income replacement scheme could work.

CIPD Policy Forum roundtable participant

Our recommendation for government

We recommend that the UK Government extend protection to those on the lowest incomes and act now to expand eligibility for SSP by abolishing the lower earnings limit (LEL).

We also recommend the level of SSP is raised to be closer to the equivalent of someone earning the National Minimum Wage/National Living Wage (based on a pro rata daily rate covering time taken off work sick, for example, this would mean that if someone aged 23 or above normally works seven hours per day, their pro rata daily SSP rate would be £62.37 (7 x £8.91).

Reform: Additional support for SMEs

SMEs are often not aware that they can and should play an active role in supporting employees back to work, making reasonable adjustments and knowing about the services that occupational health can provide. Many just rely on the fit note from the GP and wait for the employee to return. The quality of fit notes and information provided by GPs to enable employers to make appropriate decisions about adjustments is varied and can be poor. In contacting GPs directly, with employee consent, for advice about prognosis and reasonable adjustments, increasingly GP responses won't provide any advice other than to advise to contact occupational health specialists – with employers often having waited many weeks to receive this response. The system needs a fundamental review.

CIPD Policy Forum roundtable participant

Some may argue that smaller employers may not be able to bear an increase in the cost of SSP. Therefore it's not surprising that a higher proportion of larger organisations agree that it should be increased (66% vs 57%), although there's only marginal difference in the proportion that disagree. And the question is a wider one than the cost of SSP alone. As one participant in our Policy Forum roundtable commented: *'From working with SMEs, there's a consistent view that [SSP] is too low, and as a consequence, people are turning up to work when they are too ill... If SSP went up, it would encourage more SMEs to manage sick leave.'* And another had this to say: *'Organisations that are able to pay above the minimum tend to as it helps attract staff, improves brand image, and helps to sustain the environment you operate in as an organisation – so there is an incentive for organisations to pay.'*



1

2

3

4

5

6

There needs to be a clear understanding of the SME sector, and particular consideration of very small employers. As one CIPD Policy Forum member commented: *'We need to segment SMEs – a micro owner-managed business with five employees is very different from a company with 200-plus employees in terms of how it is managed, resources available and funds, and what interventions can be provided ... the differences between contractual terms of a micro business and one employing over 200 people is huge.'*

The consultation on reducing ill-health-related job loss contained some proposals for SMEs concerning their SSP obligations, including a proposed design of SSP rebate for SMEs that demonstrate best practice in supporting employees on sickness absence. The consultation response says that reception of this was mixed, with *'concern from respondents that this sort of conditionality could lead to perverse incentives for employers to bring employees back to work before they were ready. Respondents felt that linking a rebate to a code of practice or other guidelines would result in a "tick box" exercise and lead employers to adopt the minimum standards required to qualify for a rebate rather than innovating to reduce sickness absence.'*

We can appreciate this view and the difficulty in designing a rebate scheme that incentivises appropriate behaviour from SMEs. But there is scope to improve the support available to SMEs, particularly very small employers. For example, the Government's consultation explored ways for it to record SSP payments and use this information to provide helpful prompts and advice to employers, which could be useful to smaller employers with little or no HR or occupational health capability. This could still be worth exploring, as well as a wider consideration of what other reforms could support SMEs, including how people management capability in smaller firms could be strengthened to improve absence management practices where needed.

The phased introduction of auto-enrolment duties for occupational pensions in the UK is a good example of how new SSP obligations could be introduced, with an initial low level of minimum contribution by employers, extending from large to small employers over time, and then ramping up contributions, with supporting advice and products as part of the staged rollout.

Small businesses also don't always know how to manage absence. If there is more sick pay, it needs to come with support for SMEs to allow them to manage work absences and get people back into work. It needs to be about more than just the payment.

SMEs need to understand the value of occupational health so that they get the proper advice and support. It should be about a wider framework of culture, policies and processes, etc.

CIPD Policy Forum roundtable participants



Our recommendation for government

Carry out a further consultation on wider reform of SSP, including issues such as:

- if/how SMEs can be better supported, in particular very small employers
- whether or not there should be a new payment structure whereby financial responsibility is shared between the state and employers. Explore (via consultation) various cost-sharing options, for example employers only covering up to a maximum of four weeks' enhanced SSP costs over the course of a year, with the UK Government picking up the remaining SSP costs if an employee is off work sick for longer periods of time (for example, from 5 to 26 weeks).

Reform: Building flexibility and more effective return to work into the SSP system

The CIPD does not believe that the current SSP system is working to prompt employers to support an *effective* return to work, that is, one that is sustainable and puts in place the right support at the right time to help an employee who may not be 100% fit but who may be fit for some work.

A key barrier is the current rigidity of the SSP system and its lack of flexibility to support people with long-term fluctuating symptoms associated with either a disability or chronic health condition. Reform is needed so that SSP can be paid on a part-time basis to encourage a phased return to work where appropriate.

The [CIPD response](#) to the Government's [Health is Everyone's Business](#) consultation highlighted strong support for its intention to reform SSP to make it more flexible and payable on a part-time basis. In our survey of 1,051 HR professionals, three in four (75%) supported this change. The Government's own [response](#) highlights the benefits of phased returns, shown to be '*particularly effective in supporting individuals with musculoskeletal and mental health conditions*', and that respondents were 'broadly supportive' of phased returns to work.

Our recommendation for government

Carry out a further consultation on wider reform of SSP, including issues such as:

- amending SSP rules to allow for phased returns to work
- permanent removal of the three qualifying days for payment of SSP.

