

DRA Evidence,  
Department for Business, Innovation and Skills,  
V497, 1 Victoria Street,  
London SW1H 0ET

1 February 2010

Dear Sir/ Madam

### **Default Retirement Age – Call for Evidence**

On behalf of ILAG, I wish to make the following submission on the above subject.

ILAG is a trade body representing members from the Life Assurance and Wealth Management industries. ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

For many years, it has been recognised that there is a 'savings gap' in this country. This means that many people who had planned to retire at age 65 simply cannot afford to do so. Deferring retirement would help older people because they would have longer to save and a larger annuity can be bought by their savings because they are older.

We do not offer a view on the benefit for our economy in permitting older people to work for longer if they so choose. We do, however, fear an unintended consequence if employers are required to permit people to work for longer and no consideration is given to the effect on the life cover and long term sick pay which employers voluntarily provide for their staff.

The Employment Equality regulations mean that in the absence of objective justification, or a specific exemption, employers must provide the same benefits for all their staff. This is a particularly important issue as employer-sponsored arrangements provide 40% of insured UK life assurance cover<sup>1</sup> and 70% of insured long-term occupational sick pay<sup>2</sup> (see footnote for commentary on the characteristics of the underlying insurances)<sup>3</sup>.

These benefits are provided by the more 'caring' employers at a cost in excess of £1.5 billion per annum. The cost of such benefits increases substantially for older people, thus in general terms, the older the workforce the greater the cost. It has

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been suggested by politicians that people will chose to work into their 70's and 80's whether by desire or through necessity. If employers are unable to terminate cover and respond to the resultant increased costs by withdrawing these benefits, the result may be that we will have addressed the problem of pension funding for older people but at the cost of reducing other benefits which have great value for younger workers and their dependants and which, in many cases, are the sole insurance benefits they have.

Amongst our members we have already seen emerging evidence of benefits being reduced. GRiD, the Group Risk insurance development forum, and the Institute of Actuaries have also submitted evidence on these issues. We endorse their work.

The employee benefits which will be vulnerable are particularly relevant for younger people with dependants. They have not had the chance to build up savings and are ill prepared to face the financial implications of the premature death of a partner or long term disability. These benefits are important to our society, for example:

- Official statistics show that more than 2.5 million people of working age are drawing benefits because they are incapacitated.
- Scottish Widows has published research recently which highlights that 44% of UK households rely on more than one breadwinner to maintain a comfortable standard of living and that the average household with dependent children has debts exceeding £91,648.

Swiss Re estimates that to provide adequate life, income protection and occupational sick pay insurance cover for dependants would cost approximately £15 billion each year. They describe this as a 'protection gap' to draw attention to the similarity to the well know pension 'savings gap'. GRiD has shown how the unintended consequence of abolition of a default retirement age could well be the withdrawal of employer-financed life insurance and long-term occupational sick pay. Their evidence includes indications that this has already started to happen: this will exacerbate the protection gap creating social exclusion, in particular for younger people.

Fortunately there is an alternative.

National Insurance incapacity benefits (Employment and Support Allowance) are only available up to the age where people can draw the basic state pension. We suggest that employers should also be permitted to withdraw insurance benefits at that age. The "withdrawal age" could move in line with state pension age.

Guidance could be issued to ensure that employees receive benefits of **equivalent value not identical benefits**. Additional pension contribution could be paid for those who choose to work past the state pension age. The contribution enhancement could be set at a level equal to the average cost of the insurance benefits provided for younger staff.

Yours faithfully

Doug Thow  
Technical Analyst

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1. Employers' promises of death-in-service benefits are backed by group life cover. The costs of this cover reflects the increased probability of death due to natural causes with increasing age and to a much lesser extent death due to accident amongst younger workers (eg. sports injuries and motor bike accidents). The cost for those working after the default retirement age rises steeply. Currently, few people have chosen, or been permitted, to work after 65 and employers have not been faced with steep increases in cost. They will face a very different picture if people work into their 70's and 80's as politicians suggest.
2. When employers promise long-term sick pay it is financed by group income protection insurance. The concept of a retirement age is integral to the design of this policy in the same way as the DWP's ESA benefit integrates with state pension age. The insurance pays a replacement income until a specified age for people who cannot work due to illness or injury. It also maintains their pension contributions so that the pension can cut in when that age is reached. The absence of an agreed end-date is a fundamental flaw for this type of policy. The probability that illness or injury will prevent someone from working increases with age.
3. The Institute of Actuaries has published data indicating the effect of age on increasing costs of both kinds of insurance.