



Change to Employment and Support Allowance - impact on Group Income Protection policies

December 2015

Because everyone needs a back-up plan



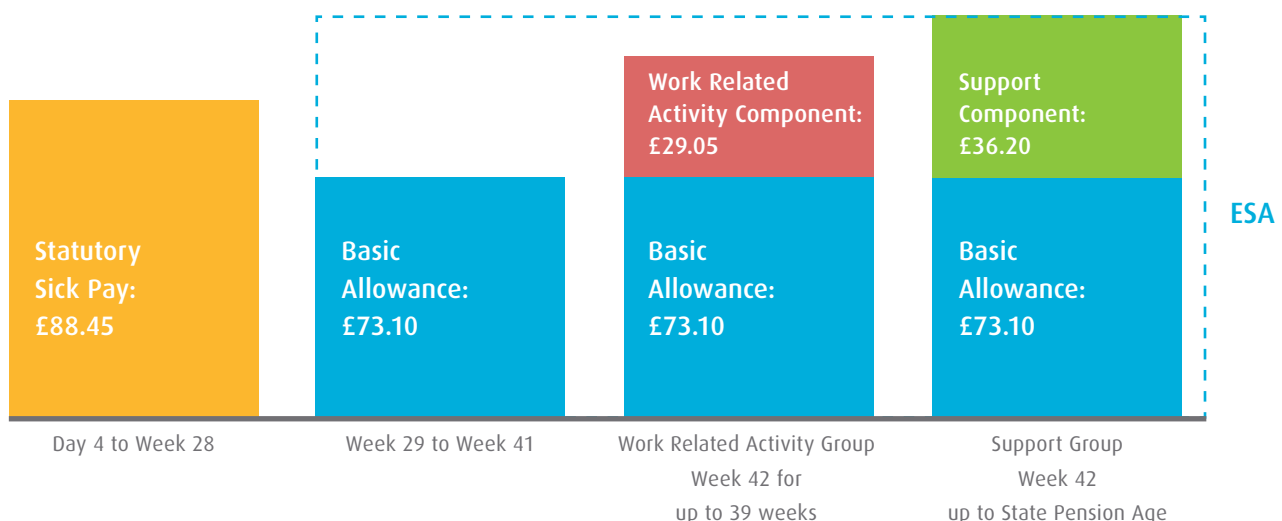
A significant number of Group Income Protection (GIP) policies, particularly those that have been in force for several years, pay a percentage of salary less an amount equivalent to Employment and Support Allowance (ESA). The Government has announced a change will be made to ESA from April 2017 and this will have implications for some GIP policies with an ESA offset.

What is ESA and how does it work today?

ESA is the State Benefit paid to those who are unable to work because of illness or injury. The rate of ESA depends on whether the person is placed in either:

- The Work Related Activity Group (WRAG) - unable to work but capable of taking part in work-related activity or
- The Support Group - incapable of both work and work-related activity

Current weekly rates of ESA:



The change from April 2017 - Who will be affected?

The Work Related Activity Component (WRAC) of ESA, the red section in the graph above, will be withdrawn.

People going off sick from late September 2016, becoming ESA claimants 28 weeks later and being placed in the WRAG will therefore only receive the ESA Basic Allowance (BA). As today, benefit to those in this group will be paid for up to 52 weeks. There will be no change to the way benefit is paid to those in the Support Group.

What does this change mean for GIP policies with an ESA (BA + WRAC) offset?

For our existing customers:

Our default position will be to replace the ESA (BA + WRAC) offset with a fixed offset of £5,300. This simple approach will result in an increase in benefit of £12 per member and will have **no impact on the premium** we charge (unless the premium is expressed as a rate of benefit in which case there will be a very minimal increase).

For new customers transferring cover to us:

We will no longer quote for a benefit design which includes an ESA (BA + WRAC) offset and will instead offer a **fixed offset of £5,300**.

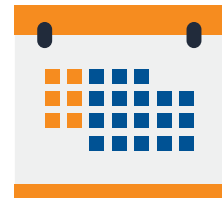


When will this happen?

For existing policies we will begin making the change from 31st March 2016 onwards on the following basis:

- 2 year rate guarantees – At the next rate review
- 3 year rate guarantees – At the next rate review if it's before April 2018. Otherwise we will make the change at the policy anniversary before April 2018

We will automatically change the policy to a fixed offset unless you ask to move to an alternative benefit design.



Are quotes for other benefit designs available?

Yes. The above outlines our default position for existing customers, but we will be happy to quote for alternative benefit designs including:

- Removal of the ESA offset
- An offset that is linked to the amount of ESA (BA) or ESA (BA + Support Component)
- A lower fixed percentage of salary with no offset



Any change to the amount of benefit insured will be reflected in the premium charged. The following table shows the increase in benefit resulting from the removal of the ESA offset.

Average salary	75% of salary less ESA (BA+WRAC)	75% of salary	Percentage increase in benefit
£15,000	£5,938	£11,250	89%
£25,000	£13,438	£18,750	40%
£50,000	£32,188	£37,500	17%
£75,000	£50,938	£56,250	10%
£100,000	£69,688	£75,000	8%

Please contact your Unum sales consultant if you would like us to quote on an alternative basis.

What will happen to members who become incapacitated before the change is made?

In the event of a claim we use the offset applying at the policy anniversary immediately before the member first became absent from work.

There will be no change to the claims that are already in payment.

The need for GIP

The removal of WRAC will mean that members who are placed in WRAG will receive less income from the state during incapacity. The reduction is **£29.05** per week for up to 39 weeks (a maximum of **£1,132.95**).

The change to ESA increases the need for GIP and presents an opportunity to discuss benefit design with customers at the rate review, to ensure that the cover in place meets the budget and objectives of their organisation.



For more information on the benefit reforms and removal of offsets from income protection policies see [here](#).