Reform: More effective enforcement of SSP is a must

We strongly endorse the Government's statement in its consultation that it should be '*taking a more robust approach to enforcement and cracking down on employers who fail to meet their obligations*'. The majority (72%) of respondents to the consultation agreed there was a need to introduce better enforcement of SSP.



1

2

3

4

5

6

The Government's response also reiterated its intention (as previously stated in its consultation response to [Establishing a New Single Enforcement Body for Employment Rights](#)) to include enforcement of SSP within the remit of the planned new single enforcement body (SEB). The need to not penalise employers who have made genuine mistakes and adopt a 'proportionate' approach are echoed in both government responses.

We endorse this stance and the broad principles set out in the Government's response to establishing an SEB, such as creating a high-profile body supported by awareness-raising activity and establishing a culture that makes workers feel safe to come forward. The Government also intends to introduce compliance notices and extend penalties for non-compliant businesses to '*create a consistent compliance approach across all enforcement areas covered by this new body*', including SSP. We also welcome the planned best practice guidance.

However, there's still no timeline for the establishment of the SEB. Its ability to crack down on non-payment of SSP will hinge on a number of factors, including whether or not the new body has sufficient resources. Further, in the [view of the CIPD](#), the UK currently has one of the worst resourced labour inspectorates in Europe. There's a need to significantly boost the number of inspectors and increase the number of proactive inspections of workplaces if the new body is to be more effective than existing enforcement mechanisms.

As the Government acknowledges in its [consultation response](#), the volume of calls by individuals to HMRC seeking redress on SSP may not reflect the number of employees not receiving their entitlement and the HMRC disputes process is not designed as a deterrent. The majority of non-compliance in this area is hidden, and, because the current enforcement regime relies primarily on individuals asserting these rights and seeking redress, non-compliance only comes to light when there's a complaint (as pointed out in the [CIPD's submission](#) to the Government's 2018 consultation on the enforcement of employment rights).

Therefore, the impact of greater civil penalties on the scale of the problem may fall far short of ensuring more workers receive the SSP they are entitled to. The core emphasis of the enforcement reforms is still on individual enforcement via complaints and/or the tribunal system.

We believe there's a strong case for much more proactive, risk-based state enforcement. Such an approach could help to overcome the barriers that vulnerable workers experience in enforcing their rights, such as fear of reprisals. Stronger state-led enforcement of SSP, with proactive and targeted inspections in higher-risk sectors, would also hopefully raise awareness and encourage compliance more widely.

More punitive action for non-compliance needs to be balanced by more high-profile information, guidance and advice to build awareness of individuals' rights to SSP, and so we welcome the Government's intention to raise awareness of workers' rights as part of its establishment of an SEB.

Government, working with organisations such as Acas, Citizens Advice, trade unions and professional bodies, should run a high-profile 'know your rights' campaign (similar to the successful one run to promote pensions auto-enrolment), which would set out information people should know in relation to the core employment rights, including SSP.



- 1
- 2
- 3
- 4
- 5
- 6

Our recommendation for government

Strengthen employer compliance with, and state enforcement of, SSP

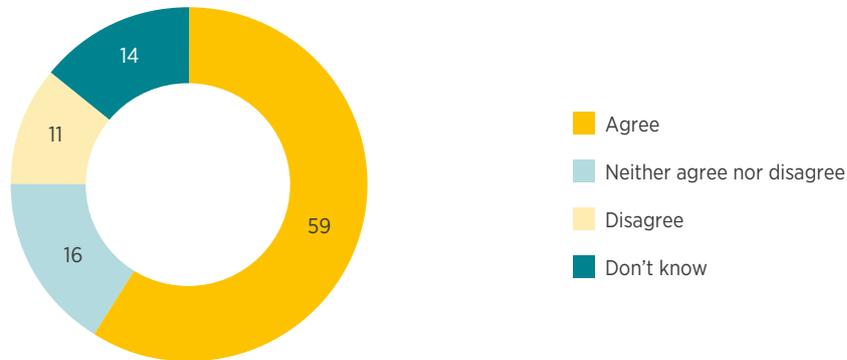
Expedite the introduction of a well-resourced single enforcement body (SEB) to carry out proactive inspections in high-risk sectors to boost employer compliance with SSP. This should include an increase in the number of inspectors to one per 10,000 workers. Further, increase Acas's budget to boost its ability to advise small employers and individuals on people management and employment rights, including on SSP statutory obligations.

Reform: consider paying occupational sick pay (OSP)

Some employers go further than their legal obligation to provide SSP and offer enhanced financial support in the form of OSP. This will typically form a contractual payment that individual employers can choose to provide, offering potentially valuable financial security for employees should they fall ill. As such, OSP can help to build the employer's reputation as a good place to work and act as an effective recruitment and retention tool.

This view is reflected in our research, with the majority of employers (59%) agreeing that there's a business case for providing OSP to staff; just 11% disagree with this statement (see Figure 6).

Figure 6: There is a business case for providing occupational sick pay to staff (%)



Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

The business case for employers to provide enhanced support for employees when incapacitated shouldn't be viewed solely as a hard return on investment based on financial cost. It can only be fully appreciated within the wider context of OSP forming part of an organisation's wider strategy to invest in the health and wellbeing of its workforce. If designed and implemented properly, it should incentivise the organisation to proactively manage sickness absence and facilitate an effective return to work. Therefore, the financial outlay of OSP could potentially be recouped by the more effective support of employees who will hopefully be able to return to work in an earlier and more sustainable manner. As part of a proactive approach to managing sickness, an OSP scheme should include early intervention to provide support such as counselling or physiotherapy where needed and avoid sickness absence where possible.



