

# Income protection gaps: challenge and opportunity



# Foreword

Here today, gone tomorrow: income can be a fragile thing, especially if a household is hit by disability or another severe reason. Zurich conducted research in eleven countries on four continents to find out how aware people are of this risk, why and how they seek to protect themselves, or don't, and the role of the state and the employer in dealing with this global challenge.

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Loss of earned income, due to disability or death is the shortest possible definition of the income protection gap. This is a global challenge. And it's rising. Due to demographic shifts and increased budget pressures in many countries, we are seeing a trend toward a gradual withdrawal of state-funded social security guarantees and underpinned corporate protection and pension plans. People increasingly need to take personal responsibility to protect themselves. But are they fully aware of the risk? How should a person go about protecting themselves against risk and what does it take to persuade someone to get the protection they need? And what can employers do to meet this challenge?

To find out, we worked with the Smith School of Enterprise and the Environment at the University of Oxford on a survey of more than 11,000 people in Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, Switzerland, UK and the USA.

This brochure contains the key findings of our survey and individual country fact sheets, providing at-a-glance information.

Our survey revealed a significant discrepancy between perception and reality, major gaps in awareness and variations by region. For example, 7 in 10 respondents report knowing little to nothing about income protection against serious illness. That's what makes a better appreciation of the facts so important: 53 percent of those who do not have income protection yet say they would be motivated to buy coverage if they knew more

about the topic. Another important finding: the price of coverage plays a big role. After all, 1 in 4 respondents would consider buying income protection and is prepared to spend 6 to 10 percent of their salary to get protection against serious illness/disability. Currently, far too few are aware that insurance coverage can be bought for a lot less money.

We believe that as a global insurer, we have a responsibility and an important role to play in helping society mitigate the emerging risks associated with the income protection gap.

Raising awareness is a vital step. Only when people understand the risk will they take measures to protect themselves and their loved ones from the financial impacts of becoming unable to work.

The brochure is designed to help stimulate discussion and collaboration. In the coming months we will continue to conduct research into the income protection gap and will publish further findings later this year.

This much is already clear: reducing the income protection gap needs consumers, insurers, employers and the state to collaborate to find solutions. Concerted action on the part of all stakeholders will give us all the best chance of success. And make sure, that for more people, when the unexpected happens, they and their loved ones are protected from the financial impact of disability, ill health or death. It is with this in mind that we invite you to join us in tackling this important global challenge.

# Executive summary

With this report, Zurich is seeking to raise awareness and develop an understanding of a global challenge, income protection gaps (IPG): the reduction in household income as a consequence of the incapacitation or death of an adult wage earner. We hope that our findings will stimulate debate and provide a base for formulating a response to this growing challenge.

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The scale of protection gaps is hard to estimate. Nonetheless, recent research shows IPGs are a real and a growing challenge, to individuals and families but also businesses, policymakers and society as a whole. Rising disability levels, declining state support, an aging population and the growing numbers of part-time and temporary workers is putting increasing pressure on the safety nets that keep families from poverty. In turn, this is a threat to long-term economic growth.<sup>1</sup>

For this survey, we worked with the Smith School of Enterprise and the Environment at the University of Oxford on a poll of more than 11,000 people in 11 countries within four broad geographical regions: Continental Europe, English-speaking OECD countries, Latin America and South Asia.

About a third of respondents own insurance to protect income against illness/disability or against premature death. The numbers vary considerably by country. Only 17 percent of Germans, for example, are insured against the financial consequences of disability, while two thirds of respondents in Malaysia and Hong Kong have added protection to fill the gap in state welfare.

## Underestimating the risks

People tend to underestimate the risk of disability, ill health or the premature death of a bread-winner undermining their finances. Overall, 38 percent of respondents thought

there was a less than 10 percent chance that this would happen to them during their life time. That mirrors a 2015 survey by Zurich in European countries, in which respondents were largely unaware that the risk is actually closer to 25 percent, and flies in the face of the fact that 44 percent of respondents have already experienced lost income due to the inability to work as a result of serious illness. Of those, three out of ten, had suffered more than six months of income loss.

The level of knowledge about IPG is clearly insufficient: In this year's survey, six out of ten respondents said they know little or nothing about how they can protect their income against disability or illness. And 4 out of 10 have little to no idea of term life insurance.

In addition, many respondents are in a precarious financial situation. 1 in 5 said they could survive less than a month without income. The majority, 3 in 5, said that their savings would last less than six months. This is even more troubling when you consider the challenges disabled people face in finding adequately compensated employment.

## Untapped demand

More than half of those without income protection would consider buying it. People with higher incomes, with a higher education, parents all saw a greater need for such products.

