FABIAN POLICY REPORT

Kindly supported by:

abrdn Financial Fairness Trust

IN TIME OF NEED

BUILDING EMPLOYMENT INSURANCE FOR ALL

By Andrew Harrop, Howard Reed and Eloise Sacares

Kindly supported by:

abrdn Financial Fairness Trust

abrdn Financial Fairness Trust has supported this project as part of its mission to contribute towards strategic change which improves financial wellbeing in the UK. The trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low to middle incomes in the UK. It is an independent charitable foundation registered in Scotland (SC040877).

FABIAN SOCIETY

The Fabian Society is an independent left-leaning think tank and a democratic membership society with 7,000 members.

A Fabian Society report
General secretary: Andrew Harrop
Editorial director: Kate Murray

This report represents not the collective views of the Fabian Society, but only the views of the authors. The Fabian Society works with external sponsors, but retains editorial independence and control.

First published in March 2023

Cover image: Adobe stock library

ACKNOWLEDGEMENTS

A huge thank you to all those who have contributed to this project, and especially to the abrdn Financial Fairness Trust for providing the essential financial support. We are particularly grateful to everyone who agreed to be interviewed or to take part in a focus group to discuss their experiences of stopping work. They spoke to us on an anonymous basis and their names have been changed in the text of the report

We also thank all the policy specialists we interviewed or held discussions with: Kate Bell, Fran Bennett, Ros Bragg, Mike Brewer, Zoe Carre, Jay Dominy, Herbert Duell, Richard Dunstan, Stephen Evans, John Godfrey, Ted Hart, James Heywood, Toby Holt, Pierre Laliberte, Will Meredew, Rachel Statham and Rob Yuille. Many of this group also took part in an invaluable half-day policy summit in June 2022. Thank you to everyone who participated in that thought-provoking discussion: Josh Abey, Karen Barker, Kate Bell, Fran Bennett, Ros Bragg, Mike Brewer, Richard Dunstan, Andy Chamberlain, Naomi Clayton, Geoff Fimister, Charlotte Furber, Declan Gaffney, Mubin Haq, Kayley Hignell, Simon Hodgson, Emily Holzhausen, Will Meredew, Luke Raikes, Eloise Sacares, Anvar Sarygulov, Rachel Statham and Sam Tims

This report has been a team effort. The first half of the project was led by Josh Abey (former senior researcher) who would be listed here as an author were he not now working as a policy specialist for the shadow secretary of state for work and pensions. After his departure the second half of the project was led by Andrew Harrop (general secretary) who wrote most of the words in this report. The modelling and much of the data analysis was conducted by Howard Reed of Landman Economics. Eloise Sacares (researcher) carried out the international comparative research and supported the qualitative research and the preparation of the report. And the Scottish element of the project, including the Scottish qualitative research that helps to inform this report, was carried out by Katherine Sangster (national manager, Scottish Fabians). A follow-up paper on employment insurance options for Scotland will follow later this year.

The UK and Scotland polls were fielded by YouGov and developed with the massive support of YouGov research executive Fintan Smith. Participants in the qualitative research were recruited by Leftfield Ltd.

At the Fabian Society, a big thank you to all our colleagues for providing such brilliant support – especially Emma Burnell, Kate Murray and Luke Raikes. At the Financial Fairness Trust thanks to Mubin Haq, the trust's chief executive, for his huge personal engagement with the project and also to Karen Barker and Charlotte Morris. ■

CONTENTS

About the project

This research was made possible by a generous grant from the abrdn Financial Fairness Trust.

The project was a product of the pandemic. It was inspired by the necessity and success of the emergency income replacement policies introduced to support people unable to work during Covid-19. We wanted to ask whether the experience of designing and rolling out reforms such as the furlough scheme could open up the possibility of a different way of protecting incomes in the UK.

The scope of the project covered payments people receive when they stop working – either after leaving a job or if they are away from work temporarily. We looked at non-means-tested benefits, payments made by employers and private insurance policies. The project did not focus in detail on means-tested benefits although they define the landscape in which other options for income replacement operate.

This report focuses on options for policy that would apply to the whole of the UK (or in some cases to Great Britain). A follow-up paper will examine options for the Scottish government.

The research included desk research, data analysis and expert interviews to explore the UK and international policy landscape. Then, in summer 2022, we convened a summit of UK policy experts to review and debate the evidence and options for reform. In November 2022 we held a similar expert roundtable examining options for the Scottish government.

Evidence of personal experiences of leaving work in England and Wales was gathered by conducting interviews in spring and summer 2022 with 13 people who had stopped working over the last year. They were selected by a market research agency using a quota sampling technique to achieve representation across different reasons for leaving work. Each individual was interviewed twice around two to three months apart to track their evolving experiences. In their second interview, they were also asked for their views on policy solutions. We supplemented these interviews with two focus groups of people who had recently left work in the west of Scotland.

We also commissioned a statistically representative poll of UK adults from YouGov weighted for political opinion and other demographic characteristics. The total sample size was 1,731 adults and fieldwork was undertaken between 7 and 8 December 2022. The poll was carried out online and the figures were weighted and are representative of all UK adults aged over 18. In the poll we asked people about their recent or current experiences of being out of work, their expectations of being out of work in the future and their views on policy proposals developed during the project. Questions on policy were asked first to avoid 'priming' respondents with questions about their own experience. A similar poll was also conducted in Scotland and the results will be published later in 2023.

Finally, the project examined the detail of policy options with micro-simulation modelling using household survey data. We commissioned Landman Economics to develop a new model using the Understanding Society dataset. Understanding Society is the UK's leading longitudinal household survey and allows researchers to track individual experiences over time. This data allowed us to model likely eligibility for payments based on when people last worked and their employment and earnings history in recent years. The model was used to design and cost all policy options, except for reforms to statutory sick pay where we used the Family Resources Survey which asks more detailed questions on sick pay (see appendix 4). F

Summary

Income replacement policies provide financial protection when people leave a job or stop working temporarily. They include non-means-tested social security benefits, payments from employers and private insurance policies; and they cover circumstances such as unemployment, sickness, caring for babies, caring for disabled or older people and retraining.

The UK's system of income replacement is an inadequate patchwork that in most cases falls far behind the support available in other rich countries. As a result, people who stop working face financial hardship and anxiety – and employers fail to retain and recruit the workers they need. This report makes the case for a complete overhaul. In preference to fragmented reform on many fronts we propose a comprehensive new system of **British employment insurance**.

Employment insurance would consist of a combination of paid leave from employers and state insurance benefits. The proposal would return the UK to routinely providing income protection on the basis of people's earnings (as was the case from the mid-1960s to the early-1980s). It is loosely modelled on Canadian employment insurance.

Under this new system, people who stop working would typically be paid **half their current or recent earnings** (with a cap on the amount payable to high earners). Fifty per cent of earnings is a low replacement rate compared to many other countries but it would be a huge step forward for the UK – and for low-income households it would be available alongside universal credit. In the case of sickness, we go further and recommend paying 80 per cent of earnings because existing employer practice is generally much better than the legal minimum (we suggest new support for small employers to help meet this cost).

The plan also includes new employment rights: improved statutory redundancy pay; four weeks of annual carer's leave; a new carer's career break of up to 12 months (initially in large workplaces); extending the right to request training leave to all workplaces; and clarifying the boundary between the self-employed and workers who have employers. Eligibility for the employment insurance entitlements would be drawn broadly, ending almost all the exclusions that restrict access to paid leave schemes and national insurance benefits today. In particular, self-employed workers would be major beneficiaries of the proposal since they have so little protection now.

The new system would offer a major boost to British business by helping firms retain and recruit good workers and by giving workers and consumers more financial security and resilience. With the exception of sick pay for medium and large employers, the state would pay most of the costs of the new entitlements. On average, employers would spend slightly less on paid leave schemes than they do now. However, there would be winners and losers: large employers who only pay statutory leave rates now would lose, while SMEs and large firms with good occupational pay schemes would gain.

The state's contribution could come from general government expenditure or from a new self-funding social insurance scheme (following the model of Canada's employment insurance system). If implemented at once, all the new entitlements we propose would together require public spending to rise by around £9bn (2022/23) which is under 4 per cent of total social security spending. However, we envisage the scheme being introduced gradually over a decade for operational and financial reasons. The costs could be paid for by a rise of 0.7 pence in national insurance contributions by individuals and employers.

The key entitlements we propose are:

Paid leave	For workers with an employer
Maternity and adoption leave	**Now:** low flat-rate, 9 months **Proposed:** earnings-related, 6 months (followed by parental leave)
Parental leave	**Now:** maternity pay can be shared **Proposed:** earnings-related, 6 months (shared or allowance for each parent)
Paternity leave	**Now:** low flat-rate, 2 weeks **Proposed:** earnings-related, 2 weeks
Sick pay	**Now:** very low flat-rate, day 4 to week 28 **Proposed:** earnings-related, day 1 to week 28
Carer's leave	**Now:** none **Proposed:** earnings-related, 1 week
Paid furlough	**Now:** almost none **Proposed:** earnings-related, 6 months

Insurance benefits	For people without a job or who are self-employed
Unemployment insurance	**Now:** very low flat-rate, 6 months (jobseeker's allowance) **Proposed:** earnings-related, 6 months
Sickness insurance	**Now:** very low flat-rate, 12 months (the initial period of employment and support allowance) **Proposed:** earnings-related, 12 months
Maternity and adoption insurance	**Now:** low flat-rate, 9 months (maternity allowance) **Proposed:** earnings-related, 6 months (followed by parental leave)
Parental leave insurance	**Now:** none **Proposed:** earnings-related, 6 months (shared or allowance for each parent)
Carer's insurance	**Now:** very low flat-rate, 12 months (the initial period of carer's allowance) **Proposed:** earnings-related, 12 months
Retraining insurance for the self-employed	**Now:** none **Proposed:** earnings-related, up to 8 months over 5 years
Free occupational health services	**Now:** none **Proposed:** available to SMEs, self-employed and people not in work

Immediate action

We also propose a series of interim measures that could be adopted rapidly at low cost for the government.

Unemployment and insufficient work	Annual public spending
Extend eligibility for jobseeker's allowance (JSA) to more workers including the self-employed	**£10m**
Introduce paid furlough to subsidise reduced hours as an alternative to redundancy	**£20m**
Reform statutory redundancy payments	–
Increase the value of JSA to match statutory sick pay if there is a severe recession	**£190m***
Sickness and disability	
Pay SSP from the first day of sickness	–
Extend eligibility for SSP to workers with low weekly earnings	–
Increase SSP to match maternity allowance	–
Rename ESA to 'sickness and disability allowance'	–
Pay ESA on the basis of medical certificates for up to six months	–
Pay ESA at the same rate as SSP for up to six months	**£60m**
Provide free occupational health services to small businesses, the self-employed and people who have recently left work	**Self-funding**
Babies	
Extend SMP to women with low weekly earnings and in the first six months of a job	**Very low**
Introduce paternity allowance and shared parental leave allowance for the self-employed	**£15m**
Pay maternity allowance at 90 per cent of recent earnings for six weeks	**£50m**
Caring	
One week of paid carer's leave per year, funded by employers	–
Three weeks of unpaid carer's leave	–
A right to a 12 months' 'carer's career break' (initially large workplaces only)	–
Training	
Pilot for JSA and unemployed UC recipients to access approved full-time training	**Very low**
Pilot training bursary for the self-employed	**£8m**
Extend the right to request training leave to workplaces of all sizes	–

*plus borrowing to fund temporary recession-related increase in unemployment

A Fabian Society YouGov poll of UK adults suggests this would be a popular set of reforms. Seventy-nine per cent of people expressing a view (ie excluding those who said 'don't know) support the introduction of our overall proposal for employment insurance. The percentage of people expressing a view who support individual policies is as follows (for the wording of each question see chapter 6 and appendix 2):

87 per cent – one week of paid carer's leave per year

87 per cent – Increasing minimum redundancy payments

77 per cent – Increasing minimum sick pay to 80 per cent of earnings

73 per cent – Carers who stop work receiving half their previous earnings for 12 months

63 per cent – Maternity pay rising to half a mother's usual earnings for 12 months

61 per cent – People who lose their job receiving half their previous earnings for six months

50 per cent – People who stop work to retrain receiving half their previous earnings

49 per cent – Paid furlough when employers are in financial difficulty

Why does income replacement need to improve?

Income replacement payments provide a cushion when people's incomes fall and a trampoline to help launch them back into work. They reward earning and contribution and offer ready-made support when economic crises hit. But UK income protection is patchy and inadequate. Jobseeker's allowance replaces just 12 per cent of average earnings and statutory sick pay just 16 per cent. With the exception of maternity payments, the value of support has declined significantly as a percentage of earnings since 1990. Chapter 2 shows how the UK also compares badly with other rich nations. Of the countries surveyed, the UK had the second lowest levels of unemployment benefit and sick pay and the third lowest level of maternity pay.

The Fabian Society YouGov poll found high awareness among workers of the inadequacy of income protection policies. Workers expected their incomes to plummet if they lost their job, with many respondents accurately predicting how little of their earnings would be replaced by social security. Twenty-nine per cent said they would often have to go without food and energy if they left work. Thirty-one per cent said that they would be able to maintain their standard of living for four weeks or less if they only had their savings to live from.

There are good reasons for reforming income replacement now. The measures introduced during the pandemic were proof that UK policies are inadequate and they were also a template for future reforms. The introduction of universal credit and recent 2023 proposals to reform disability benefits sideline traditional non-means-tested income replacement benefits. Measures to protect workers and keep them connected to employment are needed as we face ongoing economic turbulence and labour shortages.

When incomes need protecting

Employees and self-employed workers need income replacement in two circumstances:

- **When they are temporarily away from work:** One in 17 workers are away from work each week – 600,000 are on sick leave and 400,000 are on maternity leave. Our poll found that 23 per cent of workers had been absent from work for more than two weeks in the last two years (30 per cent in the case of workers with earnings under £20,000).

- **If they need to leave their job:** 3.5m people stop working each year for a wide range of reasons – unemployment, sickness, looking after children, caring for an adult, education and retirement. Self-employed people are at higher risk of leaving their job than employees.

Unemployment and insufficient work

1.3 million people are unemployed and 780,000 in the first six months of unemployment. However only around 40 per cent of this group come straight from a job. Many more work fewer hours than they want to.

Our modelling shows that two-thirds of people in the first six months of unemployment are eligible for JSA but only 40,000 people receive it – 8 per cent of those eligible. Forty-eight per cent of the eligible group receive universal credit (there is no point in claiming both), and the rest are either unaware of the benefit or do not think it is worth claiming.

Sickness and disability

Before the pandemic, the incidence of sickness and disability had been increasing but sickness absences and health-related economic inactivity were both in decline. But since the pandemic both have started to rise.

The large majority of workers receive considerably more than statutory sick pay through employers' occupational pay schemes. Only 16 per cent of those receiving SSP do not get extra sick pay from their employer and SSP makes up only £2.6bn of the £10.9bn spent on sick pay each year. As so many employers already go beyond minimum requirements, there is scope for a big jump in statutory sick pay to assist the minority of workers currently left behind.

Babies

At any time 300,000 mothers are receiving either statutory maternity pay or maternity allowance. SMP and maternity allowance are flat-rate payments worth 25 per cent of average earnings except for the first six weeks of SMP which is paid at 90 per cent of earnings. Many mothers also receive occupational maternity pay but on average they still receive only around half their usual earnings during maternity leave.

200,000 fathers or partners take paternity leave each year but only 10,000 parents take shared parental leave. Neither of these schemes is available to the self-employed.

Caring

Around 7 per cent of working carers stop work each year, and 140,000 carers without work have stopped work in the last 12 months. There is currently no statutory right to carer's leave (the government is planning to introduce a right to one week of unpaid leave). Carer's allowance is worth even less than other out of work benefits (11 per cent of average earnings).

Learning

1.5m adults in England take part in publicly supported learning outside of higher education each year. But there is no comprehensive system for supporting their living costs if they are not working or working part-time. **F**

1. The case for income replacement

WHAT IS INCOME REPLACEMENT?

Income replacement is the term used to describe payments to make up for lost earnings when people stop working. It includes money received when jobs come to an end and when people are temporarily away from work – and it covers both people with an employer and the self-employed. Payments can come from employers, social security benefits or private insurance.

Today spending on income replacement in the UK adds up to around £25bn each year across government, employers and insurers. The current schemes are briefly outlined here and described in more detail in appendix 1.

Statutory pay schemes: The government requires employers to pay people a portion of their wages when they are away from work for sickness or to care for a baby (maternity, paternity, adoption or parental leave). It also requires employers to make a payment to employees who are made redundant. The government meets most of the costs of parenting-related statutory pay but does not help with sickness or redundancy. In all these cases there are restrictions and conditions on eligibility. Apart from the first six weeks of maternity and adoption pay, statutory leave payments are low flat-rate amounts far below typical earnings.

- **Statutory sick pay** worth a flat-rate £99.35 per week, equivalent to 16 per cent of average earnings (2022/23), is received by an estimated 9 million employees each year, costing employers an estimated £2.6bn[1] per year. It is paid from the fourth day to the 28th week of sickness.

- **Statutory maternity pay** is received by 250,000 women at a time, costing the government £2.7bn per year.[2] It is worth 90 per cent of earnings for six weeks and then a flat-rate £156.66 per week (equivalent to 25 per cent of average earnings) for up to 33 weeks (2022/23).

- **Statutory redundancy pay** is the minimum lump-sum payable to an employee made redundant after more than two years of service. Payments are determined according to age and length of service and are earnings-related up to an annual salary cap of £29,780 (2022/23).

Occupational pay schemes: Many employers pay more than the statutory minimum amount to people who are away from work or become redundant – either full pay or a percentage of ordinary wages. Occupational pay schemes can also apply for a longer period than statutory pay. However, there is no requirement for employers to provide these schemes, and they are most common and most generous in white collar and public sector jobs. Terms are determined by employers which may result from industry-wide norms or bargaining with trade unions.

- **Occupational sick pay** is received by an estimated 7 million employees per year, costing employers around £8bn per year.[3]

Non-means-tested benefits: People who have left a job or are not entitled to paid leave can access social security benefits from the government. The key benefits are jobseeker's allowance, employment and support allowance (for people who are sick or disabled), maternity allowance and carer's allowance. The first three of these benefits are dependent on past work record while carer's allowance is available to anyone who is caring with zero or very low earnings.

- **Employment and support allowance (ESA)** worth £77 or £117.60 per week (2022/23) for people aged 25 and over is received by 790,000 people at a time (mostly long-term claimants) and costs the government £4.9bn per year.[4]

- **Jobseeker's allowance (JSA)** worth £77 per week (2022/23) for people aged 25 and over is available for up to six months. It is currently received by 40,000 people at a time, costing the government £170m per year.[5] These numbers can be expected to rise significantly during periods of high unemployment.

- **Maternity allowance** worth £156.66 per week (2022/23) is received by 40,000 women at a time, costing the government £350m per year[6].

- **Carer's allowance** worth £69.70 per week (2022/23) is received by 900,000 people at a time (mostly long-term claimants) and costs the government £3.3bn per year.[7]

"I mean, this might be a stupid question, but why is there a difference? If you're on maternity leave, it's £157, but if you're out of a job, it's £77? It's still the same price for bread, milk, whatever."

Margaret

Employer-provided private insurance: A small minority of employers purchase group insurance policies that they use to pay for their occupational pay schemes or to provide additional benefits to employees. Policies typically cover the whole workforce and do not need to be individually underwritten. *Income protection* policies cover 2.8m employees and usually provide a percentage of an employee's salary while they are unable to work. They also include support services to help people back to work. Payments may be time-limited or last until retirement and are used to refund employers for the costs of sick pay (unless the employment comes to an end, when they may be paid directly to an individual). *Critical illness* policies cover 700,000 employees and usually pay out a single lump sum when an employee is diagnosed with one of a list of specified illnesses such as cancer.[8]

- **Income protection and critical illness insurance:** 17,500 people receive payments each year from employer-provided schemes, costing insurers £600m per year.[9]

Individually purchased private insurance: Individual employees and self-employed workers can choose to purchase critical illness and/or income protection insurance. Around one million people hold one of these as a standalone policy (others have critical illness cover as part of a life insurance policy).

- **Income protection and critical illness insurance:** 28,000 people receive payments from individually purchased insurance each year, costing insurers £1.3bn.[10]

In reviewing these income replacement options, we have left out the main fallback source of help for people who are not working, means-tested **universal credit** (and its predecessor benefits). Universal credit provides modest levels of support to households with low incomes and currently supports 3.3 million adults who aren't in work.[11] In this research we've mainly treated UC as a backdrop rather than a form of income replacement itself. This is for two reasons. First, the level of support that UC provides is very low – for a single person not paying rent universal credit replaces 12 per cent of average earnings. Second, around half of workers aged 25 to 64 would be ineligible for UC if they lost their jobs - either because they have too much in savings (20 per cent) or because their partner's earnings make them ineligible for the means-test (31 per cent).[12]

"I have felt punished by circumstance… because the settlement I got took me above the savings allowance or cap, or whatever it's called. Suddenly I get nothing that's means-tested… which used to be my go-to due to having disabilities or limited capability to work."

Matthew

WHY REFORM INCOME REPLACEMENT NOW?

The UK has got by with a limited and cheap patchwork of income replacement for a long time. The value of most of the statutory entitlements as a percentage of earnings has been falling steadily over decades.[13] This makes us an outlier compared to most rich countries. In chapter 2 we will see that most advanced economies have much more generous income replacement arrangements. But why take action now? There are three main reasons:

Lessons from the pandemic: The Covid-19 pandemic has created the impetus for looking again at income replacement. When suddenly millions of people were unable to work because of lockdowns, illness and self-isolation, it was immediately obvious that the existing safety-net was inadequate. At extraordinary pace the government introduced policies that served both as recognition that current measures were insufficient and as illustrations of the kind of policies that could be pursued in the future.

The key emergency measures were:

- **Furlough (coronavirus job retention scheme)** which paid up to 80 per cent of salaries for employees unable to work.

- **The self-employment income support scheme** which paid a series of grants worth up to 80 per cent of self-employment profits.

- **Statutory sick pay** was changed to start on the first rather than the fourth day of sickness absence and included time off for self-isolation as well as sickness. Small employers were able to reclaim some of the costs of Covid-related absences.

- **Test and Trace support payments** worth £500 for 10 days' self-isolation were paid to low-income workers who lost earnings (England only - similar schemes operated in the rest of the UK).

- **Universal credit** was temporarily increased by £20 per week to match the value of statutory sick pay. UC rules on minimum earnings for self-employed workers were also relaxed.

Furlough supported almost 9 million employees at its peak and was proof of the effectiveness of earnings-related assistance when wages are interrupted.[14] Both furlough and the self-employment grant used existing government IT systems with enormous success. In the case of SEISS earnings-related entitlements were rapidly calculated using tax records, an approach that could be adapted to operate any future earnings-related protection payment.

> "It's interesting, isn't it, how companies were able to furlough on full pay so quickly. The government was able to make all that happen, and people have to actually, it feels, beg, borrow and steal to get a benefit that they should be entitled to. How quickly they could implement that, yet for people who have genuine health problems or genuine needs, it feels like you're having to go and justify it and tell your story again and again and again."
>
> Jen

Turbulent economic conditions: The economic outlook remains grim. UK growth in 2022 and 2023 has disappointed again, following the worst 15 years in our modern economic history.

It is therefore a good moment to ask how we support people during economic downturns: what should happen to people who are not able to work their normal hours or lose their jobs? Are people able to maintain something close to their previous living standards? Do they have the spending power that economic recovery might rely on? Rather than rush through temporary emergency measures once again, policy makers should seek to develop permanent policies ready for whenever there is a collapse in employment or consumer demand.

But paradoxically the UK is also facing major labour supply challenges because many people have dropped out of work since the pandemic. A reform programme is needed to keep workers well-connected with their existing employers and keep people who stop work close to the labour market. Proposals for generous but time-limited financial support for temporary breaks from work are the right response. Employers need support from national labour market institutions to help retain their workers and ensure there is a ready pool of people ready to return to work.

Universal credit: The medium-term context for this study is the roll-out of universal credit, which is now paid to more than 4 million households and is expected to cover more than 6 million households by 2026/27.[15] UC replaces previous means-tested benefits. But it also sidelines non-means-tested income replacement benefits that continue to exist, because all those households eligible for universal credit are left no better off if they claim a non-means-tested benefit. Non-means-tested benefits are therefore only promoted to people once it is clear they won't be eligible for UC, and in operational and marketing terms these payments are a poor relation to UC in the work of the DWP. Many recipients have been left very confused and people who should be claiming a non-means-tested benefit are not.

> "There's the whole thing now of new-style ESA, which I've been learning about, or I can go for universal credit, which includes JSA now. It is so confusing."
>
> Matthew

The shift to UC has seen a significant fall in the numbers claiming the key non-means-tested benefits:

- **A 75 per cent decline in non-means-tested JSA recipients** (from 2016/17 to 2022/23). In this time the proportion of all unemployed benefit recipients claiming non-means-tested JSA fell from 13 per cent to 2 per cent.[16]
- **A 36 per cent decline in non-means-tested ESA recipients** in the first year of a claim (from May 2018 to February 2020). The numbers have then climbed slightly as a result of the pandemic.[17]
- **A 31 per cent decline in maternity allowance recipients** (from 2015/16 to 2022/23). This fall was concentrated among employee rather than self-employed mothers.[18]
- **An 8 per cent decline in carer's allowance recipients** in the first year of a claim (May 2018 to February 2022).[19]

Despite these shifts non-means-tested benefits still play an important role with respect to short duration social security claims, and this is often overlooked in policy debates. Figure 1 shows they make up more than a quarter of social security payments of less than six months' standing.

In March 2023 the government announced major reforms to benefits for sick and disabled people which focused exclusively on people experiencing long-term barriers to work. Nothing was said about employment and support allowance or temporary absences, demonstrating how short-term income replacement measures are ignored by present policy making.

Universal credit is paid to people who are both in work and out of work, with payments rising and falling in response to changing monthly household income. UC can therefore top up income from paid leave schemes and non-means-tested benefits. Its introduction creates an opportunity to design a coherent system that combines means-tested household support with employment insurance when people's earnings fall or they stop work. As we will see, the way UC interacts with income replacement is inconsistent, with paid leave schemes treated more favourably than equivalent social security payments.

Additional reasons: Finally, there are specific reasons for acting relating to the individual risks that income replacement is there to cover which are explored in more depth in later chapters. There is growing cross-party support for reform of maternity and parenting pay, following the limited success of shared parental leave. The pandemic has revealed the need to reform statutory sick pay, especially to provide enough support to stop people working when they have an infectious illness, and to provide similar support to the self-employed. There are moves afoot to create statutory carer's leave (initially on an unpaid basis). And the creation of the lifetime skills guarantee in 2021 (offering free further education to all adults without A level equivalent qualifications) raises questions about financial support for people who return to learning.

THE CASE FOR NON-MEANS-TESTED INCOME REPLACEMENT

There are strong reasons for improving income replacement, especially in a country like the UK which also has a frugal system of means-tested social protection.

A cushion when incomes fall: When people with medium or medium-high earnings stop working and see their incomes fall to safety-net levels it creates significant financial pressure. This is because it is hard to make adjustments to living costs quickly – for both practical and psychological reasons. In particular it is both difficult and undesirable for people to move home (to cut their housing costs and related bills) within months of losing a job or stopping work temporarily. For this reason people who stop working should initially be able to replace a large portion of their former income. Those who do not find similar work may then have to see their income gradually decline, as their former job becomes more distant and they adjust to their new circumstances.[21]

> "Obviously, people have a car that they can afford when they're in a specific job and have a mortgage that they can afford when they're in a specific job. So going from whatever your wage is to then, all of a sudden, £77 a week, that's obviously really scary. Whereas if it was a percentage, it's maybe a bit more of a security net. If you've already got all these costs that you can't just change in the click of a button."
>
> Rachel

A significant replacement income is particularly important when policymakers actively want people to take time off from work – eg to encourage mothers and

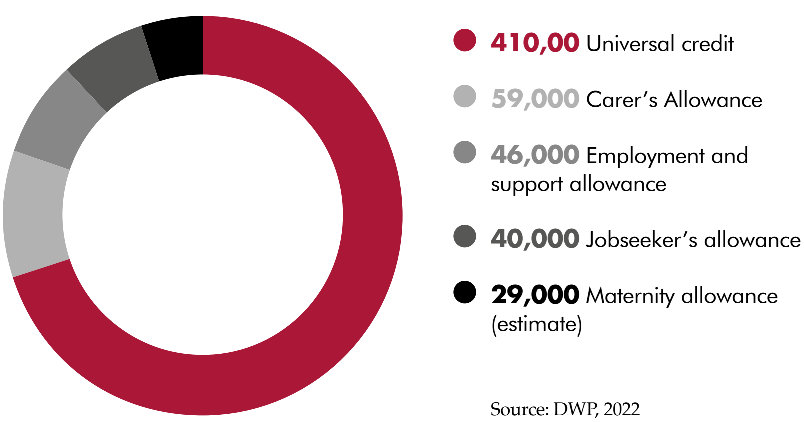
> In the Fabian Society YouGov poll, we asked people in work how long they would be able to maintain their current living standards if they had to live off their savings. 31 per cent of workers said four weeks or less, a figure that increased to 40 per cent for people earning under £20,000.
>
> We also asked people with jobs what actions they would take for financial reasons if they stopped working. Responses included: using up savings (58 per cent), reducing spending on food (55 per cent), reducing spending on energy (46 per cent), stopping using a car (31 per cent), asking for help from a food bank or charity (20 per cent) and moving home (9 per cent). See appendix 2.

A trampoline to help people back into good work: Well-designed income replacement policies help maintain connections with existing employment. For example, good sickness and maternity policies create financial incentives for employers to reintegrate their absent employees into the workplace. This is good for employers and the economy because existing workers are better matched to their jobs and more productive than new recruits. Once people leave a job, adequate income replacement also creates the breathing space for people to find new jobs suited to their skills. A limited period without acute financial stress gives people the time and headspace to find well-matched work or focus on returning to good health. International evidence suggests that better unemployment benefits improve job matching and, in turn, the functioning of the labour market.[22] Policies that help people stay close to the labour market and to jobs they are well-suited to are very important for improving labour supply, which is currently falling well behind employers' demand for workers.

Permanent protection from shocks and crises: Countries with strong earnings-related social protection systems did not need to invent new emergency policies at the start of the pandemic.[23] After the experience of the last few years there is a strong case for developing permanent income replacement schemes to support the sickness and isolation requirements of a pandemic. But more broadly, adequate support when people can not work helps economies during downturns and recessions when employment levels fall. Social security operates as an 'automatic stabiliser' because spending rises in line with worklessness, helping replace lost incomes and spending power. This is important for sustaining consumer demand and limiting the adverse consequences of recessions for the economy as a whole and individual firms. The more generous the entitlements, the stronger the automatic economic boost when the labour market is weak.

A reward for earnings and contribution: There is broad public support for ideas of fairness derived from contribution, reciprocity and proportionality. As the 1942 Beveridge report put it: "Benefit in return for contributions, rather than free allowances from the state, is what the people of Britain desire."[24] Today those who pay national insurance and other taxes designed to fund social security often feel they receive little back, in what's been called a 'nothing for something' system. In fact most people do receive social security at some point during their working lives (and everyone gets a state pension).[25] But entitlements directly linked to recent employment or payroll taxes represent a

Figure 1: Over a quarter of out-of-work social security recipients in the first six months of a claim receive non-means-tested benefits[20]

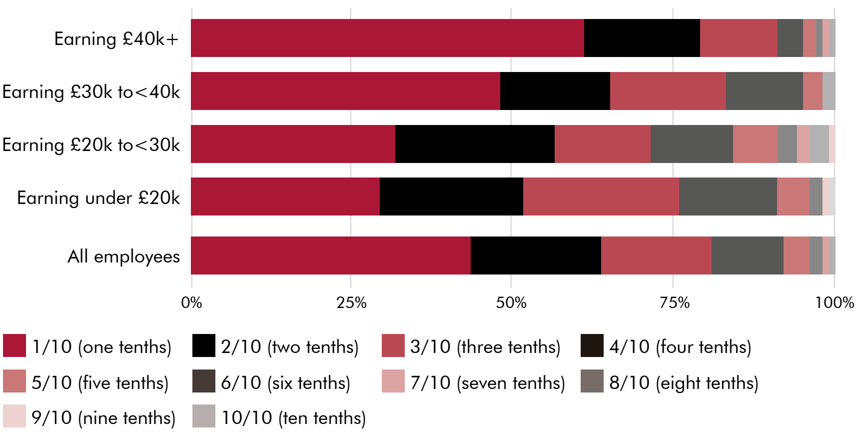


Source: DWP, 2022

much stronger link between contribution and receipt. For example, in 2020 three-quarters of the members of a Fabian Society citizens' jury on social security agreed that people who had "paid into the system by making regulation national insurance contributions" should receive more in benefits than those who had not.[26]

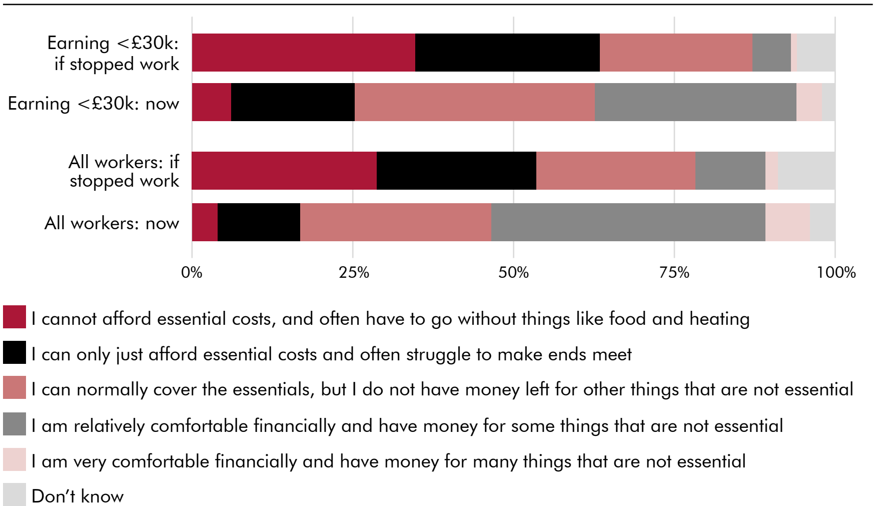
A stepping stone towards income adequacy: Millions of people in the UK have incomes well below what the public thinks is an acceptable minimum.[27] The main long-term solution to this problem is to improve the generosity of means-tested benefits – as well as reducing living costs and helping people to work more hours. But increasing statutory pay and income replacement benefits to adequate levels would be a powerful step forward. These policies would directly boost the living standards of those eligible and their households. Stronger income replacement measures could also be a stepping stone to more generous social protection overall, as one part of a strategy to create minimum income guarantees for different groups in society. Providing adequate payments to people closest to the labour market might over time help to ratchet up the generosity of social security overall.

Figure 2: People typically expect jobseeker's allowance to replace one-fifth of their earnings[29]



Source: Fabian Society YouGov poll, December 2022. See endnote and appendix 2 for question wording

Figure 3: More than half of workers say that if they stopped working they could not afford or could only just afford essential costs[30]



Source: Fabian Society YouGov poll, December 2022. See endnote and appendix 2 for question wording

Diversity of social protection: Universal credit is a single payment for the whole household paid once a month. It is usually paid to one member of a couple, which may lead to their partner (often a woman) being left without an independent income. Waiting a whole month can be tough on a low income, exacerbating hardship and debt. This is particularly true at the start of a UC claim when people have to wait five weeks for their first payment and often take out government loans to cover this period. If something goes wrong with a UC payment, people can lose all their financial support in one go. For all these reasons there are good grounds for people to receive other payments as well as, or instead of, universal credit. In particular, money paid to individuals as a personal entitlement creates financial independence, especially for women. Personal benefits based on earned entitlement should complement monthly support flowing from a household means-test.

Broader support for the welfare state: Giving more people meaningful support and protection is likely to broaden public support for the welfare state. When people see that the welfare state is relevant to their needs they are more likely to have an interest in ensuring the system is generous and well-resourced. The presence of better statutory leave schemes and non-means-tested benefits is also likely to reduce stigma around claiming, leading to increased take-up and reduced social division.

THE CASE AGAINST

So what are the arguments against more generous income replacement entitlements? The first is **cost**. Employers, individuals or the government will need to pick up the cost of more generous protections. At a time when public finances are under strain and business productivity is barely rising, spending more on income replacement might mean spending less on other desirable things. In particular, the UK is facing another period of fiscal pressure in response to the pandemic, the Ukraine war and the disastrous choices of the short-lived Truss administration. In the short term, any policies involving government spending may need to be modest.

Second, expanding non-means-tested income replacement can be said to go against the grain of the UK's **targeted** approach to social protection, exemplified by universal credit. Some people would like to see all of social security subsumed into a single means-tested system of support that efficiently allocates resources to where need is greatest, on the basis of household income and assets. As we have seen, the logic of the government's current approach to working-age social security is to sideline all sources of protection that are not means-tested. British political debate in recent years has demonstrated the tension between universalist instincts and this preference for tightly targeted solutions, in policy areas ranging from energy costs to childcare. We have seen new universal entitlements but financial pressures and a concerns that some recipients don't need support often push decision makers towards means-testing. In chapter 6 we will see that public opinion is supportive of better protection for all, but more ambivalent about earnings-related schemes if they favour higher earners.

The third objection relates to **work incentives**, with people worrying that if payments are too close to what people could be earning they will have no incentive to find work. This argument applies particularly to unemployed people, but economic incentives may also be relevant for carers, learners and people with intermediate levels of sickness or disability. This argument becomes more persuasive when protection is available for long durations or indefinitely, as opposed to short periods while people are temporarily not working.

There is another argument against **extended duration** for income replacement payments. This is that after a period out of work an individual's former employment becomes less relevant as a factor in determining the level of financial support that might be appropriate for them to receive. A long time after people have stopped working it is probably wrong to distinguish between those who have formerly worked and those who have not, or between people with different past earnings, in otherwise identical circumstances.