- 1
- 2
- 3
- 4
- 5
- 6

Extent and generosity of OSP schemes among employers

A 2019 [government research study](#) on sickness absence and health in the workplace reported that 28% of employers provide OSP, or a combination of OSP and SSP. Unsurprisingly, it found that large employers (250-plus employees) were more likely to pay sick pay above the statutory minimum than small employers (0–49 employees) (77% and 26% respectively). Of those who provide OSP, 20% only offer it to some employees.

Our own research chimes with this government study, showing 71% of those with more than 250 employees offer OSP to all employees, compared with 51% of those with 2–249 employees (see Table 2). Smaller organisations are also more likely to say they are not considering introducing OSP. As one CIPD Policy Forum member commented: *‘With smaller employers, there is a concern based on cost (cost to cover absence plus cost for backfill to do the work), which means that small companies do not implement contractual OSP schemes. Many will operate providing enhanced sick pay on a discretionary basis, paying where they are able. This makes them feel that they are doing the right thing where they can.’*

Table 2: Employers’ provision of occupational sick pay (OSP) to employees (%)

	All employers	Private sector	Public sector	Voluntary sector	2–249 employees	250+ employees
Offered to all employees	62	56	86	73	51	71
Offered to some employees depending on seniority	7	8	3	3	7	7
Offered to some employees depending on occupation/location	5	6	3	2	4	6
Not offered and we are not considering introducing it	12	15	1	13	24	3
Not offered but we are considering introducing it	2	3	–	–	3	2
Don’t know	11	12	7	9	12	11

Base: all: 1,045; private sector: 756; public sector: 211; voluntary sector: 78; 2–249 employees: 573; 250+ employees: 472. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

It’s not straightforward to provide a comprehensive overview of employers’ OSP provision because there is a patchwork of different schemes. Many include a wide range of qualifying conditions and detailed entitlements within individual schemes, typically to meet the differing needs of specific employee groups. Some organisations also administer more than one scheme – a 2019 [XpertHR](#) survey found that more than three-quarters (76.9%) of organisations most commonly operate a single sick pay scheme but others have two (15.5%) or occasionally more schemes in place. This could be because employers have different staff groups, such as hourly paid and salaried staff with different sick pay arrangements, or some staff remain on legacy sick pay schemes that are no longer offered to new starters, for example.

The 2019 [government research study](#) shows that length of service is the most common qualifying criterion for determining who receives OSP (59% of employers surveyed), but some organisations also base eligibility on certain occupations or skills that they need (28%), the type of contract employees are on (for example, permanent or temporary, 28%), the seniority of the role (27%), and individual circumstances (7%).

What should an effective sick pay system look like?

The CIPD *Labour Market Outlook* survey provides an overview of qualifying criteria for OSP by length of service, with a third (33%) of employers' schemes offering the most inclusive approach, with relevant employees eligible from their first day of employment (see Table 3). Overall, employers offer schemes requiring varying lengths of service to qualify, with 10% needing 12 months' service and 4% requiring two years' employment.

Table 3: What length of service, if any, is needed for employees to qualify for occupational sick pay? (%)

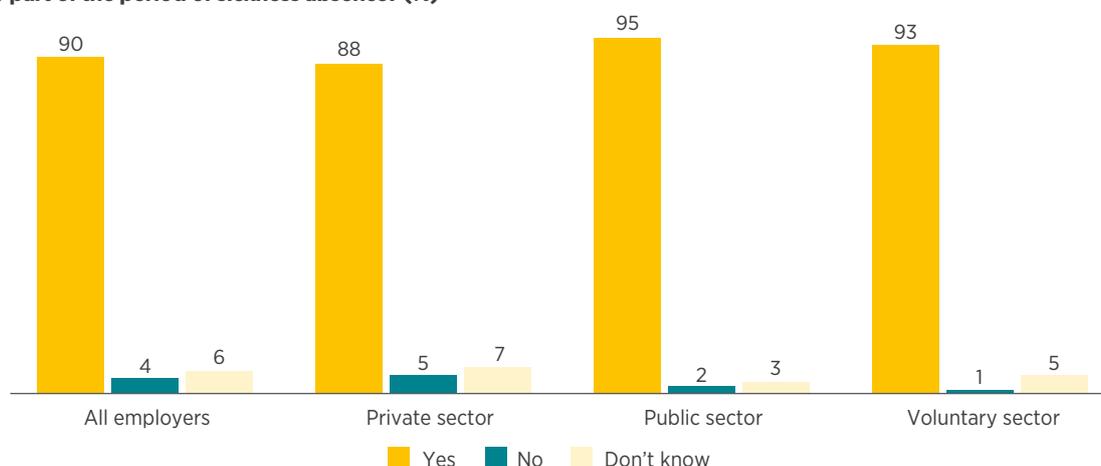
	All employers	Private sector	Public sector	Voluntary sector	2-249 employees	250+ employees
None - relevant employees are eligible from first day of employment	33	29	46	34	39	30
3 months' service	19	20	13	18	19	18
6 months' service	21	21	19	26	18	23
12 months' service	10	11	7	8	11	9
2 years' service	4	6	1	-	4	4
Other	2	2	1	5	2	2
Don't know	10	10	13	9	6	13

Base: all offering occupational sick pay: 768; private sector: 515; public sector: 193; voluntary sector: 60; 2-249 employees: 363; 250+ employees: 405. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

At first glance, employers' OSP schemes tend to be generous, with 90% providing full pay for some or part of the period of sickness absence and little difference between broad sectors (Figure 7). However, closer inspection reveals wide variation in the length of service needed to qualify to receive the *full* amount payable. This ranges from 20% of employers paying eligible employees the full amount from their first day of employment to 8% stipulating five years' service (Figure 8).

