Reimagine health and work

A friendly society for the self-employed

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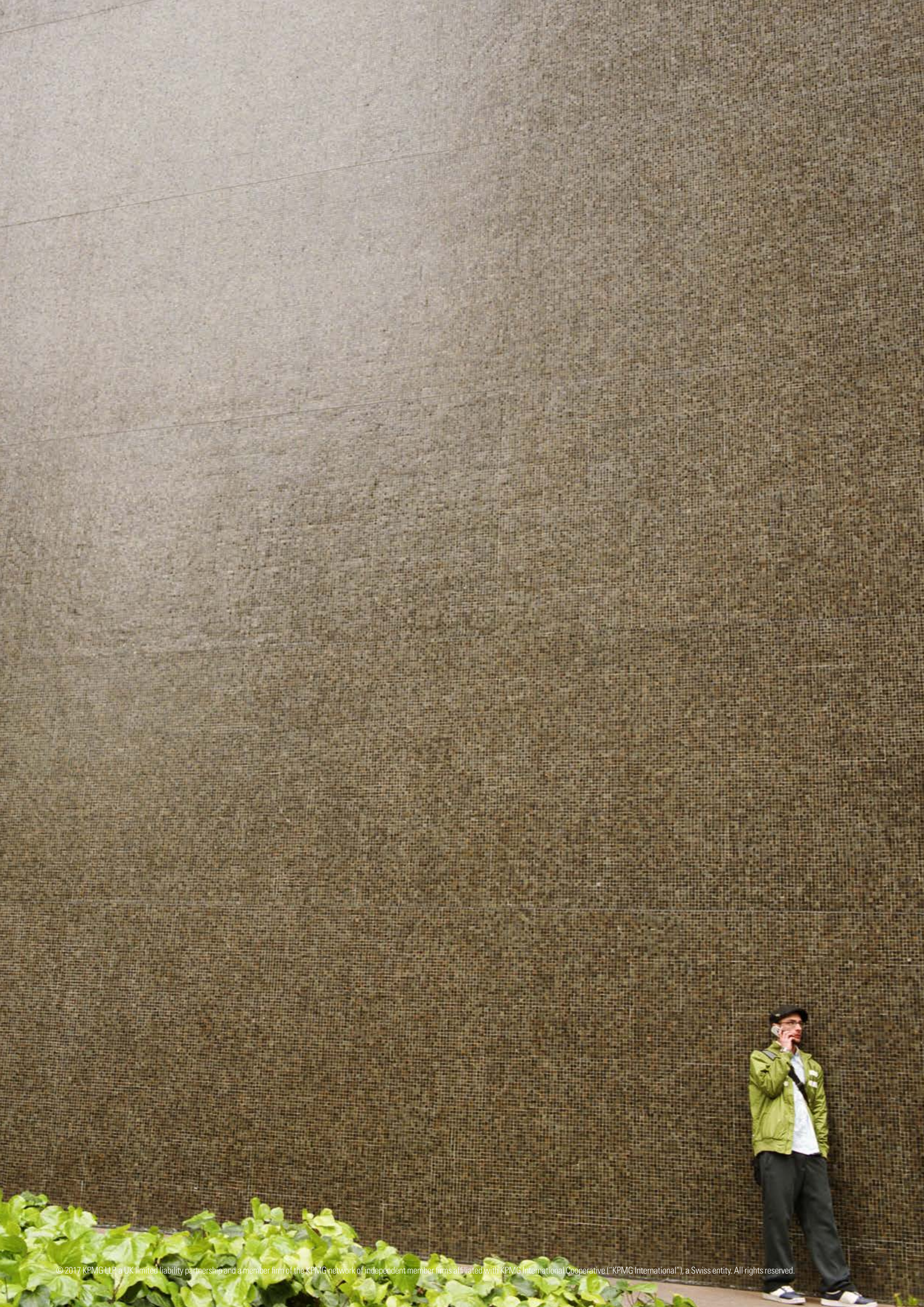

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Let's reimagine

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This paper is one of a series of thought experiments in which KPMG staff imagine new ways for government to achieve public policy objectives.

This might mean building services around the user rather than the provider. Or drawing on the huge potential of data and digital technologies. Or tapping into the power of markets, new incentives, transparency, or the wisdom of crowds. In every case, it involves fresh ideas.

To channel our thinking, we imposed three rules.

1. Ideas must be designed to produce better public outcomes without increasing the burden on the taxpayer.
2. They must align with the government's philosophy and headline policies.
3. They must be realistic and deliverable.