INADEQUATE INCOME REPLACEMENT

Chapter 2 shows how UK income replacement compares to the systems in other rich countries. But the headline is clear: the UK's system of income replacement is totally inadequate. According to the latest OECD figures for 2022, jobseeker's allowance or the basic rate of universal credit replaces just 12 per cent of average earnings for a single adult. Even with means-tested support for rental costs the figure rises to only 34 per cent.[28] Meanwhile statutory sick pay is worth just 16 per cent of average earnings.

In the Fabian Society YouGov poll we found that many employees had a clear view of their likely financial prospects if they lost their job. We asked employees what proportion of their current earnings jobseeker's allowance was equivalent to (figure 2). The median response among all respondents was one fifth, while the median employee earning over £40,000 said one tenth (note, almost half of respondents said 'don't know').

It was a similar story when we asked people what their overall household income would be if they lost their job (including benefit income and the earnings of other family members). Everyone's circumstances are different so there is no standard 'correct' answer to this question. But again, respondents were accurate in fearing the worst, with the median response being three-tenths of current income (again a high number said 'don't know'). See appendix 2.

Respondents were also very pessimistic about what their likely living standards would be if they suddenly stopped working (figure 3). 29 per cent of respondents agreed with the statement: "I could not afford essential costs and would have to go without things like food and heating" (compared to 4 per who agreed with an equivalent statement about their current circumstances while in work). Among people earning under £20,000 per year, the number choosing this statement was 35 per cent.

A SHORT HISTORY

A limited scheme of income replacement was first introduced in the UK by David Lloyd George's National Insurance Act of 1911. It provided non-means-tested sickness benefits for most male workers and unemployment insurance covering some industries only, paid for by compulsory national insurance contributions.

The scheme was inadequate to deal with the mass unemployment in the 1920s and 1930s but laid the ground for William Beveridge's 1942 proposals for a comprehensive system of social insurance. The National Insurance Act 1946 introduced flat-rate, non-means-tested benefits for unemployment, sickness and maternity based on national insurance contributions. These included top-ups for dependents but, against Beveridge's recommendations, the benefits were introduced at a level too low for subsistence, especially once housing costs were taken into account. As a result, many recipients also had to claim means-tested support and, ever since then, means-tested benefits have played a far larger role in British social security than Beveridge intended.

A major shift came in 1966 when earnings-related national insurance benefits covering unemployment and sickness were introduced. The combination of a flat rate and an earnings-related component paid workers on median pay an income replacement of around 50 per cent of earnings.[31] This brought the UK into line with many other European countries and was driven by a view that skilled workers needed protection from short spells of unemployment to support the industrial restructuring that was underway. For the same reason statutory redundancy pay was also introduced. The reforms were instigated by Harold Wilson's Labour government, but the Conservatives had fought the 1964 election with similar proposals.[32]

This shift to earnings-related benefits (soon followed by earnings-related pensions) prompted another important change in 1975, when national insurance contributions were converted from flat-rate to earnings-related deductions. It seemed that the UK had converted its 'Beveridgean' system of social security into an earnings-related 'Bismarckian'one. But this new approach lasted only a handful of years. In 1980 the Conservative government at a time of acute spending pressures decided to abolish working age earnings-related payments (though not the earnings-related contributions!). The UK's brief experiment with continental-style income replacement was over. It was the start of the shift to the tightly targeted social security system we know today.

The 1970s and 1980s also saw the rise of employer-provided income replacement. In 1975 six weeks of maternity pay was introduced for women with at least two years of service with an employer. It was earnings-related and designed to top up the flat-rate maternity allowance. Then in 1987 today's statutory maternity pay was created, replacing maternity allowance for eligible women with more than six months' service with an employer. SMP combined features of the two previous entitlements, with an initial earnings-related component followed by a flat-rate payment. Restrictions on eligibility to maternity allowance were relaxed in the 1990s, and the generosity and duration of both SMP and maternity allowance were increased in the 2000s.

In 1983 statutory sick pay was introduced to replace sickness benefit for employees on sick leave, initially for the first eight weeks of absence which soon increased to 28 weeks. At first SSP was paid at three rates, depending on earnings, and the government covered most of the costs. The subsidy paid to employers was almost entirely removed in the 1990s and SSP was converted to a single flat-rate entitlement.[33] This contrasts with maternity pay which remains very largely publicly funded, and partially linked to earnings. The UK's focus on employer-provided payments stands in contrast with many international examples where social security often replaces incomes when workers are on leave.

Finally, the predecessor of carer's allowance was introduced in 1976. It was originally intended to be claimed by single women caring for disabled relatives who did not have the support of a partner (married and co-habiting women were barred from claiming). This rule was overturned by the courts in the 1990s. From the start, payments for carers were set at a lower rate than income replacement benefits designed with men in mind.

The value of most of these entitlements has declined over time compared to earnings, making them less meaningful sources of income replacement. The exception is maternity pay, which was increased by the 1997-2010 Labour government. All the other key entitlements have lost value compared to average earnings since 1990:[34]

	1990	2022
Unemployment	**18%**	**12%**
Sickness benefit	**18%**	**12%**
Sick pay	**26%**	**16%**
Carer's benefit	**14%**	**11%**
Maternity pay	**19%**	**25%**

Over time the coverage of non-means-tested unemployment and sickness entitlements also declined (in contrast to the approach taken with maternity). In the 1990s the introduction of jobseeker's allowance restricted eligibility for non-means-tested unemployment assistance to six months and saw progressively tougher work conditions introduced. Benefits related to sickness and incapacity were reformed repeatedly with the aim of reducing the number of long-term recipients. Health assessments became more robust and in the 2010s eligibility for ESA was restricted to one year for people with less severe health or disability barriers. F

2. Income replacement overseas

This chapter shows how the UK is an outlier when it comes to income replacement in rich nations and has some of the least generous policies among OECD countries. This is largely because the UK replaces income with flat-rate entitlements rather than payments related to previous earnings.

The chapter begins with a case study of Canada, which we believe offers a model of comprehensive employment insurance that could be a template for the UK. All evidence in this chapter provided without citation is drawn from the EU's invaluable mutual information system on social protection (MISSOC). Further details of international policies are presented in appendix 3.

UNEMPLOYMENT AND INSUFFICIENT WORK

The UK's low and flat-rate unemployment benefits are an exception among European countries, the vast majority of which have an earnings-related unemployment insurance scheme. Replacement rates vary but the majority of nations provide between 50 and 80 per cent of typical earnings (figure 5), with Luxembourg leading the pack. In some countries (the Czech Republic, Estonia, Slovenia, Spain) the replacement rate is gradually reduced as the duration of the claim increases, but to no less than 40 per cent. Only Hungary, which provides no further support after 90 days, provides a lower replacement rate than the UK after five months of unemployment.

The UK's six months of eligibility for JSA is also short by international standards. Eligibility of 12 months or longer is commonplace. In other European countries, the duration of eligibility for earnings-related benefit often varies by length of contribution, age, or both. In Belgium the duration is unlimited but over time the benefit level falls and eventually becomes flat-rate. Similarly, in Latvia the benefit is determined by the length of insurance record for the first two months of unemployment, with the payment then reducing proportionally every two months.

The UK is also unusual in having a seven-day waiting period before payments begin – most countries do not have a similar arrangement. In several countries a higher level of unemployment benefit is available for people with dependents. This model once applied in the UK but was abandoned in the 1990s.

Furlough schemes

Furlough schemes where governments cover part of the wages of workers facing reduced hours or temporary lay-offs are another form of income replacement for people at risk of unemployment. These 'short-time' work schemes were used prominently during the 2008 financial crisis and the Covid-19 pandemic. In 2020 the UK had no government-funded programme in place and had to rapidly create the furlough scheme. By contrast, a number of European countries and Canada already had short-time work schemes as a permanent feature of their social protection systems. These now remain available for future labour market crises, unlike the UK scheme which was wound down after the pandemic.

Different short-time work schemes vary in the circumstances in which they can be used – in most countries they are designed for economic pressures or temporary reductions in labour demand. In some cases, they are used to help with supply chain issues, seasonal fluctuations in demand and industrial restructuring.

Many schemes come with requirements for employers to avoid keeping unviable businesses afloat. Some countries require employers to demonstrate that they

CASE STUDY: CANADA'S EMPLOYMENT INSURANCE PROGRAMME

Canadian employment insurance (EI) is a comprehensive earnings-related system of income replacement benefits operating in a large English-speaking country.[35] The programme has existed for more than 80 years with entitlements expanding gradually over time. It is run by a tripartite commission with employer and worker representatives.

Most benefits are paid at 55 per cent of earnings up to a cap of around Can$60,000 (the figure increases annually with average earnings). This is approximately equivalent to £40,000 so represents a similar threshold to that used by the UK furlough scheme in 2020 to 2021. During the pandemic entitlements were expanded on a temporary basis. Figure 4 presents the current duration of entitlements.

Figure 4: Income replacement entitlements in Canada are worth 55 per cent of previous earnings and span a range of durations[36]

Unemployment	Up to 45 weeks
Sickness	26 weeks
Maternity	15 weeks
Parental (standard) – follows maternity	40 weeks, of which five reserved for partner only
Parental (extended) – follows maternity	69 weeks, of which eight weeks reserved for partner (worth 33 per cent of earnings not the usual 55 per cent for a longer duration)
Carer (critical illness – child)	35 weeks
Carer (critical illness – adult)	15 weeks
Carer (terminal illness)	26 weeks
Training – PROPOSED	Four weeks

EI takes the place of both statutory pay schemes and non-means-tested benefits in the UK. The programme also includes a work-sharing scheme that subsidises pay when employers facing financial distress need to reduce employee hours. Employers are able to make top-up payments (equivalent to occupational pay schemes in the UK) and their EI premiums can be reduced if they provide their own sickness payments.

The EI programme is funded by premiums on earnings up to around Can$60,000 paid by both employees and employers. The rates in 2023 are 1.63 per cent and 2.28 per cent of earnings respectively. Unlike with UK national insurance, the premiums apply from the first dollar of earnings up to the earnings threshold.

Self-employed workers can opt in to EI benefits except for unemployment benefit. They only have to pay the employee not the employer premium but take-up of this option is very low.

EI is designed to be self-funding and the premiums are set each year on the advice of an official actuary, with the aim of achieving financial balance within seven years. Total expenditure is projected at Can$26bn in 2023.

were not in a situation of insolvency or bankruptcy prior to a downturn or have met all their social insurance and tax obligations.

In most countries with furlough schemes the support lasts for up to six or nine months, with replacement rates generally between 60 and 90 per cent of usual earnings. Poland, the Czech Republic, Bulgaria, and Austria all offer more than 90 per cent of pay.

SICKNESS

The UK is one of only a handful of European countries that does not have any kind of compulsory earnings-related sickness payments. Almost all European countries have schemes where employers pay either full wages (Austria, Belgium, Finland, Germany, Iceland, Italy, Luxembourg, Norway, Poland, Switzerland) or a percentage of earnings, generally between 50 per cent and 80 per cent, for an initial period. The UK's low flat-rate payments offer very little protection by comparison (see figure 6). Only the USA, which offers no help at federal level, does worse.

In other countries sick pay is often paid for a short period – between one and three weeks – and then replaced by sickness benefits. Particularly generous examples of sick pay include Austria (full pay for up to 12 weeks, reducing to 50 per cent for an additional four weeks), Luxembourg (full pay for 13 weeks) and most notably the Netherlands (70 per cent up to 104 weeks). The Dutch scheme is unusual because it works entirely through employer-funded sick pay (with no state payments involved). In order to afford this, employers in the Netherlands can purchase private insurance that partly covers this risk.

Sickness benefits then replace employer-run sick pay once they have run their course – as well as covering those who are not eligible such as the self-employed. Once again, the UK's ESA provides far less support than sickness benefits in most European countries, which are almost always earnings-related. In the Netherlands, sickness benefits are an alternative to the very long sick pay term, and cover workers with fixed-term contracts, agency workers or unemployed workers who become sick (these are paid by premiums from employers).

In Norway sickness benefits are also payable in cases where a person drops from full-time to part-time work because of sickness. For example, if an employee can now only work 50 per cent of their previous hours, they will be paid 50 per cent of their salary and 50 per cent of sickness benefit.

BABIES

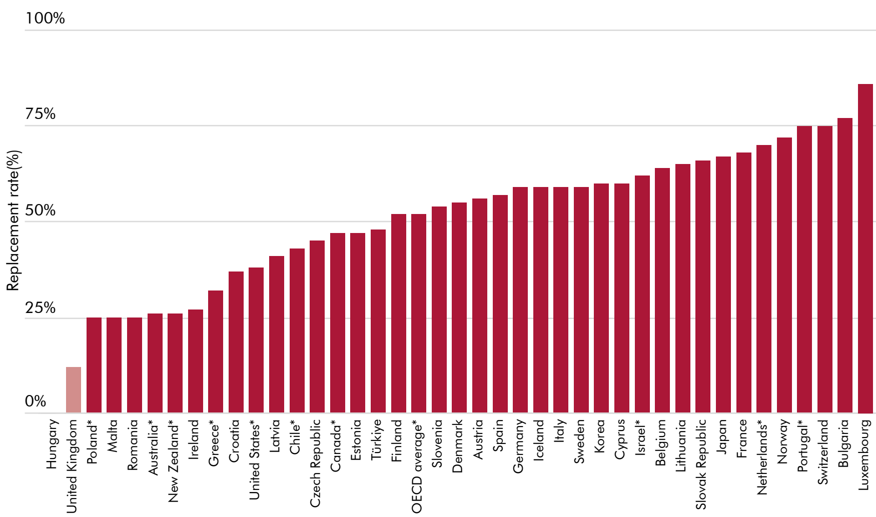
The UK provides earnings-related maternity pay for just the first six weeks of maternity leave. Almost every other European country pays an earnings-related maternity (or parental) payment for most or all of the duration of statutory leave. Replacement rates are high, almost always falling between 75 per cent and 100 per cent of earnings, with 13 OECD countries providing mothers on average earnings full compensation across their maternity leave (figure 7). Many of these schemes contain maximum ceilings so that higher-paid women receive proportionately less of their earnings.[39] Once again, the UK's flat-rate scheme provides very little security by comparison. The USA does even worse, with no federal support for maternity.

The UK has limited paid parental leave, based on mothers transferring part of their flat-rate maternity pay to a father or partner. In most other OECD countries, paid parental leave benefits are available on an earnings-related basis. These benefits are sometimes available for several years.

Most countries use social security benefits rather than paid leave for maternity and parental leave, but in those that do use paid leave, governments almost always pay the costs (as in the UK). Some countries have small periods in which maternity or parental pay is paid for by employers (Belgium, Germany, Greece, Luxembourg, Switzerland, Netherlands) but only for a matter of days or a few weeks. In some countries (Denmark, Finland, Spain) collective agreements provide for the continued payment of wages by the employer for certain groups of employees.

Several countries allow extensions for multiple births (France, the Czech republic, Iceland, Poland, Lithuania, Slovakia, Hungary, Slovenia) and many allow extensions for illness or disability of

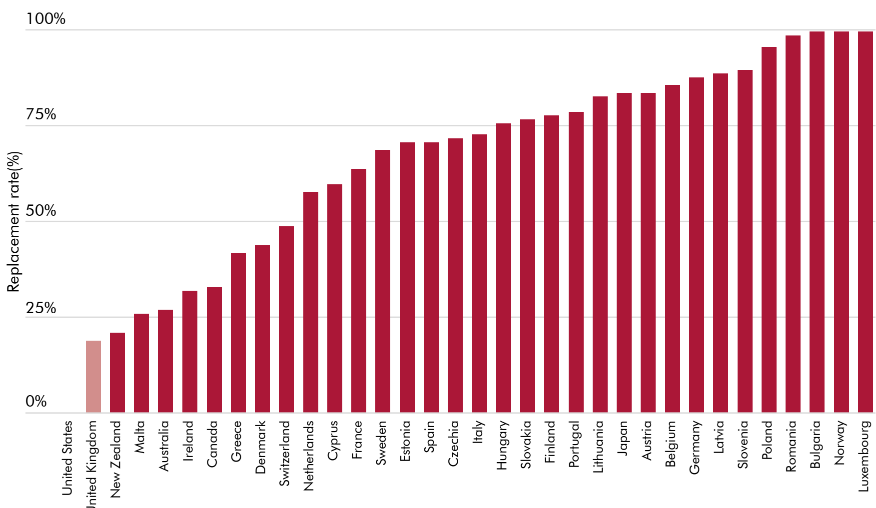
Figure 5: Unemployment benefits in other rich countries replace a much higher share of earnings than in the UK (2020)[37]



Net replacement rate from unemployment benefits, single person without a child after 5 months of unemployment, on average wages, excluding social assistance and housing benefits

OECD, 2023 *2022 data unavailable, latest year reported

Figure 6: Sickness benefits in most rich countries replace a much higher share of earnings than in the UK (2015)[38]



Source : Social Insurance Entitlements dataset, 2015 the child or mother. Often countries have compulsory periods of maternity leave that must be taken.

CARING

The UK is in the process of introducing one week of unpaid carer's leave. This will lag well behind many other European countries. It is unusual to offer only unpaid carer leave (Greece, Hungary) and in many countries paid leave is available that replaces a substantial percentage of earnings. For example, in Norway employees receive full pay (the duration of which depends on individual circumstances), with 80 per cent of typical earnings for freelance or self-employed workers.

When it comes to carers' benefits, the UK is not such an outlier. While our flat-rate payment is very low, few other countries have well developed income replacement benefits for carers. Earnings-related schemes are unusual (Portugal, Norway and Poland) and most countries offer a flat-rate payment.

Canada has one of the most generous schemes in the OECD where workers can receive a benefit worth 55 per cent of earnings to care for sick or disabled people. The maximum duration depends on circumstances - 35 weeks to care for a sick child, 15 weeks for a sick adult and 26 weeks for an adult at the end of life.

In Denmark carers can receive a flat-rate carer's allowance. However, there is also the option of being employed as a carer on full pay by a municipality for up to nine months (with pay no more than previous earnings). Caregivers employed in this way can also maintain their entitlements to unemployment benefits and receive holiday pay.

Finally, in Germany support for carers is a design feature of long-term care insurance. People with care needs have a choice of receiving care services or cash payments worth half the value, which may be paid to family carers or added to the general household budget. Germany also offers short-term carer's leave and a right to reduce working hours for up to two years, with financial support available through an interest-free loan.[41]

RETRAINING

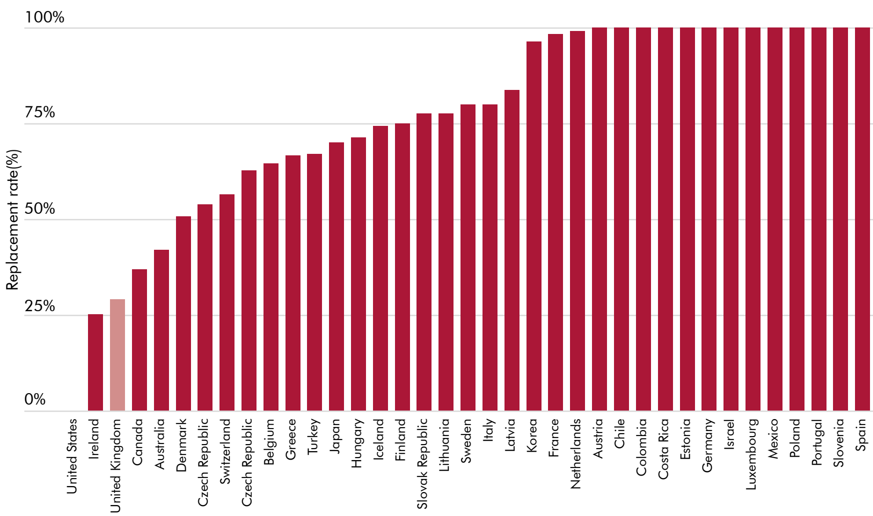
Earnings-related allowances for retraining are less common than for unemployment, sickness or maternity. In Europe, only the Czech Republic has a substantial earnings-related allowance. Canada has committed to introducing a limited entitlement of up to four weeks of income support for retraining at up to 55 per cent of weekly earnings, as well as new leave provisions to support workers to take time off to pursue retraining.[42]

Several countries (Austria, Estonia, Denmark, Luxembourg) instead provide flat-rate retraining benefits. Austria has been a historic leader in this area, with the 'Bildungskarenz' programme, including a universal right to request training leave of between three months and one year following a worker's first year in employment in a job, introduced in 1998. Additionally, workers have been entitled to the equivalent of unemployment insurance benefits during their training leave since 2008.[43]

In those countries where a specific retraining benefit is not provided, workers who are retraining can often receive unemployment benefits. These sometimes include uplifts to recognise the fact that the unemployed person is pursuing retraining. Examples include Lithuania, Germany, Ireland and Finland (which pays a higher rate for trainees and some expenses). By contrast, access to retraining has traditionally been extremely limited for unemployed benefit recipients in the UK.

Statutory leave schemes for retraining exist in several countries such as France, Lithuania, Sweden, Luxembourg and Austria. Rather than just an unpaid right to take time off, employees in France can request funding to continue to collect their full salary while taking professional transition leave. Employers can defer these requests, but they can't refuse them. Combining this with France's scheme in which all employees can access €800 (for unskilled workers) or €500 (for full-time skilled workers) to undergo professional training, this is a generous package of retraining support. **F**

Figure 7: Most rich countries replace a much higher share of earnings during maternity leave than the UK and some provide full pay (2021)[40]



Source: OECD Family Database, 2021

3. When incomes need protecting

In this chapter we look at the two circumstances when people's earnings need protecting – temporary absences and jobs coming to an end – and at five different 'risks' that lead to time out of work: unemployment, sickness, babies, caring for disabled or older people, and retraining.

These five risks are brought to life by a series of case studies from our qualitative research.

TEMPORARILY AWAY FROM A JOB

Every week around one in 17 workers are temporarily away from their jobs (figure 8). In 2019 the figure was around 2 million out of a workforce of almost 33 million. The numbers then spiked during the Covid-19 lock-downs (reaching more than 7 million people in spring 2020) and gradually declined back to pre-pandemic levels.[44]

Most of this group are away for fairly short periods: 78 per cent of people away from work have been absent for less than three months. However, of the 22 per cent away for more than three months, few receive their normal pay (63 per cent report receiving less than half pay).[45]

A large proportion of people temporarily away from work are absent because of sickness or maternity. More than 600,000 are on sick leave each week.[46] And in the region of 400,000 mothers are away from work (including around 300,000 mothers in the first nine months of maternity leave receiving statutory maternity pay or maternity allowance).[47] Women are more likely than men to be away from work, both because they have a higher incidence of sickness absence and are far more likely to take time off to care for babies.[48]

The Fabian Society YouGov poll adds to this picture. We asked workers whether they had been away from work for more than two weeks in the past two years. 23 per cent said they had, with this rising to 30 per cent for people with earnings of under £20,000. These figures will be affected by the Covid-19 pandemic which had a severe impact on employment during the two years before the poll was conducted in December 2022 (see appendix 2).

Sick leave was the most important reason for these absences, with 10 per cent of the workforce reporting being off sick for more than two weeks over the last two years. There is a clear earnings gradient here, with 14 per cent of people earning under £20,000 spending more than a fortnight off sick compared to 7 per cent of people earning £40,000 or more. The next most common reasons were being unable to work because of Covid-19 and maternity leave. One per cent of workers reported absence for paternity or parental leave; to care for an adult; to care for a child aged 1 or over; and for education or training.

Among women aged 25 to 44, 12 per cent had taken maternity leave in the past two years. Three per cent of men aged 25 to 44 had taken paternity or parental leave.

Figure 8: The risk of being away from work varies with personal and occupational characteristics (2019)[49]

Men	Women	Full-time	Part-time caring & leisure	Occupation:	Disabled	Total
5.2%	8.6%	5.6%	10.1%	9.2%	10.6%	6.2%

Source: ONS, August 2020

In the last two years, have you at any time spent more than two weeks away from work while still remaining in your job, not including holiday leave? If yes, what was reason? Percentage, adults aged 18-65	All workers	Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
Yes, sick leave	10	10	8	14	8	11	7
Yes, unable to work because of Covid-19	6	6	11	7	8	9	4
Yes, maternity leave	3	3	2	5	5	1	2
Yes, any reason	23	23	30	30	25	25	17

Source: Fabian Society YouGov poll, December 2022.

How much people were paid while away from work. Percentage, adults aged 18-65 in work, away 1 month or more in the last two years	My full salary/ earnings	More than half of my salary/ earnings	About half of my salary/ earnings	Less than half of my salary/ earnings	I was not paid anything	Don't know
Sick leave	63	7	4	17	7	3
Unable to work because of Covid-19	27	29	7	6	25	6
Maternity leave	9	2	18	55	14	3
Total	33	15	7	19	20	5

Source: Fabian Society YouGov poll, December 2022. See appendix 2 for full question wording.

We also asked workers how long their longest absence had been in the last two years. Of those who had taken more than two weeks off, 37 per cent took three to four weeks off, 34 per cent took one to four months off, 22 per cent took five to 12 months off and 3 per cent took more than one year. More than seven in 10 periods of sickness absence were two months or less, while more than seven in 10 maternity leaves were nine months or more.

We also asked people who had been away from work, how much they were paid, if anything. Looking at workers away for one month or more, 33 per cent received full pay, 19 per cent received less than half their earnings and 20 per cent received nothing. The pattern was different according to reason for absence. 63 per cent of people on sick leave received full pay and 17 per cent received less than half their earnings (presumably mostly receiving SSP). Of the small sample of 32 women who took maternity leave, nine received around half their earnings or more, 17 received less than half their earnings (presumably mostly SMP), and four were not paid anything.

Finally, we asked workers how likely or unlikely it would be for them to spend a period of more than two weeks away from work in the next two years. Fifteen per cent said it was definite or likely (which is slightly lower than the proportion who had actually been away from work in the last two years).

LEAVING A JOB

Figure 9 shows how more than 3.5 million people stop working each year. A third of this number become unemployed while two-thirds become economically inactive (ie they are not seeking work with immediate availability to start). This group includes people who are sick, looking after children, caring for adults and re-training, as well as those who retire.

The numbers leaving work each year fell gradually through the 2010s until the start of the pandemic. As the labour market has recovered, the number stopping work and becoming unemployed has continued to decline but the number leaving for other reasons has increased. The overall number exiting employment has returned to levels last seen in 2013.

There is no official measure of the number of people who are in the first one or two years of being out of work. Our analysis of Understanding Society survey data indicates there are:

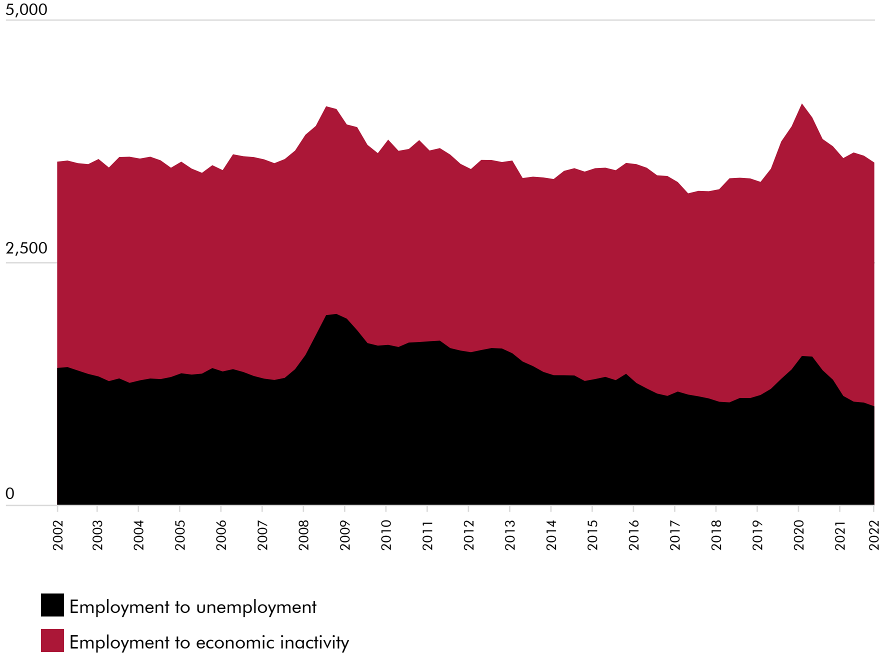
- 560,000 people in the first year of **unemployment** with a recent connection to work
- 140,000 people in the first year of stopping work to be a **carer**
- 950,000 people in the first two years of stopping work because of **sickness or disability**

Looking at people currently in work, a sizeable minority have recent experience of being without a job. The Fabian Society YouGov poll found that around one in five workers have experienced at least four weeks without a job in the last two years. The most common reason was unemployment. Self-employed workers and people now earning under £20,000 were the most likely to have spent a period of time out of work (appendix 2).

It is noteworthy how few of these people reported receiving benefits. Among everyone now in work who was without a job in the last two years only 14 per cent said they had applied for universal credit. Seven per cent applied for JSA.

We also asked workers how likely it was that they would lose work in the next two years. There were two questions (one on being out of work for four weeks, the other on leaving a job involuntarily). In both cases just over one in ten said these scenarios were definite or likely. This compares to the 19 per cent of workers who had actually been out of work for four weeks or more in the previous two years.

Figure 9: More than 3 million people stop working each year[50]



Source: ONS, 2022

In the last two years, have you spent a period of more than four weeks out of work without a job? If yes, what was your reason? Percentage	All workers	Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
Yes, unemployed and seeking work	7	7	8	9	9	5	4
Yes, any reason	19	18	28	29	22	15	9

Source: Fabian Society YouGov poll, December 2022.

Percentage saying definite or likely, adults aged 18-65	All workers	Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
In the next two years how likely, or unlikely, do you think it is that you will spend a period of four weeks or more without a job?	13	12	17	15	11	10	14
In the next two years, how likely, or unlikely, do you think it is that you will have to leave your job when you don't want to – for example because of redundancy, the end of a contract, sickness or other personal circumstances?	12	12	16	16	12	7	13

Source: Fabian Society YouGov poll, December 2022.

During any period in which you were not working over the last two years, which of the following actions, if any, did you take for financial reasons? Only most popular responses shown	Now working – was out of work for over four weeks in the last two years	Unemployed in the last two years* (small sample size n=80)
Reduced how much you spent on eating out, leisure or alcohol	45	*49*
Used up your savings	42	*43*
Cancelled subscriptions	40	*46*
Reduced how much you spent on food	35	*43*
Stopped taking holidays	27	*27*
Sold personal possessions	23	*23*
Asked for money from family or friends	22	*26*
Reduced how much you spent on energy	21	*36*
Stopped using a car	18	*20*
Borrowed money using loans, credit cards or a bank overdraft	14	*19*
Reduced how much you spent on your children	14	*5*
Applied for universal credit	14	*34*
Missed a loan repayment	7	*6*
Applied for jobseeker's allowance	7	*16*

Source: Fabian Society YouGov poll, December 2022. * now in work or out of work for less than 12 months.

STOPPING SELF-EMPLOYMENT

The evidence on how self-employed people stop work or take time off is patchy and under-reported. Looking at breaks from work, we know that self-employed workers miss 1.7 per cent of their working hours to sickness (compared to 2.2 per cent for employees). This difference is no doubt partly because the self-employed do not have access to sick pay and very few use ESA as an alternative.[51]

When it comes to maternity, around 20,000 self-employed women start a claim for maternity allowance each year. This figure has been stable for the last decade.[52] Self-employed maternity allowance recipients make up 6 per cent of all women in receipt of either SMP or maternity allowance.

Our poll adds to this picture. It shows that over the last two years the chances of being away from work for more than two weeks were higher among the self-employed (30 per cent) than employees (23 per cent). This was partly driven by a higher risk of not working due to Covid-19. By contrast, self-employed workers were slightly less likely to have been away sick (as the ONS numbers also show). The poll also shows a stark if unsurprising divide between employees and the self-employed when it comes to earnings during a temporary absence. Of 31 self-employed workers who had been away from work for more than two weeks, 19 received no pay. This equates to 62 per cent compared to 15 per cent for employees.

When it comes to stopping work altogether, experimental ONS data shows that each quarter 0.6 per cent of self-employed people become unemployed and 3.2 per cent become economically inactive (figure 10). The latter percentage is significantly higher than for employees (perhaps because self-employed workers are on average older and with lower earnings, two characteristics associated with higher levels of ill health). Improving income replacement for sickness is therefore particularly important for the self-employed.

Our poll provided further evidence that self-employment is associated with a higher risk of periods out of work. Looking backwards from today, we found that 28 per cent of adults aged 18 to 65 who are currently self-employed had spent at least four weeks without a job in the last two years, compared to 18 per cent of employees. The self-employed workers were also slightly less certain about their future prospects. Seventeen per cent thought it was definite or likely that they would be out of work for more than four weeks during the next two years, compared to 12 per cent of employees (see appendix 2).

UNEMPLOYMENT AND INSUFFICIENT WORK

People are counted as unemployed when they are not working (or working very little) and are actively seeking and available to start work. Unemployment often comes about when a previous job comes to an end, including self-employment or contract work. Unemployment can also arise when people leave education or start to seek work after being unwell or caring for someone (in cases like this there is not such an obvious requirement for income replacement).

People may also suffer from a fall in hours and pay while still having a job – eg if an employer temporarily lays off employees or reduces their hours. A traditional example is where a struggling factory shuts down for a time or reduces the number of shifts. But the pandemic showed how work can suddenly dry up in other contexts.

In the middle of 2022 around 1.3 million people were unemployed (figure 11). Most people only experience a limited duration of unemployment: the number unemployed for six months or less was 780,000 with a further 160,000 unemployed for between six months and one year.[54]

Today's level of unemployment is much lower than during many previous periods (there were 1.8m unemployed in 2020 and 2.7m in 2011). However, unemployment is economically cyclical and a future recession could result in many more job seekers.[55] Figure 11 shows that cyclical variations mainly show up among people unemployed for more than six months.

For reference, figure 11 also shows the number of people who are counted as 'underemployed'. The ONS measures underemployment as the number of people who want to work more hours, are able to do so and currently work part-time. In 2022, 2.1m were counted as underemployed but, as with unemployment, underemployment is economically cyclical. Only a tiny number of this group will have had their hours formally cut by their employer. Most either want to move to a different job with more hours, want their employer to offer them more hours, or have a job with variable hours. It is only during serious economic crises that employers start to cut working hours at any scale.

Figure 12 shows that only around 40 per cent of people moving into unemployment come straight from a job as opposed to having been economically inactive because of studying, health problems, or caring for children or adults.