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<sup>1</sup>Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

There is strong evidence that confidence in the state's role as a provider of social support is being tested. While half of respondents are of the opinion that their government should provide income protection, a similar number believe that public services will be cut over the next five years. Two-thirds say they would prefer to buy income protection from an insurance company than through their employer or their government. Respondents also said that they would prefer to turn to insurance companies for advice, ahead of financial advisers and consumer protection agencies.

### Overestimate the cost

Further education is needed, however, to encourage consumers to buy protection against the risks of illness/disability and premature death. When asked what would encourage them to buy insurance, almost half said more information, while an even greater number said lower premiums. Interestingly, many respondents seem to have an exaggerated idea of the cost of such cover. A third of respondents said they would be willing to spend between five and nine percent of their income for it, and 1 in 5 said more than 10 percent. In fact, such protection can be bought for significantly less than five percent of income.

### Protection before income

By offering benefits packages that include disability and life protection, employers can attract and retain talent in today's competitive skills market and also help to close the protection gaps. Only 13 percent of the respondents in this survey have been offered income protection by their employer, but six in ten respondents would prefer an income protection package to higher pay.

One of the key findings of this survey is that protection needs differ across countries, demographics and on an individual basis. There is no one-size-fits-all solution. Neither the state nor the private sector can address this challenge alone. Zurich has set itself the task of casting light on this increasingly pressing issue. As a next step, we are conducting a deeper analysis of the survey results with Oxford University and will publish further insights later this year.

# Overall findings

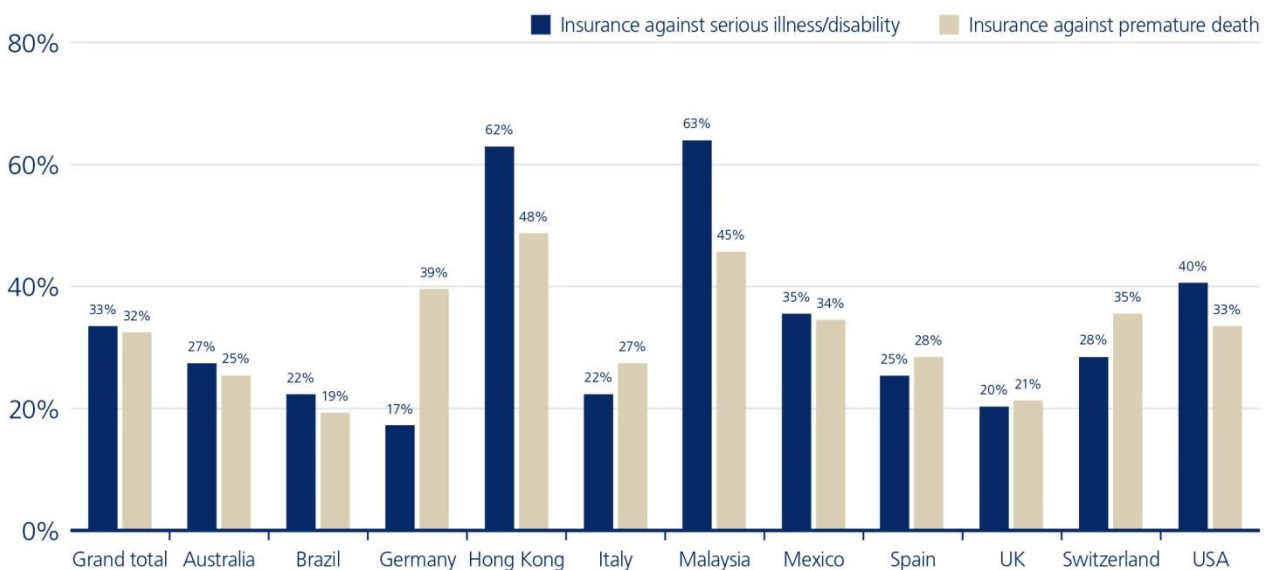
Income can be fragile – even more so when households are hit by disability or death. This is why society has developed systems to protect income and to prevent what we define as Income Protection Gaps (IPG).

Put simply, income protection provides the financial means to preserve the way of life, or that of a family, in the event of an accident, serious illness or even death, which are the main drivers of IPGs. In this report, we define income protection gaps as the reduction in household income as a consequence of the incapacitation or death of an adult age wage earner on whom that household relies. In most countries, survivors are entitled to public support after the death of the main wage earner. In many cases, however, this support is only available to those whose partners have contributed to schemes through formal fulltime employment. Benefit levels vary considerably and can be time limited, young survivors are sometimes excluded from these benefits.

