

## **Income protection gaps – a growing global challenge**

A household income can be a fragile thing. What if an unexpected event such as disability or even premature death occurs? Loss of income can cause great economic and personal hardship. Zurich Insurance Group (Zurich) together with the Smith School of Enterprise and Environment at Oxford University (SSEE) published a report which sheds new light on income protection gaps – a growing global challenge which has been in the shadow for far too long.

Zurich, November 17, 2015 – If an individual or a family's main breadwinner loses the ability to work, his or her earnings will usually be affected. Depending on the provisions of the local social security system, the household's standard of living will decline. This is surprisingly common. Of the adult population in Europe, one in four people aged 16 or older are health-impaired and globally an estimated 386 million of the working-age population have some kind of disability – a truly global challenge.

### **What's the income protection gap?**

The income protection gap is the reduction in household income as a consequence of the death or incapacity of an adult wage earner on whom that household relies, taking all public and private sources of replacement income into account.

### **Government welfare budgets under pressure**

Loss of earned income, due to death or disability, can cause great financial hardship. It often forces families to tap their pension savings, which postpones the problem but raises the possibility of running out of money in later life. In the UK, for example, one out of five households falls into poverty after an unexpected adult death.

A [recent survey](#) conducted by Zurich Insurance Group (Zurich) showed that affected persons expect government support in such a case. But governments in many countries now aim to reduce welfare budgets and have cut back on protection by restricting access

to benefits for middle-income workers. Today, many families and individuals have insufficient income protection. Government cuts to welfare budgets mean that in future, individuals may need to take greater personal responsibility in order to protect themselves and those they love.

### **Income protection gap is growing**

An aging population adds to the challenge. An older society means an older workforce, which in turn means higher disability rates. Mental health claims are increasing as well. These are already the leading cause of disability for young people. And an increasing proportion of workers have little or no income protection: as part-time and contract workers, they are excluded from most state-run income protection schemes. In Latin America, for example, one out of two people is informally employed and is thus not covered by state protection schemes.

### **Employers and governments**

The income protection gap increases burdens on state-run welfare schemes. But employers also face challenges. Without adequate protection, disabled workers often choose to work through minor disabilities at reduced capacity and as a result their productivity falls. This phenomenon – so-called ‘presenteeism’ - is estimated to cost for example U.S. businesses more than USD 150 billion a year. But employers might be part of the solution as well: Income protection can form part of a suite of benefits they can offer to attract and retain the best employees.

### **Zurich has an important role to play**

The impact of income protection gaps on households, governments and employers is significant. Kristof Terryn, CEO General Insurance as well as CEO Global Life, said: “As a global insurer we have a responsibility and an important role to play to increase awareness and help society mitigate the growing risk of the income protection gap. This report is designed to help stimulate much-needed dialogue and collaboration between governments, employers and citizens.”

### **A long-term project to tackle income protection gaps**

There are no short-term fixes for these problems. Suggestions presented in the report include: greater collaboration and dialogue between private and public sectors; the development of local solutions; the creation of tax incentives to encourage people to protect incomes; and more flexibility in both labor markets and welfare systems.

#### *Supporting materials*

- [Report](#): “Income protection gaps: a rising global challenge” summarizes the key findings and is available in English
- [Video](#) with Kristof Terryn, CEO General Insurance and Global Life
- [Infographics](#) available in English

#### **Further information**

As a global insurer and academic authority respectively, Zurich and the Smith School of Enterprise and Environment at Oxford University have committed to a long-term project on the issue of income protection gaps. The SSEE is a leading interdisciplinary academic hub which works with social enterprises, governments and corporations.

In this first report, “Income protection gaps: a rising global challenge”, the aim is to raise awareness and to develop an understanding of the global challenge posed by income protection gaps. It contains case studies covering 18 countries across five continents.

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