Existing income replacement for unemployment is minimal. **Jobseeker's allowance** is paid at a very low flat-rate for six months to people with a sufficient national insurance record. **Statutory redundancy pay** is available to employees with more than two years' service who are made redundant. Unlike JSA this scheme is partially earnings related but the rules have not been updated for many years. **Income protection insurance** can include cover for unemployment, usually as an optional extra, but take-up is very low. Rules on **temporary lay-offs** provide a tiny pay guarantee (as well as the right to claim redundancy after a period) but we can find no evidence to suggest these provisions are used in practice.[57]

Figure 10: Each quarter self-employed workers are less likely than employees to become unemployed and more likely to become economically inactive[53]

	Number of workers (Jan-Mar 2022)	Workers moving to unemployment (Apr-June 2022)	Workers moving to economic inactivity (Apr-June 2022)
Employee	27.5m	210 (0.8%)	470 (1.7%)
Self-employed	3.7m	20 (0.6%)	120 (3.2%)

Source: ONS, 2022

Figure 11: The number who are unemployed for under six months has declined over time and is less cyclical than long-term unemployment and 'under-employment'

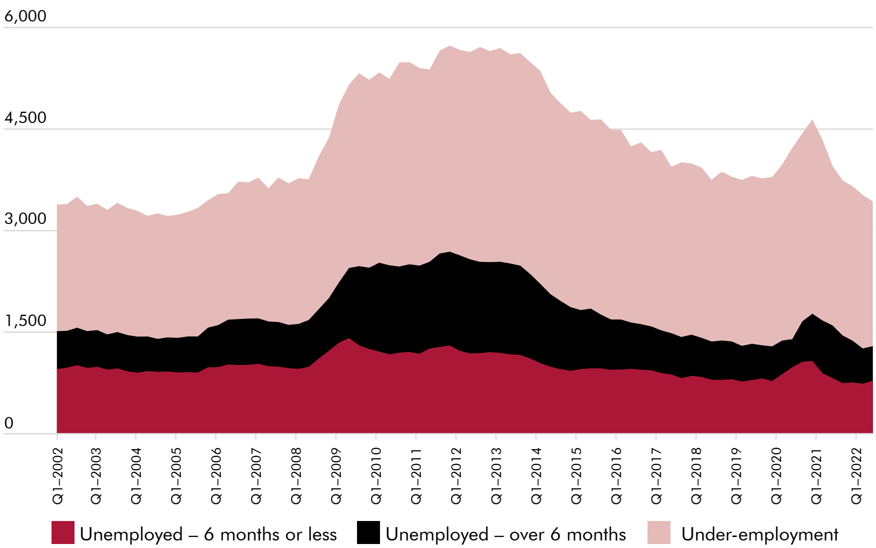
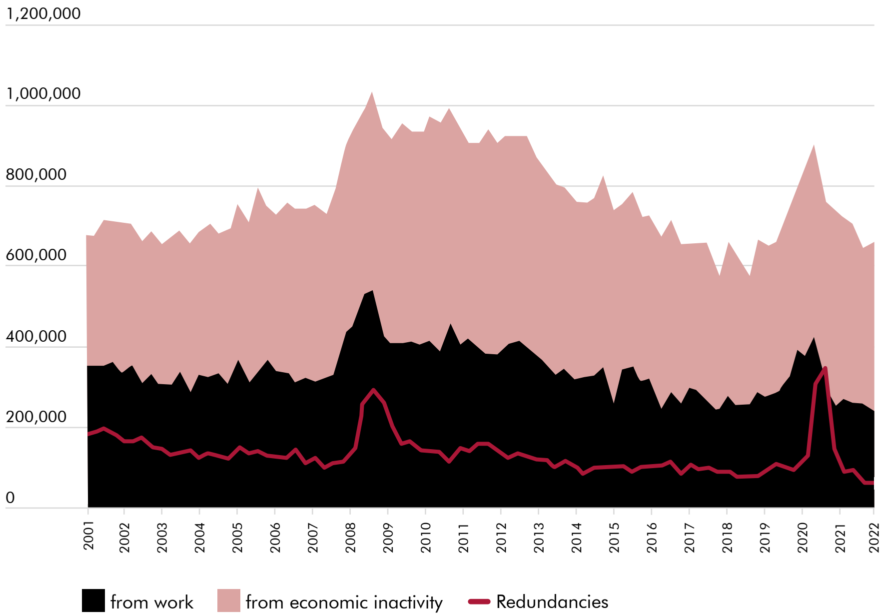
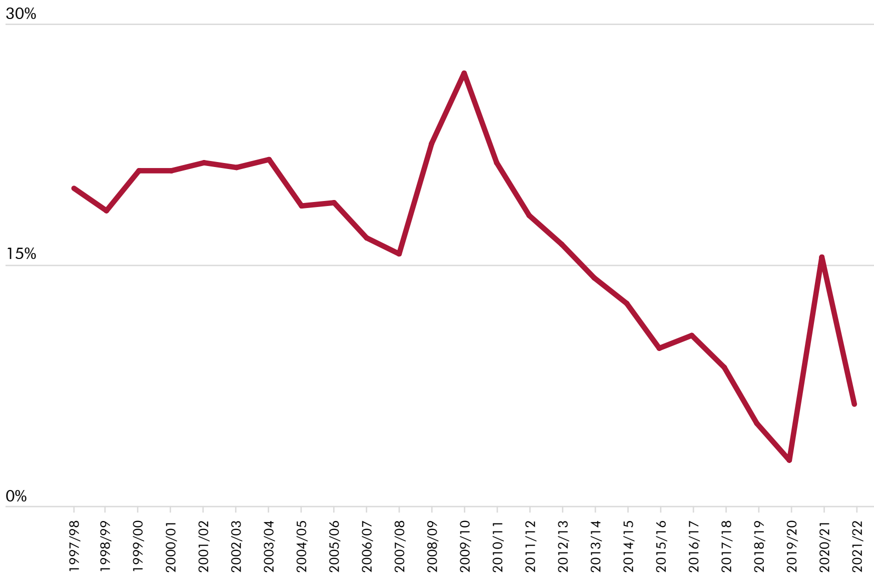


Figure 12: Under half of the 600,000 people who become unemployed each quarter come straight from a job. Around 100,000 people are made redundant each quarter[56]



Source: Labour Force Survey Flows estimates, ONS, 2022

Figure 13: Only 1 in 20 people in the first six months of unemployment are in receipt of non-means-tested job seeker's allowance[61]



Source: DWP and ONS, 2022

Figure 12 shows how statutory redundancy protections only benefit a small minority of people who become unemployed. The number of people made redundant each quarter is much lower than the number who move from work into unemployment – and many of those who take redundancy find a new job immediately or decide not to seek work at once. Nevertheless, at any time over 100,000 people are in the first six months of unemployment following a redundancy.[58]

JSA is currently claimed by around 40,000 people at a time. Before the UK economy was hit by the energy crisis the government had been expecting this number to decline to 18,000 per year in 2023/24.[59] By comparison 300,000 people are in the first six months of a UC claim and seeking work. During the pandemic the number of JSA recipients shot up to peak at around 220,000, proving that even in its current guise the benefit has an important role to play during an economic crisis.[60]

Our analysis of Understanding Society survey data indicates that 67 per cent of people in the first six months of unemployment are eligible for JSA. This includes people who have come straight from a job and others who have worked in the last year or two. However, of this eligible group we find that just 8 per cent are taking up JSA. The rest of the eligible group is made up of 48 per cent who are receiving UC (which means there is no point in them claiming JSA) and 44 per cent who are receiving neither benefit. Presumably this latter group are either unaware of their entitlements or are put off from claiming (by the low value of the payment and robust conditions).

> "The hassle of even just trying to get it is unbelievable. It didn't feel worth the hassle because of how poor it's paid."
>
> Andrew

Figure 13 presents a different dataset as a time series. This is the percentage of people unemployed for under 6 months who claim non-means-tested JSA (including both those who are and are not eligible). The chart shows how JSA rises during recessions (when the profile

CASE STUDIES: UNEMPLOYMENT

Nicole

Nicole is a 26-year-old woman living in London, in private rented accommodation. Around eight months before we spoke, she was made redundant from her job as a teacher. This was because of funding cuts being made by her school, but she also suspects it was in part because was suffering from long Covid and took more time off sick than usual. At this point her income dropped dramatically from a full teacher's salary down to universal credit levels – and she experienced significant difficulty in making her UC claim, resulting in two to three months without her full entitlement: "Then going onto benefits, I didn't go straight away. Like, the process was very, very long. So there were gaps in terms of getting finance."

Nicole explains that managing finances has been a real challenge. She has had to sell her car and cut back on what she buys, although she has now somewhat adjusted to her new normal. By the time of our second conversation, Nicole had started working five or six hours a week as a tutor. However, the additional income from this only really covers the rise in energy prices.

Her recent fall in income contrasts with her relatively positive experience of furlough: "Yeah, it was OK. It wasn't bad. Obviously there was a slight change in terms of the financial side, but it was mostly the same amount, so that was good."

Hassan

Hassan is a 52-year-old father of two living in Slough. He lives with his wife, who works as a carer. He is currently renting but is looking to buy a house with his wife. Three months before our first conversation, he was made redundant from his job working in sales for a Covid testing firm. He had since turned down several job offers because the pay was not as high as in his previous roles: "I don't really want to just jump into a job and do it for the sake of doing a job knowing the fact that I'll be looking for another job afterwards, a couple of months later and I'd be thinking about leaving again."

Hassan decided not to claim benefits because of their low payment levels – and because he had savings he could rely on while looking for new work. "I know that if you've got savings, OK, a lot of the time they won't give you money. You know, you've got savings and then you've got to declare that: 'Look, I've got this much money.' Because I've got quite a bit of money saved up I know that they'll probably say: 'Well, you can easily spend your money. Why do you want more money from us?' And that's the reason why I haven't gone down that route."

By the time of our second conversation, Hassan had begun working in the gig economy as a driver for two different ride-hailing apps. He expects to be doing this kind of work for the next year and is considering returning to a sales role after that. Although he does not describe himself as struggling financially – neither while he was unemployed, nor now – Hassan expresses feelings of uncertainty and concern, especially around rising inflation.

If you were to stop working immediately and did not have another job, during the following months which of the following, if any, would you do for financial reasons? Please tick all that apply. Percentage	All workers	Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
Apply for jobseeker's allowance	35	36	27	34	35	44	35
Apply for universal credit	35	35	29	40	38	41	25

Source: Fabian Society YouGov poll, December 2022. See appendix 2 for all the actions listed in the question

of unemployed people changes and fewer are eligible for means-tested help). It also shows how quickly the percentage claiming non-means-tested JSA has dropped since universal credit started to be introduced from the mid-2010s.

These incredibly low take-up levels were reflected in our qualitative research where no one we spoke to was receiving JSA. Participants thought JSA no longer existed ("It's not JSA no more, because they've moved into this universal credit business.") or were unaware there was a benefit that people with savings could claim.

Our poll did find people with recent experience of applying for jobseeker's allowance. 14 per cent of people who had experienced recent unemployment reported applying for jobseeker's allowance, compared to 34 per cent who had applied for universal credit (these respondents were either now working or had worked in the last 12 months).

Our poll also asked people in work about the actions they would take for financial reasons if they stopped working. One third of people said they would apply for jobseeker's allowance, the

CASE STUDY: UNEMPLOYMENT

Maya

Maya, 41, lives in London with her partner and five-year-old daughter. Seven months before we spoke for the first time, she was made redundant from her job working in a nursery. Maya says that this was because of low take-up of places for children, resulting in a merger with another local nursery and redundancies amongst both sets of staff. She attempted to negotiate a period of unpaid leave but was unsuccessful.

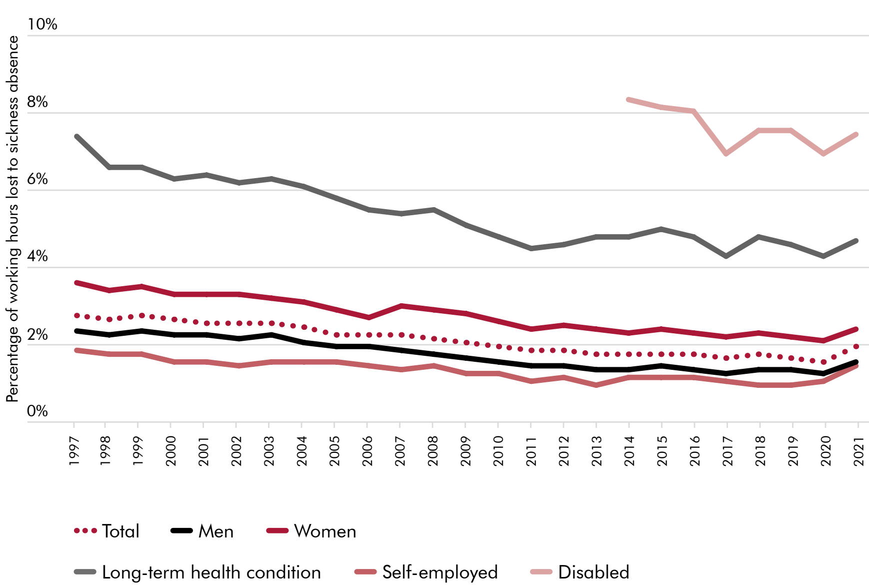
"I said to them like, give me three months without pay. Three months without pay, keep me on the books and I can come back. But I got told that they're not able to offer me that sort of relaxed sort of role that I'm after, like the three months off sort of thing. They said to me: 'Oh if you want to come back, you can leave or [take] the redundancy'."

She now receives universal credit. When we spoke for a second time, Maya had started doing bar work on a zero-hours contract, typically for a few hours on weekends – and was planning to start working at a school supervising children at lunchtimes from September.

While she was unemployed, Maya described that getting by was proving extremely difficult: she was not paying all her bills, struggling to pay her housing association rent, receiving small amounts of cash from family and friends and sometimes using foodbanks. Maya's finances had improved by the time of our second conversation – and she had been able to begin paying off some of the debt she had incurred.

"My main priorities every month is for me to pay my gas and my electric, because it's on the meter. So I pay for that every month, I make sure I put enough money on that. And then it becomes food. Things that [my daughter] needs, like toiletries. And then anything else that comes after that, it can wait… Sometimes I get food banks. That's how it is."

Figure 14: The percentage of working hours lost to sickness or injury declined in the two decades prior to the Covid-19 pandemic[63]



Source: ONS, 2022

same number as mentioned universal credit. 44 per cent of people earning £30,000 to £39,999 said they would apply for jobseeker's allowance which indicates the benefit has continuing currency for workers with just over median earnings.

SICKNESS AND DISABILITY

Millions of workers who are disabled or have long-term illness successfully sustain stable employment and thrive in their jobs. But sickness and disability can also lead to many people having to stop working temporarily or giving up their jobs. There are three phases where financial protection is needed – sickness absence while people remain employed; the initial period when someone needs to leave a job on health grounds (often only for a short spell); and then sometimes the transition to longer term disability-related worklessness.

Sickness and disability may lead to intermittent spells in and out of work and, of course, the needs of self-employed people are different from those of employees. It is also important to think not just about financial assistance but practical support and rehabilitation, which may reduce the days lost to sickness, prevent an employment from ending or help people quickly back into a new job.

Levels of long-term illness and disability during working age have been rising in recent decades. The percentage of disabled people who are in work has also been increasing (even though the disability employment gap remains very wide).[62] The combined result is that one in seven workers are now disabled. Nevertheless, the incidence of sick leave has been in long-term decline. Figure 14 shows how in the late 1990s three per cent of working hours were lost to sickness and injury, while in 2019, before the pandemic, the figure was less than two per cent. The decline has been seen among all groups within the workforce and is particularly striking for people with long-term health conditions.

Despite this progress, sickness is still a major cause of people missing work or losing their job. Analysis by the DWP in 2019 showed that each year 1.4 million people have a period of sickness absence lasting over four weeks. Groups at higher risk of a period of long-term sickness absence include women, people aged 55 to 64, disabled people, people with low qualifications, people working for large employers and in the public sector, and those in caring and leisure occupations.[64] Of those who experience sick leave for four weeks or more 100,000 (9 per cent) stop working each year. 86 per cent stay with their existing employer and the rest switch jobs.

Trends since the pandemic are a cause for alarm. First there was a large rise in the number of working-age disabled people between 2019 and 2021.[65] Second, rates of sickness absence have climbed above their pre-pandemic levels (figure 14). Third, and most disturbingly, there has been a significant rise in the number of people out of work because of sickness or disability in the last two years (figure 15). This risks undoing all the good work of the last few decades to reduce the number of people trapped outside the labour market on account of health problems or disability.

The single largest source of income replacement for sickness and disability is employers' **occupational sick pay** which is voluntary. It is more common and more generous for people in better paid work and large workplaces. Those left out receive only the small flat-rate **statutory sick pay**. And for anyone unable to access sick pay at all (including the self-employed) there is **employment and support allowance**, a flat-rate non-means-tested benefit. It acts as both a short-term sickness benefit and a long-term disability payment (although most of the costs and most of the policy attention is on its role as a long-term payment). **Private insurance** plays a limited role on top.

Analysis of the Family Resources Survey for this project shows that most people on sick leave at any moment are receiving occupational sick pay. Of around 500,000 people off sick and entitled to SSP in the week they were surveyed:

- **330,000** (66 per cent) were on full pay
- **60,000** (11 per cent) were between full pay and 50 per cent of pay
- **40,000** (7 per cent) were between SSP and 50 per cent of pay
- **80,000** (16 per cent) were on SSP

According to this dataset, only 16 per cent of people receiving SSP are depending on it alone. However, people are far more likely to receive decent occupational sick pay in the early weeks of absence with people on long-term sick more likely to depend on SSP.

According to this data, employers spend £10.9bn on sick pay each year - £8.3bn on OSP and £2.6bn on SSP. These estimates don't measure payments made during the first three days of sickness. Additionally, some absent employees are not eligible for SSP because they have very low weekly earnings. The FRS analysis shows that 110,000 people on sick leave are ineligible for SSP because of their low wages.

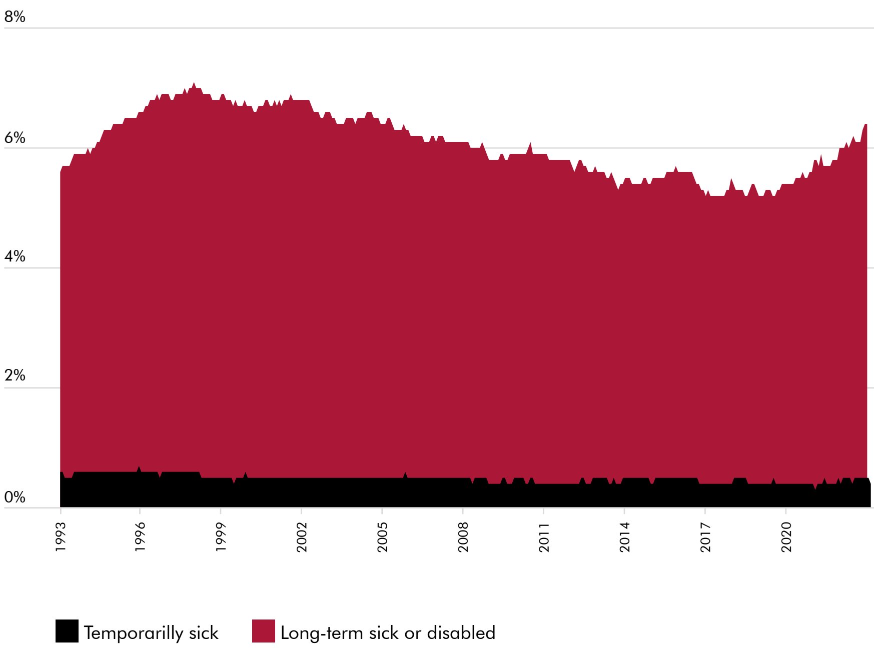
Looking at employment and support allowance, there are currently 80,000 people in the first year of receipt and 120,000 in the first two years of receipt.[67] As we saw in chapter 1, receipt of non-means-tested ESA has fallen since the introduction of universal credit. And in fact, none of the people we spoke to who were out of work on health grounds had claimed the benefit. It was a similar story with our poll of people currently or recently in work. Of 38 respondents who had spent four weeks or more without a job because of sickness or disability only one said they had applied for ESA compared to five who had applied for universal credit.

Finally, fewer than 30,000 people receive payments from private income protection insurance each year.[68]

"When I first went off, I got six weeks' full pay and six weeks' half pay. This is for [major supermarket], it's a bit rubbish… I went back for a while and then took on ill again… and that's me done out all my sick pay so it's just the statutory sick pay now that I get, which is absolutely rubbish… They could have done more financially, I feel, Fiona with it being such a big company."

Fiona

Figure 15: The percentage of adults aged 16 to 64 who are not working because of illness or disability fell steadily from 1998 to 2019 but has been rising since the start of the pandemic[66]



Source: ONS, 2022

CASE STUDIES: SICKNESS AND DISABILITY

Diane

Diane, 35, lives with her three children and her partner in a two-bedroom housing association flat in Yorkshire. She had been out of work for 11 months when we first spoke, having left her retail role due to the impact of depression following the death of her father. She enjoyed her job and said her employer was understanding about her illness but the position became unsustainable: "It was getting to the point where I was letting them down… it wasn't fair on them… that's their business and livelihood so I can understand where they were coming from. In the end I just ended up leaving."

Diane received statutory sick pay from her employer when she had to take days off – but she struggled to get by due to its low level. When she was working Diane paid her energy bills quarterly. She got into debt when her job ended and she was switched to a pre-payment meter. "That meter takes the money, the debt money, off as well. So… really when I'm topping up I'm paying the debt and then it will give you a little bit of electric."

Diane thought she would just have a short while off work but has ended up not going back. She is receiving universal credit but debt repayments are being deducted each month because her rent was underpaid in the past due to an administrative error. She is participating in a nails and beauty training course, although she receives no additional payment for living costs.

She says her family 'barely survive' on the income they get from benefits. She has to supplement this income by doing informal work such as cleaning for family members and has used food banks on several occasions. She was unable to cope with universal credit being paid monthly: she was borrowing money from her mum at the end of each month but then not having enough the following month after she had repaid her. Diane now gets UC fortnightly and things are a bit better. She worries about the impact of increasing inflation but feels that things will improve when her youngest daughter begins nursery full-time, freeing her up to begin looking for new work in earnest.

James

James is a 55-year-old father from Yorkshire, who lives in a privately rented home with his partner and 16-year-old son. In late 2020 he had an accident at work as a jet washer for a cleaning firm. His injuries left him unable to continue in the job, and his employer placed him on furlough while it was available. Following this, he received statutory sick pay, before the company ended his employment in May 2022.

James received universal credit while he was still employed with the firm but at the time of our second conversation he had not received his first higher payment after having left his job. Earlier his family's entitlement to universal credit fell significantly when his partner moved into full-time work. James describes the changes in his income as 'catastrophic'. He has had to sell his car, in part because of the effect of rising fuel costs, and he is worried about the increasingly severe effect of energy and food inflation. To help him get through Christmas 2021 he had to cash in his pension early.

BABIES

Mothers and fathers need time away from work to care for very young children. As women's employment has risen during the last 40 years so has the need to provide income replacement when new mothers take time off for maternity leave. More recently, we have also come to see the value of the partners of mothers taking time off – both for a few weeks at the birth of a child and also potentially to care full-time around the time a mother returns to work. And, quite rightly, parents who adopt have the same rights as birth parents.

Support for parental leave is pretty ungenerous, although better than what is available for unemployment or sickness. **Statutory maternity pay** provides good earnings-related support to mothers for the first six weeks of maternity leave but after that women only get a low flat-rate payments that expires after nine months. The same flat rate is available through **maternity allowance** for women who have been working but were not eligible for SMP. In recent years it has also become possible to transfer a period of parenting leave between partners with **shared parental pay**. It is paid at the same low level and the evidence so far suggests that very few fathers claim it.

Figure 16 shows that around six in 10 mothers with babies under nine months are receiving SMP or maternity allowance. The rest are either not eligible because they have not been working recently or have already returned to work. Although the absolute number of new mothers has been falling with the birth rate, the share on SMP or maternity allowance is rising because more women are working (climbing from 51 per cent on SMP or maternity allowance in 2008 to 59 per cent in 2019).

Across both entitlements the government spends £3bn per year, with employers making a small additional contribution to the costs of SMP. Around 40 per cent of women who get SMP also receive occupational maternity pay which typically provides a much better level of support.[70]

Using the Understanding Society survey dataset we have calculated rough estimates of spending on statutory maternity pay, occupational maternity pay and also the gap between these payments and mothers' previous earnings before taking maternity leave. This shows that

CASE STUDIES: SICKNESS AND DISABILITY

Maalik

Maalik, 51, lives in Birmingham and stopped working three months before our first conversation due to depression. His earnings come mainly from his role as a self-employed property developer and landlord, but he also does some part-time work as an employee of a community rehabilitation company. As a result of his passive income from property, he decided not to claim any benefits when he stopped work most recently. He has once before received benefits, in the mid-1990s, when he went to the job centre for six months: "I didn't like the experience at all".

Being able to rely on rental income has made taking time out to focus on his mental health a largely positive experience for Maalik. He says he has flexibility about when he starts working again: "It all depends how I feel and how my energy levels are." But there have been challenges: by the time of our second conversation, Maalik mentions that he has incurred some debt with his energy provider. He is taking 'baby steps' to get back to work, both with his rental business and with his community rehabilitation role.

Delia

Delia, 43, lives in Wales with her 13-year-old son. She has end-stage chronic kidney disease and has recently started on dialysis. She had to leave her part-time job working in a pub eight months before we first spoke because of its physically demanding nature. She has had one prior experience of being out of work, when she was made redundant from a long-term clerical role with a bank. At that time she did not claim benefits and found a new job within a month.

Delia is currently claiming universal credit. She was doing so while she was employed, too, but now receives an additional sickness-related element (although she notes that she "had to do all the chasing" to make this happen). Delia also claims personal independence payment although she complains that no one told her about it when she first stopped work ("When you ring no-one tells you what benefits you're entitled to. I had to go and search every single one of them except universal credit, I had to search the lot and chase them. Which I felt was very annoying.")

Her kidney condition deteriorated in the time between our first and second conversations, and she is planning to ask for a re-evaluation of her PIP rate. She describes her financial situation as "just about getting by". She has had to cut back on petrol and food and is behind on paying gas and electricity bills.

on average mothers receive around half their former earnings during maternity leave, even when occupational pay is taken into account:

£2.9bn statutory maternity pay

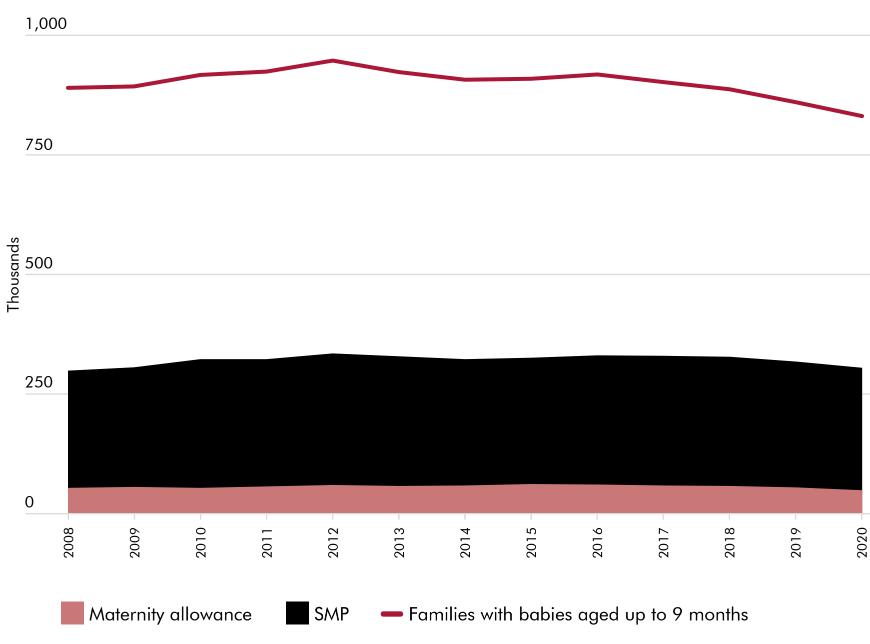
£2.4bn occupational maternity pay

£4.8bn usual earnings foregone by mothers during maternity leave

On top of this financial hit, the inadequacy of maternity pay also leads many women to return to work sooner than they would ideally wish to.

The numbers of new parents receiving other forms of financial support are much lower. 200,000 fathers or partners take paternity leave each year, 4,000 parents take adoption leave, and approximately 10,000 take shared parental leave. The latter scheme has been criticised for its low take-up and awareness. Less than £100m annually is spent across these three schemes.[71] Neither paternity leave nor shared parental leave is available to the self-employed.

Figure 16: A rising proportion of mothers with babies aged under nine months are receiving SMP or maternity allowance[69]



Source: DWP and ONS, 2022

CASE STUDIES: BABIES

Nadia

Nadia, 29, is a primary school teacher living in Barry, south Wales. She is on maternity leave following the birth of her second child five months before we first spoke. She also lives with her husband and two-and-a-half-year-old first child. Nadia's husband is self-employed, operating his own business. Although he took two weeks off after the birth, this paternity leave was self-financed.

Nadia has received a combination of occupational and statutory maternity pay. This has consisted of one month of full pay, then 90 per cent for two weeks, then half pay for an additional 12 weeks, and now the statutory flat rate. She describes the family's finances as 'unmanageable' because of the low level of these payments, and notes that the rising cost of living has offset anything they had saved by making cutbacks. Nadia plans to return to work part-time before the end of her 12-month leave entitlement, as it would be unfeasible for her to remain on leave.

Nia

Nia is a 36-year-old teaching assistant from Birmingham who had been on maternity leave for 10 months when we first spoke. As well as her new baby, she lives with her husband and their four-year-old. Nia received statutory maternity pay from her employer – although with an extended duration, up to the end of her full 12-month leave entitlement. By the time of our second conversation she was back at work part-time.

Nia describes her family as struggling financially – first from their fall in income during her maternity leave, and now because of her reduced hours. Her self-employed husband has also had to cut down his working hours to care for the new baby. The high cost of childcare and rising prices in general are also putting their finances under strain.

"We've been using credit cards. Credit cards that we're using to get through the month, so if we're low it's credit cards that are keeping us going, so that's getting us more into debt but that's the way we're struggling, and we have to do it. We have no choice."

But Nia feels optimistic that things will improve once their second child turns three and qualifies for 30 hours of free childcare, when she will be able to return to full-time work.

Amrita

Amrita is 30 and lives in Manchester in a mortgaged home with her husband and her new baby, who was eight months old when we first spoke. Amrita is on maternity leave from her job as an HMRC fraud investigator and has been receiving a combination of occupational and statutory maternity pay. She was on full pay for the first six months, before moving to the statutory flat rate for the following three months. The remainder of her maternity leave period is unpaid.

She is proud of never having been out of work before. The family has had to start running down savings they had accrued during Covid, following the end of the full-pay period of maternity pay and became more reliant on those savings after her maternity pay ended altogether. Amrita says that they have been using her husband's credit card more and more – and, when we spoke for a second time, she said that things had been very tough financially in the unpaid period of her leave.

Given these financial pressures, she worries she may go back full-time rather than part-time for the wrong reasons: "I hope that doesn't cloud my judgement in any way, in terms of desperation to get that full salary back."

CARING

Millions of people care for sick and disabled relatives, either while working or not. The number of working carers is estimated at between 2.5 and 5 million people (depending on the methodology used).[72] This is an employment rate of two-thirds for carers aged 16 to 64 (compared to 77 per cent for non-carers). Six in 10 working carers provide care for under 10 hours a week while 11 per cent provide more than 35 hours a week.

Every year large numbers of carers stop work for caring reasons. Our analysis of Understanding Society data shows that 140,000 non-working carers stopped work within the last 12 months. Similarly in 2019 a Carers UK survey found that 480,000 carers had given up work in the previous two years.[73] And the ONS found that out of all workers who become carers during the course of a year, 7 per cent stop working. The same analysis showed that over an eight-year period, 30 per cent of employed carers stopped working (compared to 24 per cent of non-carers).[74]

There is currently no statutory right to **carer's leave** to look after an adult even on an unpaid basis (the only exception is the right to take time off to deal with an immediate emergency). This contrasts with children where employees with more than a year of service can take up to four weeks a year in unpaid leave. The government has committed to introducing a week per year of unpaid carer's leave and legislation introducing a right to carer's leave is currently before parliament as a private member's bill.[75]

Some employers provide carer's leave on a voluntary basis. In 2019 Carers UK found that 20 per cent of employees worked for an employer offering long-term unpaid carer's leave, and 12 per cent worked for employers offering short spells of paid carer's leave. The remainder of workers are without any formal access to time off for caring.[76]

Social security entitlements for carers are also worse than for sickness or parenting with non-means-tested **carer's allowance** paid at a lower rate than JSA, ESA or maternity allowance (£69.70 per week in 2022/23, equivalent to 11 per cent of average earnings). Most recipients are long-term claimants: in 2022 only 130,000 (14 per cent) were in the first year of receiving the benefit.

CASE STUDIES: CARING

Lauren
Lauren is a 43-year-old single mother from London. She lives with her son of eight and sometimes volunteers at a local soft play centre. She was diagnosed with fibromyalgia (a condition causing chronic pain and fatigue) last August on her son's birthday. She left her most recent job as a part-time early years worker in a children's centre to care full-time for her disabled father. She stopped working six months before we first spoke.

Lauren claims universal credit and carer's allowance, although the latter is effectively deducted from her universal credit claim. The advantage of this arrangement is she receives the CA payment weekly even though her monthly UC payment is lower. Lauren feels strongly that this deduction is unfair, and that the work she does caring for her father goes unrecognised. She struggles financially though her dad helps her out by buying treats.

By the time of our follow-up conversation, she had started working a few hours a week, helping with bookings for her local tenants' association hall, although she is careful not to work too many hours so as not to affect her carer's allowance or UC claim. Her financial situation has improved and she feels optimistic about the future – albeit worried about rising energy bills.

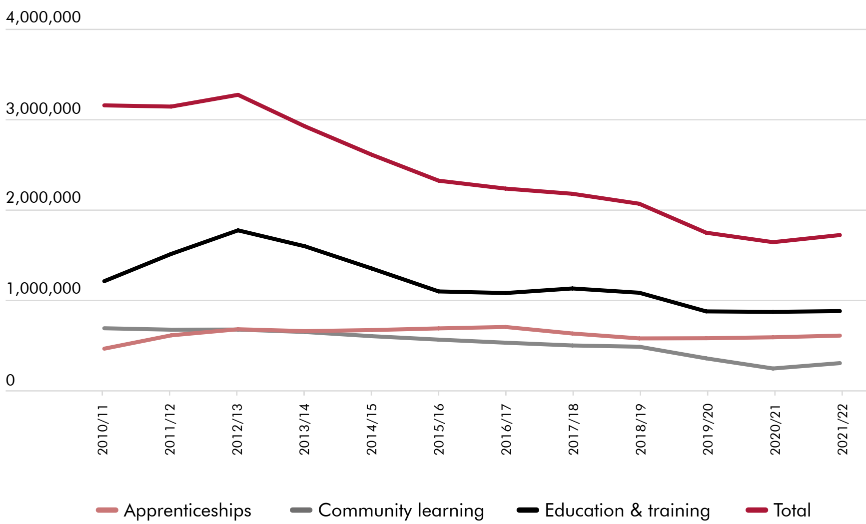
Nathan
Nathan is a 29-year-old father of two, living in London with his girlfriend. Before stopping work five months prior to our conversation, he was working two jobs - as an employee in sales for an energy company, and as a self-employed painter-decorator. To help care for his brother, who sustained serious injuries in a motorcycle accident, Nathan left his sales role and stopped taking on self-employed jobs. Nathan has been in receipt of universal credit since leaving work. He does not think he qualifies for carer's allowance or the carer element of UC because his mother is also caring for his brother and he is not with him 'all the time'.

Nathan describes struggling to afford his previous standard of living while out of work. He feels that there were positive aspects to this experience as well as negative, such as being forced to spend money more efficiently. To meet his needs, he has been getting by on savings: "I've got savings from before as well so kind of been digging into my savings too. But yeah, I've just been totally reliant on that, to be honest." By the time of our second conversation, Nathan had resumed painting and decorating full time, with his brother having made a good recovery.

LEARNING
Each year more than 1.5m adults take part in publicly supported learning outside of higher education.[77] The numbers have declined significantly over the last decade (figure 17). Some combine their study with full-time work but there is currently no comprehensive support for the living costs of those adult learners who are not working or only working part-time. This is despite the government emphasising the need to improve participation in adult training including the recent launch of the lifetime skills guarantee which offers free A-Level equivalent training to people without qualifications at this level.

Training at work: Work is the most important setting for training in adult life. As much learning as possible should take place during paid working hours – either at the workplace or off-the-job in formal educational settings. Millions of employers support training in this way, especially with respect to short courses or in occupations with requirements for continuing professional development. **Apprenticeships** operate on this basis and are the main way people can take part in substantial training outside of higher education while receiving an income. They involve employers providing employees (new recruits and existing workers of all ages) with at least one day a week of paid training via an accredited provider for at least a year. The design and funding of apprenticeships has undergone major reform in recent years, with the introduction of the apprenticeship levy for large employers and the redesign of courses. These changes have been criticised by employers and, even though apprenticeships are a high public policy priority, the number of apprentices has fallen since 2016/17 (see figure 17).

Figure 17: the number of adults (19+) taking part in publicly funded training has declined to around 1.7m per year[78]



Source: Department for Education, 2023

CASE STUDIES: LEARNING

Natalia

Natalia is a 34-year-old single mother living in Bristol with her children, aged four and six. She has endometriosis, a chronic health condition, and lives in a council home. She left her job working in an adolescent psychiatric unit for a children's charity four months before our first conversation. This was because of a lack of progression opportunities in that role – to move up, she needed an additional degree. She took the decision to retrain to become a primary mental health practitioner, to work in early intervention in schools, through a course at Exeter University.

She feels her options and the support available were limited: "There's so many different schemes and initiatives to engage young people, retrain them. But as soon as you hit a certain age, well, that's it, you're forgotten about, you've made your choices."

Natalia has seen her income fall since she began her course. She receives universal credit, a bursary and expenses for work experience placements. She has found herself having to run down her savings and rely on help from family members. She describes herself as "pressured and stressed" about her finances and the rising cost of living. By the time of our follow-up conservation, Natalia felt that while her income was the same, she was feeling the financial stress more. She says: "I was struggling even when I was employed because of the rise of everything, but now it's worse."

Student maintenance: In England higher education students receive financial support for their living costs in the form of student loans (which only a minority will ever repay in full). While still open to criticism the level of support provided is significantly higher than what is available to single adults on out-of-work benefits (especially in the case of students living with their parents). In 2022/23 the maximum allowance for students with a low household income, living away from home outside London is £9,706. This is equivalent to 30 per cent of average annual earnings (the system also assumes that students will have parental support and/or work alongside their studies).

Further education students in England have no access to equivalent financial support. Tuition is either free or eligible for an advanced learner loan, but neither of these routes include financial support for living costs. Colleges administrate a complex system of **bursaries and learner support** that cover extra costs associated with learning (eg equipment, travel, childcare, accommodation away from home). But no assistance is available for ordinary living costs in England. This is even the case for courses with free tuition as part of the government's new lifelong learning guarantee. From 2025 it will be possible to access maintenance loans for advanced (level 4+) qualifications outside universities under the government's proposals for new lifelong loan entitlements. But there are no proposals to support living costs for learners up to level 3. By contrast Scotland offers an FE maintenance bursary of up to £113 per week (2022/23) for learners from low-income households. Wales has a less generous scheme offering a one-off grant of £1,500 for full-time students and £750 for part-time students.

Means-tested **universal credit** is available to adult learners in some circumstances. Full-time students can receive universal credit if they are responsible for a child, receiving disability benefits, aged 21 or under without parental support, or living with a partner entitled to universal credit. Students who receive government maintenance support do not have to fulfil work-related requirements. Unemployed recipients of UC or JSA are only permitted to undertake part-time learning if this is compatible with their work search requirements. They can participate in full-time short courses if approved by Jobcentre Plus. The maximum duration has recently been increased to 16 weeks in the case of government 'skills bootcamps'. Finally, people can receive UC if they work part-time and learn part-time but (unlike in several other countries) UC does not make any extra allowance for the learning. Employees in UC households are expected to achieve a minimum level of earnings (otherwise they are subject to in-work conditions) and self-employed workers have their UC paid at a rate that assumes they are reaching a minimum income floor. These minimum earnings levels are adjusted to take account of caring responsibilities but they are not reduced to reflect any learning commitments people may have alongside their job.

There are no **statutory leave** arrangements for training. Since 2010 a right to request unpaid time off for training for work-relevant learning has been in place, but it is only available to employees with more than six months' service in workplaces with more than 250 staff. There is no statutory paid leave or non-means-tested benefit available to support living costs for people who make use of this entitlement. F

4. Designing a new system

By now it will be clear that there are numerous choices to weigh up when thinking about how to improve income replacement. The options policymakers choose will be different in response to each area of risk. In this chapter we examine some of the key choices – and make recommendations for the future design principles for a new system of UK employment insurance.

STATUTORY PAY, SOCIAL SECURITY OR FINANCIAL PRODUCTS?

