

In time of need

Building employment insurance for all

Summary

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Income replacement policies provide financial protection when people leave a job or stop working temporarily. They include non-means-tested social security benefits, payments from employers and private insurance policies and they cover circumstances such as unemployment, sickness, caring for babies, caring for disabled or older people and retraining.

The UK's system of income replacement is an inadequate patchwork that in most cases falls far behind the support available in other rich countries. As a result, people who stop working face financial hardship and anxiety – and employers fail to retain and recruit the workers they need. This report makes the case for a complete overhaul. In preference to fragmented reform on many fronts we propose a comprehensive new system of **British employment insurance**.

Employment insurance would consist of a combination of paid leave from employers and state insurance benefits. The proposal would return the UK to routinely providing income protection on the basis of people's earnings (as was the case from the mid-1960s to the early-1980s). It is loosely modelled on Canadian employment insurance.

Under this new system, people who stop working would typically be paid **half** their current or recent earnings (with a cap on the amount payable to high earners). Fifty per cent of earnings is a low replacement rate compared to many other countries but it would be a huge step forward for the UK – and for low-income households it would be available alongside universal credit. In the case of sickness, we go further and recommend paying 80 per cent of earnings because existing employer practice is generally much better than the legal minimum (we suggest new support for small employers to help meet this cost).

The key entitlements we propose are:

Paid leave	For workers with an employer
Maternity and adoption leave	Now: low flat-rate, 9 months Proposed: earnings-related, 6 months (followed by parental leave)
Parental leave	Now: maternity pay can be shared Proposed: flat-rate, 6 months (shared or allowance for each parent)
Paternity leave	Now: low flat-rate, 2 weeks Proposed: earnings-related, 2 weeks
Sick pay	Now: very low flat-rate, day 4 to week 28 Proposed: earnings-related, day 1 to week 28
Carer's leave	Now: none Proposed: earnings-related, 1 week
Paid furlough	Now: almost none Proposed: earnings-related, 6 months

Insurance benefits	For people without a job or who are self-employed
Unemployment insurance	Now: very low flat-rate, 6 months (jobseeker's allowance) Proposed: earnings-related, 6 months
Sickness insurance	Now: very low flat-rate, 12 months (the initial period of employment and support allowance) Proposed: earnings-related, 12 months
Maternity and adoption insurance	Now: low flat-rate, 9 months (maternity allowance) Proposed: earnings-related, 6 months (followed by parental leave)
Parental leave insurance	Now: none Proposed: earnings-related, 6 months (shared or allowance for each parent)
Carer's insurance	Now: very low flat-rate, 12 months (the initial period of carer's allowance) Proposed: earnings-related, 12 months
Retraining insurance for the self-employed	Now: none Proposed: earnings-related, up to 8 months over 5 years
Free occupational health services	Now: none Proposed: available to SMEs, selfemployed and people not in work

The plan also includes new employment rights: improved statutory redundancy pay; four weeks of annual carer's leave; a new carer's career break of up to 12 months (initially in large workplaces); extending the right to request training leave to all workplaces; and clarifying the boundary between the self-employed and workers who have employers. Eligibility for the employment insurance entitlements would be drawn broadly, ending almost all the exclusions that restrict access to paid leave schemes and national insurance benefits today. In particular, self-employed workers would be major beneficiaries of the scheme since they have so little protection now.

The new system would offer a major boost to British business by helping firms retain and recruit good workers and by giving workers and consumers more financial security and resilience. With the exception of sick pay for medium and large employers, the state would pay most of the costs of the new entitlements. On average, employers would spend slightly less on paid leave schemes than they do now. However, there would be winners and losers: large employers who only pay statutory leave rates now would lose, while SMEs and large firms with good occupational pay schemes would gain.

The state's contribution could come from general government expenditure or from a new self-funding social insurance scheme (following the model of Canada's employment insurance system). If implemented at once, all the new entitlements we propose would together require public spending to rise by around £9bn (2022/23) which is under 4 per cent of total social security spending. However, we envisage the scheme being introduced gradually over a decade for operational and financial reasons. The costs could be paid for by a rise of 0.7 pence in national insurance contributions by individuals and employers.