But within these rules we want to step outside conventional thinking, and test out new ideas on how public policy goals can be achieved. We want to stretch ourselves, applying new technologies and techniques to solve old problems. We are not calling for a specific future – but we are reimagining it. **What do you think?**

Where we are

The world of work is changing fast – and our systems of employment rights, union representation and state support are not keeping pace. Yet these systems play an important role in protecting fair competition and employment rates, driving up productivity and GDP; for minimising the threat to workers' incomes posed by issues such as discrimination, childbirth and sickness helps people to remain in the workforce and develop their careers, producing benefits for both individuals and the country as a whole. So it's important that as models of employment evolve, so too do the ways in which we support and protect workers.

Elected leaders have started to recognise the growing gap between people's working lives and the regulations, legislation and taxes that govern them. In commissioning former Labour adviser Matthew Taylor to carry out a review of 'modern employment practices', Theresa May was acknowledging that the 'gig economy' poses challenges to existing employment legislation. And in attempting to raise National Insurance contributions for the self-employed in March's ill-fated Budget, the chancellor was attempting to even up the burden of taxation on permanent staff and Britain's interims and freelancers.

He did so because one of the most substantial changes to employment is the rise in the proportion of self-employed workers. Their numbers have grown by nearly 50% since 2000, to 4.6m[1] ; and their lighter tax burden is leaving a growing hole in government revenues. But the chancellor's advance on Britain's thriving freelance industries was repelled, in part because the self-employed do not enjoy the same protections or employment rights as full-time staff – and thus feel strongly that they shouldn't pay as much tax. Though there's no direct link between making National Insurance contributions and the rights to sick pay, paid holidays, support for disabilities or secure employment, it's hard to argue that workers who do without these protections shouldn't benefit from a smaller tax bill.

Yet freelancers may actually place greater burdens on the state than permanent employees; for if they fall sick or acquire a disability, there's no employer to bear the burden – so people can quickly become dependent on public services. And this problem is only set to grow.

The average age of the self-employed has risen from 56 to 63 years since the turn of the century[2]; given that 58% of over-60s suffer from a long-term condition – compared to 14% of under-40s[3] – a growing section of the workforce is becoming both more prone to, and less protected from, serious health problems. Many of these people are skilled professionals, whose skills add huge value to the UK's economy; we need to keep them in the workforce. And as the pension age ticks upwards, retaining in the workforce a growing proportion of these ageing freelancers, that is only going to become more difficult.


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Let's reimagine this...

One potential solution is a dedicated support system to help self-employed people with long-term health conditions to keep on working. For freelancers, the lack of paid holidays or job security is simply part of the deal: a pain, but one balanced by the pleasures of autonomy, flexibility and entrepreneurialism. The threat of a major, long-term health condition, however, is a real worry. Without an employer required to provide 'reasonable adjustments' for a disability, or to fund sick pay and hold open a job, a serious illness can destroy their ability to earn. The chancellor's proposed National Insurance hike offered no benefits at all to this group; but if they were offered a way to protect their career and future earnings, many might be willing to buy into a protective insurance scheme.

Insurance products are already available to guarantee the self-employed an income if they have an accident or experience ill health. And they're increasingly popular: sales in the protection market grew by 13.9% to £521m in 2016[4]. But these products are expensive: a 44-year-old would pay about £120 a month to guarantee themselves a monthly £2500 until retirement, according to research by KPMG[5] .

What's more, these solutions have a structural flaw. They only kick in when people have been unable to work for some weeks, so can't help them retain a grip on the labour market; and once people have stopped working, it's hard to restart a freelance operation. So these schemes may guard against poverty, but they do nothing to protect people's businesses.

It would be far better for the UK's economy – and its benefits bill – if freelancers had affordable access to both a support system to help them stay within the labour market in the case of serious injury or ill health, and the backstop of an income-guarantee insurance scheme to protect them should those support systems fail. And such a scheme would have very clear attractions to the self-employed: it could prove very attractive to many freelancers, particularly if the government could squeeze premiums by building up participation.

What would it look like?

The delivery method could be a 'friendly society' or mutual, first offering freelancers who fall ill the support they need to keep working. Packages might offer, for example, disability information and access to compensatory equipment or technologies; mentoring, coaching, retraining, career advice and support; access to peer support networks; physiotherapy, rehabilitation and occupational health services; and mental health treatments such as cognitive behavioural therapy. These services would help people retain or regain the ability to work despite acquiring long-term or mental health conditions, and thus drive down the cost to the state of providing an income for those who cannot do so.