Statutory pay schemes are often the most attractive option because they maintain attachments between workers and employers, which supports retention in jobs. They can also be designed to share costs between employers, government and employees, depending on the design of the scheme and the level of any government subsidy. They act as a minimum platform upon which employers can develop their own occupational pay policies. In the future, if more generous statutory pay schemes are developed, they could come with additional taxpayer support (perhaps for small employers only). Or employers could be required to pay – in which case they could choose whether to bear the risk themselves or to buy group insurance products to protect themselves from unexpected costs. The boundaries of entitlement to statutory pay need to be broad and well understood. At present even the government's own website fails to explain existing eligibility clearly.[79]

Social security has the advantage of being available to more people than statutory pay, including those who have already left a job and the self-employed. For this reason, non-means-tested benefits will always be needed alongside statutory pay schemes even if they only play a supporting role (as is currently the case with sickness and maternity). As chapter 2 shows, many other countries pursue a different course where people usually receive benefits while absent from work rather than paid leave. In the UK income replacement benefits are currently less generous than the equivalent statutory pay, which opens-up unfairness especially for the self-employed. Another downside of benefits, compared to statutory pay, is that once the link to an employer is broken, spells out of work may become longer. Also, the costs of payments and administration falls only on the government, rather than being shared with employers.

Private insurance purchased by individuals is today a fairly niche option, which suits people like self-employed workers with above median earnings. The potential space for private insurance is determined by the generosity of statutory schemes, as insurance is essentially a top-up: the further we move towards earnings-related social insurance, the less the need for privately funded equivalents. In principle the private insurance model could be extended broadly to employees by making participation compulsory or 'opt-out' as with auto-enrolment workplace pensions. But it is not clear what advantage this would have over either extending the use of earnings-related statutory pay (which employers could cover using group insurance if they wished); or by collecting the same level of contribution and using it to pay for state social insurance.

> "Government can't be expected to pay for everything. There should be some contribution and that way, they'll feel good that they were part of it, as well, so they've earned it."
>
> Maalik

Savings schemes are not a viable option for income protection when people stop working for more than a very short time. This includes government and employer-backed schemes such as Help to Save or payroll saving. Increasing saving through policies like auto-enrolment or government match payments is desirable for other reasons (ie to help people build financial resilience and manage one-off or unexpected expenditure). But people on low and middle earnings have very limited capacity to save, which means any 'rainy day' funds can only ever be expected to replace lost income for a few weeks. The only way to ensure that small regular contributions convert into a longer period of income replacement is to create risk pools – ie through public or private insurance rather than savings schemes.

Future direction: Paid leave schemes are well-established and understood in the UK, so we do not think there is a case for replacing them with social security while people remain in employment. In the case of new entitlements, decisions should be case-by-case – for example for carers we propose a short period of paid leave, and a new social security entitlement for absences lasting many months. Strong social security is also needed in parallel to support the self-employed and people after they leave employment.

Turning to private insurance, we think that more employers should consider group products to fund better employee benefits. But we do not believe there is a strong case for compelling or nudging individuals towards private insurance. This certainly should not be pursued simply out of preference for private sector solutions or a desire to keep new spending off the public balance sheet. Any social insurance style scheme designed to cover everyone is likely to be more efficiently and fairly run as a single public endeavour, rather than through multiple private providers. The onus is on the insurance industry to explain how it could provide a cheaper and fairer option than a single public insurer.

WHO PAYS?

Choosing whether to use statutory pay or social security is not the same as deciding who should pay because the taxpayer can subsidise statutory pay schemes. Maternity pay is currently largely funded by the government, while sick pay and redundancy pay almost never is.

The reason that the government subsidises maternity pay is because the incidence of maternity in a workforce is not in an employer's control (save for illegal discrimination against women of child-bearing age). By contrast levels of sickness absence can be managed to an extent through good HR, health and safety and occupational health policies. The official thinking is that employers should therefore be accountable for the costs. While there is some merit in this argument it does not mean that employers should necessarily bear 100 per cent of the burden of long and unpredictable periods of sickness.

For example, there is little they can do to control sickness absences caused by contagious disease in the community. If they bear all the costs alone, the risk is they might place inappropriate pressure on workers to attend when they are too sick to work or might transmit infection (ie 'presenteeism'). In the future, if paid leave schemes became more generous there would be a case for government financial support.

The case for government help is also stronger for small employers than large ones. Large employers can self-insure the costs of absence, as a steady percentage of their workforce is likely to be sick or looking after babies at any time. For small and medium-sized employers such absences are less predictable and the expenses when they do arise are likely to make up a higher proportion of payroll costs.

Asking 'who pays?' is similar to asking 'what is in the risk pool?' With 100 per cent government subsidy everyone who pays taxes is sharing the risk. When there is no government help, the risk rests with a particular employer and their workforce. And in the case of private insurance the risk pool is made up of the insurer's customers. In other countries the risk pool can be different again - eg workers in specific sectors or localities. Rather than all taxpayers sharing liability, a public scheme can be paid for by eligible workers through payroll deductions, with a social insurance fund that is designed to be self-funding.

Future direction: We think entitlements relating to maternity and parental leave should continue to be collectively funded social responsibilities, as should a number of new entitlements for example payments for extended caring absences. By contrast, in the case of sickness, most workers are employed by organisations that already fund sick pay beyond statutory obligations. There is not an obvious reason why the state should provide them financial support if minimum sick pay rises in the future. However, government should support small employers who find the risks associated with sickness harder to deal with.

In the UK we traditionally equate public support with funding from the general UK taxpayer. This would certainly be the path of least resistance for future reform, given our history and current set-up. However we think two other options should be considered as possible alternatives – first a ring-fenced social insurance fund modelled on Canada's employment insurance scheme; and second a Scotland-only employment insurance system, using Scotland's social security powers, funded by the Scottish taxpayer.

Options for Scotland are presented in a parallel report published by the Scottish Fabians.

VOLUNTARY OR COMPULSORY?

In 2020 the Fabian Society conducted a citizens' jury on social security in the wake of the pandemic which discussed whether JSA should become an earnings-related benefit like the furlough scheme. The jury found the idea attractive but around half thought the scheme should be voluntary rather than compulsory, so that people who wished to have this protection could choose to pay more for it.[81] Recent polling by Bright Blue confirms that support for voluntary contributory benefits is higher than for compulsory versions of the same policy.[82]

There is an intuitive appeal to voluntarism – and it has been very effective in the case of workplace pensions (where opting out means you then lose an employer contribution). However, the numbers who choose to take up voluntary employment insurance could be much lower, since this is help that people think they may never need. We can see this in the low levels of take-up for private income protection insurance in the UK. It is also evident in Canada where there is voluntary social insurance for the self-employed. This programme has 50,000 participants out of around 2.9m self-employed Canadians - less than 2 per cent take-up.[83]

With voluntary income protection schemes providers may also worry that participation will skew towards people who are most likely to make a claim because of their personal circumstances (so-called 'adverse selection'). For a scheme to cover its costs in this situation, contributions need to rise which will then further reduce participation. From a policymaker's perspective there is an opposite concern – that large numbers who would benefit from protection do not take part - for example those most likely to lose work could find it hardest to afford insurance premiums.

Voluntarism is much more attractive when it comes to employers. Millions of employers already voluntarily offer occupational paid leave on much more generous terms than the statutory minimum. Some choose to buy protection to cover their risks, while others 'self-insure'. Increasing employers' statutory responsibilities without providing public funding may drive take-up of voluntary group income protection products.

Future direction: We think a voluntary approach, even on an opt-out basis, is a non-starter for core entitlements that everyone should enjoy. It also sits poorly with the UK's mixed system which relies heavily on paid leave not just benefit payments. On the other hand, voluntary income protection should be encouraged where people want to go further than the minimum. Employers should be encouraged to beat minimum requirements for paid leave, even as these are improved. For example, in the case of sickness, both employers and individuals could be encouraged to buy insurance for long-term income, to take over after our proposed time-limited entitlement to earnings-related sick pay or state sickness insurance has expired. Employers should also be encouraged to buy group insurance to fund their sick pay obligations, which we do not think need to be covered by government funding except in the case of SMEs.

Figure 18: existing eligibility requirements for income replacement entitlements

Statutory sick pay	**Employment conditions:** You must be an employee in tax law, with an employment contract and have started the job, with average earnings of at least £123 per week per job (22/23). You can receive SSP for more than one job
Statutory maternity pay (and other parenting-related pay)	**Employment conditions:** You must be an employee in tax law, with average earnings of at least £123 per week per job (22/23) and have worked for your current employer for 26 weeks by the 'qualifying week' 15 weeks before the due date. You can receive SMP for more than one job
Maternity allowance	**Employment conditions:** You must have been either employed or registered as self-employed for at least 39 weeks of the 66 weeks before the due date, and earning at least £30 a week for at least 13 of those weeks
Employment and support allowance	**National insurance conditions:** You must meet national insurance requirements in the two full tax years prior to the current calendar year, as an employee or self-employed. In one of those two years you must pay NICs for at least 26 weeks by earning over the lower earnings limit (£123 per week in 22/23). In both years you must pay NICs or receive national insurance credits worth 50 times the lower earnings limit. NI credits are paid to people out of work who are eligible for benefits.
Jobseeker's allowance	**National insurance conditions:** You must meet national insurance requirements in the two full tax years prior to the current calendar year, as an employee only. In one of these two years you must pay NICs for at least 26 weeks by earning over the lower earnings limit (£123 per week in 22/23). In both years you must pay NICs or receive national insurance credits worth 50 times the lower earnings limit. NI credits are paid to people out of work who are eligible for benefits.
Carer's allowance	**Open access:** No requirements linked to previous employment circumstances or national insurance contributions

ELIGIBILITY

Entitlement to income replacement can be linked to employment circumstances, past social insurance contributions or it may be open to all with relevant characteristics (such as disability or caring status).

Employment-related conditions are the main way in which access to statutory pay schemes are determined. At present people need to be earning more than a minimum amount (£123 per week in 2022/23) and in the case of parenting leave to have accrued a specific length of service. Maternity allowance is triggered by similar employment-conditions though the earnings bar is lower than for SMP or statutory sick pay (and it covers people registered as self-employed).

In the future the employment-related conditions for SSP and SMP could be relaxed to widen eligibility to those currently excluded. The easy-to-meet rules for maternity allowance could also be applied to other existing or new income replacement benefits. Or a simple new test could be created to establish a link to recent employment using HMRC real time tax data that is already supplied monthly to DWP. To include the self-employed and others outside PAYE a parallel approach to recording previous earnings would also be needed.

National insurance contributions are the way people establish entitlement to JSA and ESA (for employees) and for ESA (for the self-employed). Maternity allowance was once based on national insurance contributions but is now just employment-related. National insurance eligibility rules are complex to the point of being bewildering (see figure 18). Eligibility is established on the basis of weekly contributions made in past tax years which might have ended more than 18 months before a claim is made. To qualify a worker needs to have made sufficient national insurance contributions, by earning over a specified weekly amount, for 26 weeks in one of the two tax years (as well as meeting other requirements).

There is a good case for doing away with these convoluted requirements and relying on recent PAYE data. Existing rules on minimum weekly earnings should be abolished as they disadvantage low paid workers. Changes on these lines could come alongside reforms to the overall operation of national insurance to replace weekly with annual assessment periods aligned to income tax, as proposed by the Office for Tax Simplification in 2016.[84]

Another option is to require **no employment conditions at all,** with everyone being entitled to help if their circumstances meet defined criteria. This is how carer's allowance and some health-related insurance products work. When thinking about income replacement, the broadest way of establishing eligibility would be to make a benefit open to everyone for a defined time-period (so long as they had not claimed in the recent past). This might be a better way of providing coverage to insecure workers with patchy work records, compared to designing new employment-related requirements. It would also be a way to offer time-limited support to a broader group of people who have not been in recent work.

Future direction: Entitlements to income protection policies designed to replace earnings should be simple and broad. Loopholes that exclude people with an obvious recent link to work should be removed, whether entitlement is established by an employment relationship or past contributions – in particular, coverage should be available to those with low weekly earnings and who have recently started with an employer. Similarly, the self-employed should always have entitlement on a similar basis to employees. As technology advances, the case for broad entitlement based on digital tax records will get stronger.

We considered the case for open access to time-limited payments regardless of recent employment. However, we established that this would greatly increase eligibility for risks such as unemployment or sickness. We rejected this as an option on grounds of cost, and also because people who have not worked recently do not need to replace earnings so can be served by means-tested universal credit.

> "If someone has been out of work for five years because, let's say, they had a child and they had no family or whatever it is, so their issue is to wait for the child to go to school in September, like to start big school. But if you look prior to that they worked for 10 years, or they worked for five years, I think that person also should be sort of entitled to it."
>
> Maya

GENEROSITY

Generosity of financial support when earnings are interrupted is a trade-off between affordability for the payer (whether an employer or the government) and the extent of hardship created for the individual when not working. People may be well-placed to bear a small decline in their income when they stop work, especially if their work-related costs also fall. But a huge plunge in income will cause big problems. Against this, there is the issue of work incentives. It is often desirable for people to have a significant financial incentive to return to work after a suitable time.

Earnings related: The success of the furlough scheme and continental social insurance benefits makes the case for providing support as a percentage of past earnings. The percentage paid could be as high as 90 per cent (as with the first six weeks of maternity leave) or as low as 50 per cent. Earnings-related schemes which give more to higher earners on the face of it appear poorly targeted, but if they are funded by earnings-related contributions they are actually redistributive, because low earners are much more likely to draw on them than high earners. It is also possible to create an earnings cap within schemes. This is not a feature of SMP at the moment but did happen with furlough and is a key feature of Canadian employment insurance. Such limits restrict and target public spending and are likely to reduce the extent that help is provided to those who do not need it and to increase public support.

Flat-rate: The other approach is to retain flat-rate payments but make them more generous. This is more in keeping with the UK's Beveridgean tradition. A significant rise in the value of flat-rate support would see benefits recover the value they once had as a percentage of typical earnings. For example, payments for unemployment, sickness and caring could all be increased to the level of maternity payments. While hardly generous, the flat rate of SMP is twice as high as the basic level of JSA.

In chapter 6 we show that in principle more people in the UK prefer flat-rate than earnings-related payments, but that in practice they support lots of individual earnings-related policies. In fact, any improvement in generosity would need to have an earnings-related element because future payments would need to be capped to pay no more than people already earn. A high flat-rate benefit (eg matching full-time work on the national living wage) would in effect be earnings-based as a great many part-time workers earn less than this amount.

In our view the key question is not which approach is right in principle, but which is most likely to lead to a sustainable improvement in the generosity of income replacement for people regardless of how much they earn – and we think earnings-related payments are more likely to succeed. This is because they bind in workers of all incomes and also automatically improve in generosity over time as wages increase. Having said that, there is a good case for capping payments so that everyone earning over a certain amount receives a flat rate. In our modelling we cap all payments at the equivalent of £30,000 per year. This saves money, limits the amount paid to people who are not in financial need and respects public preferences by ensuring high earners do not receive significantly more than middle earners.

Future direction: As chapter 2 shows, the UK is an outlier when it comes to generosity. Our preference over the long term is for the UK to move to earnings-related entitlements with respect to both paid leave and time-limited social security payments. We propose a level of income replacement similar to Canada's employment insurance payments. These are not generous by the standards of many European countries but would be a huge step forward for the UK, especially when combined with universal credit. We also propose an upper limit on payments on a similar basis to Canada. In the short term, smaller increases to existing flat-rate payments should be considered as a transitional measure.

DURATION

Alongside the level of payment and the scope of eligibility, the third driver of cost is the duration of entitlements. In thinking about the overall cost of a scheme the three need to be traded off against each other.

Permanent income replacement is one option. This currently exists with some private income replacement policies and for carer's allowance and ESA for severely disabled people (albeit at very low rates of payment). Payments continue until pension age or a change in health or caring circumstances. In the case of ESA and carer's allowance providing permanent financial support makes sense when the payment is equivalent in value to a means-tested benefit which is also permanent. Both of these benefits offer modest protection to carers and disabled people who are not eligible for the parallel means-tested benefit because they have savings or a working partner.

On the other hand, **time-limited support** makes more sense if the aim is to provide help that is more generous than means-tested assistance, offering a parachute during an initial period after stopping work. Apart from the overall cost, factors that might affect decisions on duration include the length of likely need, what might be optimal for reintegrating people into employment, and how long past earnings feel like a relevant consideration in determining the support on offer. These are all judgment calls. For example, it could mean six months of support in the case of unemployment, 12 months for maternity but longer for caring or sickness.

Future direction: We think that publicly mandated or funded schemes should be time-limited if they are designed to replace earnings beyond the level available generally through means-tested assistance. Precise durations are a question of judgement. Our proposals are informed by precedent and cost – we suggest six months for unemployment and 12 months for sickness, maternity and caring.

Small flat-rate payments like today's carer's allowance and ESA should continue indefinitely, when their role is to provide support to people who are not able to work and live in a household with reasonable income or assets. But this is not really replacing their own former earnings. There is also a case for voluntary private insurance playing a role in covering long-term payments, on an earnings-related basis, after time-limited public protection has expired

INTERACTION WITH MEANS-TESTING

So far we have talked about income replacement policies as alternatives to means-tested benefits. But in the context of the UK, this is quite an old-fashioned way of thinking about social assistance. This is because universal credit is intended not simply as a safety net, but also as a top-up to households' other income, to be paid to people in work as well as out of work.

Universal credit is designed so that when people's net earnings rise by one pound they lose 55p in the benefit. Similarly, if recipients lose a pound of net earnings, they gain 55p in universal credit. This is often referred to as the taper rate. Paid leave schemes are treated the same way as other earnings, so if you are away from work and live in a low-income household you will receive extra in UC when you move from usual earnings to a paid leave scheme (in addition to seeing your income tax and national insurance liabilities reduce or disappear).

Non-means-tested benefits don't work like this. For every pound of, say, JSA that you receive, you will lose a pound in universal credit. As JSA and the basic rate of universal credit are worth the same amount, there is no point in claiming JSA if you already receive UC. In the case of maternity allowance, some mothers will be better off claiming this than universal credit, as it is more generous than a basic UC award, but many will be entitled to more in UC. There is then no point in them claiming maternity allowance as they will receive no extra income in recognition of their entitlement.

The way UC tops up earnings but not other income means that women in low-income households receiving the flat-rate of SMP end up with a higher income than those on maternity allowance, even though the two are designed for the same purpose and pay at the same rate. This disparity was challenged in a recent judicial review taken by the Child Poverty Action Group but the government successfully justified the legality of the policy.[85]

There are three overlapping questions at stake – should people be left better off if they are entitled to an income replacement payment than if they are not? Should different sorts of income replacement payment be treated alike in their interaction with means-tested benefits? And should income replacement payments be treated on the same basis as earnings by means-tested benefits? On all of these counts there is a good case for saying that universal credit should reward income replacement payments rather than offsetting them pound for pound. The case would perhaps get even stronger if social security payments were earnings-related and so looked even more like pay. And of course, the low level of universal credit is an important consideration: strategies for building income adequacy could be based on tiers of payments with universal credit as a foundation, working alongside other payments.

Non-means-tested income replacement benefits could be treated as earned income in universal credit calculations. Another approach would be to translate an entitlement to one of these benefits into an extra increment within UC. This already happens in the case of carer's allowance which triggers an extra UC carer's component. The same approach could be taken with JSA, ESA or maternity allowance, should policymakers want a cheaper option than just treating these benefits as earned income. This is an important consideration as our modelling shows that treating non-means-tested benefits as earned income would significantly increase the costs of UC (see later chapters).

"That would be good. 100 per cent. I think that's fair because we've paid. And it gives us that extra support because obviously our outgoings, let's say the month before, they would have been high, and it would still be high so that extra income of jobseeker's on top of universal credit would help."

Maya

Looking forward: This is a difficult issue not only because it is highly technical, but also because the public finance implications are large. But in the long term we think it is right that paid leave and social security designed to replace earnings are treated on the same basis. This is particularly true if benefit payments are increased to a higher level or become earnings-related. But the whole system will need to be designed with overall cost in mind, on the assumption that many households will be eligible for both UC and earnings replacement payments. One of the reasons we propose an employment insurance scheme where most benefits are only worth half of previous earnings is the knowledge that for low-income households these payments will often be topped-up with universal credit.

HOW TO TREAT SELF-EMPLOYED AND INSECURE WORKERS

Self-employed, gig economy and insecure workers are at a significant disadvantage today when it comes to income replacement policies.

The genuinely self-employed have no employer and so cannot be offered statutory paid leave. The social security system is intended to provide them equivalent protection but it is a poor second best, providing less adequate support in most cases:

- *Unemployment:* Self-employed workers are not eligible for JSA. Historically, this was because it was thought self-employed people were more likely to become unemployed voluntarily.
- *Paternity and parental leave:* There is no equivalent in social security to paternity leave or shared parental leave.
- *Sickness:* ESA is paid at a lower rate than SSP in the early stages of a claim. It is also offset pound for pound in universal credit, unlike SSP.
- *Maternity:* Maternity allowance for self-employed women does not include an initial six weeks of earnings-related payment. It is also offset pound for pound in universal credit, unlike SMP.

It is worth noting that people taxed as self-employed also pay less national insurance. Most save far more in lower taxes than the value of the entitlements they miss out on. So alongside any changes, there is a case for equalising national insurance rates. Very few self-employed workers are acting to plug the gap they face in income protection on a voluntary basis. One survey found that just 9 per cent of the self-employed have private income protection insurance.[86]

Non-employee workers and the bogus self-employed: There is a messy legal grey area between employees and the genuinely self-employed which is leaving many vulnerable workers without sufficient protection. As things stand, people who are treated as an employee in tax law should also be entitled to statutory paid leave, even if they are a 'worker' in employment law without full employee rights. Many individuals (and their employers) don't know this due to legal complexity and poor communication. There are also people who are 'workers' in employment law but self-employed in tax law and not entitled to statutory pay. Some of them should be paying tax as employees but are not, often forced into this position by platform businesses or contracting companies. There is a strong case for more legal clarity and stronger enforcement on the boundary between employment and self-employment for a host of good reasons, including to ensure more workers have access to the earnings protection enjoyed by employees.[87]

Insecure workers who often move between jobs or have more than one job are also at a disadvantage from current arrangements. The right to statutory paid leave is triggered by reaching a minimum earning threshold in a single job, rather than across all employments. The same is true of national insurance contributions, which establish eligibility for JSA and ESA. Statutory maternity pay is not available until a woman has been with an employer six months. This is a strange provision because employers still have to give new recruits the same duration of maternity leave, and the government pays almost all the costs of SMP, so making this a 'day one' entitlement would not be expensive for employers. SSP is a day one entitlement, but for temporary workers it is only payable for as long as a contract lasts. Workers who are frequently in and out of work can also miss out on JSA and ESA because they need to have a national insurance record with a minimum number of working weeks in the last two complete tax years, and a minimum level of earnings. The rules for maternity allowance are much more inclusive, following reforms in the early 2000s. Clearly, to design earnings replacement policies a divide between people with and without a meaningful connection to employment needs to be drawn somewhere. But at present the line feels arbitrary and very confusing.

Future direction: In principle, the goal should be to create as much parity as possible between employees and the self-employed, and to design a system where everyone with a significant connection to work can access earnings replacement payments. We therefore recommend the creation of new social security entitlements designed for the self-employed - for unemployment, paternity and parental leave. We also want to see ESA reformed to make it a much better sickness benefit for the self-employed and others who can not receive sick pay. We support immediate access to maternity pay and earlier access to redundancy pay. Lastly, we think there is case for simplifying benefit eligibility rules so they are based on overall income, recorded in digital tax records. F

5. The solution: British employment insurance

Income replacement in the UK is totally inadequate. It is not just threadbare but broken. It is therefore a time for wholesale change, 'not for patching' (as William Beveridge put it). We propose a new comprehensive national system of income replacement which we call **British employment insurance**.

This is a proposal to bring the UK into line with most rich countries by developing **earnings-related income replacement.** Our plan is most closely modelled on arrangements in Canada which has a long-established employment insurance system. The details are not identical but the broad principle is the same – that when people are out of work they should be able to replace around half their earnings.

In our view setting out to create a single, comprehensive and adequate system of employment insurance is more likely to succeed than proposing dozens of unrelated changes, each of which would be likely to fall short.

Given current financial circumstances, a new employment insurance system could not be created overnight, but it could be progressively introduced over the course of a decade following a single, clear plan.

Other reforms would also be introduced – a modern, more generous system of redundancy and termination payments; four weeks of annual carer's leave; a new carer's career break of up to 12 months (initially in large workplaces); extending the right to request training leave to all workplaces; and a right to train while receiving unemployment benefits.

The following chapters present the detail of the proposal for each area of risk.

Generosity: The system would be designed so that people would receive payments worth at least 50 per cent of their current or recent earnings – although with a maximum permitted payment (as with the furlough scheme and Canada's employment insurance). Replacing half of previous earnings is not particularly generous by the standards of many European countries but would be a huge step forward for the UK, especially since low-income families will be able to combine it with universal credit. Once in place, future generations could look to go further.

The minimum payment for most of the entitlements would be 50 per cent of previous earnings but in some cases we think they should be higher. The exceptions are the first six weeks of maternity and adoption leave (90 per cent), the first six weeks of maternity and adoption insurance (90 per cent), the whole of paternity leave (90 per cent), 28 weeks of sick leave (80 per cent), and one week of carer's leave (80 per cent). These higher rates are mainly proposed to reflect either existing law or widespread employer practice.

We propose an earnings-related scheme rather than an improved flat-rate system because this will provide meaningful protection to all workers and will automatically increase in value as earnings rise in the future. In our costings the cap on support is set at the equivalent of £30,000 per year, following the example of the Covid-19 furlough scheme.

The new payments would be available alongside universal credit so low-income households would be able to replace a significantly higher proportion of their previous earnings. Both benefits and paid leave would be treated as earnings within universal credit calculations. As an additional protection people with low weekly earnings should receive full pay when this is less than the current flat-rate level of payment.

Employer responsibility: The new system would offer a major boost to British business by helping firms retain and recruit good workers, and by giving workers and consumers more financial security and resilience. Collectively employers would gain financially from the new measures according to our modelling.

The key entitlements we want to see covered by the employment insurance are:

Paid leave	For workers with an employer
Maternity and adoption leave	**Now:** low flat-rate, 9 months **Proposed:** earnings-related, 6 months (followed by parental leave)
Parental leave	**Now:** maternity pay can be shared **Proposed:** earnings-related, 6 months (shared or allowance for each parent)
Paternity leave	**Now:** low flat-rate, 2 weeks **Proposed:** earnings-related, 2 weeks
Sick pay	**Now:** very low flat-rate, day 4 to week 28 **Proposed:** earnings-related, day 1 to week 28
Carer's leave	**Now:** none **Proposed:** earnings-related, 1 week
Paid furlough	**Now:** almost none **Proposed:** earnings-related, 6 months

Insurance benefits	For people without a job or who are self-employed
Unemployment insurance	**Now:** very low flat-rate, 6 months (jobseeker's allowance) **Proposed:** earnings-related, 6 months
Sickness insurance	**Now:** very low flat-rate, 12 months (the initial period of employment and support allowance) **Proposed:** earnings-related, 12 months
Maternity and adoption insurance	**Now:** low flat-rate, 9 months (maternity allowance) **Proposed:** earnings-related, 6 months (followed by parental leave)
Parental leave insurance	**Now:** none **Proposed:** earnings-related, 6 months (shared or allowance for each parent)
Carer's insurance	**Now:** very low flat-rate, 12 months (the initial period of carer's allowance) **Proposed:** earnings-related, 12 months
Retraining insurance for the self-employed	**Now:** none **Proposed:** earnings-related, up to 8 months over 5 years
Free occupational health services	**Now:** none **Proposed:** available to SMEs, self-employed and people not in work

Our proposed insurance benefits would be funded by the government through the employment insurance scheme, as would a high percentage of the paid leave schemes for maternity and parental leave. On the other hand, employers would be required to self-fund sick leave, carer's leave and paternity leave as standard business expenses. Employers with fewer than 50 employees would receive financial support (eg a contribution to the costs of sick pay after six weeks' absence).

Our modelling shows that overall employers would save around £600m per year from the measures. Extra subsidies for maternity and parental leave would more than cancel out extra responsibilities for self-funding other paid leave. The savings we project arise mainly because so many employers already have sick pay schemes that are much better than the statutory baseline. However, there would be winners and losers: large employers who only pay statutory leave rates now would lose, while SMEs and large firms with good occupational pay schemes would gain. Employers might also have to pay higher taxes to help fund the programme.

Large employers who gain should be encouraged to supplement new minimum requirements by improving their own occupational pay schemes. Employers could offer occupational schemes that take entitlements up to full pay and/or offer extended sick leave beyond 28 weeks. They might choose to fund these policies with group insurance products.

Eligibility: Entitlement to employment insurance would be based on a current or recent connection with employment. The pay schemes would be operated by employers and in most cases all workers would be eligible from day one of employment, with the level of awards based on people's usual or average pay.

For the insurance benefits, a broad and inclusive approach to establishing entitlement would be developed to ensure that almost all low paid or precarious workers were included. The current eligibility rules for maternity allowance would be the starting point, although ideally a modern, automated system would be developed using PAYE data for employees and digital tax records for the self-employed. This technology would also be needed to automatically calculate the value of earnings-related insurance benefits based on earnings data in tax records (as happened with the Covid-19 self-employment income support scheme).

Paid leave entitlements would apply to everyone who is treated as an employee/worker under tax legislation (ie with an employer paying national insurance). Action is also needed to align the definition of worker under employment and tax law.

Cost: We estimate the net additional costs for government of this set of entitlements would be around £9bn per year, if introduced in 2022/23, including savings from other benefits and higher tax revenues (figure 19). This is obviously a very large price-tag. But it delivers a major extension of the welfare state that provides new protection for millions of people. The cost is equivalent to only 3.7 per cent of the £250bn that will be spent on social security in 2022/23, so with enough political commitment it is achievable.[88] However for financial, legislative and operational reasons we would expect the new system to be phased in over time.

Institutional model and revenue raising: In the current fiscal climate we expect that politicians committed to introducing employment insurance

Figure 19: The net additional public expenditure for all our proposed entitlements is around £9bn per year

	Duration	Modelled caseload, 1000s	Net cost to government £	Cost to employers £
Insurance benefits				
Sickness insurance	12m	670	3,000	
Unemployment insurance	6m	330	1,800	
Carer's insurance	12m	110	540	
Maternity, adoption or parental leave insurance	12m	60	260	
Paternity insurance	2w	1	10	
Parental leave insurance (fathers/partners)	shared	1	<5	
Retraining insurance	1-8m	5	80	
Paid leave				
Maternity, adoption & parental pay (mother)	12m	360	2,800	-800
Sick pay (& free occupational health)	28w	610	690	-60
Parental pay (father/partner)	shared	3	50	
Paternity pay	2w	7	20	160
Paid furlough	TBC	10	20	
Carer's leave pay	1w	5	-	60
Total		**2,200**	**9,300**	**-640**

Source: Landman Economics and Fabian Society will want to identify corresponding revenues to cover the costs, paid for by the beneficiaries. This raises questions regarding the institutional form that employment insurance should take. The new system could be introduced as either:

- **A core government function** run by a combination of DWP and HMRC with the additional net expenditure funded by extra national insurance contributions. In 2022/2023 raising £9.3bn would require an increase in NICs of around 0.7 pence in the pound for employers and individuals.
- **A new arms-length social insurance institution** that would administrate the programme separately from government, funded by freestanding premiums deducted from payroll. The scheme would be actuarily neutral and premiums would change over time to ensure that income and expenditure were balanced over the economic cycle. This is the model used in Canada.

The advantage of the Canadian model of self-funding social insurance is that it places employment insurance on a permanent footing, with institutional form. In practice it has also created a platform for improvements, with Canadian politicians regularly adding additional entitlements over time (funded by increases in the premiums paid).

On the basis of the entitlements proposed we estimate the scheme would initially cost in the region of £17bn per year. This is higher than the net extra cost because that figure does not count the existing payments already paid by government that would transfer to the independent fund.

The Canadian insurance premiums are levied from the first pound of earnings, up to a limit similar to the UK's upper earnings limit for national insurance (this is also the limit for insurable pay, which sets Canada's maximum level on payments). If the UK levied premiums on the same basis and split them 50:50 between individuals and employers each would pay an estimated 1.3 per cent of eligible earnings. The savings to general government expenditure could be returned to workers through a parallel national insurance cut or allocated to other priorities.

Figure 20: Policies that can be introduced immediately at low cost

	Annual public spending
Unemployment and insufficient work	
Extend eligibility for jobseeker's allowance (JSA) to more workers including the self-employed	£10m
Introduce paid furlough to subsidise reduced hours as an alternative to redundancy - £20m per year	£20m
Reform statutory redundancy payments	-
Increase the value of JSA to match statutory sick pay if there is a severe recession	£190m*
Sickness and disability	
Pay SSP from the first day of sickness	-
Extend eligibility for SSP to workers with low weekly earnings	-
Increase SSP to match maternity allowance	-
Rename ESA to 'sickness and disability allowance'	-
Pay ESA on the basis of medical certificates for up to six months	-
Pay ESA at the same rate as SSP for up to six months	£60m
Provide free occupational health services to small businesses, the self-employed and people who have recently left work	Self-funding
Babies	
Extend SMP to women with low weekly earnings and in the first six months of a job	Very low
Introduce paternity allowance and shared parental leave allowance for the self-employed	£15m
Pay maternity allowance at 90 per cent of recent earnings for six weeks	£50m
Caring	
One week of paid carer's leave per year, funded by employers	-
Three weeks of unpaid carer's leave	-
A right to a 12 months' 'carer's career break' (initially large workplaces only)	-
Training	
Pilot for JSA and unemployed UC recipients to access approved full-time training	Very low
Pilot training bursary for the self-employed	£8m
Extend the right to request training leave to workplaces of all sizes	-

*plus borrowing to fund temporary recession-related increase in unemployment

We considered and rejected a third approach, where employers and the self-employed are required to buy approved employment insurance from private providers. We do not favour this option because to succeed employment insurance would need to be compulsory - to ensure comprehensive coverage and avoid the problem of adverse risk. In principle a new system could work like third-party car insurance, with employers compelled to buy a private sector product (perhaps with some choice regarding price and product features). But the simplicity and efficiency of a single public insurer will produce more cost effective and equitable outcomes.

INTERIM MEASURES

Establishing employment insurance will take time – taking account of the years required for legislation, development of the technology and operations and earmarking sufficient revenues.

However, there are immediate actions that can be introduced at low cost which are steps in the direction of a full-scale employment insurance system (figure 20). **F**

6. Public opinion

There is strong public support for improving income replacement policies, according to the Fabian Society YouGov poll of UK adults.

79 per cent of respondents who express a preference support a proposal to introduce an 'employment insurance' programme. Appendix 2 shows this support is even stronger among employees and that workers across the earnings distribution back the proposal. There is also strong cross-party support for the policy, with 70 per cent of 2019 Conservative voters and 86 per cent of 2019 Labour voters supporting the policy (out of those who expressed a view).

This question was asked following a series of questions relating to more detailed aspects of the scheme, so respondents had already been introduced to some of its main principles. These questions together show strong support for income replacement policies and we report on the detail in the rest of this chapter.

We also asked respondents whether they support the principle of people receiving more in benefits when they have recently left work – and there is strong support for this proposition. This is supported particularly strongly by current employees (appendix 2). The issue has wide cross-party support, with recent Conservative voters somewhat more likely than Labour voters to be in favour.

However, there is little support for the principle of earnings-related benefits, with 29 per cent of adults supporting the idea against 42 per cent who say benefits should not be linked to former earnings. Even workers earning over £40,000 who would be potential beneficiaries are split, with 42 per cent supporting earnings-related payments and 40 per cent backing everyone getting the same (appendix 2).

A new government **employment insurance** programme is being proposed that will pay people who stop working up to half their previous earnings. Payments will last between 6 and 12 months and will be made for the following reasons: unemployment; sickness or injury; maternity or parental leave; carer's leave; training leave. To what extent would you support or oppose the **UK Government** introducing these payments	All adults %
Strongly support	16
Tend to support	44
Tend to oppose	11
Strongly oppose	5
Don't know	23
Support – excluding respondents who said 'don't know'	79

UNEMPLOYMENT AND INSUFFICIENT WORK

Our poll finds very strong support for the government improving the rules on minimum redundancy payments. This is consistent across different groups, with strong support across all earnings brackets and political affiliations.

There is also a clear majority in favour of people with an employment record receiving half their previous earnings for six months. This is despite the question flagging the implications for public spending and taxes. Workers with earnings below £30,000 are particularly positive about this proposal, while there is somewhat less support from the self-employed and people earning £40,000 and over.

Just under half (49 per cent) of those expressing a view support a furlough-style scheme where the government pays workers if their employer needs to reduce their hours. Support is higher among workers earning under £30,000, and lower among the self-employed and people earning £40,000 and over.

The poll had a small sample of people who had left work in the last year (56). Their views were broadly in line with those of the whole population (see appendix 2). The participants in our focus groups and qualitative interviews

Thinking about benefits for people out of work, which of the following best reflects your view?	All adults %
People who lose their job after working for several years should be entitled to more in benefits than those who have not been working recently	55
People who lose their job after working for several years should receive the same in benefits as those who have not been working recently	20
Neither	9
Don't know	15

Thinking about benefits for people out of work, which of the following best reflects your view?	All adults %
In the early months after people stop working, people who previously earned more when they were employed should receive higher benefits than those who earned less	29
The amount people receive in benefits should not be linked to their former earnings at all, so that everyone is entitled to the same amount	42
Neither	10
Don't know	18

Percentage who support the policy. Excludes respondents who said 'don't know'	**All adults**	**People in work**					
		Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
The government increasing the minimum redundancy payment that employers must give to employees if they are made redundant.	87	88	81	89	88	87	86
If people have worked for several years and lose their job, the government paying them half their previous earnings for up to six months while they are out of work. Taxes might have to rise to pay for this.	61	65	54	71	71	61	55
The government paying people up to 80 percent of their usual earnings if their employer cannot provide them work or has to reduce their hours due to financial problems with the business. Taxes might have to rise to pay for this.	49	53	36	57	62	49	35

who were unemployed and had recently left a job believed that higher levels of unemployment benefit should be paid to people with a decent work record.

"Realistically I would say double and that's just to, you know, that is very, very minimum because of how prices have increased. And that would give people the support obviously to look for jobs as well. So, yes, I would say literally double that, about £150 at least."

Nicole

"I think £1,200 per month is the sort of minimum that someone would actually normally live by, like an extra wage in the house on basic terms. I think that would have been good."