There's also wide variation in the number of full weeks' pay provided. As Table 4 shows, the most common approach is to provide full pay for six months (31% of employers), followed by three months (16%).

Figure 7: Under occupational sick pay, does your organisation provide qualifying employees with full pay for some or part of the period of sickness absence? (%)

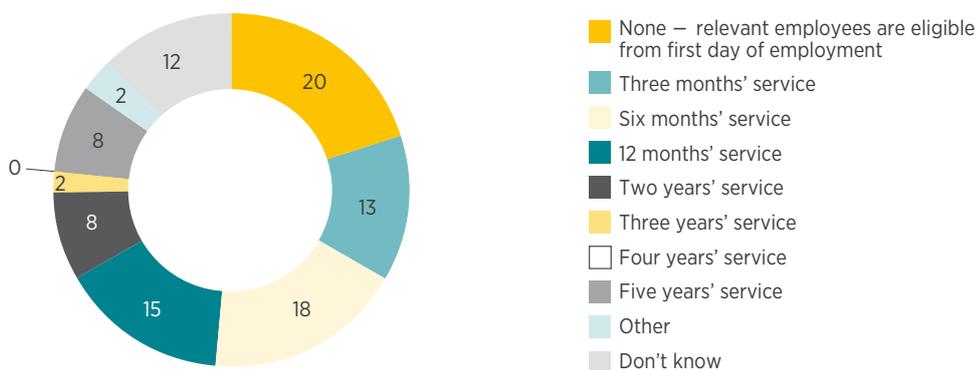


Base: all employers providing occupational sick pay: 768; private sector: 515; public sector: 193; voluntary sector: 60. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.



- 1
- 2
- 3
- 4
- 5
- 6

Figure 8: Length of service needed for employees to receive the full amount payable under employers' occupational sick pay scheme (%)



Base: all employers providing occupational sick pay: 692. *Labour Market Outlook*, spring 2021.

Table 4: Number of full weeks' pay provided under employers' occupational sick pay schemes (%)

	All employers	Private sector	Public sector	Voluntary sector
Less than 1 month	9	12	–	3
1 month	9	12	3	8
2 months	5	7	1	1
3 months	16	18	5	21
4 months	1	2	0	–
5 months	1	0	4	3
6 months	31	22	60	25
More than 6 months, but less than 1 year	4	4	6	7
1 year	3	4	3	–
Other	9	8	6	18
Don't know	11	11	12	14

Base: all employers providing occupational sick pay: 692; private sector: 453; public sector: 183; voluntary sector: 56. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

What does an effective OSP scheme look like?

There are important considerations for employers when designing their OSP system. The laudable aim of an income to help prevent financial hardship needs to be balanced with not unintentionally embedding a disincentive to return to work when they are well enough. An [independent review of sickness absence](#) points to a number of studies suggesting a causal link between high sickness absence and generous OSP: *'where an employee can be off work on full pay, there is no financial incentive to be at work.'*

This highlights the need for employers to approach their policies for financial support holistically and integrate them within a wider framework for proactively managing sickness absence, rehabilitation and return to work. Having policies that include, for example, training for line managers so they are confident to have supportive keep-in-touch conversations with absent employees, and a flexible approach to phased returns and reasonable adjustments, are essential.



1

2

3

4

5

6

The financial vulnerability of people when they fall ill has been felt sharply during the COVID-19 pandemic. It's typical for individuals to only fully appreciate the value of a benefit such as OSP when they need it, and those who have been able to access financial support over and above SSP will no doubt have valued it. Employers that offer OSP as part of their contractual terms and conditions would therefore be wise to actively promote it as a part of an attractive employment offering to existing, as well as new, employees. Government, as well as bodies such as the CIPD, also have an important role to play in promoting good practice for the operation of OSP schemes to employers, especially SMEs.

This is a big area for line managers in SMEs to have the appropriate support and training and understand their role is to keep in touch with their employees and support their wellbeing. Furlough demonstrated how many employees were just 'left alone' with no or very minimal contact for long periods. Providing support (financial, implementation and training) to equip smaller businesses with online HR systems and cloud-based software would enhance the use of technology in the workplace, in conjunction with support for improved people management.

CIPD Policy Forum member

Our recommendation for employers

Develop an effective occupational sick pay scheme as part of your health and wellbeing strategy and sickness absence framework

If they don't already have one, employers should consider the benefits of introducing an OSP scheme to provide income protection beyond the statutory minimum for employees who can't work when sick. Employers should ensure the design of their scheme, including the qualifying criteria and duration of payments, supports the effective return to work and rehabilitation of individuals.

How to design and implement an effective OSP scheme

- Ensure that eligibility requirements are fair and inclusive and reflect inclusion and diversity aims.
- The scheme should also support strategic objectives, for example to recruit and retain people, and boost employee health, wellbeing and engagement.
- The scheme needs to be affordable for the organisation.
- Consider how the OSP scheme aligns with SSP obligations. For example, on which day of absence should an employee be entitled to paid sick leave? Will the scheme be flexible and pay for part days of absence? What medical certification will be required?

