November 2010
CLTB007

iNTOUCH

Canada Life Group Insurance, Technical Bulletin for Intermediaries

An update on phasing out the Default Retirement Age and Welfare Reform

This inTouch bulletin includes our latest update on phasing out the default retirement age and looks at some of the issues arising from the Government's spending review.

Phasing out the Default Retirement Age (DRA)

The Department for Business Innovation and Skills (BIS) consultation period has now closed.

GRiD responded to the consultation on behalf of the group risk industry and asked for 'A specific and limited exemption… for insured group risk benefits that will allow benefit provision to legitimately cease at a certain point.'

Group risk benefits meet a financial need at a time when a person or their dependants need them most in their working lifetime – before they retire or when they do not have sufficient financial resources if they fall sick or suffer a fatality. There is a clear comparison with the State here, where the Employment and Support Allowance (ESA) is paid to support those whose incapacity stops them from working. The ESA ceases at the State Retirement Age and the State Pension then takes over. So why can't a similar approach be used for group risk benefits, with a cease age linked to the State Retirement Age?

Guidance on objective justification would not be enough as it would not provide legal certainty and employers are likely to be unwilling to leave themselves open to the risk of challenge.

We will have to wait and see when the response to the consultation is published, which is expected later this month. Following this, regulations are expected in January / February next year. As these are enabling regulations to the Equality Act, they will simply be introduced rather than come before Parliament.

The impact for employers

This leaves a very short timescale to the proposed removal of the DRA in April 2011, making life quite difficult for employers, leaving only a few months to react. At Canada Life we are already considering the impact on our group risk products, but clearly this is a very testing time for the industry and trying to second guess what the legislation will look like and deal with any unintended consequences is not an easy task.

In brief…

Group Risk Development (GRiD) responded on behalf of the group risk industry to the Department for Business Innovation and Skills (BIS) consultation paper.

•

The GRiD response stated that *'A specific and limited exemption is needed that will allow benefit provision to legitimately cease at a certain point.'*

•

The ESA ceases at State Retirement Age when State Pension takes over – perhaps the same philosophy could be adopted for group risk benefits.

•

Outcomes from the consultation period should be published later this month.

•

Independent research shows employers are awaiting more guidance before acting. Current benefit system is to be replaced by a simpler Universal Credit.

Welfare Reform

As part of the Government's Spending Review 2010, some major reforms have been proposed to the Welfare system in the future, but there are some immediate changes as well.

Over the next two Parliaments the current benefits system, which is seen as complex, will gradually be replaced with the Universal Credit. This integrated payment will sharpen work incentives and reduce fraud and error. Further details will be set out in a White Paper.

These reforms will be complemented by the new Work Programme, which will provide personalised support for those with the greatest barriers to employment. Private and third sector providers will be paid on the basis of the additional benefit savings they secure.

Changes to the Employment and Support Allowance (ESA)

Many cuts in welfare benefits have already been announced but a new announcement was made regarding the ESA.

There are two types of ESA:

- **Contributory:** where enough National Insurance Contributions (NICs) have been paid. This is not means-tested.
- **Income related:** if a person has not paid enough NICs or does not have enough savings. This is means-tested.

Everyone assessed as having limited capability for work qualifies for the ESA and gets the basic rate, equivalent to Jobseeker's Allowance for single people over age 25. In addition a person will get either the Work-Related Activity Component (WRAC) if they have limited capability for work, or the higher support component if they are more disabled. 75% of ESA claimants are either assessed as being fit for work or do not complete the assessment process. Of the remaining 25% that qualify for ESA 75% of them do not qualify for WRAC.

Currently the WRAC is conditional upon the person trying to get back into work but there is no time limit for receipt of the ESA. The Government is now placing a maximum 12 month time limit on this benefit. Although no statement has been made on what happens after this, potentially if at the end of 12 months someone is not in work, they will move onto Jobseeker's Allowance and lose the WRAC and they may qualify for income-related benefits.

Impact for Group Risk Insurance

Group Income Protection offers a choice of State benefit deductions or in fact none at all. Any deductor is determined at the end of the deferred period. For fully integrated benefits it is recalculated on completion of the assessment phase but thereafter the deductor does not change, even if entitlement to State benefits does change. ESA alterations will not affect this situation.

With State benefits being reduced and only being provided for the most needy, this simply emphasises the value of Group Income Protection cover.

In brief...

The Government is now placing a maximum 12 month time limit for receipt of the ESA for those who have limited capability for work.

•

For all new ESA Claims from 27 October 2008 to 28 February 2010:

6% were assessed as suitable for the Support Group.

15% were assessed as suitable for the Work Related Activity Group.

39% were assessed as Fit for Work.

3% have an assessment currently in progress.

36% left ESA before completing the assessment.

•

Group Income Protection policies allow selection from a variety of deferral periods and State deductors.

•

Group Income Protection cover is even more valuable with the cuts in State benefits.

•

If you have any questions regarding this bulletin, please contact your Account Manager or phone our Customer Services Centre on 0845 223 8000.

Our forms are available to download from our website: www.canadalife.co.uk/group

Canada Life Limited, registered in England no. 973271. Registered Office: Canada Life Place, Potters Bar, Hertfordshire EN6 5BA

CLFIS (UK) Limited, registered in England no. 04356028 is an associate company of Canada Life Limited. Registered Office: Canada Life Place, Potters Bar, Hertfordshire EN6 5BA

Canada Life group consists of Canada Life Limited, Canada Life Asset Management Limited (both authorised and regulated by the Financial Services Authority), Canada Life International Limited and CLI Institutional Limited (Isle of Man registered companies authorised and regulated by the Isle of Man Insurance and Pensions Authority). All promotional material produced is approved by Canada Life Limited.

Canada Life

Canada Life Limited
3 Rivergate, Temple Quay, Bristol BS1 6ER
Telephone 0845 223 8000