Hassan

They also supported the idea of an earnings-related payment ("I think that's really good because you're taking in everyone's personal circumstances into account rather than just having a simple rate." Nicole). Different participants felt this should last for between three months and 12 months and, for better paid workers, they tended to support a fairly low replacement rate of a third or half of previous earnings. In principle they also supported the idea of an insurance-style scheme run on similar lines to workplace pensions, as long as the premium was a very low percentage of earnings.

Unemployed participants in the qualitative research also all supported the proposal that JSA should be available alongside UC to increase the total level of payment. The participants supported self-employed people being able to receive JSA (though one said national insurance for the self-employed should rise in exchange). They were divided as to whether JSA should be extended from six months to 12 months ("It shouldn't really take somebody more than six months to find a job." Maya).

They supported reform of minimum redundancy pay, although they recognised that only some unemployed people would benefit. Interviewees also spoke about excluding redundancy payments from universal credit savings rules: "It's what I've earned for what I've worked, do you see what mean? I just don't get it. But that's how they do it." Maya

Other suggestions included a policy to freeze loan or mortgage repayments during unemployment; a one-off grant for people unemployed after a long spell of employment; and government support for the full costs of rent during unemployment.

SICKNESS AND DISABILITY

In our poll there is wide support for sick pay being increased to 80 per cent of earnings. There is particularly strong support among people earning £20,000 to £29,999 who would be likely to benefit significantly from the policy, while the proposal was a little less popular among the self-employed who would not benefit. We did not ask a question in the poll about an improved sickness benefit. However our question on earnings-related payments if people lose their job was broadly worded so as to cover sickness as well as unemployment (see page 47).

We did ask questions about sickness benefits in our qualitative research. People we spoke to who had recently stopped working for health reasons supported more generous ESA payments, even though none of them were receiving the benefit themselves. They also supported the proposal that people should receive a higher amount if they are eligible for both ESA and universal credit.

They had mixed views about introducing an earnings-related ESA, with some supportive and others sceptical:

"I support paying at least 60, 70 per cent of what their income would have been just to get them back. You can't expect them to survive with 30, 40 per cent of what they were receiving previously.

Maalik

"But what if you're a single parent and you're only working 16 hours a week because you've got a child? And what if you're a zero-contract person? Or what if you went down to part-time because of your illness and you try to soldier on for all those reasons? And then if they're going on your income before you got ill, then you're only on like a small income. Do you see what I mean?"

Delia

Views varied on the appropriate duration of higher sickness benefit payments.

"I would say, probably, for at least four to six months because it won't be easy to get back on their feet, as long as they show attempts. If it's GP-supported and medical evidence, then maybe a year, but I'd say, ideally, it should be six months."

Maalik

Percentage who support the policy. Excludes respondents who said 'don't know'	**All adults**	**People in work**					
		Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
The government increasing the minimum sick pay that employers must give to employees to at least 80 per cent of people's usual earnings.	77	80	61	79	84	79	70

"Even if you give them just X amount of months to try and sort themselves out. It takes the pressure off mentally, physically. Mentally more than anything."

Delia

There was strong support for more generous statutory sick pay. One participant suggested three to six months on full pay and there was broad support for paying 50 per cent of earnings. If SSP remained flat-rate, participants believed its level should be doubled.

"You can't live off £95 a week can you, what can you do with £95 a week? You can't do anything with it. Especially if you're sick as well, how is that going to help you?"

James

"I think for a PLC company, a large company… when an employee is genuinely off sick with an accident or something like that they should be paid full pay or at least 80 per cent of it."

Delia

One participant, while supportive, raised concerns from the employer perspective: "You're paying for someone who is not there. It might encourage people to actually go on sick if it's more money. It might encourage people to abuse that system." (James). All the participants thought that the government should make a contribution to the costs of more generous sick pay.

Participants also supported raising the maximum amount of SSP from six to 12 months, as long as people who were able to do some work did not abuse the system.

"After a year I think you know what the situation is with that person. Whether they're able to go back to that job or not, you know, and I think that should be the maximum sort of timeline on it to help them."

Delia

The idea of the government encouraging private insurance for health-related income replacement was also met with some support. Two participants backed the idea, and a third did so on the condition that people could opt out and get some money back if they did not need to make a claim. However, another participant was sceptical having worked in the insurance industry, because of the potential for exclusion clauses to prevent pay-outs. Another had previously been refused mortgage protection insurance because they had a history of mental illness.

BABIES

Our poll finds a clear majority (63 per cent) of those expressing a view in support of 12 months of maternity leave worth at least half of previous earnings. Support is especially widespread among employees and people in work earning less than £30,000. Self-employed workers are less supportive (with just under half backing the policy).

There is a moderate gender divide in the responses to this question, with 66 per cent of women who express a view supporting the policy, against 59 per cent of men. 83 per cent of women aged 25 to 44 who express a view support the policy.

In the qualitative research the mothers on maternity leave expressed strong dissatisfaction with current maternity and parental support. One said the low level of statutory maternity pay made things unmanageable, and others wanted to see a significant increase in its value.

"I've worked hard in my life from the age of 13, and made sure I contributed to the system. And then in my time of need, just because it's something that I've chosen rather than becoming ill I can't choose, I get – you know, for me, compared to the size of my mortgage and the council tax that I'm paying and bills, what I need to live off – I think it is just unmanageable."

Nadia

"They just definitely need to revise the amount that's paid. I mean how that figure, how they've arrived at that figure, you know, the £150 a week? It just baffles me. What they expect to be bought with that – I think it's quite insulting. No one in government would be expected to bring up a child on that amount of money.... I think it should be at least be double that. After tax, that's still only just over £1000 a month. And I don't believe that anyone can survive on [that]."

Amrita

All the mothers supported increasing the duration of earnings-related SMP beyond

Percentage who support the policy. Excludes respondents who said 'don't know'	**All adults**	**People in work**					
		Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
The government increasing maternity pay to at least half a mother's usual earnings for up to 12 months. The government would fund the extra costs and taxes might have to rise to pay for this.	63	69	47	73	72	62	62

the current six weeks. Two supported payment for six months and one for 12 months, though one participant said small businesses would find it difficult to pay. The other two participants thought employers should be in a position to pay most of the costs. One argued that maternity leave should be available on full pay for employees with more than two years' service: "They should be given the same amount… as if they were working." Nia

They also wanted to see the flat-rate of SMP at a higher rate. Their suggestions included raising SMP to a little over £200 per week, doubling its value, and increasing it to the level of the minimum wage (around £330 per week).

One of the mothers complained about the absence of financial help for self-employed fathers and strongly supported paid paternity leave for the self-employed.

> "Well, he took the two-week paternity leave even though essentially he paid for that. The problem is with being self-employed is you don't get any of the allowances or benefits, even though you are the person paying for others to have those benefits and allowances. Any time that he takes off, however precious the time is with his children, and he really appreciates it, but he could be losing thousands of pounds in those few days, in that day, in the week that he takes off."
>
> Nadia

Others wanted shared parental leave reform so it was less complicated and restrictive:

> "Ideally [my husband] wanted to enquire about how we would share my mat leave. But that would have just messed up a routine too much, so we didn't even go down that route. But just the idea of that, having to go down that route, it was – for some people who do go down that route it just seems ridiculous having to split your time off."
>
> Amrita

> "If you choose to split your maternity between yourself and your partner it would be nice to have some time where you can actually cross over… I think it would help support their partner's mental health"
>
> Nadia

There was also support for extending paid paternity leave to one or two months:

> "Give them a full month's wage, or two months' wages. I understand they probably wouldn't give a whole 10 months, but a month or two of paternity pay."
>
> Nia

The participants were divided on making maternity pay available from day one of employment. One was supportive: "Because you've just started you're not going to get maternity pay… that impact is quite harsh, isn't it?" (Nia). But two other participants thought parents should make a contribution before being entitled to paid leave, and worried about the impact on employers.

CARING

Our poll reveals particularly strong support for the two policy proposals we tested to support carers.

Around nine in 10 respondents expressing a view support employers being required to give a week of paid carer's leave. Support is a little lower among the self-employed (falling to eight in 10). Recent Conservative and Labour voters both strongly supported the policy.

Around seven in 10 of those expressing a view support carers being paid half their previous earnings for 12 months if they have to stop work to care. The statement included a reminder that taxes might need to increase to pay for the policy. Support is particularly high among workers earning under £30,000.

In our qualitative research, the carers who had left work in the last year that we spoke to thought carer's allowance was far too low and should ideally match what goes to a paid carer.

Percentage who support the policy. Excludes respondents who said 'don't know'	**All adults**	**People in work**					
		Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
The government requiring employers to provide one week of paid 'carer's leave' each year to people who are responsible for caring for an older or disabled relative	87	90	78	89	88	86	89
The government paying people half their previous earnings for 12 months if they have to stop work to care for an older or disabled relative. Taxes might have to rise to pay for this.	73	73	68	77	80	69	65

"It's really poor of the government to just pay that flat rate at £67, that's just not enough... if someone needs to be a carer, then you should be cared in a way where you're doing a full-time caring job, which is a lot more than £67 per week. Or if they could meet the salary that you've had to leave behind… I think the government really should step up and pay the wage for a carer or match the wages that a person's had to leave behind. Make it a temporary situation where you're supported, and then when you go back to work, you'll be paying your own way again anyway."

Lauren

There were however some mixed feelings about creating a higher payment just for carers who have a recent work record. One participant supported the idea, another could see both sides of the argument and worried the policy could penalise disabled people: "If you find yourself being a carer for whatever reason, I think that everybody should be treated the same personally." (Lauren).

One participant also wanted a partial payment to be available for people who are off work but only caring for some of the time, or sharing the responsibility with another adult.

There was support for paid carer's leave. One participant said it should be available for six months, with full pay for three months and a flat rate for three months. She said the government should pay for the costs for small employers. Another suggested it could be for one month only and paid as a percentage of earnings with the rate determined by length of service: "Your loyalty to the company should reflect how loyal they are to you in a situation like that." (Nathan). The same man also wanted to see an entitlement to a longer period of unpaid carer's leave so that a job could be held open while away caring.

He also suggested that employers should provide income protection for caring breaks as part of group insurance policies: "I think work should cover health insurance, I mean lots of companies do… I think it should be more available… not just paying for treatment, but kind of time spent off work and stuff like that." (Nathan).

LEARNING

Our poll found that only 50 per cent of those expressing a view support the proposal for people to receive a payment for six months while retraining. Breaking it down by earnings, the idea is most popular with people earning £20,000 to £29,999.

The two people we spoke to who were retraining wanted to see better financial support for people out of work while acquiring skills. There was support for UC being available for adults in full-time education.

They also supported a learning allowance for people with a good work record. The participants said it should be linked to the duration of an approved course. One interviewee said the eligibility should not be so tight that it excluded people in low paid or part time jobs. One also wanted any benefit to include an extra payment for dependent children.

"Just have maybe a specific benefit for training parents. Not even just parents, people who are training. Especially if it's for specific roles that are going to be giving back to either education, public health, and social care, you know, because it's benefiting our society."

Natalia

There were mixed views on a scheme creating paid time off work to train. One participant said work-relevant training should be on-the-job and paid in full. Another felt a short period of leave would not be sufficient to do a full course. There was also a feeling of concern that employers would only allow it to be used by managers. But one of the participants saw the potential of a longer period as long as it were funded by the government:

"I think it's unfair to ask [employers] to make sure it's paid. Especially if they're a small organisation. But it would be nice, or like, I don't know, the government paid 80 per cent, the employer paid 20 per cent of the salary, you know?"

Natalia

Participants understandably spoke about tuition costs as well as their living expenses, and called for free retraining and the end of FE loans.

"Once you got a level 3 course, you've got to get a loan out with a student loan. I think that should get scrapped."

Maya

Percentage who support the policy. Excludes respondents who said 'don't know'	**All adults**	**People in work**					
		Employee	Self-employed	Earning under £20k	Earning £20 to £30k	Earning £30 to £40k	Earning £40k +
The government paying people half their previous earnings for six months if they decide to stop work to retrain on an approved course designed to improve their future employment opportunities. Taxes might have to rise to pay for this.	50	49	50	51	57	42	45

7. In detail: Unemployment and insufficient work

We examined three main policy options for supporting unemployment and temporary underemployment: improved JSA, help during temporary lay-offs and reduced hours, and improved termination payments.

We propose that the UK's new employment insurance system includes:

- **Unemployment insurance worth 50 per cent of previous earnings for six months, to replace jobseeker's allowance**
- **A new paid furlough scheme paying 80 per cent of earnings to the workers of employers in financial distress whose hours are reduced**
- **The modernisation and enhancement of statutory redundancy payments**

The second and third proposals would cost little for the government and could be introduced immediately (outside of recessions paid furlough is estimated to cost £20m per year). As another immediate measure, we recommend that JSA is extended to the self-employed and to a larger group of employees (costing £10m per year). Finally in the context of a recession that reduces labour demand, the value of JSA could be increased to match the level of statutory sick pay.

UNEMPLOYMENT INSURANCE

JSA today is a low-value, marginalised benefit which is only claimed by people who are not eligible for universal credit. Over the course of a decade, it should be replaced by new earnings-related unemployment insurance. This could happen in the following stages:

- **Step 1** Expand entitlement to more employees and to the self-employed (£10m per year)
- **Step 2** Increase JSA to the level of statutory sick pay (£190m per year)
- **Step 3** Increase JSA to 50 per cent of earnings (£1.8bn per year)

In the current fiscal climate perhaps only the first of these options can be considered without a matching source of revenue. **Politicians should commit to extending JSA to the self-employed immediately.**

Should unemployment rise in the future, there is also a case for **increasing JSA to the level of statutory sick pay,** to provide improved protection to people who are ineligible for universal credit. This policy would cost £190m while the number of recipients are at ordinary levels. The cost of the higher caseload associated with a recession would be funded by anti-cyclical deficit spending.

The third step of creating earnings-related unemployment insurance will cost more than £1bn and we assume this could only be introduced alongside a matching revenue stream, given the outlook for the public finances for the rest of this decade. Our proposed version of the policy is modelled to cost £1.8bn (equivalent to a 0.13 pence increase to national insurance for employees, employers and the self-employed).

Unemployment insurance: policy specification

- Usually pays 50 per cent of previous earnings
- Maximum payment equivalent to £30,000 per year
- Minimum payment equivalent to the UC basic award for 25 to 65-year-olds
- Eligibility is dependent on recent work broadly defined (including self-employment and very low earnings)
- Available for six months
- Provisions for extending duration in the case of severe labour market conditions
- Treated as earned income by universal credit rules

Expanding eligibility: Today JSA is only available to employees not the self-employed, and eligibility is restricted by complex national insurance rules which no one can be expected to understand. While most recent employees qualify, the rules exclude some people who would seem to have an obvious connection to work, in particular people with very low earnings and the self-employed. We propose two ways to widen eligibility:

- **Include the self-employed:** This could be achieved by including people who have made sufficient self-employed (class 4) national insurance contributions, or designing a new system using self-employment income tax records.

- **Include more employees:** This could be achieved by replicating rules used for determining eligibility for maternity allowance or designing a digital system based on PAYE real time data.

We considered and rejected an alternative approach of having no work-related restrictions at all – with entitlement determined only by the six-month time limit. Our modelling showed that extending JSA eligibility to everyone in the first six months of unemployment increased the number of entitlements and awards by around half because so many unemployed people do not have a recent link to work (see figure 12). Providing this group with extra support would be beyond the scope of an employment insurance programme designed to replace current or recent income.

The three reforms that we modelled and recommend for adoption are: removing rules on minimum employee earnings; reducing the minimum number of weeks of earnings required; and including self-employed workers. Using the Understanding Society dataset none of these reforms produced significant increases in eligibility, as few of the unemployed people interviewed had work histories that triggered a new JSA entitlement when the measures were simulated. In total the number of JSA recipients increased by around 5 per cent (costing £10m per year when not accompanied by other reforms).

These findings should offer policymakers reassurance that expanding eligibility would not lead to significant new costs during normal economic conditions. The story might be different during a recession and ideally other large data sources should be used to validate these results. Nevertheless, our evidence suggests the fiscal downside to these reforms would be small. **We recommend these measures are adopted immediately as low-cost transitional reforms.**

Longer duration payments: We examined and rejected the case for extending the availability of JSA from six to 12 months. Although other countries have longer durations, six months is normally sufficient time for people to find work in the absence of other personal barriers or a severe labour market crisis.

The position is not totally clear-cut however. In the absence of other reforms our modelling showed that doubling the duration of JSA would only increase the number of recipients by 6,000 people or 7 per cent (at a cost of £13m). This is because the Understanding Society dataset contains very few people who were unemployed for between six and 12 months and were eligible for JSA rather than UC. Still, we do not recommend this policy alongside our proposal for earnings-related unemployment insurance – at least for now. Based on current patterns of unemployment a time limit of 12 months not six months would increase the cost of a new employment insurance benefit by more than £100m per year – and there is also the risk that the longer maximum duration might push up the number who were unemployed beyond six months.

As we saw on figure 11, long-term unemployment is much more cyclical than unemployment lasting less than six months. Policy makers could therefore consider the option of temporary extensions to eligibility during periods of high unemployment. This approach is followed in the USA on an ad hoc basis and in Canada in standardised form, where there are variable durations of entitlement based on local labour market conditions. Such temporary policies could be part of anti-recession measures funded by public borrowing.

More generous payments: When fully implemented a new unemployment insurance system should be designed to replace a significant proportion of people's previous earnings, as is the case in most other rich countries. We propose that the destination should be a benefit that pays 50 per cent of earnings and is treated as earned income by universal credit.

In our modelling we also show results for the more expensive option of paying 80 per cent of earnings. We do not recommend going this far as it would represent a huge shift from where the UK is now and would come with costs that the public finances are not well placed to absorb. We are also mindful that universal credit would sit alongside these payments, giving low-income households an extra source of protection.

Given the fiscal constraints facing government, we also modelled cheaper options for increasing the value of JSA in the short term. We show the impact of raising JSA to the level of statutory sick pay (our suggested step 2 for fighting any future recession) and also to the level of statutory maternity pay.

Raising the value of payments obviously provides more support per recipient. But it is also expected and intended to increase the numbers claiming. First, as payments increase, take-up is assumed to rise steadily among people who are not currently claiming any benefits (although their behavioural responses are hard to predict in any detail). In our model, take-up within this group is assumed to rise from 15 per cent under today's JSA to around 40 per cent under our proposal to pay 50 per cent of earnings.

Second, increased payments result in a rise in the number of JSA-eligible UC recipients who claim JSA. Here, the choice made regarding the interaction between JSA and universal credit is critically important, both for the number of recipients and the cost of the reform. If a new unemployment benefit is treated as unearned income, it will be deducted pound-for-pound from universal credit. In this scenario the only UC recipients who are better off under a reform are those who become entitled to more in JSA than in UC. The 'not rewarded in UC' results in figure 21 include only existing UC recipients in this group (we assume that DWP systems would be sufficiently integrated so as to ensure that people receive whichever of JSA or UC gives them most money).

The alternative approach is to reward unemployment benefits within UC, so that people with entitlement to both JSA and UC receive more than those entitled only to UC. The rationale for this is to reward recent work and give people a boost to their incomes in the early months of leaving employment. Importantly, this measure ensures that the proposals help unemployed people in households with low incomes or high living costs. Without this policy, households who receive more UC than JSA would not gain (including many with rental costs and children). This would raise significant questions about the fairness of the reform – and doubly so in the context of new taxes or payroll deductions being introduced to pay for the policy. While everyone would pay into the system, households receiving UC would not gain from it.

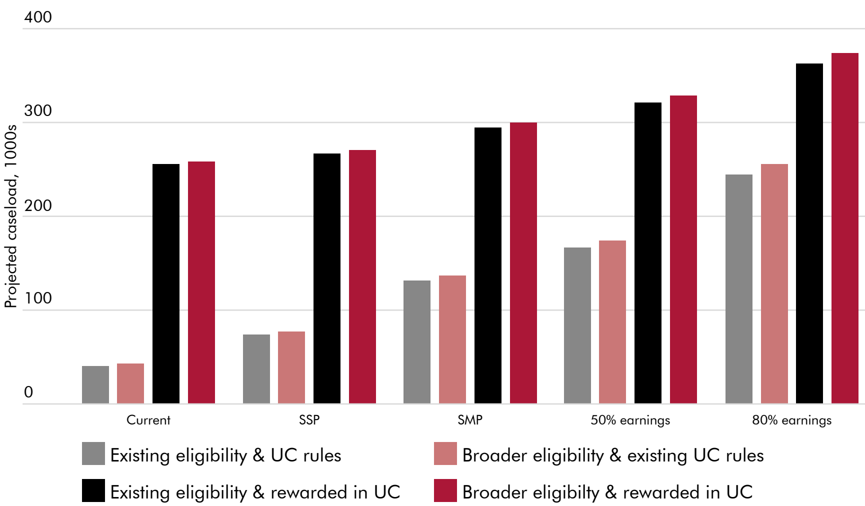
On the other hand, treating JSA as earned income for UC purposes significantly increases the costs of any reforms. The approach we have modelled is to treat JSA as earned income when calculating UC. This means that each pound of JSA leads to the UC payment being reduced by 55p rather than being offset entirely. Even without any other reforms, introducing this policy would make a big difference, benefiting 215,000 existing UC households by an average of £33 per week, at a net cost of £370m per year. Figure 21 shows that under our preferred earnings-related version of unemployment insurance the modelled caseload for the benefit is 330,000 when it is rewarded within UC compared to 170,000 when it is not, and the net cost of the reform is £1.8bn rather than £1.3bn per year.

Figure 21: Our proposal for employment insurance is modelled to reach 330,000 people with additional net costs of £1.8bn[89]

	Not rewarded in UC		Rewarded in UC	
Policy options	Caseload, 1000s	Net cost, £m	Caseload, 1000s	Net cost, £m
Match flat-rate statutory sick pay (£99.35 per week in 2022/23)	80	190	270	600
Match flat-rate maternity payments (£!56.66 per week in 2022/23)	140	630	300	1,200
Pay 50 per cent of former earnings (or the existing level of JSA if this is higher). Average modelled award = £260 per week	170	1,300	330	1,800
Pay 80 per cent of former earnings (or the existing level of JSA if this is higher). Average modelled award = £350 per week	260	2,800	370	3,400

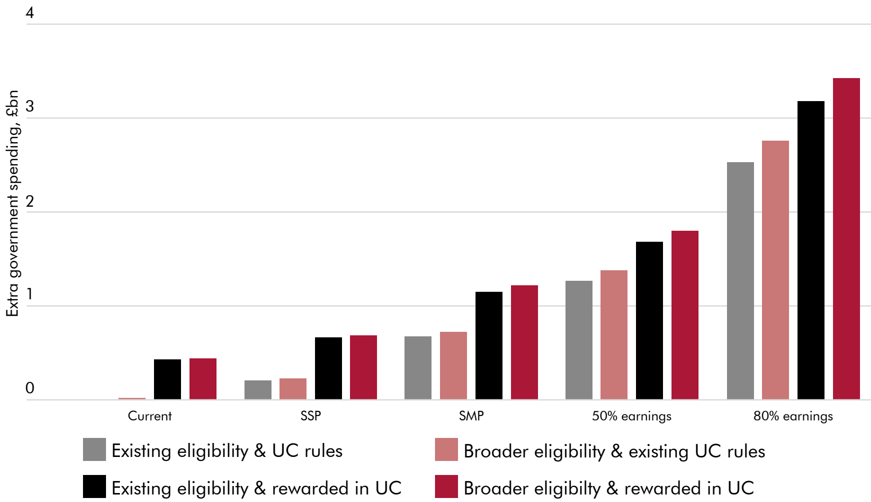
Source: Landman Economics

Figure 22: Rewarding JSA in universal credit and increasing the value of JSA are both modelled to dramatically increase the numbers receiving the benefit



Source: Landman Economics

Figure 23: Increasing the generosity of a non-means-tested unemployment benefit leads to much higher costs



Source: Landman Economics

Paid furlough: policy specification

- Employees to receive at least 80 per cent of usual earnings
- Government pays employer up to 50 per cent of earnings to cover time not worked
- Maximum payment equivalent to £30,000 per year
- Scheme can be used for short-time working or potentially for temporary lay-offs
- Available to an employer for up to six months (with possibility of extensions during prolonged economic crisis)
- Conditions on employer eligibility to be developed with business representatives
- Free training to be offered to employees working heavily reduced hours

Figures 22 and 23 show the effect of combining some of the policy choices (with the benefit available for six months). They demonstrate that the number of JSA recipients is driven by choices regarding the interaction with universal credit and generosity (which increases take-up). Relaxing eligibility criteria while still keeping a link to employment makes little difference.

The largest driver of costs is increases in generosity, though the choice about interaction with universal credit make a difference too. Relaxing eligibility has little impact on the costs as they only push up caseloads modestly.

PAID FURLOUGH

As an adjunct to unemployment insurance, we propose that the new employment insurance system includes a paid furlough scheme. The purpose of the policy would be to prevent unemployment by retaining employees in work during periods when employers are struggling in the short term and cannot offer workers their usual hours.

The rationale for these schemes is that supporting temporary absence or short-time work is good for employers and workers, by retaining connections with skilled and productive employees.

Paid furlough could also be adopted immediately as a cheap standalone policy in advance of the next election. We estimate that the policy would cost £20m per year in normal labour market conditions, with higher short-term costs expected during any future recession. The funding would be drawn from the same budget as unemployment insurance.

The scheme could be designed in a number of ways. Here we recommend that the employers who need to furlough their staff should be able to reclaim from government up to the same amount of money as their employees would receive in unemployment insurance if they lost their job – ie 50 per cent of their usual earnings. Employers could reduce their employee's hours, or potentially lay them off temporarily, with employment insurance funding most or all of their pay. The government's support would be conditional on the employee receiving at least 80 per cent of their usual earnings so employers would usually need to make a partial contribution. Eligibility criteria would need to be established to determine when employers could use the scheme, both in the context of business problems or another health crisis.

This proposal draws on recent proposals from the TUC which has called for the UK to learn from the experience of the Covid-19 furlough and adopt a permanent short-time working scheme. This would follow the practice of other advanced economies including most European countries (at the start of the pandemic, 23 OECD countries had short-time schemes).[90]

The TUC proposal is for employees to receive 80 per cent of earnings for any time when they are on reduced hours or temporarily laid off – with the proviso that no one should receive less than the minimum wage for their normal working hours. The TUC also proposes that people working less than a specified proportion of their normal working hours should receive free training (a model already used in some countries).[91]

At present the UK has an extremely minimal regime that requires employers to support people who are temporarily laid off (see appendix 1). The maximum help people can receive is £155 in total and employers are not compensated by the government. By contrast, in most European countries and in Canada short-time working is an adjunct to an unemployment insurance system. Studies show such schemes are more likely to be used where workers have higher skills or longer job tenure, and that they are associated with lower falls in employment for a given level of economic disruption.

In most countries paid furlough schemes are seen as direct substitutes for unemployment benefits – and ones that are likely to have better long-term outcomes. The costs are often met by social security agencies who would otherwise be paying the same in unemployment insurance. As things stand in the UK a new furlough scheme would add to expenditure, given how low our benefit rates are. However, as it would only be used at any scale during a labour market crisis, there is a strong case for treating it as a deficit-funded automatic stabiliser policy that would provide temporary protection and maintain consumer spending.

In other countries short-time work schemes are barely used most of the time and have very low costs. But they come into their own during recessions. Following the 2008 financial crisis they were used by 7 per cent of EU firms. Take-up peaked at 3 per cent of workers in Germany and Italy and around 1 per cent in France, the Netherlands, Austria and Ireland. Across the EU spending in 2009 reached around €12bn.[92]

To take a more recent example, Canada's work-sharing scheme supported 11,000 employees during 2019/20, a figure which increased to 83,000 in the pandemic year of 2020/21. Spending on the programme increased from under Can$20m to over Can$180m.[93] This is actually a lower spike than in 2009/10 during the global financial crisis when participation in the programme was more than 20 times greater than in 2019/20.

We have used these Canadian figures to estimate the costs of a UK paid furlough scheme. Scaling up to take account of the UK's larger population we assume that in normal economic conditions there would be 20,000 annual beneficiaries, costing the government around £20m per year (ie around £1,000 per beneficiary). If 2009/10 is treated as the worst case for a recession-related rise in claims, Canada's 20-fold increase in that year suggests that the UK's maximum spend would be around £400m at the peak of an economic crisis.

TERMINATION PAY

Alongside the development of employment insurance, we propose that employers should be required to make higher payments at the termination of employments when people leave jobs against their wishes. For any employee with more than one year of employment we recommend:

- Modernised and enhanced minimum redundancy pay
- New termination payments for other dismissals

In addition, termination payments should receive special treatment under universal credit rules on savings.

When it comes to employer termination payments, there is a balance to strike. If employers are required to pay people very large amounts when asking them to leave this may have consequences for the productivity and viability of businesses. Labour market regulation should not be so restrictive that it prevents employers from making necessary changes to their workforces. But in our view the scales have tipped too far the other way: as things stand employees' minimum entitlements are too small, compared to the financial impact they face when losing a job.

Statutory redundancy was created in 1965 and the key rules used to calculate entitlement to payments have not been changed since.[94] Employees with more than two years' service are entitled to half a week's pay for each full year aged under 22; one week's pay for each full year aged 22 to 40; and one and a half week's pay for each full year aged 41 or older. Length of service is capped at 20 years and the value of a week's pay is capped at £571 (2022/23).

It is time for a root and branch review of these rules. However, in considering options for reforming termination payments, we are hamstrung by the very limited evidence that is collected about redundancy pay – either in official statistics or third-party research. For this reason, we have not carried out detailed quantitative analysis of these proposals.

Termination pay: Policy specification

1. **Modernised and enhanced statutory redundancy pay**
   - Eligibility begins after one year of employment, down from two years today (including temporary contracts over 12 months).
   - Employees of all ages receive two weeks' pay per year of service up to a maximum of 20 weeks' pay.
   - The maximum salary for calculating payments rises from just under £30,000 now to between £40,0000 and £50,000.
2. **New termination payments for dismissals for other reasons**
   - Eligibility begins after one year of employment.
   - Covers non-redundancy dismissals apart from misconduct – ie health, capability etc.
   - Employees of all ages receive two weeks' pay per year of service up to a maximum of eight weeks' pay.
3. **Universal credit capital rules**
   - Termination payments are to be disregarded from assessing whether a household has more than £16,000 of capital (and therefore has no entitlement to universal credit)
   - This exemption to last for one year from receipt of the payment.
   - Redundancy lump sum still to be included in means-test calculations as a source of income (as part of the rules applied to all savings over £6,000).

Increase the cap on earnings used to calculate payments: The maximum pay used for calculating statutory redundancy payments is £29,700 per year (2022/23) which is below full-time median earnings and below the cap of £37,500 per year that was used to limit furlough scheme payments in 2020/21. By comparison, when statutory redundancy pay was introduced in the 1960s the weekly cap of £40 was more than three times average earnings.

We propose that the cap should be increased to the region of £40,000 to £50,000 per year. A £40,000 cap would help people with earnings a little above the median who currently face a very large income shock from moving from work to social security. Following recent growth in inflation and earnings this limit would be worth less than the cap used to restrict payments under the Covid-19 furlough scheme. Or, going further, the cap could be set to coincide with the national insurance upper earnings limit which is currently just over £50,000 (2022/23).

Increase payments for all age groups but reduce service-related entitlements: There is no obvious rationale for treating employees facing redundancy differently on grounds of their age and arguably this it is unjustified age discrimination. Payments should therefore be increased to two weeks' pay per year of service for employees of all ages. This would benefit workers aged under 40 the most. However, at the same time the maximum number of years of service used in redundancy pay calculations should be reduced to 10 years, because there is little material difference between a worker who has contributed 10 or 20 years to their employer. This is another feature of the 1960s scheme which is likely to involve age discrimination.

The effect of these two changes would be to reduce the maximum number of weeks of pay from 30 weeks to 20 weeks (reducing the number of very large payments) while at the same time significantly increasing the size of average payments. For example, a 39-year-old made redundant after seven years in a job would go from receiving seven weeks' pay to 14 weeks' pay. A 55-year-old with 15 years' service would go from receiving 22 and a half weeks' pay to 20 weeks.

Start redundancy payments at 12 months: Modest payments should be made to employees whose jobs become redundant after 12 months - ie two weeks' pay between 12 and 24 months in a job. The main effect of this proposal would be to draw more temporary workers into eligibility, increasing protection for precarious workers. Once workers who have satisfactorily completed a year in a job, a payment of this scale is not an excessive ask to make of employers given the financial harm employees face from losing an established employment relationship.

Create termination pay for all non-voluntary dismissals except misconduct: The large majority of non-voluntary dismissals are redundancies (including terminations of fixed-term contracts).[95] But there is a case for including people who are dismissed for other reasons such as sickness or capability, who face similar risks as those made redundant. Employers should not face costs that are so high they cannot take necessary action if their employees are unable to perform their duties. But a modest lump-sum payment on termination to support people to make adjustments would make a big difference. A termination payment could follow the same model as our proposals for redundancy payments – but with a lower maximum limit of four years' service. This would translate into four weeks' pay after two years of service rising to eight weeks' pay after four years.

Create special rules for termination payments in universal credit: It is reasonable that a lump-sum payment should be taken into account when calculating how much a household needs from means-tested social security. But under current rules households with more than £16,000 in capital have no entitlement at all to universal credit. This mean that a low-income family which was previously receiving UC while an adult was working could lose their entitlement if that person is made redundant and their severance package takes their savings over £16,000. This makes no sense. UC rules should be revised so that, for a period of one year after a redundancy payment is made, the payment is disregarded for the purposes of establishing whether a household has more than £16,000 in capital.

It is not possible to accurately cost these proposals because so little data is collected on redundancies and other involuntary dismissals. Many employers would have no more to pay because they currently have occupational redundancy schemes that go beyond the statutory minimum. We can establish an order of magnitude based on knowing there are around 400,000 involuntary dismissals per year.[96] If dismissals on average ended up costing employers an extra week's pay, the cost of a termination would rise by £500 for someone on median earnings. Across the whole labour force, this would translate into extra spending in the region of £200m per year for employers (around 0.025 per cent of total payroll of around £750bn). The cost to the government in revising the UC capital rules just for redundancy payments would be very small. **F**

8. In detail: Sickness and disability

Sickness and disability is the most significant and widespread risk against which a new system of employment insurance should provide protection. In place of today's threadbare statutory sick pay and employment and support allowance, a new settlement should offer:

- **Sick pay worth at least 80 per cent of earnings from day one to week 28 of absence.** Employers would continue to pay most of the costs of sick pay but the employment insurance system would cover some of the costs of long-term sickness absence for small employers.

- **Sickness insurance worth 50 per cent of earnings for people without access to sick pay**, including the self-employed, people who have recently left a job and people on sick leave for more than 28 weeks.

As immediate transitional measures we recommend that SSP is extended to workers in the first three days of sickness and with very low weekly earnings. It should also be increased to at least match the flat rate of maternity pay. ESA should be renamed sickness and disability allowance and increased so that it at least matches the level of statutory sick pay today during the first six months of a claim (costing £60m per year). Medical certificates should be acceptable proof of eligibility.

SICK PAY

The UK has an opportunity to take a giant leap forward on minimum sick pay. Today's system of statutory sick pay is totally broken. Employees are entitled to less than £100 per week, they can go unpaid for the first three days of illness and the lowest paid workers have no entitlement to sick pay at all.

The system is so bad that the employers of most workers fill the gap and provide sick pay on much more generous terms. This may be the only case where a core plank of Britain's social settlement is so inadequate that employers generally go well beyond its expectations voluntarily. That creates an opportunity. Since a large majority of workers already receive sick pay a good deal beyond the statutory minimum, the costs of a major reform will be low in most workplaces. In fact, good businesses should be lobbying for change to stop bad firms undercutting them with inhumane sick pay policies.

On the face of it our proposal is far-reaching. We want to see minimum sick pay increased to 80 per cent of usual earnings from the first day of illness to 28 weeks of absence. But the reality is that most employees already work for employers providing sick pay on terms well beyond the statutory scheme. Meeting the new standard will cost far less to implement than employers may fear.

In 2021 the Fabian Society conducted a detailed appraisal for the TUC of options for reforming statutory sick pay. The options analysed were paying a higher flat rate of SSP; creating earnings-related SSP; ending the three waiting days before SSP eligibility begins; increasing eligibility for SSP to 12 months; paying SSP to employees with low weekly earnings; reforming how SSP works for part-time workers; and introducing government subsidies for employer payments.[98]

For this project new analysis and modelling of the Family Resources Survey provides detailed data on the costs and impacts of many of these policy options. As discussed in chapter 3, the FRS data shows that occupational sick pay (OSP) makes up the lion's share of sick pay for those eligible for SSP, with the statutory payment playing only a small supporting role. The FRS survey evidence indicates that just 16 per cent of people on sick leave receive only SSP and that spending on the statutory scheme amounts to £2.6bn per year compared to £8.3bn of occupational sick pay. In fact, this analysis actually understates the position because the FRS dataset does not include details of pay

Sick pay: policy specification

Employer requirement

- All workers to receive at least 80 per cent of their usual earnings as sick pay.
- Workers with very low weekly earnings to be included for the first time.
- Workers to be paid from the first day of sickness, addressing the public health risks created by people coming to work with communicable illnesses.
- Entitlement to continue to 28 weeks of sickness absence.
- These higher employer obligations may stimulate a larger market for group income protection products among large employers.

Support from the employment insurance system

- Free access to occupational health services for small and medium sized employers and the self-employed.
- After six weeks of absence, small employers to be able to reclaim 50 per cent of the absent individual's usual earnings (up to the equivalent of £30,000 per annum). The remainder continues to be paid by the employer so they have an ongoing incentive to support return to work.
- This financial support is conditional on demonstrating good health management practice and using occupational health services where relevant.
- After 28 weeks the employer sick pay obligation ends. Sickness insurance (which replaces ESA) is normally paid to the individual but this money can be transferred to the employer to subsidise continuing sick pay if the employer wishes.

during the first three days of sickness absence (which is entirely occupational sick pay, since SSP starts on day four).