A Fabian Society YouGov poll of UK adults suggests this would be a popular set of reforms. Seventy-nine per cent of people expressing a view (ie excluding those who said 'don't know') support the introduction of our overall proposal for employment insurance. The percentage of people expressing a view who support individual policies is as follows (for the wording of each question see chapter 6 and appendix 2):

87 per cent	One week of paid carer's leave per year
87 per cent	Increasing minimum redundancy payments
77 per cent	Increasing minimum sick pay to 80 per cent of earnings
73 per cent	Carers who stop work receiving half their previous earnings for 12 months
63 per cent	Maternity pay rising to half a mother's usual earnings for 12 months
61 per cent	People who lose their job receiving half their previous earnings for six months
50 per cent	People who stop work to retrain receiving half their previous earnings
49 per cent	Paid furlough when employers are in financial difficulty

Immediate action

We also propose a series of interim measures that could be adopted rapidly at low cost for the government (estimated annual expenditure is in the right hand column).

Unemployment and insufficient work

Extend eligibility for jobseeker's allowance (JSA) to more workers including the self-employed	£10m
Introduce paid furlough to subsidise reduced hours as an alternative to redundancy	£20m
Reform statutory redundancy payments	-
Increase the value of JSA to match statutory sick pay if there is a severe recession	£190m

Sickness and disability

Pay SSP from the first day of sickness	-
Extend eligibility for SSP to workers with low weekly earnings	-
Increase SSP to match maternity allowance	-
Rename ESA as 'sickness and disability allowance'	-
Pay ESA on the basis of medical certificates for up to six months	-
Pay ESA at the same rate as SSP for up to six months	£60m
Provide free occupational health services to small businesses, the self-employed and people who have recently left work	Self-funding

Babies

Extend SMP to women with low weekly earnings and in the first six months of a job	Very low
Introduce paternity allowance and shared parental leave allowance for the self-employed	£15m
Pay maternity allowance at 90 per cent of recent earnings for six weeks	£50m

Caring

One week of paid carer's leave per year, funded by employers	-
Three weeks of unpaid carer's leave	-
A right to a 12 months' 'carer's career break' (initially large workplaces only)	-

Training

Pilot for JSA and unemployed UC recipients to access approved full-time training	Very low
Pilot training bursary for the self-employed	£8m
Extend the right to request training leave to workplaces of all sizes	-

Why does income replacement need to improve?

Income replacement payments provide a cushion when people's incomes fall and a trampoline to help launch them back into work. They reward earning and contribution and offer ready-made support when economic crises hit. But UK income protection is patchy and inadequate. Jobseeker's allowance replaces just 12 per cent of average earnings and statutory sick pay just 16 per cent. With the exception of maternity payments, the value of support has declined significantly as a percentage of earnings since 1990. Chapter 2 shows how the UK also compares badly with other rich nations: of the countries surveyed, the UK has the second lowest levels of unemployment benefit and sick pay and the third lowest level of maternity pay.

The Fabian Society YouGov poll found high awareness among workers of the inadequacy of income protection policies. Workers expected their incomes to plummet if they lost their job, with many respondents accurately predicting how little of their earnings would be replaced by social security. Twenty-nine per cent said they would often have to go without food and energy if they left work. Thirty-one per cent said that they would be able to maintain their standard of living for four weeks or less if they only had their savings to live from.

There are good reasons for reforming income replacement now. The measures introduced during the pandemic were proof that UK policies are inadequate and they were also a template for future reforms. The introduction of universal credit has sidelined traditional non-means-tested income replacement benefits. And measures to protect workers and keep them connected to work are needed as we face further economic turbulence and labour shortages.

When incomes need protecting

Employees and self-employed workers need income replacement in two circumstances:

- **When they are temporarily away from work:** One in 17 workers are away from work each week - 600,000 are on sick leave and 400,000 are on maternity leave. Our poll found that 23 per cent of workers had been absent from work for more than two weeks in the last two years (30 per cent in the case of workers with earnings under £20,000).
- **If they need to leave their job:** 3.5m people stop working each year for a wide range of reasons – unemployment, sickness, looking after children, caring for an adult, education and retirement. Self-employed people are at higher risk of leaving their job than employees.

Unemployment and insufficient work

1.3 million people are unemployed – and 780,000 in the first six months of unemployment. However only around 40 per cent of this group come straight from a job. Many more work fewer hours than they want to.

Our modelling shows that two-thirds of people in the first six months of unemployment are eligible for JSA but only 40,000 people receive it - 8 per cent of those eligible. Forty-eight per

cent of the eligible group receive universal credit (there is no point in claiming both), and the rest are either unaware of the benefit or do not think it is worth claiming.

Sickness and disability

Before the pandemic, the incidence of sickness and disability was increasing but sickness absences and health-related economic inactivity were both in decline. Since the pandemic both have started to rise.