Continued



1

2

3

4

5

6

How to design and implement an effective OSP scheme (continued)

- Include timescales and number of paid sick days that achieve the right balance of income protection for people who are genuinely unable to work through sickness or injury but also encourages a supportive return to work at the right time.
- Develop an OSP policy with clear qualification criteria, including the amount and length of pay as well as absence notification and keep-in-touch requirements.
- Ensure all new and existing employees are aware of their contractual terms and obligations under the scheme.
- Ensure the scheme is aligned with a supportive and proactive approach to managing long-term sickness absence, ideally one with a case management approach involving the employee's line manager, occupational health and HR.
- Build in flexibility so that individuals can return to work on a sustainable basis, benefiting from a phased/part-time approach for as long as is needed.
- Ensure line managers are confident and capable to have sensitive conversations with employees about health issues, including mental health, as well as how to proactively keep in touch with an absent employee.
- Train line managers on how to implement the OSP scheme and absence management framework in an empathetic, fair and consistent way. Ensure they are knowledgeable about health and wellbeing policies and support, including the return-to-work process, occupational health and rehabilitation services.
- Keep the scheme under review to ensure it meets its objectives and contributes to the effective management of sickness absence and return to work, while supporting people's health, wellbeing and engagement.

Further CIPD resources

For HR

[Managing a return to work after long-term sickness absence](#)

For line managers

[Managing a return to work after long-term sickness absence](#)

[People Skills Hub: Managing people essentials, Absence](#)

Reform: Increase the role of the insurance sector

The insurance sector could potentially play a bigger role in helping employers to support people with income support for people unable to work through sickness or injury, if they were used as an integral part of their absence management and rehabilitation framework.



1

2

3

4

5

6

We are finding that more SMEs are starting to invest in and implement employee assistance programmes (EAPs), which has an element of insurance, especially if employees need counselling sessions, that can often be provided more readily than waiting on the NHS. Price is a factor as EAPs are relatively low cost but high perceived value. EAPs might be something to focus on as it does have preventative measures linked to absence.

CIPD Policy Forum member

Group income protection (GIP) is a form of group risk insurance, whereby the employer pays an employee unable to work through sickness or injury a proportion of their normal salary. It can be set up in different ways. For example, some policies include a 'limited term', which means they only pay out up to a set period, such as two, three or five years off work, rather than to retirement age. A number of private providers also offer additional support, such as return-to-work guidance, an employee assistance programme and fast-track access to health and wellbeing services like physiotherapy and counselling. A scheme can also include a focus on ill health prevention and rehabilitation.

Employees and potential recruits could view products such as GIP as a valuable benefit, thus boosting an organisation's recruitment and retention capability. In one study cited by [Employee Benefits](#), almost a quarter (24%) of employees cited income protection as their most desirable benefit, highlighting how employers can incorporate such provision as part of an attractive employment proposition.

Funded insurance provision, especially for smaller-sized businesses to be able to cover additional cost or support within the SSP system itself, would have a positive impact – but where there remains an incentive for employers to manage absence and support employees back to work.

CIPD Policy Forum roundtable

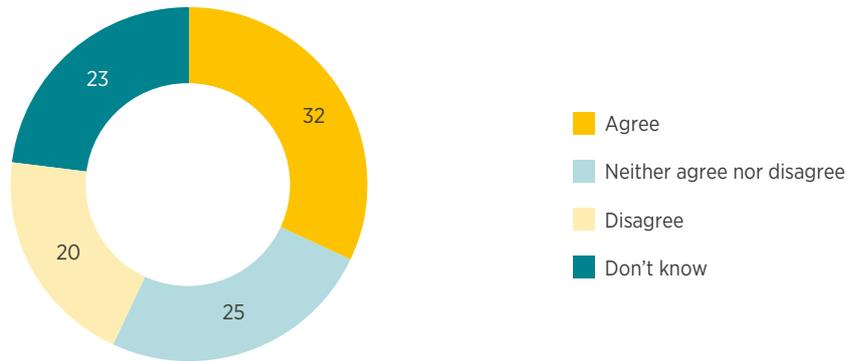
The Government's 'Improving Lives' [Green Paper](#) set out its intention for the insurance industry 'to develop group income protection products that are affordable for, and tailored to meet the needs of, smaller employers, including micro businesses, and for them to raise awareness and make access to such products easier'. This is still a relevant ambition, and was also explored in the more recent consultation on [reducing ill-health-related job loss](#), concluding that 'where policies are accompanied by high-quality services aimed at preventing ill health and offering support to return an employee to work, insurance products are a valuable source of support, in addition to offering a financial benefit if an employee is unable to work due to illness or injury'.

Employer attitudes towards providing this type of benefit are mixed according to our research. Around a third (32%) agreed that 'offering group income protection insurance would help my organisation to attract and retain talented people', but a quarter (25%) were neutral on the issue and 20% disagreed; almost a further quarter didn't know (see Figure 9).