Such widespread use of OSP substantially reduces the costs of SSP reform options for employers. In fact, according to our modelling, the package we propose slightly reduces overall employer spending on sick pay: total sick pay expenditure excluding the first three days of absence would rise by £800m which is slightly less than the cost of our proposed new subsidy for SMEs to support their long-term sick pay costs and occupational health provision.

Admittedly there would be significant winners and losers – employers who already offer full pay during sickness absences would gain, while those who are currently only paying SSP would lose. Some small employers might see extra costs, but in general SMEs would gain as the government would share the costs of long spells of sickness absence for employers with fewer than 50 staff.

Losers from the reform would also be able to console themselves that the cost of moving from today's SSP to sick pay at 80 per cent of earnings would only average at around £250 per worker per year. This is much less than the value of the annual increase in the minimum wage. And firms would know that their competitors were being required to make the same move.

More generous payments: Our FRS modelling examined the cost of increasing the generosity of SSP and broadening eligibility to include workers earning below the national insurance lower earnings limit (£123 per week in 2022/23). The extra SSP spending required to include very low-paid workers amounts to £130m per year. £60m of this is new spending for employers while £70m is already being spent as OSP.

We also examined the impact of three options for increasing SSP:

- Raising SSP to match the flat rate of statutory maternity pay or maternity allowance (£156.66 in 2022/23).
- Replicating arrangements for statutory maternity pay by paying 90 per cent of earnings for six weeks followed by a flat rate of £156.66.
- Replicating the Covid-19 furlough scheme and paying 80 per cent of earnings for the duration of the absence.

Figure 24 shows how the vast majority of these increases are absorbed by reductions in employers' non-statutory OSP payments. In all cases, the extra costs incurred by employers (and therefore paid to workers) are a small proportion of the higher SSP expenditure. These numbers exclude people in the first few days of sickness absence due to the design of the FRS survey. But there is no reason to think the position would be different for very short absences – in the first three days there is currently no entitlement to SSP whereas a very large share of workers are entitled to OSP from day one.

Figure 24: Almost all the costs of raising SSP are offset by reductions in spending on employers' additional occupation sick pay schemes[99]

	Existing coverage			Including very low paid workers		
Policy options	SSP	OSP	Increased employer spending	SSP	OSP	Increased employer spending
Today's SSP rate	2,600	8,300	0	2,700	8,200	60
SMP flat rate	3,800	7,200	200	3,900	7,200	250
SMP scheme	7,400	3,800	360	7,500	3,800	420
80% of earnings	7,900	3,300	280	8,400	3,200	780

Source: Landman Economics model using Family Resources Survey 2019/20

We prefer the third option (based on Covid-19 furlough) not the second (modelled on SMP) because it provides better protection to people who are long-term sick and gives employers the option of reducing pay by 20 per cent, if they feel this is necessary on grounds of cost or to incentivise return.

As an interim measure, to stage the reform, we recommend that policy makers extend SSP immediately to workers with very low weekly earnings and they increase the level of SSP to match the flat rate of maternity pay.

Duration of SSP: Following the Covid-19 pandemic, there is an unanswerable case for mandatory sick pay being available from day one of absence. 'Presenteeism' where employees work when they are sick is not just a false economy for businesses, in the case of communicable disease it is also a risk to public health. The additional transmission of contagious illness that arises from people working while they are ill hits employers, the public and the NHS. This is particularly important since face-to-face service roles dominate in the sectors where sick pay is least likely to be offered from day one. We have not costed the impact of dropping SSP waiting days, due to restrictions with the FRS data. But this policy will only affect firms who do not offer occupational sick pay (who employ a small minority of the workforce).

Turning to the endpoint for sick pay, the sample size of the FRS survey is too small to model the impact of an extension of the duration of SSP beyond the existing 28 weeks (the survey dataset includes almost no one on sick leave for over six months). In principle, there are potential advantages in requiring employers to pay sick pay for longer than 28 weeks, because it would give them a continuing stake in their workers' recovery and reintegration. This is the thinking behind the Dutch system, where employers pay sick pay for up to two years and often buy insurance to cover their liabilities.

Having said that, in the absence of a well-developed insurance market in the UK, we think it still makes sense to create a public backstop for employer liabilities for sick pay. 28 weeks of sickness absence is an appropriate point to transfer risk to the state (in fact it is considerably later than the point where the state takes over in most rich nations). Employers who wished to continue paying sick pay after this cut-off could be given the worker's sickness insurance as a contribution to their costs.

On the other hand, we think small employers should receive a subsidy sooner, given the high costs and uncertainty they face when an employee is on long-term sick. The proposed employment insurance system should include a fund to cover SME's costs of long-term sickness after four to six weeks. The cost of this proposal is in the region of £800m to fund employers with fewer than 50 workers.[100]

Occupational health services: As part of this new sick pay regime, free access to occupational health services should be established for people working for small and medium-sized employers, the self-employed and those who have recently left work. Occupational health services are specialist workplace health providers who support employers to reduce health risks and promote good health within their workforce, as well as supporting absence management and rehabilitation when people are sick or injured. Various occupational health initiatives have been tested in recent years particularly the Fit for Work service (2015-2018) which was developed following the 2011 Health at Work review. The service was closed due to low awareness and take-up. In 2021 the government committed to developing a new information and advice offering and to piloting an employer subsidy scheme.[101]

Our reforms to sick pay create the opportunity to engineer a big increase in take-up of occupational health services, where standalone initiatives have not succeeded. A new obligation to pay 80 per cent of earnings will create a larger financial incentive for employers to actively manage their employees' rehabilitation and return to work. And for small employers, appropriate use of occupational health providers could be made a condition on accessing subsidies to cover the costs of long-term sick pay.

The free support could take the form of NHS services, vouchers to pay for commercial occupational health provision or a combination of both. Advice, assessment and rehabilitation interventions might cost between £75m and £150m per year (updating government costings from 2013). This would be outweighed by savings from reduced sickness absence – ie from higher tax revenues and reduced public spending on benefits and on our proposed SME sick pay subsidy.[102]

Private insurance: The requirement for all employers to pay sick pay for at least 28 weeks might stimulate an increase in take-up of group income protection insurance for long-term sickness absences. It would be for employers to decide whether they wanted to access these products or to self-insure. For large employers one of the main advantages of taking cover would be to access the occupational health support that insurers provide (we propose this should be free only for small employers and the self-employed). It might also be popular for employers seeking to cover long-tail risks associated with sickness absence between six and 28 weeks, since many existing occupational sick pay schemes end much sooner than 28 weeks. Private insurance could also have an expanded role in paying sick leave after 28 weeks, as a top-up to the state sickness insurance we recommend.

Our proposal to create an earnings-related but time-limited sickness insurance (see below) might lead to group and individual income protection policies offering equivalent protection for a longer duration or until retirement. In this scenario, the presence of much better public support for short- and medium-term sickness absence would be the backdrop for higher supply and demand for voluntary protection against the low-probability, high-cost risk of near permanent incapacity for work.

Finally, policymakers should examine the interaction between income replacement insurance paid to the individual and means-tested benefits. At the moment universal credit is deducted pound-for-pound for any insurance in payment, except for mortgage protection payments. As with non-means-tested benefits like maternity allowance it would make sense for universal credit to recognise these payments as if they were earnings. Income protection insurance would then be treated on the same basis as sick pay (including sick pay funded from employers' group insurance products) resolving an anomalous situation. We have not costed this proposal.

Termination payment: In the previous chapter we explored the option of widening redundancy payments to include dismissals relating to other forms of dismissal. This would include dismissal on grounds of poor health. We suggest this could be worth between two weeks' pay (after one year of service) and eight weeks' pay (after four years of service). The existence of a termination payment might give pause for thought to employers when deciding whether to retain an employee following extended or persistent absence. It is not set at a rate that would stop employers ever dismissing workers on health grounds, but it would tip the balance slightly towards a focus on rehabilitation and retention.

"If you've got to finish work for ill health maybe [employers] should be obligated to pay you for a few more months, maybe two months as long as the doctor confirms that. If you've just walked out of your job and said: 'Sod you, I don't want to work', I don't think they should be obligated then. But if someone leaves due to illness then I think that they should be obligated to say OK, well we've got to cover you for the next two months while your benefits kick in…. so you're not left – especially when they've been in the company for years and years."

Delia

SICKNESS INSURANCE

As part of a comprehensive system of employment insurance we propose the creation of **sickness insurance** worth 50 per cent of previous earnings for 12 months. This benefit would replace the first year of employment and support allowance (ESA).

Sickness insurance for up to one year will complement recent government proposals to reform benefits for people with long-term health conditions by merging disability assessments.

As an interim measure, we recommend that ESA is renamed sickness and disability allowance, work-related eligibility rules are relaxed (costing £50m per year) and that the benefit is increased so that it at least matches statutory sick pay during the first six months of a claim (costing £60m per year). During this time medical certificates should be acceptable proof of eligibility.

Sickness insurance: policy specification

- Usually pays 50 per cent of previous earnings.
- Maximum payment equivalent to £30,000 per year, minimum payment equivalent to the UC basic award for 25 to65-year-olds.
- Eligibility is dependent on recent work broadly defined (including self-employment and very low earnings).
- Available for 12 months (option of 24 months, which increases the costs significantly)
- Treated as earned income by universal credit rules.

Occupational health

- Free access to occupational health support throughout receipt.

Assessment

- Available via doctor certification (to reflect the discontinuation of the work capability assessment).

Interaction with sick pay

- For employees eligibility begins when 28-week entitlement to sick pay expires.
- Option of transferring the payment to employers if they continue sick pay after 28 weeks

The 'ESA' brand and early months: ESA is usually associated with long-term absence from work but it is meant to be a short-term sickness benefit as well as a living allowance for people unable to work for a long time. This short-term role is especially important for self-employed people who do not have access to sick pay.

There is therefore a good case for re-naming ESA to be more appealing and intuitive for people when they first stop working. In the long term we propose that the first 12 months of ESA is split out from longer term payments and named **sickness insurance**, to signal it is part of our proposed comprehensive employment insurance system.

In the meantime, the whole of ESA could be renamed **sickness and disability allowance** to better signal the purpose of the benefit. The name employment and support allowance was developed when ESA was a largely means-tested benefit and there was an expectation that a high proportion of recipients would be required to take steps to prepare for work. These days ESA is only available after 12 months to people who are not expected to prepare for employment (this group also makes up half of those in the 7th to 12th month of their claim).[103] The phrase 'employment and support' now seems unnecessary.

As well as a change in name, we suggest other changes in the early months of the benefit that will make it more effective for people who have recently stopped work on health grounds:

- **Pay ESA from day one or day four of people being unable to work:** ESA used to be paid after four days of absence like SSP is today. Since 2014 it has been paid from the 8th day and it would cost less than £10m to return to three waiting days. The benefit should ideally be paid from day one of incapacity for work, in line with our proposal for sick pay.
- **Eligibility based on medical certification:** in March 2023 the government announced its intention to discontinue the work capability assessment which determines eligibility for ESA and the health-related elements of UC. In future, medical certification should be used to establish eligibility for up to 12 months for both ESA and our proposed sickness insurance. The DWP personal independence payment assessment should be used for long-term benefit claims.

- **Access to occupational health services and other support:** New recipients are currently expected to take part in 'health and work conversations' after around four weeks. There is no indication that this intervention has been evaluated or proven to be effective. Instead of these self-contained conversations, in future DWP work coaches could be tasked with making recommendations and referrals to third-party support such as NHS services, social prescribing link workers or our proposed free occupational health support. Such interventions should save money overall, according to previous government appraisals of the benefits of occupational health services.[105]

More generous payments: our long-term recommendation is for the first year of ESA to be replaced by sickness insurance worth 50 per cent of previous earnings. As an interim measure we propose that during the first six months of payment, the value of ESA is increased to at least match the level of statutory sick pay today.

In developing these proposals, we modelled several options for time-limited higher rates of payment during the initial stages of ESA. We took no view about the support that should be available after two years, bearing in mind that UC is now the main benefit for people with long-term sickness or disability. Any reform to ESA for long-term recipients is bound up with choices about the future evolution of universal credit.

We examined three options for time-limited payments, each lasting either six, 12 or 24 months:

- Higher flat-rate payments: The basic rate of ESA would rise from £77 per week to *match statutory sick pay* worth £99.35 per week (2022/23). This would be for new claimants and those having been assessed as able to prepare for work. The higher rate of ESA for those assessed as not needing to prepare for work would rise from £117.60 to match *maternity allowance* worth £156.66 per week (2022/23).

- Earnings-related payments worth at least 50 per cent of former earnings (or the existing rate of ESA if this is higher).

- Earnings related payments worth at least 80 per cent of former earnings (or the existing rate of ESA if this is higher).

As with the JSA modelling, our costings were driven in part by assumptions about rising take-up. Extra participation mainly results from more people who are not receiving UC being assumed to claim (because the payment level is higher). A small proportion of the new recipients are people in UC households who become better off if they start to receive ESA instead.

Six months of flat-rate payments in line with SSP (or SMP for those assessed as with the highest needs) would cost £60m. This would a sensible short-term step that would match our proposals for JSA in the event of a prolonged recession. Introducing sickness insurance worth 50 per cent of earnings for 12 months would cost £2.2bn, without changing any other rules (figure 25).

Interaction with universal credit: As was the case with JSA there are choices to make about the interaction between ESA and universal credit. As things stand ESA is deducted from universal credit pound-for-pound so for households already receiving UC there is no point in claiming the benefit.

As with JSA it would be possible to treat ESA as earned income when calculating UC. Once again, this is an important issue when thinking about how to make the benefit more generous since retaining this rule would mean that most people in households receiving UC could miss out. However, treating the whole of the first two years of ESA as earned income within UC would be very expensive - in the region of £700m. In practice the costs could be reduced a bit by other reforms, such as not paying uplifts for severe disability twice (once in each benefit). But it is still an expensive policy.

Unlike with JSA, one important issue to consider is the desirability of achieving parity with sick pay which is treated as earned income within UC. This means that if ESA were raised at least to the level of SSP today, which we propose as an interim measure, people in UC households would largely not gain. This replicates the current discrepancy between maternity allowance and statutory maternity pay.

Figure 25: Paying sickness insurance at 50 per cent of earnings for 12 months has a net cost of over £2bn per year [106]

	Recipients, 1000s			Net costs, £m		
Policy option	**6m**	**12m**	**24m**	**6m**	**12m**	**24m**
Payment at the rate of SSP or SMP for [ ] months then current ESA rate	180	200	220	60	180	500
50% of earnings for [ ] months then current ESA rate	250	380	460	560	2,200	3,500
80% of earnings for [ ] months then current ESA	320	520	670	1,100	4 ,600	7,900

Source: Landman Economics

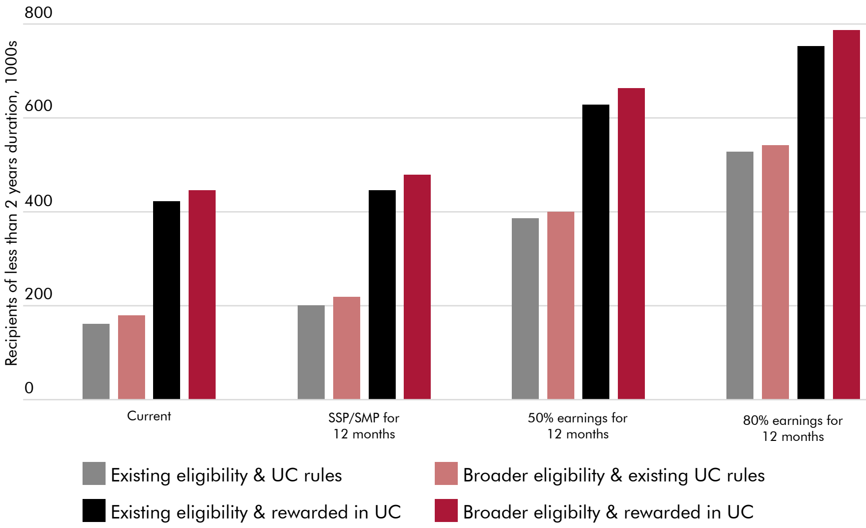
In the short term this issue of UC interaction can be set to one side. The proposed higher payments for the first six months of an ESA claim can proceed without any changes to the way UC works. DWP digital services should be designed to simply direct recipients to the benefit that pays them most.

However, by the time 12 months of earnings-related sickness insurance is introduced, these new payments should be treated as earned income within UC. This would increase the net cost of the policy from £2.2bn to between £2.6bn and £2.9bn, depending on what parallel changes were made to UC. The modelled number of beneficiaries would rise by 250,000 people.

Broader eligibility: ESA already has broader eligibility than JSA because it includes the self-employed. However, eligibility rules for employees should also be relaxed in the same was as was previously discussed for JSA – ie lower minimum weekly earnings, and fewer weeks of required earnings. In our modelling the number of people eligible for ESA increases by around 7 per cent under these reforms. Without other reforms this adds £10m to the cost of ESA payments with a duration of up to two years, while opening the benefit to a broader range of people with a recent connection to work. As with JSA, the existing eligibility rules based on national insurance contributions could be replaced by criteria based on digital records using HMRC real time PAYE data and digital tax returns for the self-employed.

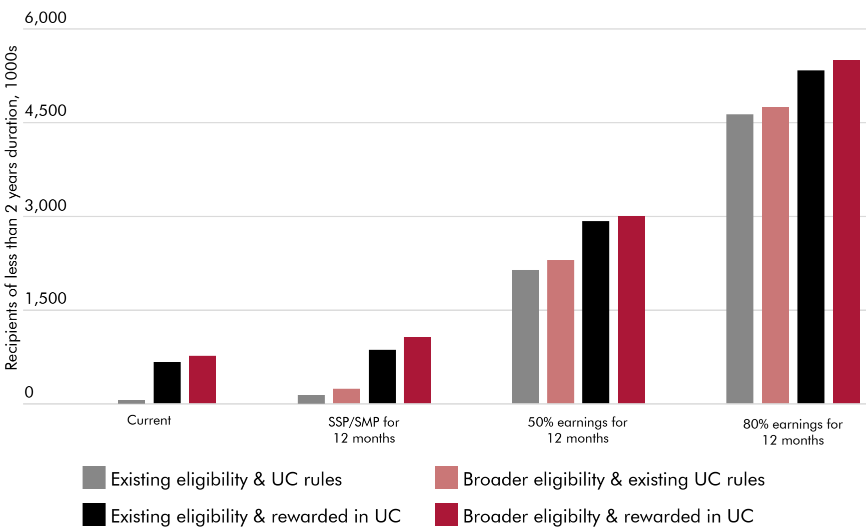
Figures 26 and 27 show the effect of combining some of these policy choices, on the basis that the new higher rate of payment is available for 12 months. The pattern is quite similar to those seen with the JSA reform scenarios both with respect to recipient numbers and costs. The choice of whether to reward ESA within UC is the main driver of numbers, while the generosity of payments is the main driver of costs. Expanding eligibility to more people with a recent connection to employment does not significantly impact numbers or costs. **F**

Figure 26: Projections for sickness insurance recipients rise as payments become more generous and when they are rewarded within universal credit



Source: Landman Economics

Figure 27: The projected extra net cost of our proposal for sickness insurance is £3bn per year



Source: Landman Economics

9. In detail: Babies

There is growing cross-party support for a new settlement on income replacement for parents with babies. Today maternity pay only lasts nine months and is paid at a rate that leads to financial hardship. The system of shared parental leave introduced in 2015 is little used. And too many parents do not qualify for assistance at all. To take one example of a recent call for reform, in 2020 the Early Years Commission convened jointly by the Fabian Society and the Centre for Social Justice proposed a package of longer, more generous paid maternity and parental leave.[107]

Financial support while caring for babies should be a central pillar of the employment insurance system we propose in this report. A new offer would significantly improve income replacement for parents of young children, both through stronger paid leave and extended insurance benefits. As with the other risks explored in this research, reforms would ensure that parents could access at least 50 per cent of their usual earnings for the duration of a reasonable period of time off.

Immediately low-cost reforms should be introduced. Statutory maternity pay should be extended to women with very low weekly earnings or in the first six months with an employer (with the costs offset by savings in maternity allowance).

Paid leave for babies: Policy specification

Maternity and adoption leave

- Six months' leave for the mother (followed by six months of parental leave).
- First six weeks paid at 90 per cent of earnings, the following 20 weeks at 50 per cent of earnings.

Paternity leave

- Two weeks at 90 per cent of earnings.

Parental leave

- Six months (26 weeks) for each parent at 50 per cent of earnings.
- Ideally available to each parent without complex 'sharing' arrangements.
- In total a couple could access up to 18 months' leave (which can be used simultaneously as well as sequentially if desired).
- Cheaper versions of the policy could retain the sharing of parental leave but include a 'use it or lose it' element for fathers/partners (eg six months, plus one month only for father); or a maximum of nine months for the mother and three months for the father.

Common features

- Available from day one of employment.
- Available to people on very low weekly earnings.
- Maximum weekly payment equivalent to £30,000 per year.
- 90 per cent of earnings paid if earnings are less than today's SMP rate.
- Usual employee and employer pension contributions paid by employer.
- Employers can reclaim a large majority of costs from employment insurance system. Large employers required to fund 15 per cent of minimum maternity pay plus employer pension contributions and national insurance.

Two measures should also be introduced for self-employed fathers and partners: paternity allowance and shared parental leave allowance (a combined cost of £15m).

PAID LEAVE

Our proposals build out from the UK's existing framework of paid leave for maternity, adoption, paternity and parental leave. We want to see mothers able to access up to 12 months of paid leave worth 50 per cent of their earnings, and fathers able to access a period of paid parental leave on similar terms. The full package would be expensive (at least £2.5bn per year) so would probably need to be introduced alongside new revenue measures.

Immediately, policymakers could introduce some improvements to existing paid leave schemes with very little cost.

- Paid leave schemes should be extended to cover all employees (including people with less than six months service or very low weekly earnings).
- Paternity pay (lasting two weeks) should be increased to 90 per cent of earnings, with the extra costs paid for by employers rather than additional taxpayer support.

Mothers – longer duration: The duration of statutory paid leave for mothers should be increased from nine months to 12 months, so that the whole of statutory maternity leave is paid. Some of this allowance could be designated as 'parental leave' rather than 'maternity leave', depending on the design of parental leave for partners (see below). In our preferred model, we suggest six months of maternity leave and six months of parenting leave for mothers, following proposals by Maternity Action.

This reform should ideally only take place in the context of more generous paid leave. Otherwise, the effect would be to reduce average weekly payments over the course of maternity leave. In our Understanding Society modelling we calculate that increasing the duration of the existing flat rate of SMP to 12 months reduces average weekly payments over an entire maternity leave by 5 per cent, from £216 to £206 per week. Many mothers would feel unable to take the extra three months if paid at the flat-rate SMP.

The gross cost of extending SMP to 12 months would be around £2,000 for each mother who takes their full allowance. In our modelling the net cost of the policy for government is calculated as £350m. Mothers' incomes rise by £120m and employers gain by £270m (because occupational maternity pay after nine months would be subsidised for the first time). The model assumes a quite small rise in the number of women taking maternity leave between nine and 12 months. If most women who now take nine months' paid leave opted for 12 months in the future, the cost could be around 50 per cent higher than our projection.

Mothers – generosity: The goal in the medium term should be for maternity pay to reach at least 50 per cent of a mother's previous earnings in every week of maternity leave. Low-income families would be able to top this up through universal credit.

In thinking about policy design, we considered the overall cost of policy options and also the balance between the duration and level of payments. At one extreme there is the option of providing mothers with full pay during maternity leave. Our modelling showed this would have a net cost of £5.9bn (for nine months) or £7.6bn (for 12 months). Paying 90 per cent for the whole duration of maternity leave shaves a bit off these costs but nine months paid at 90 per cent of earnings would still have a net cost of £4.1bn for the government (assuming the current split between employer and government contributions).

For cheaper options, we first examined keeping the current structure of SMP. In this scenario the existing earnings-related and flat-rate elements would remain but 90 per cent of previous earnings would be paid for three months or six months instead of six weeks. Second, at similar cost, we explored keeping just six weeks at 90 per cent of earnings and then paying mothers 50 per cent of earnings for the rest of their maternity leave. We think this is a preferable policy because it means women will have an acceptable minimum income across the whole of their maternity and feel under less pressure to return to work before they are ready.

Our proposal of six weeks of maternity pay at 90 per cent of earnings followed by 46 weeks at 50 per cent of earnings is modelled to result in average maternity pay of £340 per week, with a net cost of £2.5bn for the government. In aggregate, employers would save considerably from the policy since the government would cover most of the extra costs. Employers' discretionary spending on occupational maternity pay would decline significantly, while those employers who only pay statutory maternity pay now would only see their costs rise a little (figure 28).

Mothers – eligibility: Presently mothers who are employees are excluded from SMP if they have very low weekly earnings (below £133 per week) or have been with an employer for less than six months. Almost all these women are eligible for maternity allowance instead but this comes with disadvantages. Women in the first six months of employment miss out on the earnings-related component of SMP which is not matched in maternity allowance (see below on pension contributions also). It seems odd to exclude them since these payments are very largely funded by government rather than employers. Women with very low weekly earnings would be entitled to the same amount under SMP as maternity allowance (ie 90 per cent of their usual earnings). But paying them SMP will maintain a better connection with employers and increase the amount of universal credit they can receive (since SMP is rewarded in UC whereas maternity allowance is cancelled out pound-for-pound – see earlier discussion).

From the government's perspective this switch has the additional advantage that currently up to 8 per cent of the costs of SMP are met by employers. This saving would balance out the risk that more of these women would access SMP in the future than currently claim maternity allowance. Overall, it is likely that the policy would be broadly revenue neutral assuming maternity pay continues to be paid for nine months. Our Understanding Society model indicates that the change would lead to 20,000 more SMP claims at a time.

The gross cost of the policy for employers is modelled to be £5m to £10m per year. However, employers which already pay occupational maternity pay to women in these circumstances would gain more, because they would now be able to recoup most of their existing costs.

Figure 28: Paying maternity pay for 12 months, worth at least 50 per cent of earnings, would cost the government £2.5bn per year and save employers around £600m [108]

Payment and duration			Model results			
90% pay	**50% pay**	**Today's flat-rate**	**Caseload, 1000s**	**Average weekly payment, £**	**Change in net public spending, £**	**Change in net employer spending, £**
6w	-	33w	260	220	-	-
6w	-	46w	310	210	350m	-270m
6w	33w	-	270	340	1,700m	-10m
6w	**46w**	**-**	**330**	**340**	**2,500m**	**-630m**
13w	-	20w	260	300	960m	+60m
13w	-	39w	310	270	1,300m	-200m
26w	-	13w	260	420	2,500m	+70m
26w	-	26w	310	380	2,900m	-190m
39w	-	-	270	550	4,100m	+120m
52w	-	-	320	560	5,500m	-£920m
9 months' full pay			300	610	5,900m	-790m
12 months' full pay			360	620	7,600m	-2,100m

Source: Landman Economics

Employer contributions: Under current rules government pays most of the costs of statutory maternity pay. Large employers have to contribute 8 per cent of the costs of statutory maternity pay and also pay employers' national insurance and pension contributions. Small employers get more help but still cannot recoup the full payroll costs associated with statutory maternity leave.

If these rules are retained and the duration, generosity or eligibility of SMP is increased then employers will have to pay more towards their minimum statutory obligations. However, many employers will also save considerable sums because some of the occupational maternity payments they already make would be subsidised by government for the first time. This explains why many of the policy options we have modelled result in a financial transfer from government to employers collectively. Within this there are winners and losers, as only those who already pay above the minimum gain.

These transfers beg the question whether large employers should pay a higher share of the costs. This would both help contain costs for the exchequer and ensure that reform does not lead to significant deadweight cost (ie extra payments to large employers which were already self-funding occupational maternity pay). Requiring large employers to pay 15 per cent not 8 per cent of maternity pay would cancel out the gain they would otherwise collectively experience if maternity pay moved to 50 per cent of earnings for 12 months. Rules for SMEs should remain unchanged, as small employers are much less well-placed organisationally and financially to absorb the costs of a year of maternity absence.

Paternity pay: Alongside changes to maternity pay the rate of pay for two weeks of paternity pay should also be increased to ensure that financial considerations do not prevent fathers or partners from supporting mothers in the early days after birth.

We propose a payment of 90 per cent of earnings (estimated at £670 per week) or failing that 50 per cent of earnings (estimated at £370 per week).[109] The gross cost would be £190m (90 per cent of earnings) or £80m (50 per cent of earnings), with lower net costs after tax and benefit changes. This estimate is on the basis of existing take-up and rules on employer contributions.

We also think employers should pay a larger share of these new higher paternity leave costs. Two weeks of paternity leave is a short and certain absence so represents a cost that employers are in a position to absorb. Compared to mothers on maternity leave, fathers on paternity leave are also unlikely to experience discrimination on grounds of cost or inconvenience (a key reason why the government compensates employers for the costs of maternity pay). The argument for making special arrangements for SMEs is also much less strong when it comes to two weeks' leave, compared to many months of maternity leave.

Therefore, if paternity leave is raised to 90 per cent of earnings, we propose that the government does not foot the bill (£190m gross costs). In the context of the increased government subsidy for maternity pay, employers should be asked to pay the entire costs of two weeks' paternity pay (which would save the government £60m compared to now).

Paid parental leave – There is growing recognition in the value of fathers and other partners of birth mothers taking parental leave for a sustained period of caregiving, on top of paternity leave when a baby is first born. Partners' parental leave can support mothers both while they are on maternity leave and after they return to work. It helps build permanent parent-child bonds, it establishes more equal patterns of caring that often endure and it may reduce childcare costs.

Since 2015 the UK has had a system of shared parental leave and pay, where mothers can transfer a portion of their maternity pay to a father or partner. The system is complex and restrictive, because both birth mother and partner have to satisfy eligibility conditions. Shared parental pay is also worth the same modest amount as the flat rate of SMP (£156.66 in 2022/23) and this is thought to deter men from accessing the scheme. The charity Maternity Action found that in 2021/22 only 9,800 men claimed shared parental leave pay compared to the 204,000 people who took statutory paternity leave. The charity estimates that take-up by eligible fathers is probably around 2 to 3 per cent, against original government forecasts in a range from 2 to 8 per cent.[111]

Any improvements in generosity to SMP should be translated into parental pay arrangements. This would significantly increase the number of couples who felt it was worthwhile to transfer paid leave from the mother to the father. Introducing earnings-related payments would have a particular impact, not least because men have higher average earnings than women.

But more generous maternity pay alone would not resolve all the issues with shared parental leave. Eligibility rules are unnecessarily restrictive, as both the mother and the partner have to establish eligibility: mothers need to meet the eligibility criteria for maternity allowance and partners meet the criteria for SMP (ie they must be employees, have more than six months' service with their employer and earn more than £123 per week in their job). These provisions may exclude up to a third of partners from eligibility. The complexity is also off-putting for employers and potential recipients, suppressing take-up among those who are eligible.[112]

Shared parental leave also only provides nine months of paid leave in total, with any leave that is taken by partners resulting in less for mothers. Our proposal to pay 50 per cent of earnings for 12 months would significantly improve matters, as couples would have the option of the partner taking the final three months.

There are alternatives to the 'sharing' of parental leave. Maternity Action has proposed that each parent should have an individual right to paid parental leave (from day one of employment and with no minimum earning threshold). This follows the model in a number of other rich countries. The charity proposes six months of maternity leave reserved for the mother, then six months of non-transferrable parental leave for each parent. The total maximum would be 80 weeks of leave with the option to taking some of this simultaneously not sequentially.[113]

As a cheaper option, Maternity Action proposes that non-transferable parental leave could initially be made available for only three months each (eg nine months for the mother and three months for the father). Given what we know about take-up patterns, this reform would cost significantly less than our proposal for extending leave for mothers to 12 months (including the right to share the leave with a partner if desired).

Another option to save costs would be to retain the principle of transferring paid leave entitlements for the time being, but to include a small ring-fenced 'use it or lose it' portion for partners. For example, Canada's employment insurance programme reserves five weeks of paid leave for partners (compared to our two weeks of paternity leave).

As there is high uncertainty regarding take-up and a wide range of possible policy parameters, we have not modelled and costed options for moving away from transferrable parental leave. But any policy that achieved the objective of couples collectively taking more paid leave would see an increase in spending. Such an increase would be a small proportion of the cost of moving to 12 months of paid leave for mothers worth 50 per cent of earnings. To illustrate the scale of possible costs in the early stages of the scheme, if 20 per cent of fathers took an extra four weeks in addition to 12 months shared between the couple, this would cost in the region of £50m per year.

Pension contributions: At present pension contributions reduce significantly or stop altogether during maternity or parental leave, which exacerbates the huge gender pensions gap. Employer contributions need to be paid in relation to a parent's previous earnings for 6 months (if you are not entitled to SMP) or nine months (if you are entitled to SMP). Employee pension contributions are based on whatever amount parents are actually being paid while on leave for up to six months (if not entitled to SMP) or nine months (if entitled to SMP).[114] After that there is no entitlement to receive employee contributions.

In future when parents are on maternity or parental leave, employers should be required to pay previous employer and employee pension contributions in full.

EMPLOYMENT INSURANCE

Paid leave should be the primary vehicle for replacing incomes for parents with young children, with eligibility expanded to all employees. But strong insurance benefits are also needed for the self-employed and for parents who have recently left work. As with our other proposals, the ambition should be to provide at least 50 per cent of earnings while people are off work caring for babies. This can be achieved mainly by transforming maternity allowance.

Immediately, two improvements can be made at very low cost (around £15m combined):

- Introduce a paternity allowance targeted at the self-employed, paid at the existing rate of statutory paternity pay.
- Create a parental leave allowance targeted at the self-employed, initially on the same transferable basis as shared parental pay.

For slightly more money, maternity allowance could be paid at 90 per cent of previous earnings for the first six weeks of leave, replicating the rules for SMP (estimated at £50m).

Employment insurance for babies: policy specificationn

Maternity and adoption insurance
- Six weeks at 90 per cent of recent earnings.
- 20 weeks at 50 per cent of recent earnings.

Paternity insurance
- Two weeks at 90 per cent of recent earnings.

Parental leave insurance
- 26 weeks at 50 per cent of earnings.
- Available to each parent without complex 'sharing' arrangements.
- Provides up to 18 months' leave in total, can be used simultaneously.
- Cheaper version of policy – one month 'use it or lose it' entitlement, up to five more months dependent on mother transferring her entitlement to paid leave or insurance.

Common features
- Rewarded within universal credit as earned income.
- Wide eligibility determined by link to recent employment or self-employment determined by HMRC data.
- Awards calculated using HMRC data from PAYE or digital tax records for the self-employed.
- Maximum payment equivalent to £30,000 per year.
- 90 or 100 per cent of earnings paid to those earning less than today's SMP rate.
- All costs met by employment insurance system.

Maternity and adoption insurance: Maternity allowance should evolve into a new employment insurance benefit paying at least 50 per cent of previous earnings for 12 months. The numbers receiving the benefit would reduce significantly if our proposals to expand eligibility for maternity pay are adopted (reducing the number of recipients by up to 20,000 mothers at a time). For the first time, the benefit should be available for adoption as well as birth (estimated to increase caseload by around 500 people per year).

Extending eligibility for maternity allowance from nine to 12 months is modelled to increase the costs of the benefit by 17 per cent and the caseload by 19 per cent. In a scenario where there was no change in the benefit's generosity, or in eligibility rules for SMP, extending the duration would translate into a net cost of £50m per year for government and 9,000 more recipients per week. The bill would be somewhat higher if most women chose to take the full 12-month entitlement.

Turning maternity allowance into an earnings-related employment insurance benefit is cheaper per recipient than equivalent reforms to maternity pay. This is because many of the beneficiaries have low earnings. Our modelling results should be treated with caution because the sample sizes are very small but we estimate that shifting to a system that pays 90 per cent of earnings for six weeks, followed by 50 per cent of earnings for 46 weeks would have a net cost £200m (on current caseload). Only paying the first six weeks at 90 per cent of previous earnings might cost in the region of £50m, again on the basis of the current caseload.

Paternity insurance: Self-employed fathers currently receive no financial support to take paternity leave. We propose that the government should introduce a new paternity payment for workers ineligible for SPP (16 per cent of male workers are self-employed).[115] On the assumption that take-up of these paternity payments would be similar among fathers who are employed and self-employed this would translate into an extra 40,000 recipients each year.

At current SMP rates the gross cost of the policy would be £10m to £15m per year. If the payment became part of earnings-related employment insurance, paying 90 per cent of earnings for two weeks (at an average of £320 per week) would raise the gross cost of the policy to around £25m per year.[116] Net costs after tax and benefit changes would be lower.

Parental leave insurance: A new benefit should also be introduced so self-employed partners of mothers can access parental leave. The details of the scheme would depend on the decisions made about the parental leave policy for employees (eg whether partners are entitled to 'use it or lose it' or 'shared' parental pay). In line with our earlier proposals for employees, the most generous version of a parental leave insurance benefit would create a right to six months of payments for self-employed fathers or partners. A less generous alternative would permit partners to receive a new payment only when the birth mother 'shared' their SMP or maternity allowance by choosing to take less than her full entitlement.

The costs of replicating today's shared parental leave scheme for the self-employed would be very low. The very low new spending on fathers (estimated at under £5m per year) would be offset by reduced spending on mothers. Any future earnings-related paid parental leave system would cost up to 20 per cent more if it included an equivalent insurance benefit for the self-employed. F

10. In detail: Caring

Carers today receive much less help with income replacement than people who have to stop working for other reasons. They have no entitlement to paid leave for caring and carer's allowance is the least generous of the out-of-work non-means-tested benefits. Including carers in a new employment insurance system would therefore be a major advance in the welfare state's support for millions of people who make a vital contribution to society. A new paid leave scheme and insurance benefit for carers would both boost incomes and provide peace of mind to working carers anxious about the future.

We propose new interlocking entitlements involving a right to time off for caring, a small annual allowance of paid carer's leave, and a new 12-month employment insurance benefit for people who need to stop working to care paid at 50 per cent of previous earnings.