The large majority of workers receive considerably more than statutory sick pay through employers' occupational pay schemes. Only 16 per cent of those receiving SSP do not get extra sick pay from their employer and SSP makes up only £2.6bn of the £10.9bn spent on sick pay each year. As so many employers already go beyond minimum requirements, there is a scope for a big jump in statutory sick pay to assist the minority of workers currently left behind.

Babies

At any time 300,000 mothers are receiving either statutory maternity pay or maternity allowance. SMP and maternity allowance are flat-rate payments worth 25 per cent of average earnings except for the first six weeks of SMP which is paid at 90 per cent of earnings. Many mothers also receive occupational maternity pay but on average they still receive only around half their usual earnings during maternity leave.

200,000 fathers or partners take paternity leave each year but only 10,000 parents take shared parental leave. Neither of these schemes is available to the self-employed.

Caring

Around 7 per cent of working carers stop work each year, and 140,000 carers without work have stopped work in the last 12 months. There is currently no statutory right to carer's leave (the government is planning to introduce a right to one week of unpaid leave). Carer's allowance is worth even less than other out of work benefits (11 per cent of average earnings).

Learning

1.5m adults in England take part in publicly supported learning outside of higher education each year. But there is no comprehensive system for supporting their living costs if they are not working or working part-time.

About the project

This research was made possible by a generous grant from the Abdn Financial Fairness Trust.

The project was a product of the pandemic. It was inspired by the necessity and success of the emergency income replacement policies introduced to support people unable to work during Covid-19. We wanted to ask whether the experience of designing and rolling out reforms such as the furlough scheme could open up the possibility of a different way of protecting incomes in the UK.

The scope of the project covered payments people receive when they stop working – either after leaving a job or if they are away from work temporarily. We looked at non-means-tested benefits, payments made by employers and private insurance policies. The project did not focus in detail on means-tested benefits although they define the landscape in which other options for income replacement operate.

This report focuses on options for policy that would apply to the whole of the UK (or in some cases to Great Britain). A follow-up paper will examine options for the Scottish government.

The research included desk research, data analysis and expert interviews to explore the UK and international policy landscape. Then, in summer 2022, we convened a summit of UK policy experts to review and debate the evidence and options for reform. In November 2022 we held a similar expert roundtable examining options for the Scottish government.

Evidence of personal experiences of leaving work in England and Wales was gathered by conducting interviews in spring and summer 2022 with 13 people who had stopped working over the last year. They were selected by a market research agency using a quota sampling technique to achieve representation across different reasons for leaving work. Each individual was interviewed twice around two to three months apart to track their evolving experiences. In their second interview, they were also asked for their views on policy solutions. We supplemented these interviews with two focus groups of people who had recently left work in the west of Scotland.

We also commissioned a statistically representative poll of UK adults from YouGov weighted for political opinion and other demographic characteristics. The total sample size was 1,731 adults and fieldwork was undertaken between 7 and 8 December 2022. The poll was carried out online and the figures were weighted and are representative of all UK adults aged over 18. In the poll we asked people about their recent or current experiences of being out of work, their expectations of being out of work in the future and their views on policy proposals developed during the project. Questions on policy were asked first to avoid 'priming' respondents 'with questions about their own experience. A similar poll was also conducted in Scotland and the results will be published later in 2023.

Finally, the project examined the detail of policy options using micro-simulation modelling using household survey data. We commissioned Landman Economics to develop a new model using the Understanding Society dataset. Understanding Society is the UK's leading longitudinal household survey and allows researchers to track individual experiences over time. This data allowed us to model likely eligibility for payments based on when people last

worked and their employment and earnings history in recent years. The model was used to design and cost all policy options, except for reforms to statutory sick pay where we used the Family Resources Survey which asks more detailed questions on sick pay.

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This report has been a team effort. The first half of the project was led by Josh Abey (former senior researcher) who would be listed here as an author were he not now working as a policy specialist for the shadow secretary of state for work and pensions. After his departure the second half of the project was led by Andrew Harrop (general secretary) who wrote most of the words in this report. The modelling and much of the data analysis was conducted by Howard Reed of Landman Economics. Eloise Sacares (researcher) carried out the international comparative research and supported the qualitative research and the preparation of the report. And the Scottish element of the project, including the Scottish qualitative research that helps to inform this report, was carried out by Katherine Sangster (national manager, Scottish Fabians). A follow-up paper on employment insurance options for Scotland will follow later this year.

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