- 1
- 2
- 3
- 4
- 5
- 6

Figure 9: ‘Offering group income protection insurance would help my organisation to attract and retain talented people’ (%)



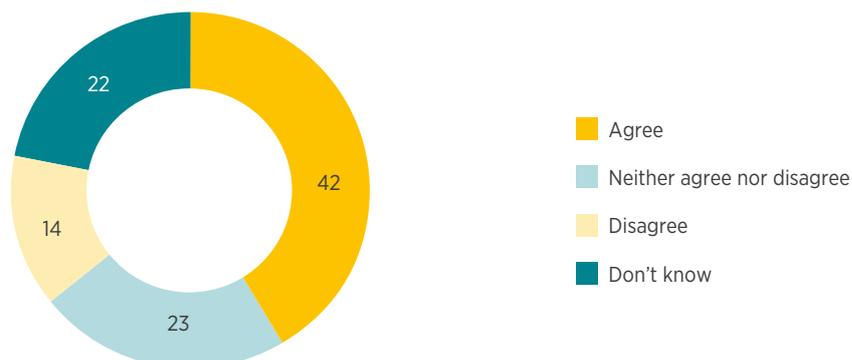
Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

The lack of enthusiasm for this type of benefit could reflect a lack of awareness, and first-hand experience, about how such group risk schemes work in practice and their potential impact because they are not commonly used. The CIPD 2021 *Health and Wellbeing at Work* survey report found that just 15% of organisations provide GIP for all employees, while a further 7% offer it to people dependent on grade and/or seniority.

However, the lukewarm response could also reflect perceived drawbacks with this type of insurance scheme. As one CIPD Policy Forum member commented: *‘There are a lot of problems with GIP insurance schemes. They have shifted a lot recently – they used to pay until retirement and now they only pay for a five-year maximum. The other issue that arises is sometimes the payment is conditional on the employee remaining in employment. This often results in disputes with the insurance company: payments are large and the insurance company doesn’t want to pay that, so it justifies lawyers getting involved and a settlement is arrived at to get rid of the long-term commitment.’*

Our findings reveal more support for the wider impact that GIP insurance could have in relation to health and wellbeing: as Figure 10 shows, 42% of employers agree it would be *‘a valuable benefit to help employees manage the risk and impact of ill health’*. Just a quarter (26%) agree that it *‘would help my organisation to facilitate a more effective return to work for employees on sick leave’* (Figure 11). Again, the latter finding could reflect a variety of perceptions about this type of group risk insurance, such as a lack of knowledge about the return-to-work support offered by some providers as part of their schemes, as well as a less positive experience.

Figure 10: ‘Group income protection insurance would be a valuable benefit to help employees manage the risk and impact of ill health’ (%)

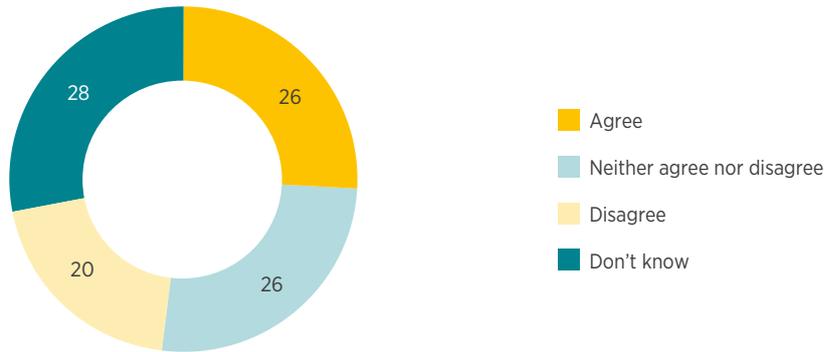


Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.



- 1
- 2
- 3
- 4
- 5
- 6

Figure 11: ‘Group income protection insurance would help my organisation to facilitate a more effective return to work for employees on sick leave’ (%)



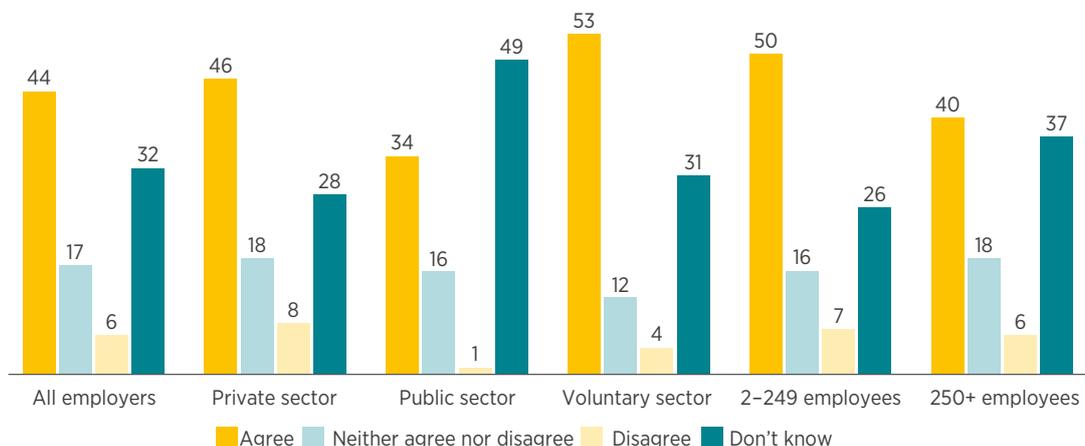
Base: all employers: 1,045. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

Cost is also a significant factor influencing perceptions around the efficacy of GIP schemes. The Government’s ‘Improving Lives’ [Green Paper](#) flagged the low coverage of GIP among small and medium-sized employers: *‘in part this might be because some insurance providers do not offer products to very small businesses, but cost and awareness of the products are also thought to be a factor (between £250 and £450 per employee per year).’*