The situation is similar in the area of disability. In some countries, including most English-speaking OECD countries, disability benefits are capped and relatively low. Those returning to work with lasting physical or mental disabilities often struggle to find adequately compensated employment.

Differing definitions of disability, subjective calculations of need, a variety of social protection schemes and the exclusion of casual and part-time workers make it hard to calculate the scale of protection gaps or make comparisons between countries. Nonetheless, all the evidence shows IPGs are a real and growing challenge. This is due to rising disability levels, declining state support, an aging population and the rise of part-time and temporary workers.<sup>2</sup>

## 1. Penetration of income protection insurance varies considerably



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

<sup>2</sup>Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

The aim of this report is to develop new insights on the IPG topic and to stimulate thinking and debate. This research will also help Zurich to formulate targeted and sustainable recommendations for households, the public and private sectors, and society as a whole. For this survey, more than 11,000 people were polled in 11 countries in March/April 2016. The countries were Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, Switzerland, United Kingdom and the United States.

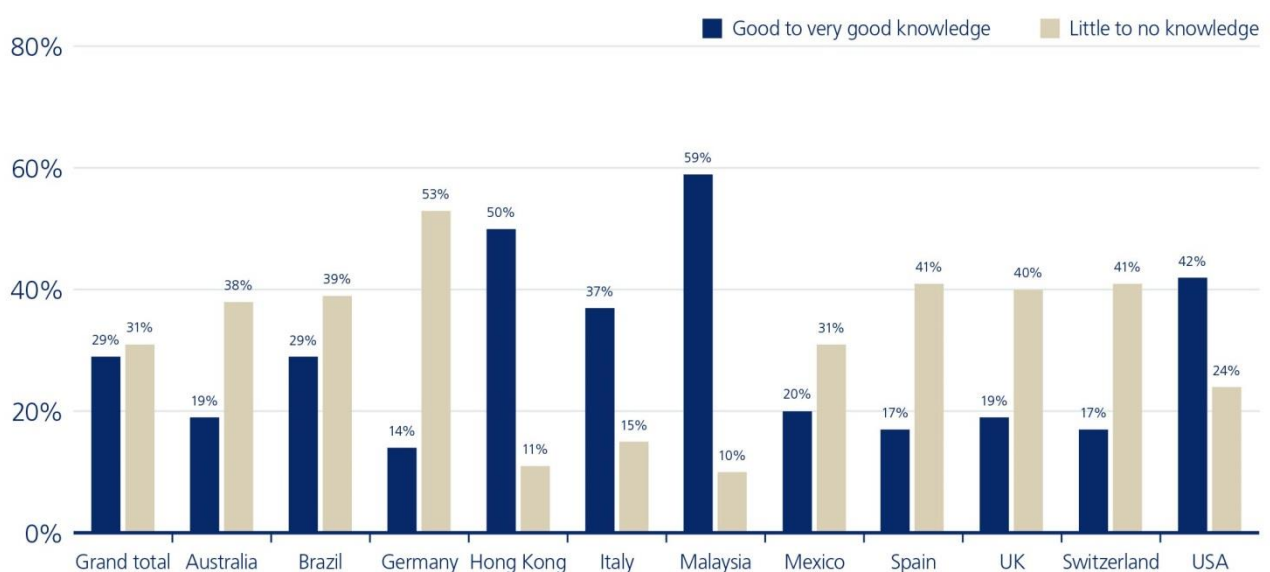
About a third of respondents own insurance to protect income against illness/disability or against premature death (see figure 1). The numbers vary considerably between countries. Germans have the least amount of protection against the financial consequences of disability (17 percent), while almost two thirds of respondents in Malaysia and Hong Kong have additional coverage. Four out of ten Germans, however, have term life insurance. In Germany it's popular to make private arrangements for the old age by means of annuity products combined with term life coverage.

In most European, Latin American and English speaking countries, the state insures residents against disability and death. Those who are unable to contribute to this insurance can apply for means-tested social assistance. In Asia, the state requires residents to contribute to personal savings schemes, known as provident funds.

### People underestimate their risk of becoming disabled

People seriously underestimate the risk of being unable to work due to illness or disability. Of those surveyed, 42 percent stated that they knew a family who suffered a premature death, and more than half (54 percent) also knew someone who could not work due to a serious illness/disability. However, 38 percent of those surveyed believe that their risk in this area is less than 10 percent. This mirrors a Zurich survey conducted in Europe last year, in which respondents said they didn't realize that the risk is actually as high as 25 percent.<sup>3</sup> The level of knowledge about IPG is clearly unsatisfactory: In this year's survey, 7 out of 10 respondents said