Key elements of this plan could be introduced immediately as they have no fiscal costs (although they would have costs for employers): a week a year of paid carer's leave funded by employers; an additional three weeks a year of unpaid carer's leave; the right to take an unpaid carer's career break for up to 12 months (initially in large workplaces only).

CARER'S LEAVE

We recommend two new leave entitlements:

- Four weeks of flexible **carer's leav**e – one week paid, three weeks unpaid.
- One to 12 months of **carer's career break** – to be taken in a single block.

Carer's leave: Policy specification

Flexible carer's leave

- Four weeks' leave allowance available each year.
- One week to be paid at least 80 per cent of earnings, three weeks can be unpaid.
- Paid leave funded by employers.
- Flexible entitlement which can be taken in blocks as short as half or one day.
- Entitlement from day one of employment, covering all workers with an employer.
- Evidence of caring responsibilities not required.

Carer's career break

- One to 12 months' unpaid leave, to be taken as a single block.
- Maximum of 12 months available over a rolling five-year period.
- Pay not required but interacts with proposed carer's insurance.
- Entitlement after six or 12 months of employment.
- Proof of eligibility required.
- Option of initially applying to large employers only.

Common features

- Advance notification required.
- Employers cannot refuse leave but can propose alternative dates if they have an important business reason (except for caring related to terminal illness).

We support existing proposals for a right to flexible short-term carer's leave. Legislation is currently before parliament that will create this entitlement on an unpaid basis. The policy appeared in the Conservative 2019 manifesto and was confirmed by the government in September 2021. The entitlement is being introduced via a Liberal Democrat private member's bill with government backing.

The government's policy only provides for unpaid leave. It also creates just one week of annual entitlement. This compares to the existing four weeks of annual entitlement to parental leave available to parents with children under 18. This is unfair to carers of adults.

One week's paid leave: We propose that the new one-week entitlement to flexible carer's leave should be paid. The volume and character of carer's absences under the entitlement are likely to be similar to sickness absence – ie short spells that usually add up to less than one week a year. Employers are used to handling these absences as a routine business expense. The government should therefore require all employers to pay for up to a week's carer's pay annually, on a similar basis to sick pay, since carers are found in almost every workplace.

Carer's leave payments should therefore match our proposals for sick pay – ie 80 per cent of earnings from day one of absence, fully funded by employers. Immediately, they could be introduced at the same rate as flat-rate maternity and paternity pay.

Four weeks' flexible leave: We also propose that the new right to carer's leave is extended to four weeks so that it matches unpaid parental leave, giving carers and parents parity. Weeks two to four could be unpaid. Once the carer's leave bill is passed this extension can be achieved easily through secondary legislation. A four-week allowance will be particularly beneficial for people juggling care and work, enabling them to take regular planned days of leave across the course of a year.

Carer's career break: An entitlement to four weeks of leave over the course of a year will be less useful to people who need to take an extended leave of absence to care, in a way similar to maternity leave. We therefore propose a parallel right to planned, continuous carer's leave from one to 12 months. This would be particularly relevant to people caring for a loved one who is known to be near the end of life or who is recovering from treatment, as well as for parents of disabled children making key transitions such as changing schools or leaving home.

The policy would be available for employees after six or 12 months of employment and people would be eligible to take up to 12 months over a period of five years. Initially this proposal should be tested with large employers only who would be able to cope with any disruption caused. Ideally it should be a definitive right like maternity leave, but the government could initially test a 'right to request' where employers can only refuse a request for a carer's career break if they have a legitimate business case.

The leave would not be paid – it would really mean the right to have a job held open for a specified length of time. The task of earnings replacement during this career break should be left to our proposed carer's insurance benefit (it would be possible to create a statutory pay system modelled on maternity leave, but this would add to the scheme's complexity).

EMPLOYMENT INSURANCE FOR CARERS

As part of the new employment insurance system, we propose a carer's insurance payment designed to cover people who

THE CARER'S LEAVE BILL AND PARENTAL LEAVE

The Carer's Leave Bill creates an entitlement for employees to take unpaid carer's leave that is in many ways comparable to the existing right for parents to take unpaid parental leave.

The key difference is that parental leave is available for up to four weeks per year while carer's leave will only be available for one week. The bill is drafted flexibly so the duration could be increased by ministers in future. In some other respects the proposed carer's leave entitlement is stronger than parental leave, especially as it is available from day one of employment.[117]

Carer's leave – proposed	Parental leave
One week per year	Four weeks per child per year
Employees only (excludes worker status)	Employees only (excludes worker status)
Entitlement from day one of employment	Entitlement after 12 months of employment
Leave can be taken in half-day or one-day blocks	Leave must be taken in one-week blocks (except for disabled children)
Employers cannot demand evidence of entitlement	Employers can demand evidence of entitlement
Simple annual allowance (no rolling entitlement)	Complex system of rolling entitlement: 18 weeks per child up to 18th birthday
Notice must be given (details tbc)	Notice must be given (21 days)
Employer can postpone leave for an important business reason (tbc)	Employer can postpone leave for important business reason (except leave linked to a birth or adoption)

give up a job to care – as well as employees who wish to take our proposed 'carer's career break'. Once fully implemented the payment would be worth 50 per cent of previous earnings for 12 months (replacing carer's allowance for those eligible).

Carer's insurance:
Policy specification

- Available for 12 months.
- Usually pays 50 per cent of previous earnings, replacing entitlement to carer's allowance.
- Maximum payment equivalent to £30,000 per year, minimum payment equivalent to the UC basic award for 25 to 65-year-olds.
- Eligibility is dependent on recent work (broadly defined - including self-employment and very low earnings).
- Eligibility linked to the person receiving care claiming a disability benefit (or temporarily by a doctor's letter in emergency situations).
- Earnings permitted up to 14 hours a week on the national living wage.
- Treated as earned income by universal credit rules.
- Option to explore – two people splitting an entitlement to carer's payments.
- Option to explore – paying the money to the employer if they then offer paid leave.

This new 'carer's insurance' benefit would match our proposed employment insurance payments for sickness, maternity and parental leave. It would cover both people on a break from work and those who had recently left a job. Taking time off to care for sick or disabled people is a good that society values and a long absence from work is something that individuals and employers cannot be expected to pay for. It should mainly be paid for by the government, in the same way as maternity leave.

Eligibility: we envisage the test of carer status being broadly similar to the one used for carer's allowance and the carer's element of universal credit – ie delivering at least 35 hours of care per week for someone receiving a disability benefit. The government could however explore a fast-track option based on doctor or social services certification, either for the initial period of a claim or in the case of terminal illness.

The benefit would be available for up to 12 months and restricted to people with a current or recent connection to work. As with the other insurance benefits we explore, we would envisage straightforward criteria that would capture almost everyone with a recent work record, similar to those for maternity allowance today. In our modelling there is no minimum weekly earnings and people are eligible once they have worked for six months in the last two years.

As this is a new entitlement, establishing the level of eligibility is challenging. Using Understanding Society data on carers and receipt of carer's allowance we estimate that the number potentially eligible could be 120,000 at any time for a benefit available for 12 months. The numbers would be a little higher without a requirement to have worked for at least six months, and slightly lower if the eligibility rules currently used for ESA were applied. These variations also have small knock-on effects on the costs of the policy.

Generosity: We examined the costs of a payment worth 50 per cent of previous earnings alongside other options for generosity. As in the chapters on other risks, we modelled alternatives with and without interaction with universal credit.

Figure 29 shows that the net cost of a benefit with 50 per cent of previous earnings, with a payment that is treated as earned income under universal credit, would be £540m per year (on the basis of 110,000 recipients). This new bill would form part of the overall costs of the employment insurance system.

As an immediate measure the government could introduce a 12-month employment-based carer's payment at a flat-rate, in advance of introducing the new earnings-related system. This could be paid at the level of JSA (costing only £50m per year), SSP (£210m) or maternity allowance (£370m). These costs are much less than raising carer's allowance for all recipients because they only apply to people in the first year of entitlement (nb in Scotland carer's allowance is paid at the same rate as JSA). F

Figure 29: The net extra cost of 12 months' entitlement to our proposed 'carer's insurance' is around £500m[118]

£m	Not rewarded in UC	Rewarded in UC
JSA level	50	100
SSP level	210	290
SMP level	370	470
50 per cent of earnings	470	540
80 per cent of earnings	900	980

Source: Landman Economics

11. In detail: Learning

In England financial support for people who want to stop working or reduce their hours in order to train is limited and patchy outside of higher education. The system is complicated because responsibilities are divided between employers, the further and higher education system and social security. Responsibility is also split between the UK and devolved governments.

We think wide-ranging reform is needed to improve financial support for adults training outside of higher education. In England most people who want to study full-time in further education are ineligible for any financial assistance. This is true even for people who are entitled to the new lifetime skills guarantee which offers free work-focused courses up to level 3 (equivalent to A-levels).

We propose new training-related entitlements under our proposals for employment insurance. But they should only form a modest part of the solution. Broad reform is needed covering employer responsibilities, the education system and social security – and most of this is outside the scope of this report (see box on other reform options).

Three areas of reform fall under the remit of our proposals for employment insurance and can be progressed on a UK wide basis.

Self-employed workers

The skills system currently offers very little to the self-employed. Fees for some training courses are permitted business expenses but self-employed workers are far less likely than employees to have access to training at work.[119]

The government's new lifelong skills guarantee and skills bootcamps should be well positioned to support self-employed workers. But as things stand there is no provision to assist with their living costs while they participate in these free learning entitlements.

We propose that a new **training bursary for the self-employed** is piloted. It could provide an income for up to 16 weeks for self-employed people taking part in a skills bootcamp and up to 32 weeks for someone taking part in full-time further education. The pilot scheme could begin by paying a flat-rate weekly amount.

Once employment insurance was established the pilot bursary could be absorbed into the new system as earnings-related **training insurance for the self-employed.** The size of payments could then be calculated using past tax data, following the approach taken by the Covid-19 self-employment income support scheme (SEISS). As with the other payments in the scheme the allowance would be worth 50 per cent of usual earnings (in this case average weekly earnings from self-employment over the last financial year). Access to the scheme could be restricted so that people were only able to receive support for up to perhaps 32 weeks in a five-year period, and as with other entitlements there would be an upper limit on payments.

We suggest a pilot scheme with an initial cap on numbers to evaluate effectiveness and contain costs. Creating 1,000 bursaries for short courses up to 16 weeks and 1,000 places for year-long places would cost under £8m if paid at the same rate as maternity allowance. For the sake of simplicity places could be awarded on a first come first served basis each month or academic term. Following a successful pilot, a mature programme that eventually supported 5,000 people per year and replaced half of previous earnings for an average of six months would cost an estimated £40m per year.

Training for unemployed workers

A new system could also support training and education for unemployed people as an alternative to a rapid return to low paid work. Our proposed six months of unemployment insurance could come with an automatic right to participate in work-related training. This would build on the government's recent decision to permit unemployed benefit recipients to take part in training lasting up to 16 weeks.

Training and employment insurance: Policy specification

Training insurance for the self-employed

- Up to 32 weeks of living cost payments to cover living costs while participating in approved work-related full-time training or education (or 16 weeks for approved short courses).
- No more than 32 weeks available in a rolling five-year period.
- Payments worth 50 per cent of usual earnings (using tax records from previous financial years) up to a maximum equivalent to £30,000 per year.
- Programme to be preceded by a pilot scheme – a flat-rate training bursary for the self-employed.

Unemployment insurance and training

- All recipients permitted to take part in work-related training for the whole 26 weeks of their claim.
- Recipients able to extend the duration of their claim to cover the time required to complete a short course, or (on a case-by-case basis) to participate in up to a year of full-time training or education.
- Programme to be preceded by a pilot scheme – testing approaches with current UC and JSA recipients.

Training leave for employees

- Extend the right to request unpaid training leave to all employees with more than six months of employment.

Other reforms to support learners' living costs

Policymakers should also consider other options to support learners' living costs that are beyond the scope of this report's proposals for employment insurance.

Apprenticeships

- Abolish the apprentice rate of the national minimum wage (the low pay commission is conducting research to assess the case for this reform).[120]
- Provide a wage subsidy for small employers of up to one day a week's pay to cover the time apprentices participate in off-the-job training.

Education maintenance

- Introduce a student support system for England based on Scotland's model for learners in low-income households, to cover further education students up to level 3 qualifications.
- Introduce maintenance loans as part of advanced learning loans (before this becomes available as part of the lifelong loan entitlement from 2025).

Universal credit

- Exempt some or all learners in designated full-time vocational courses from work-related requirements for the period they attend the course (eg people aged below 25 or those whose courses fall under the lifetime learning guarantee). This could be an alternative to a new system of student support.
- For part-time learners on approved vocational courses, reduce the number of hours per week that UC recipients are expected to work to reflect their study commitments (ie for the purposes of in-work conditionality for employees and the minimum income floor for the self-employed).
- Scope and pilot an extra element in UC to reward participation in approved vocational courses (either full-time or part-time). Or, if new student support arrangements are introduced, permit students to retain some of this before deducting UC.

The UK government should engage with devolved governments to agree which policies should be taken forward on a UK-wide basis and what should be devolved responsibilities.

Going further, unemployment insurance could be extended beyond six months to support ongoing training in specified circumstances. First, payments could be extended to the end of approved short-courses such as skills bootcamps that had started during the six months' coverage of the benefit (eg 30 weeks in total - 14 weeks of work search followed by 16 weeks of training). Second, recipients could apply for permission to take part in longer vocational courses on a case-by-case basis. There would be a presumption that training under the lifetime skills guarantee would be approved. In these circumstances unemployment insurance payments might be allowed to run on to nine or 12 months.

As with self-employment, this proposal could be piloted with very little cost. Before the employment insurance system was introduced new flexibilities within UC and JSA could be tested. A capped number of claimants with work search requirements could be given permission to take part in year-long full-time courses. An evaluation would then compare costs and medium-term employment outcomes for participants in the scheme, compared to people who took part in no training or only in short courses. Later on, once the new employment insurance was in place, a scheme that helped 10,000 people per year and provided an extra three months of earnings-related payments on average might cost an estimated £40m per year.

Training leave for employees

The right to request training leave has been in place since 2010 for employers with more than 250 employees. Requests can be made after 26 weeks of employment. Employers have not raised concerns over the operation of this policy and we recommend that it is extended to workplaces of all sizes.

At this stage we do not propose that the law goes further and requires all employers to provide training leave on demand. The right to a short period of annual training would usually be used for bite-sized or taster courses which, while beneficial to individuals, would be unlikely to lead to a transformation in adult skills.

Similarly, we do not propose that there should be an entitlement to paid time off to train. We think this could distract from the need for employers to provide training for work-related skills during paid working hours as a core part of every job.

In time, once the employment insurance system is well established, it might be possible to fund career breaks for extended full-time training and education. However, this should not be an initial priority: existing patterns of adult learning suggest that employees likely to take-up such an offer would already have high skills and job security. F

Appendix 1: UK income replacement today

Social security benefits

	Recipients	Cost	Amount and duration	Eligibility
Employment and support allowance	790,000 (caseload, February 2022) 80,000 in first year of receipt 120,000 in first 2 years of receipt The caseload is expected to fall in coming years as UC rolls out	Government: £4.9bn Estimated £360m for 1st year, £600m for 1st 2 years	£77.00 per week or £117.60 per week. 2 payment levels based on degree of incapacity. The lower is available for 1 year and requires people to prepare for work. The higher is paid indefinitely.	- Requires 2 years of NI contributions or credits (available to employees or self-employed earning over £123 per week and people out of work in certain circumstances) - Paid for 3 months based on GP certification, followed by DWP work capability assessment
Jobseeker's allowance	40,000 (caseload, February 2022) 25,000 (caseload, 22/23 projection)	Government: £170m (21/22), £90m (22/23)	£77.00 per week (25 and over) or £61.05 per week (24 and under) paid for 6 months.	- Requires 2 years of NI contributions or credits (available to employees earning over £123 per week and people out of work in certain circumstances). Not available to self-employed. - Work search requirements supervised by DWP
Maternity allowance	40,000 (caseload, 2022/23)	Government: £350m (22/23	£156.66 per week for 29 weeks	- Available if not entitled to SMP. Must have worked for at least 26 weeks in the last 66 weeks, earning at least £30 per week for 13 of those weeks.
Carer's Allowance (under pension age)	900,000 (caseload, 22/23) 130,000 in first year (caseload, 22/23)	Government: £3.3bn (22/23) Estimated £450m for first year	£69.70 per week available indefinitely	- Caring for 35 hours per week for someone in receipt of a disability benefit, with net earnings below £132 per week

Statutory pay schemes

	Recipients	Cost	Amount and duration	Eligibility
Statutory maternity pay	250,000 (caseload, 22/23) which equates to 340,000 cases per year	Government: £2.65bn (22/23) Employers: estimated £150-300m (22/23). Employers can reclaim 92% or 103% of SMP. Total for 2020/21: £2.8bn	6 weeks at 90% of earnings 33 weeks at £156.66 (or 90% of earnings if less). Employer pension contribution also paid	- Earning over £123 per week in this job - Employed continuously in this job for 26 weeks (measured 15 weeks before the due date)
Statutory paternity, parental and adoption pay	Paternity: approx. 200,000 recipients per year (2021/22) (implying a caseload of 5,000-8,000) Adoption: approx 4,000 recipients per year (2021/22) Shared parental: Approx 10,000 recipients per year (2021/22)	Government: £90m (22/23 forecast) Employers: less than £10m (22/23) Total spent 2020/21 Paternity: £50m Adoption: £21m Shared parental: £20m	Paternity: 2 weeks at £156.66 (or 90% of earnings if less). Adoption: similar to SMP, available to 1 parent only Shared parental: up to 37 weeks (in exchange for reduced SMP duration). £156.66 (or 90% of earnings if less).	Similar to SMP rules
Statutory sick pay	Estimated 9m employees have at least 1 SSP eligible	Employer: £2.6bn per year (2022)	£99.35 per week, for sickness absence lasting between 4 days and 28 weeks	- Earning over £123 per week in this job - Available from day 1 of job
Statutory redundancy pay	Estimated 50,000-100,000 per year (2021) (106,000 people were made redundant. Only those with over 2 years' service are not eligible for statutory redundancy pay). Redundancies are highly cyclical.	Unavailable	Payment determined by a formula: - ½ a week's pay for each year employed aged under 22 - 1 week's pay for each year employed aged 22 to 40 - 1½ week's pay for each year employed aged 41 or older. Capped at £571 weekly pay and 20 years' service Maximum payment is £17,130	- Available to employees with more than 2 year's service whose jobs become redundant (not paid for other involuntary terminations – eg dismissals for capability, sickness or misconduct).
Statutory lay off pay	Unknown – very low	Unknown – very low	Up to £155 in any 3 month period (£31 per day). Further days of lay off or short-time working may be unpaid. After 4 weeks of continuous lay-off an employee can apply for redundancy and is eligible for redundancy pay	When employees are laid off temporarily or have their hours reduced they must be paid their contracted hours, unless a contract or agreement provides for a pay cut. The statutory rules specify the minimum guaranteed amount that can be paid.

Occupational pay schemes

	Recipients	Cost	Amount and duration	Eligibility
Occupational sick pay	Estimated 7m employees have 1 OSP eligible spell of sickness per year. Over 400,000 people off work for a week receive OSP at any time.	Employers: Estimated £8bn per year (2022)	Varies with employer (must exceed SSP terms). Best schemes provide full pay from day 1 of sickness.	- Determined by employer (must at least match SSP)
Occupational maternity pay (and other parenting-related pay)	Estimated 150,000 cases per year	Accurate estimate unavailable. Employer expenditure on OMP likely to be in region of £500m to £1bn per year.	Varies with employer (must exceed SSP terms). Best schemes provide full pay for 6-12 months.	- Determined by employer (must at least match SMP)

Private insurance

	Recipients	Cost	Amount and duration	Eligibility
Employer-provided insurance	Employer-provided insurance Income protection: 16,000 claims in payment (5,000 new claims per year) Critical illness: 1,500 claims accepted per year (2021)	Insurer: Income protection: £500m (£150m paid for new claims) Insurer: Critical illness: £100m (2021)	Income protection: Employer determines the percentage of gross salary and term Critical illness: employer determines benefit amount	- Determined by employer - Income protection is usually paid to employer who then provides occupational sick pay (this expenditure therefore overlaps with OSP and SSP estimates)
Individually purchased insurance	Income protection: 12,000 claims in payment Critical illness: 16,000 claims accepted (2021)	Income protection: £200m Critical illness: £1.1bn	Income protection: policy-holder choses percentage of gross earnings up to around 60% (40-45% is typical) and term. Critical illness: policy holder chooses benefit amount	

Sources: DWP stat-xplore, DWP expenditure and benefit tables, Maternity Action, Landman Economics modelling of Family Resource Survey, ABI, Group Risk Development (GRID)

Appendix 2: Poll of UK adults

All figures are from YouGov Plc. Total sample size was 1,731 adults. Fieldwork was undertaken between 7 – 8 December 2022. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). Results with fewer than 100 respondents are marked in italics. Any percentages based on fewer than 100 respondents does not represent a wide enough cross-section of the target population to be considered statistically reliable. The original data tables are available at **yougov.com**

1. Level of support for income replacement policy proposals

Percentage who 'strongly support' or 'tend to support' each policy. Excluding respondents who said 'don't know'	**All adults**	**Employee**	**Self-employed**	**Earning under £20k**	**Earning £20–30k**	**Earning £30 to <40k**	**Earning £40k+**	**Worked within the last 12 months**
The government requiring employers to provide one week of paid 'carer's leave' each year to people who are responsible for caring for an older or disabled relative.	87	90	78	89	88	86	89	*77*
The government increasing the minimum redundancy payment that employers must give to employees if they are made redundant.	87	88	81	89	88	87	86	*75*
The government increasing the minimum sick pay that employers must give to employees to at least 80 per cent of people's usual earnings.	77	80	61	79	84	79	70	*69*
The government paying people half their previous earnings for 12 months if they have to stop work to care for an older or disabled relative. Taxes might have to rise to pay for this.	73	73	68	77	80	69	65	*67*
The government increasing maternity pay to at least half a mother's usual earnings for up to 12 months. The government would fund the extra costs and taxes might have to rise to pay for this.	63	69	47	73	72	62	62	*56*
If people have worked for several years and lose their job, the government paying them half their previous earnings for are out up to 6 months while they of work. Taxes might have to rise to pay for this.	61	65	54	71	71	61	55	*56*
The government paying people half their previous earnings for 6 months if they decide to stop work to retrain on an approved course designed to improve their future employment opportunities. Taxes might have to rise to pay for this.	50	49	50	51	57	42	45	*57*
The government paying people up to 80 per cent of their usual earnings if their employer cannot provide them work or has to reduce their hours due to financial problems with the business. Taxes might have to rise to pay for this.	49	53	36	57	62	49	35	*55*
Unweighted n	1731	963	116	274	247	167	224	*56*

Question: To what extent would you support or oppose the government implementing the following policies?
Combined response for 'strongly support' or 'tend to support'

2. Should people receive more in benefits if they have been working recently?

Percentage	All adults	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+	Worked within the last 12 months
People who lose their job after working for several years should be entitled to more in benefits than those who have not been working recently	55	61	57	62	66	63	62	*32*
People who lose their job after working for several years should receive the same in benefits as those who have not been working recently	20	19	20	20	17	20	25	*32*
Neither	9	8	9	3	6	7	6	*14*
Don't know	15	12	15	16	11	10	6	*22*
Unweighted n	1731	963	116	274	247	167	224	*56*

Question: Thinking about benefits for people out of work, which of the following best reflects your view?

3. Should benefits be higher for those who used to earn more?

Percentage	All adults	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+	Worked within the last 12 months
In the early months after people stop working, people who previously earnt more when they were employed should receive higher benefits than those who earnt less	29	34	31	35	33	32	42	*32*
The amount people receive in benefits should not be linked to their former earnings at all, so that everyone is entitled to the same amount	42	40	46	41	42	47	40	*39*
Neither	10	10	13	9	7	10	10	*11*
Don't know	18	16	10	14	17	10	7	*18*
Unweighted	1731	963	116	274	247	167	224	*56*

Question: Thinking about benefits for people out of work, which of the following best reflects your view?

4. Should the government introduce an 'employment insurance' programme?

Percentage	All adults	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+	Worked within the last 12 months
Strongly support	16	19	13	19	19	24	18	*19*
Tend to support	44	47	46	50	52	43	54	*34*
Tend to oppose	11	10	10	7	8	14	11	*17*
Strongly oppose	5	4	8	4	5	3	4	*13*
Don't know	23	20	23	20	15	15	13	*17*
Strongly support or tend to support Excluding respondents who said 'don't know'	**79**	**83**	**77**	**86**	**85**	**79**	**83**	***64***
Unweighted n	1731	963	116	274	247	167	224	*56*

Question: A new government **employment insurance** programme is being proposed that will pay people who stop working up to half their previous earnings. Payments will last between 6 and 12 months and will be made for the following reasons: unemployment; sickness or injury; maternity or parental leave; carer's leave; training leave. To what extent would you support or oppose the **UK government** introducing these payments?

5. Financial position of your household now

Percentage, adults aged 18-65	All adults aged 18-65	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+	Earning £40k+	Worked within the last 12 months
I cannot afford essential costs, and often have to go without things like food and heating	5	4	2	8	4	2	1	13	*10*
I can only just afford essential costs and often struggle to make ends meet	15	14	8	20	17	9	5	26	*20*
I can normally cover the essentials, but I do not have money left for other things that are not essential	29	28	50	40	34	28	19	26	*27*
I am relatively comfortable financially and have money for some things that are not essential	39	44	32	28	35	57	56	15	*24*
I am very comfortable financially and have money for many things that are not essential	6	7	7	2	6	3	18	3	*2*
Don't know	6	4	2	2	3	2	1	17	*16*
Unweighted n	1338	931	100	256	239	159	218	140	*49*

Question: Which of the following statements best describes the financial position of you and your household at the moment?

6. Workers who have been out of work for more than 4 weeks in the last 2 years

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
No	78	79	69	68	76	85	91
Yes, total	**19**	**18**	**28**	**29**	**22**	**15**	**9**
Yes, unemployed and seeking work	7	7	8	9	9	5	4
Yes, illness or disability	3	3	6	8	3	3	0
Yes, in education or training	3	3	1	4	5	1	0
Yes, looking after a baby	2	2	2	4	2	2	1
Yes, looking after a child aged 1 or over	1	1	3	4	1	0	0
Yes, caring for an adult	1	1	2	2	1	0	0
Yes, retired	1	1	1	1	0	0	1
Yes, another reason	3	3	8	4	2	5	2
Don't know	3	3	3	3	2	0	0
Unweighted n	1031	931	100	256	239	159	218

Question: In the last 2 years, have you spent a period of more than 4 weeks out of work without a job? If yes, what was your reason? Please tick all that apply.

7. Workers with recent experience of temporary absence from work

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
No	74	75	67	69	72	74	82
Yes, total	**23**	**23**	**30**	**30**	**25**	**25**	**17**
Yes, sick leave	10	10	8	14	8	11	7
Yes, unable to work because of Covid-19	6	6	11	7	8	9	4
Yes, maternity leave	3	3	2	5	5	1	2
Yes, caring for an adult	1	1	3	1	2	0	0
Yes, caring for a child aged 1 or over	1	1	3	2	1	0	1
Yes, paternity or parental leave	1	1	0	1	1	0	1
Yes, education or training	1	1	0	1	0	2	0
Yes, jury service	0	0	1	1	0	0	0
Yes, another reason	3	3	8	4	4	2	2
Don't know	3	3	3	1	3	1	1
Unweighted n	1031	931	100	256	239	159	218

Question: In the last two years, have you at any time spent more than two weeks away from work while still remaining in your job, not including holiday leave? If yes, what was reason? Please tick all that apply.

8. Duration of recent experiences of temporary absences from work

Percentage, adults aged 18-65 with jobs who spend more than 2 weeks away in the last 2 years	3-4 weeks	1-2 months	3-4 months	5-8 months	9-12 months	More than 1 year	Don't know	Unweighed N
Sick leave	48	23	18	6	2	1	3	110
Unable to work because of Covid-19	29	15	24	14	10	3	5	70
Maternity leave	3	0	9	15	55	18	0	33
Other reasons	39	16	17	9	8	3	8	70
Total	**37**	**16**	**18**	**10**	**11**	**3**	**4**	**253**

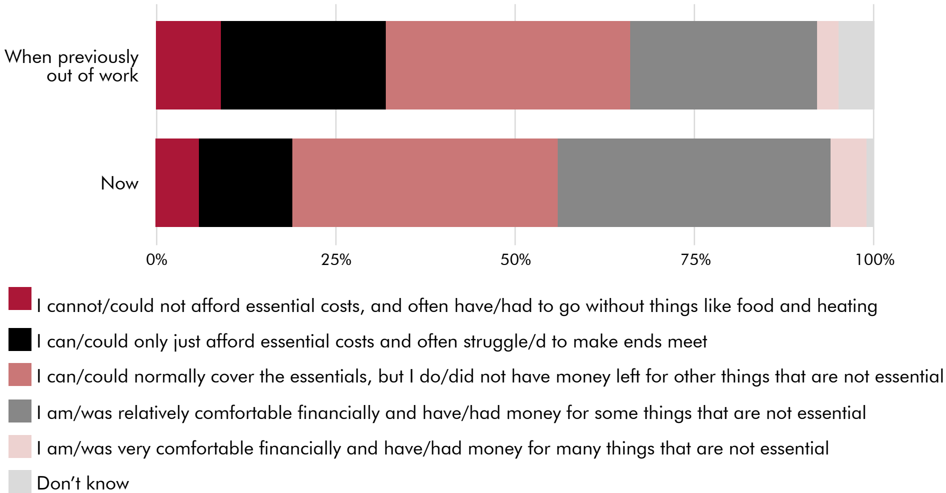
Question: You previously said that you had taken more than two weeks away from work whilst still remaining in your job. For how long were you away from work? If you were away more than once, please answer for the period for which you were away the longest. Note: the small number of respondents who were absent for more than one reason were not asked which reason was the cause of their longest absence so their longest duration is attributed to all reasons. Results excluding this group are almost identical.

9. Earnings during recent experiences of temporary absence from work

Percentage, adults aged 18-65 with jobs who were away 1 month or more in the last 2 years	My full salary/ earnings	More than half of my salary/ earnings	About half of my salary/ earnings	Less than half of my salary/ earnings	I was not paid anything	Don't know	Unweighed N
Sick leave	63	7	4	17	7	3	58
Unable to work because of Covid-19	27	29	7	6	25	6	50
Maternity leave	9	2	18	55	14	3	32
Employee	38	16	7	20	13	5	138
Self-employed	7	8	8	11	59	6	23
Earning under £20k	18	15	7	26	24	11	46
Earning £20 to <30k	18	11	15	17	19	0	42
Earning £30 to <40k	40	29	0	10	18	4	29
Earning £40k+	30	20	10	23	18	0	22
Total	**33**	**15**	**7**	**19**	**20**	**5**	**161**

Question: You previously said that you had taken more than two weeks away from work whilst still remaining in your job. Whilst you were away from work, how much were you paid, if anything? If you were away more than once, please answer for the period for which you were away longest. If the amount you were paid varied, please give your best estimate based on the average amount you were paid. Note: the small number of respondents who were away for more than one reason were asked to estimate their earnings for absences irrespective of the reason

10. Financial position of household – now and when previously out of work



Unweighted n = 284. Sample: adults aged 18-65 in work, in the last 2 years spent more than 4 weeks without a job or at least 1 month away from a job while remaining employed. Question: Which of the following statements best describes the financial position of you and your household at the moment?

11. Actions taken for financial reasons when not working in the last 2 years

Percentage, adults aged 18-65 out of work in the last 2 years (excluding people currently out of work for more than 12 months)	**All with spell not working (1) (2) or (3)**	**(1) now working – was out of work for over 4 weeks**	**(2) now working – was away from job for over 1 month**	***(3) Not working but worked in last 12 months***	***Of which, unemployed in the last 2 years***
Reduced how much you spent on eating out, leisure or alcohol	39	45	39	*26*	*49*
Cancelled subscriptions	36	40	35	*25*	*46*
Used up your savings	35	42	34	*21*	*43*
Reduced how much you spent on food	32	35	30	*23*	*43*
Stopped taking holidays	24	27	26	*15*	*27*
Sold personal possessions	19	23	18	*12*	*23*
Asked for money from family or friends	19	22	17	*17*	*26*
Reduced how much you spent on energy	18	21	11	*22*	*36*
Stopped using a car	13	18	14	*4*	*20*
Borrowed money using loans, credit cards or a bank overdraft	14	14	15	*8*	*19*
Reduced how much you spent on your children*	12	14	17	*0*	*5*
Applied for universal credit	12	14	5	*18*	*34*
Missed a loan repayment	5	7	4	*6*	*6*
Applied for jobseeker's allowance	6	7	1	*10*	*16*
Asked for help from a food bank or charity	6	6	4	*14*	*14*
Missed payments in rent or a mortgage	6	6	5	*9*	*10*
Missed payments in utility bills	6	5	4	*14*	*14*
Moved home	4	6	2	*2*	*8*
Asked for help from a local authority	4	5	2	*6*	*11*
Applied for employment and support allowance	3	4	1	*5*	*11*
Applied for maternity allowance	2	4	4	*2*	*0*
Arranged a break in payments for a mortgage	2	1	2	*4*	*2*
Applied for carer's allowance	1	2	1	*2*	*1*
Other	2	2	2	*1*	*0*
None of these – I did not take any actions	21	13	23	*34*	*7*
Don't know	5	3	4	*6*	*3*
Unweighted N	337	190	158	*49*	*80*

* the item 'reduced how much you spent on your children' was only asked to parents with dependent children. Question: And during any period in which you were not working over the last two years, which of the following actions, if any, did you take for financial reasons? Please tick all that apply.

12. Perceived likelihood of being out of work for 4 weeks or more in the next two years

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
Definitely will happen	2	2	3	5	2	1	2
Very likely	3	3	6	4	2	4	3
Fairly likely	7	7	8	7	7	5	9
Definite or likely	**13**	**12**	**17**	**15**	**11**	**10**	**14**
Fairly unlikely	22	21	29	25	21	17	26
Very unlikely	29	31	17	28	31	37	33
Definitely will not happen	12	12	12	10	11	14	11
Don’t know	24	24	24	22	26	22	15
Unweighted N	1031	931	100	256	239	159	218

Question: In the next 2 years how likely, or unlikely, do you think it is that you will spend a period of 4 weeks or more without a job?

13. Perceived likelihood of temporary absence of two weeks or more in the next two years

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
Definitely will happen	4	3	5	4	4	1	3
Very likely	4	4	3	4	4	3	6
Fairly likely	8	7	12	6	9	8	9
Definite or likely	**15**	**14**	**20**	**15**	**17**	**13**	**19**
Fairly unlikely	24	25	23	25	25	21	29
Very unlikely	26	26	21	25	25	29	29
Definitely will not happen	10	10	13	11	9	8	10
Don’t know	25	25	22	25	23	28	13
Unweighted N	1031	931	100	256	239	159	218

Question: In the next 2 years, how likely, or unlikely, do you think it is it that you will spend a period of more than two weeks away from work while still remaining in your job, not including holiday leave ? This might be for reasons such as illness or parental leave

14. Perceived likelihood of leaving a job involuntarily in the next two years

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
Definitely will happen	1	1	2	2	2	0	0
Very likely	3	3	3	5	1	2	2
Fairly likely	8	8	12	10	8	5	10
Definite or likely	**12**	**12**	**16**	**16**	**12**	**7**	**13**
Fairly unlikely	29	29	23	28	28	31	38
Very unlikely	22	23	18	21	23	28	21
Definitely will not happen	9	9	16	7	7	10	11
Don't know	28	28	28	28	29	25	17
Unweighted N	1031	931	100	256	239	159	218

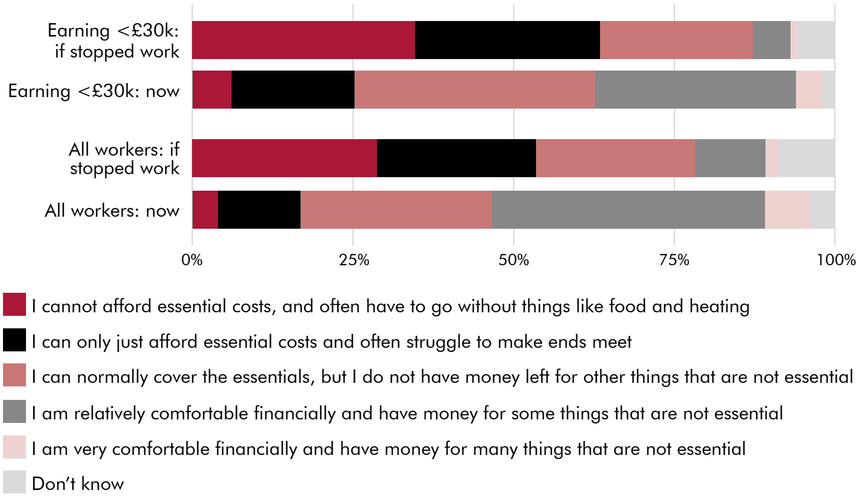
Question: In the next 2 years, how likely, or unlikely, do you think it is that you will have to leave your job when you don't want to – for example because of redundancy, the end of a contract, sickness or other personal circumstances.

15. How long people could you live off savings if they stopped working

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
Two weeks or less	21	22	12	31	24	23	11
3-4 weeks	10	10	7	9	13	11	9
4 weeks or less	**31**	**32**	**19**	**40**	**37**	**35**	**20**
1-2 months	15	15	14	15	21	10	16
3-4 months	14	14	13	12	14	18	17
5-8 months	8	7	11	6	5	9	13
9-12 months	6	6	7	7	4	11	6
More than 1 year	13	13	19	10	9	10	22
Not sure	13	13	17	9	9	7	7
Unweighted N	1031	931	100	256	239	159	218

Question: Now please consider a scenario in which you had to stop work immediately and did not have another job. If you had to live **only on the money you have in savings or investments**, for how long would you be able to maintain your current standard of living?