As Figure 12 shows, 44% of all respondents agree that it would be too costly to introduce, with public sector and smaller organisations most likely to concur with this statement. As a CIPD Policy Forum member pointed out: *‘Small businesses with offices pay buildings insurance, they have to and it’s a competitive market so the price is reasonable. They should similarly insure themselves against the risks of employees being off sick. But due to the high and uncertain costs, the costs are extortionate for small firms. If the Government underpinned a national scheme, it could work with state/employers/employees all contributing.’*

Another CIPD Policy Forum member concurred: *‘A solution to do this would fundamentally change the approach of smaller businesses in being able to provide enhanced sick pay beyond SSP for their employees, where there is currently risk in contractual provision that may not be able to be afforded and the alternative to insure is too costly. Not many employers would not want to support their employees where they would be able to. Employers generally don’t set out to be bad employers. Coupled with good people management intervention/support for SMEs, this would have significant impact.’*

Figure 12: ‘Group income protection insurance would be too costly to introduce in my organisation’ (%)



Base: all employers: 909; private sector: 642; public sector: 197; voluntary sector: 70; 2-249 employees: 515; 250+ employees: 394. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.



- 1
- 2
- 3
- 4
- 5
- 6

Table 5 provides a more detailed overview of employers' current provision of GIP. Just 13% offer it to all employees, with the majority feedback from respondents (43%) indicating that their organisation doesn't offer it, nor is it considering introducing it. This latter feedback is more likely to be the case among smaller employers as well as those in the public and voluntary sectors.

Table 5: Employers' provision of group income protection insurance to employees (%)

	All employers	Private sector	Public sector	Voluntary sector	2-249 employees	250+ employees
Offered to all employees	13	15	7	11	10	15
Offered to some employees depending on seniority	7	9	1	4	4	10
Offered to some employees depending on occupation/location	5	5	4	2	2	6
Not offered and we are not considering introducing it	43	39	50	59	57	32
Not offered but we are considering introducing it	6	6	3	1	7	4
Don't know	27	26	34	23	21	32

Base: all: 1,045; private sector: 756; public sector: 211; voluntary sector: 78; 2-249 employees: 573; 250+ employees: 472. *Labour Market Outlook*, spring 2021. Percentages may not sum to 100 because of rounding.

The [Government's response](#) to its consultation on ill-health-related job loss welcomes recent proposals from the industry body Group Risk Development (GRiD) and will support its development of a 'consensus statement' that aims to enhance employer guidance in partnership with business. However, there are clearly barriers for some employers, particularly smaller ones, in accessing insurance products for their staff, which would need addressing as part of a further review.

Our recommendation for government

Explore the potential for the insurance sector to play a stronger role in protecting incomes

Carry out a further review to explore if the insurance industry could develop group income protection schemes that overcome some of the perceived barriers such as cost, particularly for smaller employers.

Reform: Offer a better safety net for the self-employed

In the UK, self-employment represents a growing and [significant proportion of the labour market](#), but it's a broad category and includes many different types of work. [The Taylor Review](#) rightly says it would be wrong to treat all self-employed people the same, but highlights the need to tailor policy interventions to those who require support. *'Flexibility must not be one-way with individuals absorbing all of the risk,'* says Taylor, also flagging the need to help this group plan for unforeseen circumstances such as ill health so they don't rely solely on the taxpayer.



1

2

3

4

5

6

Income support when sick and unable to work is a case in point, particularly to protect those at the vulnerable end of the self-employed spectrum. The millions of people working on a self-employed basis in the UK are not eligible for SSP. They may be eligible to apply for Universal Credit or a form of [Employment and Support Allowance](#), but the weekly amount of benefit someone would receive is very low compared with most people's self-employed earnings.

COVID-19 has exacerbated the lack of a financial safety net for many self-employed people

A 2020 [OECD study](#) on paid sick leave to protect income, health and jobs through the COVID-19 crisis highlights the self-employed as a major group who often have no or only limited access to sickness benefits. Barriers include:

- requiring the self-employed to pay the equivalent of both employer and employee contributions is seen by some countries to be an excessively large financial burden
- the calculation of contributions can be complicated because of fluctuating earnings
- fraud may be a more important concern, as there is no employer to confirm absenteeism.

Some countries allow self-employed workers to enrol in sickness benefit schemes on a voluntary basis but they typically have very low coverage. For example, about 2% of eligible self-employed workers are enrolled in the Netherlands, with around 8% enrolled in Austria. The OECD reports that the pandemic prompted many countries to expand access to sickness benefits for self-employed workers. Almost all of these extensions, however, are time-bound and limited to COVID-19 sickness or quarantine. Ireland, for example, introduced a four-week, instead of two-year, contribution requirement, a €350 instead of €203 per week benefit level, and waived the six-day waiting period if sickness absence is due to COVID-19 or quarantine. The pandemic brought the lack of income protection for self-employed people and their ineligibility for SSP when sick and/or needing to self-isolate into sharp relief.

How could portable benefits platforms support the self-employed?

Building on the [review by Julie Deane OBE](#), the [Taylor Review](#) suggests 'WorkerTech models' and portable benefits platforms, tied to the individual rather than a specific company, as a way for self-employed people to gain access to non-statutory benefits and protections such as in case of illness or injury.

The [Government's 2018 response](#) accepted the recommendation to '*work with partners to create a Catalyst to stimulate the development of a range of WorkerTech models and platforms in the UK*', whereby technology could enable self-employed, including gig economy, people to access protections and benefits such as sick pay on an individualised basis. Its subsequent [Good Work Plan](#) said the Government had been engaging with stakeholders across the WorkerTech sectors and was working with Bethnal Green Ventures to develop '*ideas on how the prominence of WorkerTech could be increased*'.