Such a scheme would not be intended to give freelancers exactly the same sick pay arrangements as employed staff, nor to fund the cost of medical care: it need not provide sick pay to cover time off for minor ailments such as coughs and colds, nor medical insurance to fund operations, treatments and hospital visits available via the NHS. For most self-employed staff have chosen to avoid permanent employment[6], and don't expect benefits such as medical insurance or sick pay for the occasional day off. They do, however, live in fear of acquiring a long-term condition that could prevent them from working over a sustained period, leaving them without an income.

Making it affordable

To make such a scheme affordable, it would have to enjoy mass participation – spreading the costs across much of the self-employed workforce, and bringing in low-risk younger freelancers as well as more vulnerable older workers. And to ensure that older freelancers could afford the premiums, the pricing structure would have to be quite flat; so younger members would be subsidising their older peers, as with the state pension. Members could choose various levels of income protection – perhaps beginning with a basic package offering similar benefits to those enjoyed by permanent employees after two years' service, and rising to a premium service guaranteeing an income until retirement. But in order to make cover affordable for the older workers who would most benefit from the scheme, premiums would have to reflect the services offered rather than the risk that each individual represents to scheme managers.

One way to achieve such mass participation would be to make membership compulsory, with premiums charged alongside income tax or SME company dividends; but there are other, less heavy-handed ways to boost membership levels to the required critical mass.

For example, between 1997 and 2012 the proportion of UK permanent employees enrolled onto their company's pension scheme fell from 55% to 47% – raising concerns that future governments would face high levels of pensioner poverty. So in April 2012, the government required employers to establish pension schemes and to enrol their staff onto them. Though membership was optional and individuals could leave the scheme at any time, simply making participation the default setting led to a dramatic turnaround – with participation rates climbing to 68% by 2016[7].

Similarly, individuals whose self-assessed tax returns do not include a PAYE element could be enrolled in the friendly society by default – with only those opting out removed from the scheme. Premiums could then be offset against tax; to further sweeten the pill, the friendly society might promise to reimburse freelancers whose accounts do not show a profit over the year. Offering another incentive to younger freelancers, it could promise a partial rebate if people returned to full-time employment without ever calling on the scheme; or launch a loyalty programme offering longstanding members additional benefits and services should they fall ill.

To make the offer to self-employed workers a real no-brainer, though, the government could underwrite some of the risks – making the offer much more attractive to potential investors – or subsidise premiums. If this investment was pitched at the right level, the taxpayer should soon get their money back – both in continued tax contributions from those supported to keep on working after contracting a condition, and in reduced disability and unemployment benefit payments.


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Summary

As the world of work continues to change, the proportion of self-employed looks set to continue rising. And this has many advantages for the economy, enabling businesses to match skills and resources closely to ever-changing demands. But unless we change the ways in which we support freelancers through health problems, then all the costs and risks of this change will be borne by taxpayers and self-employed workers – with the former paying out higher benefits bills, and the latter left unprotected should their health deteriorate.

By setting up a friendly society or mutual focused on supporting people to stay in the workforce, however, the government could transform that calculation. Indeed, the specialised professional services it could offer would leave many freelancers better protected than permanent staff – whose support rests on statutory sick pay rights and the reasonable adjustments provided by individual employers, rather than an expert, national service dedicated to helping people stay in the workforce. The system could help us strengthen our workforce and retain hard-won skills as the population ages, and address the pain of those whose careers are brought to an abrupt end by illness.

As our economy evolves under the pressures of global social, financial and technological changes, systems built to protect workers during the last century look increasingly outdated. It's time to reimagine our approach to supporting the workforce, equipping ourselves to address the challenges we face today.

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Sources

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[2]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015

[3]https://www.kingsfund.org.uk/time-to-think-differently/trends/disease-and-disability/long-term-conditions-multi-morbidity

[4]According to Equifax Touchstone, May 2017

[5]Figures obtained from ActiveQuote on 8 May 2017. Assumptions: 44-year-old male; £80,000 income; £2500/month guaranteed income available 30-60 days from date when unable to work; retirement age of 65; no pre-existing conditions. Fixed-price quote £119 per month. Other quotes covered: age-related price covering income to retirement (rising from £72/month at age 44 to £166 at 59); age-related price covering income for two years (rising from £33/month at age 44 to £128 at 62); fixed price covering income for two years (£54/month).

[6]figure 36, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015

[7]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2016provisionaland2015revisedresults/pdf

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