16. Financial position of your household – now and if you stopped working



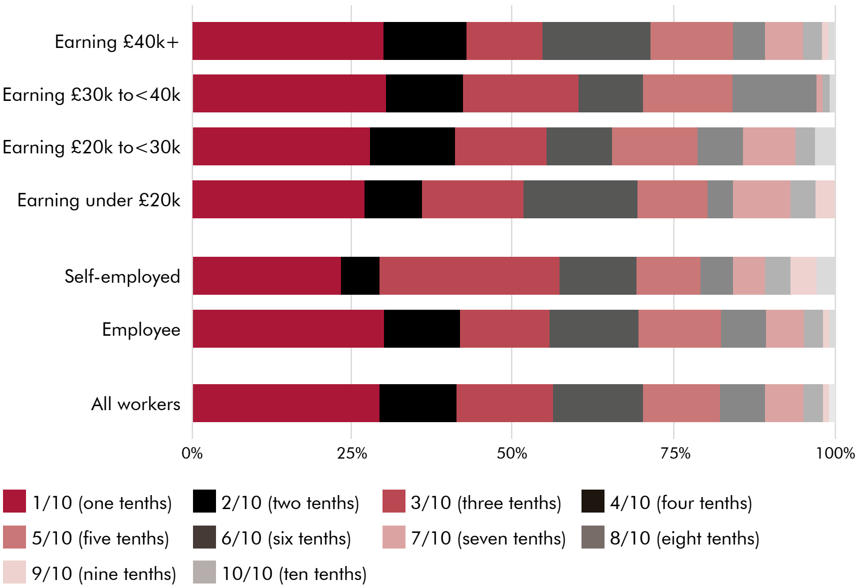
Adults aged 18-65 with jobs. Question 1: Which of the following statements best describes the financial position of you and your household at the moment? Question 2: If you had to stop work immediately and did not have another job, which of the following statements would best describe the financial position of you and your household in the following months? Question 2 statements were in the future conditional tense ("I would not be able to", "I would only just be able to" etc)

17. Actions people would take for financial reasons if they stopped working

Percentage, adults aged 18-65 with jobs	All workers	Employee	Self-employed	Earning under £20k	Earning £20–30k	Earning £30 to <40k	Earning £40k+
Use up your savings	58	58	58	53	53	69	70
Reduce how much you spent on eating out, leisure or alcohol	56	56	53	51	50	65	70
Reduce how much you spent on food	55	56	50	57	52	67	55
Cancel subscriptions	54	54	53	51	50	61	68
Stop taking holidays	48	49	39	38	44	59	66
Reduce how much you spent on energy	46	46	43	46	41	56	48
Sell personal possessions	36	37	32	36	37	48	36
Apply for jobseeker's allowance	35	36	27	34	35	44	35
Apply for universal credit	35	35	29	40	38	41	25
Reduce how much you spent on your children	33	33	26	35	23	41	38
Stop using a car	31	33	19	29	35	38	32
Apply for employment and support allowance	30	31	23	28	30	43	27
Ask for money from family or friends	22	24	6	25	27	24	22
Ask for help from a food bank or charity	20	22	10	23	24	27	14
Arrange a break in payments for a mortgage	18	19	9	8	19	30	25
Ask for help from a local authority	15	16	14	17	17	24	9
Borrow money using loans, credit cards or a bank overdraft	15	15	9	13	15	15	20
Miss payments in utility bills	13	14	3	15	16	17	8
Miss payments in rent or a mortgage	10	11	4	10	11	17	8
Move home	9	10	1	6	9	13	14
Miss a loan repayment	8	8	3	6	6	15	8
Apply for carer's allowance	2	3	1	2	2	4	1
Apply for maternity allowance	1	1	2	0	2	1	0
Other	1	1	1	2	1	1	2
None of these – I would not need to take any of these actions	4	4	6	4	3	2	5
Don't know	9	9	13	6	8	5	5
Unweighted N	1031	931	100	256	239	159	218

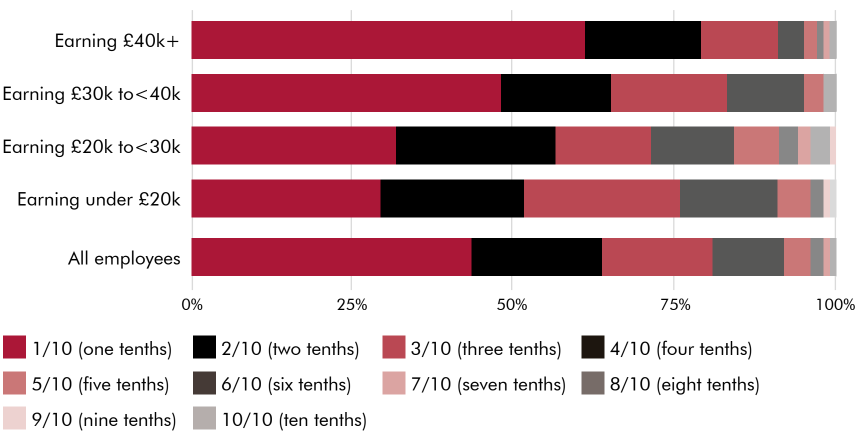
Question: If you were to stop working immediately and did not have another job, during the following months which of the following, if any, would you do for financial reasons? Please tick all that apply.

18. Workers' expectations of their household income if they stopped working – as a proportion of current income



Adults aged 18-65 with jobs. Chart excludes respondents who said don't know (44 per cent of the sample). Unweighted n = 1031 Question: If you stopped working immediately and did not have another job, how much income do you think your household would receive each month as a proportion of what you receive now? Please consider the earnings of all members of your household, and any welfare benefits you might be entitled to. Please give your best estimate.

19. Workers' perceptions of the value of jobseeker's allowance – as a proportion of current earnings



Adults aged 18-65 with jobs. Chart excludes respondents who said 'don't know' (45 per cent of the sample). Unweighted n = 931. Question: If you stopped working immediately and did not have another job, you would probably be entitled to receive jobseeker's allowance. Excluding any other benefits you might be entitled to, what proportion of your current earnings do you think jobseeker's allowance is equivalent to? Please give your best estimate.

Appendix 3: International policies

Unemployment

Earnings-related unemployment insurance	Austria (55%) Belgium (65% then 60%) Canada (55% for between 14 weeks and 45 weeks) Czech Republic (65% then 50% then 45%) Denmark (90%) Estonia (60% then 40%) Finland (varies) France (varies) Germany (67% with children, 60% without) Hungary (60% or minimum wage if higher) Iceland (70% after first 2 weeks, then flat-rate after 3 months) Latvia (varies - depends on length of insurance record & amount of time unemployed) Lithuania (39% plus flat-rate component) Luxembourg (80%, 85% with dependent children) Portugal (65%, 75% if dependent children and no one is working) Slovakia (50%) Slovenia (80%, then 60%, then 50%) Spain (70%, then 50%)
Flat rate unemployment insurance	Greece (flat-rate for full-time workers) Ireland (flat-rate but with graduated benefit levels for those on low earnings) Poland
No waiting period	Austria, Belgium, Czech Republic, Denmark (for employees who are involuntarily unemployed), Hungary, Iceland, Luxembourg, Portugal, Slovakia, Slovenia, Spain, Netherlands, Portugal
Duration varies by contribution record length	Austria, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Portugal, Slovenia, Netherlands. Belgium (duration is unlimited but benefit level falls and becomes flat-rate over time)
Duration varies by age	Czech Republic, Finland, France, Germany, Greece, Lithuania, Luxembourg, Poland, Portugal, Slovenia
Benefits for partial loss of work/loss of hours	Denmark, Finland, France, Germany, Ireland, Iceland
Extra for dependents	Finland, Greece (10% increase to basic benefit amount is added for each dependent family member), Iceland (4% of the full flat-rate benefits for each maintained child under 18 years of age), Germany

Sickness

Earnings-related sickness benefits	Austria Belgium (flat-rate for self-employed) Czech Republic (voluntary for self-employed) Denmark (includes self-employed) Estonia (includes self-employed) Finland France Germany Greece (some provision for self-employed) Hungary Italy Latvia (includes self-employed) Lithuania (includes self-employed) Luxembourg (includes self-employed) Norway (includes self-employed) Poland (voluntary for self-employed) Portugal (includes self-employed) Slovakia (includes self-employed) Slovenia (includes self-employed) Spain (special scheme for self-employed) Sweden (incudes self-employed)
Sick pay (full pay)	Austria (full pay for up to 12 weeks depending on length of service, then 50% for an additional 4 weeks) Belgium (full pay for 7 days for blue-collar workers, then decreases; full pay for 1 month for white-collar workers) Finland (full pay for 9 days; collective agreements often provide for longer duration) Germany (full pay for up to 6 weeks) Iceland (full pay for at least 1 month after 12 months of employment; collective agreements often provide for longer duration) Luxembourg (full pay for around 13 weeks) Norway (full pay for first 16 days, usually longer) Poland (in some cases) Switzerland (full pay for at least 3 weeks in the 1st year of service, longer durations can be negotiated after that)
Sick pay (earnings-related)	Czech Republic (60% up to 14th day) Estonia (70% from 4th to 8th day) France (percentage dependent on duration of employment & duration of sick leave) Greece (50% for first 3 days, then varies) Hungary (70% for up to 15 days annually) Italy (for private sector workers) Latvia (75% on days 2 and 3, 80% from days 4 to 10) Lithuania (at least 62% for first 2 days) Netherlands (70% up to 104 weeks) Poland (in some cases) Slovakia (25% for first 3 days, 55% from 4th to 10th day) Slovenia (for 30 days, 90% or 80% depending on nature of sickness) Spain (60% from 4th to 15th day) Sweden (80% up to 14th day)
Private insurance	Netherlands - insurance can partly cover risk borne by employers, paying 70% of earnings for 104 weeks. Switzerland – No compulsory scheme, but voluntary/optional insurance. Benefit levels etc. agreed between insurer and policyholder. An insurance obligation may result from an individual employment contract, a standard employment contract, or a collective labour agreement.

Babies

Statutory leave entitlements	Standard statutory maternity leave duration	Standard statutory parental leave duration
	Austria - 16 weeks Belgium - 15 weeks Czech Republic - 28 weeks Denmark – 18 weeks Estonia – 20 weeks Finland - 17 weeks France - 16 weeks Germany - 14 weeks Greece – 17 weeks Hungary - 24 weeks Iceland - 2 weeks - after this see parental leave Ireland - 26 weeks, plus 16 unpaid Italy: 22 weeks Latvia - 16 weeks Lithuania - 18 weeks Luxembourg -– 20 weeks Norway - none - but 15 weeks of parental leave reserved for mother Poland – 20 weeks Portugal – no maternity leave, but 30 days of parental leave reserved to mother Slovenia – 15 weeks, Slovakia - 34 weeks Slovenia – 15 weeks Spain - none, just parental leave Sweden - no maternity leave - but 90 days parental leave reserved to mother Switzerland - 14 weeks Netherlands - 16 weeks	Austria - up to child's 2nd birthday Belgium - 16 weeks if full-time employee (can be extended if part-time) Czech Republic - up to 3rd birthday Denmark - 32 weeks, shared between parents, to be taken before 9th birthday. Estonia - up to 3rd birthday Finland - 26 weeks for each parent France - up to 1st birthday Germany - up to 3rd birthday Greece - 4 months Hungary - varies Iceland - 6 months for each parent, of which 6 weeks can be transferred to the other parent, to be taken before 2nd birthday. Plus unpaid leave for 4 months. Ireland – 5 weeks paid plus 22 weeks unpaid, for each parent and to be taken before 12th birthday. Latvia - up to 8th birthday Lithuania - up to 2nd birthday Luxembourg - 4-6 months Norway - 49 weeks at 100% or 59 weeks at 80% rate. Poland - 32 weeks parental leave, plus 24 months child-raising leave. Portugal – Several leave periods – 120 or 150 consecutive days of leave, then extended parental leave for 3 months. Also unpaid childcare leave for 2 years. Slovakia - up to 3rd birthday, but with consent of employer can be extended up to 5th birthday. Slovenia – 26 weeks per parent Spain - up to 3 years Sweden - 68 weeks shared between parents Switzerland - no statutory leave entitlement Netherlands - 26 weeks.

Babies

Benefits	Standard maternity benefit	Standard parental benefit
	Austria - 100% of earnings for maternity, Belgium - 82% of earnings for first 31 days, then 75% up to 15 weeks total Czech Republic - varies Denmark - 100% of earnings for maternity and paternity leave Estonia - 100% of earnings for up to 140 days Finland - 90% of earnings up to a cap (then 32.5% for extra income) for first 56 week days France - 21% of earnings deducted from gross salary up to cap 100% of earnings for duration of maternity leave Germany - 100% of earnings, for duration of maternity leave Greece - varies, for 119 days of maternity leave Hungary - 100% of earnings daily gross earnings, for 24 weeks Iceland - only for unemployed mothers, otherwise see parental benefit Ireland - flat rate for 26 weeks Latvia - 80% of earnings for 112 calendar days) Lithuania - 77.58% for whole leave period Norway – lump sum grant, plus parental benefit (See parental benefit column) Poland - 100% of earnings for duration of maternity leave Portugal –None, parental leave instead Slovakia - 75% of earnings, for duration of maternity leave Slovenia - 100% earnings for maternity leave. Spain - only for unemployed mothers, otherwise see parental benefit Sweden – varies for up to 240 days for each parent Switzerland - 80% of earnings for 14 weeks Netherlands - 100% of earnings for duration of maternity leave Canada - 55% of earnings up to 15 weeks, then a choice of parental leave for 35 weeks at 55% of earnings or 61 weeks at 33% of earnings	Austria - 80% earnings for a year (if taken by one parent), then flat rate Belgium - flat rate Czech Republic - Varies depending on duration taken for Denmark - 100% earnings for leave period. Estonia - 100% earnings related for 3 years Finland - same amount as maternity (90% of earnings up to a cap, then 32.5% for extra income) France - flat-rate for 6 months for each parent Germany - earnings-related (varies) for first 14 months, plus extra flat-rate benefits for first 28 months Greece - flat-rate for first 2 months Hungary - several benefits, some earnings-related, others flat-rate Iceland - 80% of earnings, for duration of paid leave Ireland - 5 weeks paid leave at flat rate. 22 weeks unpaid parental leave. Latvia - Paid at 60% for 1 or 43.75% for 1.5 years. Lithuania - Earnings related - varies depending on leave duration. Norway - 100% earnings Poland - 100% for first 6 weeks, 60% for remaining weeks of parental leave. Then several flat-rate benefits for child-raising leave. Portugal - Earnings related - varies Slovakia - flat rate for whole leave period. Slovenia - 100% earnings for 260 days childcare leave. Spain - 100% of earnings for 16 weeks. Then unpaid leave for up to 3 years. Sweden - 80% income for 98 daily allowances to be paid within 18 months. Switzerland - 80% earnings for 98 daily allowances to be paid within 18 months. Netherlands - unpaid leave for 26 weeks

Babies

Self-employed maternity benefit	Denmark – earnings related up to a cap Iceland - 80% of earnings during the previous year (maternity and paternity) Netherlands - 100% of the net trading income with a monthly cap
Statutory maternity pay	None, benefits instead - Denmark, Czech Republic, Estonia, Hungary, Iceland, Latvia, Lithuania, Portugal, Slovakia, Slovenia, Netherlands, Austria, Luxembourg. Denmark – Certain groups only (collective agreements and labour laws). Employer is paid equivalent to maternity benefit Finland – Certain groups only (collective agreements) France – certain groups only, topping up maternity benefits (collective agreements). Germany - If daily wage exceeds the 13 euros paid in maternity benefit, employer must top-up the rest of daily wage. Greece – Employer pays full pay for first 15 to 30 days of maternity leave, deducting the amount received in maternity benefit. Italy - Employer pays benefits on behalf of the social security fund. Norway - No statutory entitlement. Where mother is paid during maternity leave, the parental leave benefit is paid to the employer Poland – employers with more than 20 employees pay benefits on behalf of the government Spain – Certain groups only (collective agreements) Switzerland – Minimum of 3 weeks (longer period linked to length of service). Employers may purchase insurance for allowances covering maternity.

Caring

Flat-rate non-means-tested carer's allowance	Denmark (flexible duration) Estonia (duration set by municipalities) France (Sickness benefit paid to carer: For end of life care - 21 days for full time work, 42 for part time work; for a child under 20 with a disease or serious disability – max 22 days a month, and 310 days to be taken during a period of 3 years Finland (duration set by municipalities) Hungary (duration varies) Latvia (sickness benefit paid to carer: 14-30 days for an under 14, 26 weeks or 3 years within a 5 year period for an under 18) Norway (60 days per patient during terminal illness) Slovenia (10 days per illness, 20 calendar days for children younger than 7 years & mentally or physically disabled children). Possibility of extension in special circumstances. Spain (for sick child affected by serious illness, paid until recovery or the child is 18 years old. Means-tested benefits for other relatives) Sweden (duration set by municipalities) Germany (sickness benefit paid to carer; no time limit for seriously ill child) Ireland (2 years but may be claimed over separate periods up to a total of 2 years) Lithuania (sickness benefit paid to carer: 7 days for adults, for children varies depending on condition)
Earnings related carer's benefit	Portugal (varies) Norway - 100 % of earnings for care of a sick child Poland - 80% for 60 days if under 14, 30 days if under 18, and 14 days if adult. Canada - 55%, for up to 35 weeks for under 18, up to 15 weeks for 18+, up to 26 weeks for any person who requires end of life care.
Tiered carer's benefit for different levels of care need	Austria Belgium Germany Luxembourg (10 tiers of payment) Slovenia

Caring

Carer's leave	France - 3 months maximum (12 months over working life). Flat-rate payment for lifetime maximum of 66 days. Slovakia - 14 calendar days for short-term benefit, can get long-term benefit 90 days of leave conditional on a doctor certification. Austria - 1 week a year at 100% of earnings, extension or further unpaid leave possible under certain conditions. Estonia - 80% of usual earnings paid for between 10 to 60 days for sick children, 7 days for sick adults Finland Greece - unpaid leave Hungary - unpaid leave Italy - 3 days a month - paid Luxembourg – 5 to 12 days for sick child depending on age & condition of child (up to 52 weeks over 104 weeks in exceptional cases) Norway - 100% of earnings (employee) or 80% of earnings (freelance / self-employed) paid for 10 days each (2 parents) or 20 days (single parent) for care of a sick child. Paid by the employer who is entitled to a refund from the government if the employee is absent for more than 10 days in a calendar year. Switzerland - 100% of earnings for 3 days per event and 10 days in total Netherlands – Short-term care leave: 70% of earnings or minimum wage (if higher) for 2 weeks a year Long-term care leave is unpaid.

Learning

Flat rate retraining allowance	Austria - training allowance equivalent to minimum unemployment benefit plus 22% and any family supplements Estonia – allowance availablefor both unemployed and employed (half rate available to those without employment)) Denmark - training allowance at the rate of unemployment benefit, for the number of hours you participate in the course. Luxembourg - available to jobseekers participating in retraining & not receiving unemployment benefits, must show an attendance rate of 80% on the course.
Earnings-related retraining allowance	Czech Republic - 60%, available throughout retraining period (for designated training) Sweden forthcoming(study grants for retraining worth 80% of earnings). Canada – forthcoming (up to four weeks of paid leave, at up to 55% of weekly earnings)
Statutory leave/training schemes	France - 100% of earnings for employees who can enrol in professional transition leave. Employers can defer requests but can't refuse them. Subject to conditions relating to length of career and current employment. Lithuania - education leave of up to 10 days per year after 5 years of employment (for formal or non-formal education related to professional development.) Luxembourg – 100% of earnings, paid by employer, for maximum 80 days retraining leave over whole professional career. Sweden Austria
No specific retraining benefit - but able to receive unemployment benefit	Ireland (higher rate only for young jobseekers) Finland - (higher flat-rate and earnings-related payments plus expenses). Germany – (same rate)

Sources: MISSOC, Social Policies Indicators Database, OECD Family Database

Appendix 4: Microsimulation modelling

The econometric modelling for this project uses microsimulation techniques with two UK datasets - Understanding Society (US) and the Family Resources Survey (FRS).

UNDERSTANDING SOCIETY (US) DATA ANALYSIS

Understanding Society (also known as the UK Household Longitudinal Study) is the favoured dataset for most of the analysis in this report because we needed to model eligibility for benefits or other payments based on labour market history (for example, how many weeks or months someone hasn't been working due to unemployment, maternity, caring responsibilities, and so on). For people who were previously in work we need data on what their earnings were when in work. The US survey contains labour market history data because it is a panel survey which surveys the same individuals and their households repeatedly at annual (or near-annual) intervals.

The project used US data from Waves 8, 9 and 10 of the survey, covering a period between January 2016 and December 2019. Data from the US labour market history question block was used to construct a two-year labour market history for each respondent in the survey. Thus, for each survey respondent, we know: (1) their labour market status at Wave 10 (e.g. in work, unemployed, on maternity leave, disabled, otherwise inactive); (2) the duration of their most recent labour market state; (3) the duration of previous labour market states over the previous 2 years (up to 5).

Full-time carer is not one of the specified labour market states in the labour market status variable, however Waves 8, 9 and 10 all included 'snapshot' questions on number of hours spent caring for a person inside or outside the household. If someone had a labour market status of 'inactive' at a wave interview and also reported themselves to be a full-time carer, we assume that episode of inactivity is an episode of full-time caring.

Understanding Society also collects information on earnings (and self-employment income) for people in work at Wave 8, 9 or 10. For people who were employed between waves but not at any of the wave interviews, a regression technique (median quantile regression) was used to assign a wage based on characteristics including age, sex, ethnicity, disability status, region and dummy variables for current labour market status (e.g. unemployed, retired, long-term sick or disabled, otherwise inactive). A regression imputation method was also used to assign previous earnings for people who had not been in work for the whole two years between the Wave 8 and Wave 10 interviews.

The US data contain information on receipt of JSA, ESA, maternity allowance and carer's allowance as well as universal credit and legacy means-tested benefit and tax credit payments. The benefit receipt data was used to construct the sample of current recipients of income replacement benefits. To do this accurately, we needed to distinguish between contributory and income-based JSA and ESA. For JSA there is a specific variable in the US dataset for this purpose. For ESA, an imputation based on previous earnings and duration of receipt (for claimants in the work-related activity group) was used to impute whether claimants were contributory or income-based. Note that our sample of contributory claimants was restricted to people who had been claiming ESA for a maximum of 2 years, as our focus in this project is on modelling reforms which affect new claimants rather than the legacy caseload of long-term ESA claimants.

For statutory maternity pay we were able to observe receipt based on the earnings data at Wave 10 (assuming that women who report their labour market status as 'maternity' and were receiving current earnings were receiving SMP). In some cases, the current earnings information was missing for this group but SMP could be imputed using information on previous earnings as well as the date when the mother gave birth (which is recorded in the data).

The US data have two principal limitations: (1) relatively small sample size (particularly for maternity allowance where there was only a handful of recipients); (2) they are a few years out of date. Specifically, the US Wave 10 data are from the period 2018-19 while we are interested in the cost and distributional impact of reforms to income replacement benefits in 2022/23.

Because of these limitations, we made two adjustments to the data to make the analysis more representative of current data on receipt of income replacement benefits and payments. First the weighting in the US sample was adjusted so that the totals of people on income replacement benefits matched the most recent available data from DWP's administrative data on benefit caseloads. In the case of JSA and ESA the weighting was stratified to match benefit caseloads by duration of benefit receipt. Second, individuals claiming legacy means-tested benefits and tax credits were assumed to have migrated to universal credit and an algorithm was used to estimate the amount of universal credit received based on single/couple status, number of children, housing tenure status, housing costs and income from other sources.

FAMILY RESOURCES SURVEY (FRS) DATA ANALYSIS

The FRS is the main source of detailed data on gross and net incomes of individuals and households in the UK, used by the Department of Work and Pensions for its annual Households Below Average Income publication. The 2019-20 FRS was used for the analysis of statutory sick pay (SSP) receipt because it contained data on receipt of SSP and people who were absent from work between four days and 28 weeks (ie the specific eligibility group for SSP), whereas US does not contain these variables. Although the 2020-21 FRS was available from the UK Data Archive by the time we did the modelling work for this report, problems with data collection in 2020-21 due to the Covid-19 pandemic (and the unusual labour market behaviours at that time) meant that the 2019-20 data were judged to be more reliable for this analysis.

Individuals in the FRS data who were off sick from work for between 4 days and 28 weeks were assigned to one of three categories: (1) in work and receiving more than the SSP weekly amount (we assume that these individuals are receiving occupational sick pay); (2) in work and receiving SSP (we assume that these individuals are receiving SSP but no additional occupational sick pay); (3) in work and not receiving SSP (we assume that these individuals did not meet the eligibility conditions for SSP).

The FRS data are calibrated so that the total number of sickness absences matches the most recent data on absences from the ONS publication Sickness Absence in the UK Labour Market: 2021.

References

1 Fabian Society estimates based on: Health And Wellbeing At Work: A Survey Of Employees 2014, DWP, 2015; Landman Economics analysis of Family Resources Survey 2019/20
2 DWP, Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, 2022
3 Fabian Society estimates based on Young, V and Bhaumik, C, Health And Wellbeing At Work: A Survey Of Employees, DWP, July 2011, and Young, V and Bhaumik, C, Health And Wellbeing At Work: A Survey Of Employers, DWP, July 2011; Landman Economics analysis of Family Resources Survey 2019/20
4 DWP stat-xplore, Employment and support allowance (from May 2018), February 2022
5 DWP, Jobseeker's Allowance, DWP stat-xplore February 2022
6 DWP, Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, 2022
7 Ibid
8 GRiD, Group Risk Industry Pays Out Record Amount in Claims During 2021, grouprisk.org.uk, May 2022
9 Ibid
10 ABI, Payouts For Bereavement, Illness, And Injury Claims Top £18.6 Million A Day, abi.org.uk, May 2022; GRiD, Group Risk Industry Pays Out Record Amount in Claims During 2021, May 2022
11 DWP stat-xplore, People on Universal Credit, Employment indicator, July 2022
12 Holden, J, and Kenway, P, The Impact Of Individual Income Protection On Universal Credit And The Implication For Policyholders - A Report By The New Policy Institute For The Association Of British Insurers, September 2019
13 Corlett, A, Odamtten, F, Try, L, The Living Standards Audit 2022, July 2022
14 HM Revenue and Customs, Coronavirus Job Retention Scheme Statistics, December 2021
15 DWP, Outturn and Forecast Statement: Spring statement 2022, benefit expenditure and caseload tables, 2022
16 ibid
17 DWP stat-xplore, Employment and support allowance (from May 2018), 2022
18 DWP, Maternity Allowance: Quarterly Statistics, October 2022
19 DWP stat-xplore, Carer's Allowance: Cases in Payment (from May 2018), 2022
20 DWP stat-xplore, February 2022 except for Maternity Allowance estimate, which is based on data for total caseload for nine months of entitlement using DWP expenditure and caseload tables, Spring 2022.
21 Hoynes, H, Joyce, R and Waters, T, Benefits and Tax Credits, IFS Deaton Review of Inequalities. Institute for Fiscal Studies, 2023
22 Kugler, A, Muratori, U, Farooq, A, The Impacts of Unemployment Benefits on Job Match Quality and Labour Market Functioning, cepr.org, February 2021; Weber, A, Nekoel, A, Unemployment Benefits and Job Match Quality, cepr.org, July 2015
23 OECD, Job Retention Schemes During The Covid-19 Lockdown And Beyond, October 2020
24 Beveridge, W, Social Insurance and Allied Services, November 1942
25 Levell, P, Roantree, B, and Shaw, J, Redistribution from a Lifetime Perspective, IFS, September 2015; Hills, J, Good Times Bad Times, Policy Press, November 2014
26 Abey, J, Fair To All, Fabian Society, September 2021.
27 Padley, M, Stone, J, Households Below A Minimum Income Standard: 2008/09-2019/20, Joseph Rowntree Foundation, January 2022
28 OECD, Net replacement rate in unemployment, stats.oecd.org, January 2023
29 Working age, in work. Chart excludes respondents who said 'don't know' (45 per cent of the sample). Question: If you stopped working immediately and did not have another job, you would probably be entitled to receive jobseeker's allowance. Excluding any other benefits you might be entitled to, what proportion of your current earnings do you think jobseeker's allowance is equivalent to? Please give your best estimate
30 Working age, in work. Question 1: Which of the following statements best describes the financial position of you and your household at the moment? Question 2: If you had to stop work immediately and did not have another job, which of the following statements would best describe the financial position of you and your household in the following months? Question 2 statements were in the future conditional tense ("I would not be able to", "I would only just be able to" etc)
31 Reid, J, National Insurance Act 1966, The modern law review, vol 29, No 5, September 1966
32 Timmins, N, The Five Giants: a Biography of the Welfare tate, William Collins, 2017
33 Harrop, A, Statutory Sick Pay: Options for reform, Fabian Society, 2021
34 Hansard, HC Deb 22 July 1991 vol 195 cc435-45W; ONS, average weekly earnings time series, kab9, Bank of England, A millennium of macroeconomic data for the UK, 2018
35 Canada Employment Insurance Commission, 2020/2021 Employment Insurance Monitoring and Assessment Report, March 2022; Government of Canada, Summary of the 2023 Actuarial Report on the Employment Insurance Premium Rate, September 2022
36 'Employment insurance benefits and leave' https://www.canada.ca/en/services/benefits/ei.html
37 OECD, Net replacement rate is the proportion of net household income that is retained after five months in unemployment, 2020

38 Social Policy Indicators Database, standard net single worker replacement rate for total 26-week period of sickness benefit, excluding prior half year's wage from numerator and denominator, 2015
39 OECD Family Database, parental leave systems, OECD, December 2022.
40 Ibid. Percentage of previous gross earnings replaced by the benefit over the length of the paid leave entitlement for a woman earning 100% of average national full-time earnings. Weighted average for schemes with varying payment levels.
41 Curry, N, Schlepper, L, Hemmings, N, What Can England Learn from the Long Term Care System in Germany?, Nuffield Trust, September 2019
42 Government of Canada, The Canada Training Benefit, March 2019
43 Tait, C, New Tricks, Fabian Society, December 2017
44 ONS, People Temporarily Away From Paid Work in the UK, August 2020
45 ibid
46 Landman Economics analysis of Family Resources Survey, 2019/20
47 Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, DWP, 2022
48 ONS, Sickness Absence Statistics, UK, April 2022
49 ONS, People Temporarily Away from Paid Work in the UK (April-June 2019) August 2020
50 ONS, Labour Force Survey Flows Estimates, seasonally adjusted, four quarters of data combined, November 2022
51 ONS, Sickness Absence statistics, 2021, April 2022
52 Dunstan, R, Missing: 85,000 Maternity Allowance Claims Worth £500m To Low-Income New Mothers, maternityaction.org.uk, March 2022
53 ONS, Labour Force Survey Flows Estimates, flow between Jan-Mar 2022 to Apr-June 2022, people aged 16-64, November 2022
54 ONS, Labour Force Survey, unemployed, UK, all adults, duration of claim, February 2023
55 Bank of England, Monetary Policy Report, November 2022
56 ONS, ILO redundancy level (thousands), UK, seasonally adjusted, November 2022
57 Casey, B, Mayhew, K, Kurzarbeit/ Short Time Working: Experiences And Lessons From The Covid-Induced Downturn. National Institute Economic Review, March 2022
58 ONS, Reason for leaving last job cross-referenced with duration of unemployment, August 2017
59 DWP, Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, 2022
60 DWP, Jobseeker's Allowance, Duration of Current Claim, stat-xplore.dwp.gov.uk, 2022
61 Note: Excludes people who only received income-based JSA which is now part of universal credit.
62 DWP, The employment of disabled people 2021, February 2022
63 ONS, Sickness Absence Statistics, April 2022
64 DWP and DHSC, Health in the Workplace: Patterns of Sickness Absence, Employer Support and Employment Retention, July 2019
65 DWP, The Employment of Disabled People 2021, February 2022
66 ONS, Economic Inactivity: People Aged 16 to 64 by reasons for inactivity, seasonally adjusted, November 2022
67 DWP, Employment and support allowance (from May 2018), payment type by duration of current claim, DWP stat-xplore, February 2022
68 GRiD, Group Risk Industry Pays Out Record Amount in Claims During 2021, May 2022; ABI, Payouts For Bereavement, Illness, And Injury Claims Top £18.6 Million A Day, May 2022
69 DWP, Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, 2022; ONS, Population And Multiple Birth Statistics, 2022
70 Chanfreau, J, et al., Maternity and Paternity Rights and Women Returners Survey 2009/10, Department for Work and Pensions and Department for Business Innovation and Skills, 2011; CIPD, Employer Focus On Working Parents - Parental leave and pay and childcare policies, August 2022
71 Dunstan, R.'Claimants of Statutory Maternity & Parental Pay: Available Data, maternityaction.org.uk, November 2022
72 Carers UK, Juggling Work and Unpaid Care: a Growing Issue, 2019; ONS, Characteristics of Unpaid Carers, March 2020
73 Carers UK, Juggling Work and Unpaid Care: a Growing Issue, 2019
74 ONS, Characteristics of Unpaid Carers, March 2020
75 Department for Business, Energy & Industrial Strategy, Boost for Carers who Will Receive New Unpaid Leave Entitlement Under Government-backed Law, press release, October 2022
76 Carers UK, Juggling Work and Unpaid Care: a Growing Issue, 2019
77 Department for Education, Further Education and Skills, academic year 2022/23, January 2023
78 ibid
79 Low Incomes Tax Reform Group, 'The Curious Case of 'Worker' Status and Statutory Sick Pay', March 2021
80 Harrop, A, For us all, Fabian Society, 2016
81 Abey, J, Fair to all, Fabian Society, September 2021
82 Sarygulov, A, Arslanagic-Wakefield, P, Building Up: The Future Of Social Security, Bright Blue, 2022
83 Office of the Superintendent of Financial Institutions Canada, Actuarial Report - Employment Insurance Premium Rate, August 2021; Yssadd, L, Ferrao, V, Self-employed Canadians: Who and Why?, Statistics Canada, May 2019
84 Office of Tax Simplification, Closer Alignment of Income Tax and National Insurance: a Further Review, November 2016

85 The Queen on the Application of Moore & Anor v Secretary of State for Work and Pensions [2020] EWHC 2827 (Admin) 26 October 2020
86 Drewberry Insurance, The 2018 Drewberry™ Protection Insurance Survey, 2020
87 Low Incomes Tax Reform Group, 'The Curious Case of 'Worker' Status and Statutory Sick Pay', March 2021
88 DWP, Outturn and Forecast Statement: Spring Statement 2022, benefit expenditure and caseload tables, 2022
89 This projection adopts our proposed broader employment-related eligibility rules with up to 6 months duration
90 TUC, Beyond Furlough: Why the UK Needs a Permanent Short-time Work Scheme, August 2021
91 Matha, T, Millard, S, Lydon, R, The Whys and Wherefores of Short-time Work: Evidence from 20 Countries, Centre for economic policy research, February 2019
92 European Network of Public Employment Services, Short-time Work Schemes in the EU: Study Report, European Commission, May 2020
93 Canada Employment Insurance Commission, 2020/2021 Employment Insurance Monitoring and Assessment Report, March 2022
94 Redundancy Payments Act 1965, schedule 1
95 ONS, Reasons for workers leaving previous jobs (people aged 16 and over in employment who (a) have been in their current job less than 3 months and (b) had left another paid job in the previous 3 months, by reason for leaving last job), 3 months ending December each year, 1995 to 2013, 2014
96 ONS, ILO redundancy level (thousands), UK, seasonally adjusted, November 2022
97 ONS, Annual Survey of Hours and Earnings, year ending April 2022, October 2022
98 Harrop, A, Statutory Sick Pay: Options For Reform, Fabian Society, June 2021
99 Note Family Resources Survey excludes short periods of sickness
100 Estimate of £800m based on the government paying around 10 per cent of the costs of the new minimum sick pay - ie 50 per cent of earnings for 16 per cent of days lost to sickness. This percentage is an estimate of the share of absent days that are part of an absence of over 4 to 6 weeks in a workplaces with fewer than 50 staff and is illustrative only. Sources: Landman Economics modelling of Family Resource Survey 2019/20 and Table 15a: Number of days lost through sickness absence, by size of workforce, 2021, UK, ONS, 2022
101 DWP and DHSC, Government Response: Health is Everyone's Business, October 2021
102 DWP, Fitness for Work: the Government Response to Health at Work: an Independent Review of Sickness Absence, January 2013
103 DWP, Employment and Support Allowance (from May 2018), DWP stat-explore, February 2022
104 Harrop, A, Statutory Sick Pay: Options For Reform, Fabian Society, June 2021
105 DWP, Fitness for Work: the Government Response to Health at Work: an Independent Review of Sickness Absence, January 2013
106 These projections assume no other policy changes (ie existing eligibility criteria for ESA, payments treated as unearned income within UC). Recipients measures all claimants in the first two years of receiving the benefit for all columns.
107 Fabian Society and Centre for Social Justice, Early Years Commission, July 2021
108 Projection assumes current SMP eligibility rules. Maximum payment equivalent to £30,000 per year
109 ONS, Annual Survey of Hours and Earnings, year ending April 2022, 2022. Calculation baased on average earnings for male employees in their 30s
110 Dunstan, R, Claimants of Statutory Maternity & Parental Pay: Available Data , Maternity Action, November 2022
111 Maternity Action, Missing: Reform of Shared Parental Leave, September 2022
112 ibid
113 ibid
114 Money Helper, Maternity and Paternity Leave and Your Pension, moneyhelper.org.uk, n.d.
115 Maternity Action, Missing: Reform of Shared Parental Leave, September 2022; ONS, Employees and self-employed by industry, ons.gov.uk, November 2022
116 DWP, Family Resources Survey 2021/22, self-employment, March 2022
117 House of Commons, Carer's Leave Bill, explanatory notes, September 2022
118 Note 'rewarded in UC' means payments are treated as earned income within universal credit. Eligibility rules for the payment are modelled to be similar to maternity allowance. Eligibility is for 12 months.
119 Meager N, Martin R, Carta E, Skills for Self-employment, Evidence Report 31, UK Commission for Employment and Skills, July 2011
120 Low Pay Commission, National Minimum Wage, Low Pay Commission Report 2022, January 2023

FABIAN SOCIETY

abrdn Financial Fairness Trust