However, it's unclear whether further progress has been made in developing a fairer framework to support the income security of the self-employed. We urge the Government to explore the opportunities for innovation to improve income protection for the self-employed during ill health.



1

2

3

4

5

6

Our recommendation for government

Explore ways to improve income protection for the self-employed when unable to work through ill health or injury

- Investigate opportunities to improve income protection for the self-employed during ill health or injury.
- Work with stakeholders to take forward the recommendations set out in the [Taylor Review](#), including the potential for portable benefits platforms to provide a safety net.

Calling for 'bread funds' in Scotland

The [Federation of Small Businesses \(FSB\)](#) has called on the next administration in Holyrood to pilot so-called 'bread funds', which offer a collective insurance approach for self-employed individuals who could not otherwise access sick pay. A '[bread fund](#)' is a way for self-employed people and freelancers to support each other if they become unable to work. A group of 25 to 50 people contribute money each month into a fund that can support any of its members who become unable to work through illness or injury. A member can choose a level of contribution that's linked to the amount they will receive if unable to work.

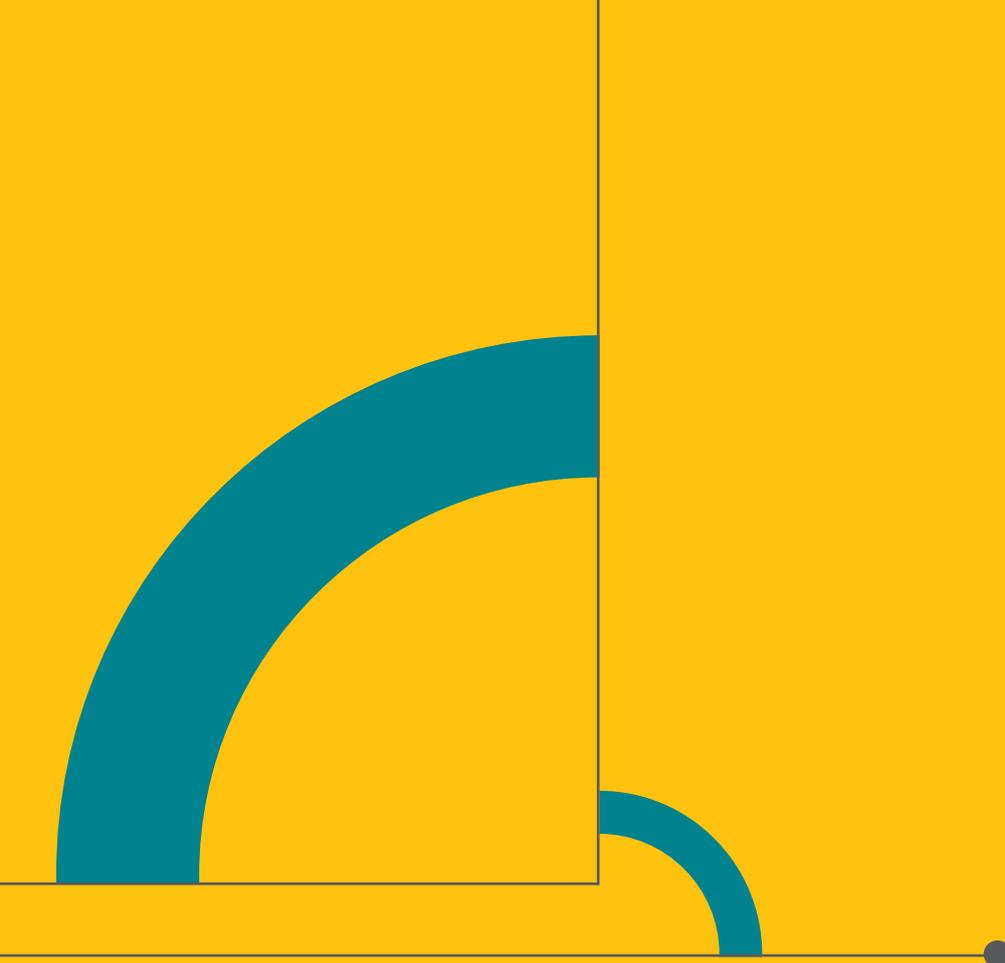
6 Conclusion

Our analysis makes clear that the UK's SSP system is inadequate in a number of ways. It needs urgent reform to protect the most vulnerable and low-paid workers from financial distress. Payment rates are too low and the lowest paid are currently excluded. Deeper reforms are also needed to ensure it works more effectively in line with employer policy and practice to encourage a timely, supported and sustainable return to work. Government action needs to focus on better and more proactive enforcement, particularly in higher-risk sectors. There are opportunities to explore how the role of the insurance sector could help to protect people's incomes when unable to work through illness or injury. The question of whether or not sections of the self-employed workforce need a better safety net also needs addressing.

For their part, employers should assess their responsibility for supporting employees when incapacitated to work, and how occupational sick pay arrangements could form part of an effective sickness absence and return-to-work framework. It should also be part of its financial and overall health and wellbeing strategy. The financial outlay associated with an organisation's enhanced sick pay arrangements should be viewed as part of a longer-term investment in the health, wellbeing and engagement of its workforce.

What should an effective sick pay system look like?





CIPD

Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ United Kingdom
T +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201
E cipd@cipd.co.uk **W** cipd.co.uk

Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797)
and Scotland (SC045154)

Issued: December 2021 Reference: 8186 © CIPD 2021