## 2. Knowledge of serious illness/disability insurance

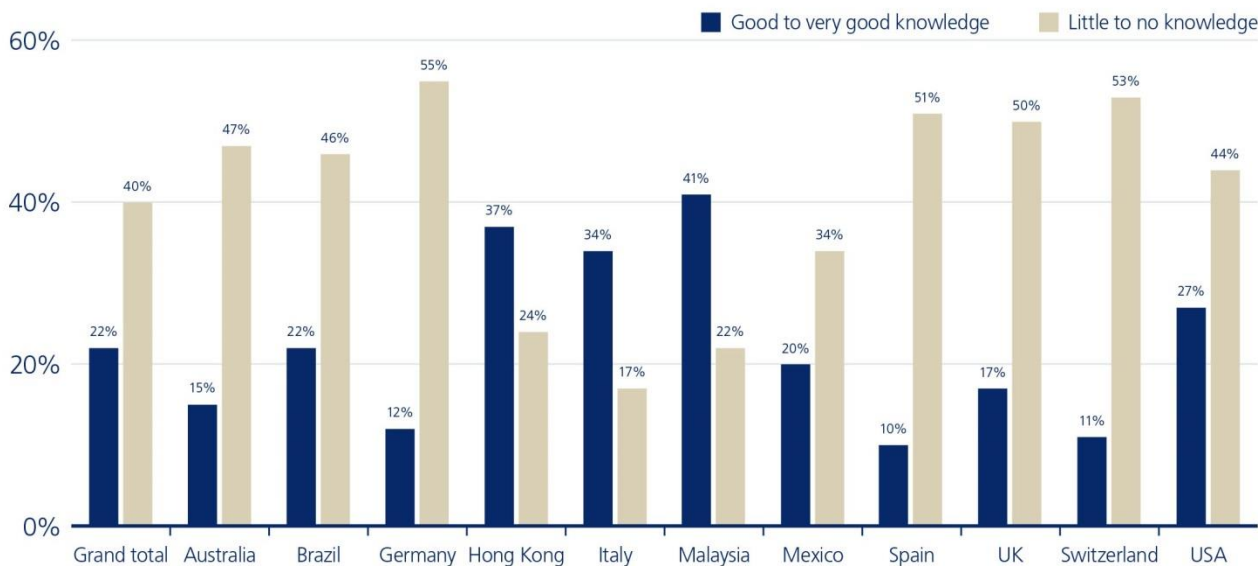


Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

<sup>3</sup>Mind the gap: Income protection gap Survey, Zurich Insurance Ltd, August 2015

### 3. Knowledge of premature death insurance



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

they know little or nothing about how they can protect their income (see figure 2). And 4 out of 10 respondents know little to nothing about term life insurance (see figure 3).

Respondents in Hong Kong and Malaysia clearly felt they were well informed. This could be because Malaysia has a mandatory national provident fund and Hong Kong introduced a mandatory, privately run equivalent in 2000.

A similar pattern emerges in regard to knowledge about life insurance. In many countries, however, the lack of knowledge regarding possible coverage is higher. The least informed are the Swiss and Germans, both of which have extensive social security networks.

#### Why do people choose insurance?

Two thirds of the respondents who had disability insurance knew someone who had not been able to work at some point due to a disability, while only about half of the overall survey group knew someone with a disability. That supports the idea that personal experience or knowledge of disability or death can lead people to consider income protection more seriously.

Interestingly, those surveyed who classified themselves as healthier than the average, knew more about income protection insurance and had a greater preference for insurance protection than those who classified themselves as average or below average in terms of health. One would have thought the opposite would be true.

It is advisable to have income protection as 44 percent of respondents have already suffered a loss of income due to accident/illness (see figure 4). Of these, 3 out of 10 respondents had endured a reduction in income lasting more than six months.

The ensuing shortfall in financial resources quickly put many respondents in a precarious situation. Survey shows that a significant proportion of the working population, 1 in 5, could survive less than a month without their income. The majority, 3 in 5, answered that their savings would last less than six months (see figure 5). This percentage is even higher in Brazil, Australia, the United States, Switzerland and the United Kingdom. That is clearly inadequate when you factor in the difficulties the disabled face in finding reasonably paid work.

## More than half would consider buying insurance

Of those who do not have income protection, more than half would consider buying insurance. The main reason is that they recognize that other sources of income would be insufficient to meet their needs in the event of disability. This is particularly true of people with a higher education, parents, higher earners and young people.

Malaysians, Mexicans and Italians are particularly interested in additional protection.

More research is needed to find out why. Respondents were ambivalent about the role of the state. Although half believe their government should step in to cover income loss, confidence in the ability of the state to actually provide such assistance has been shaken. Half of respondents believe that state assistance will decrease within the next five years and two-thirds would prefer to buy coverage directly from an insurer.

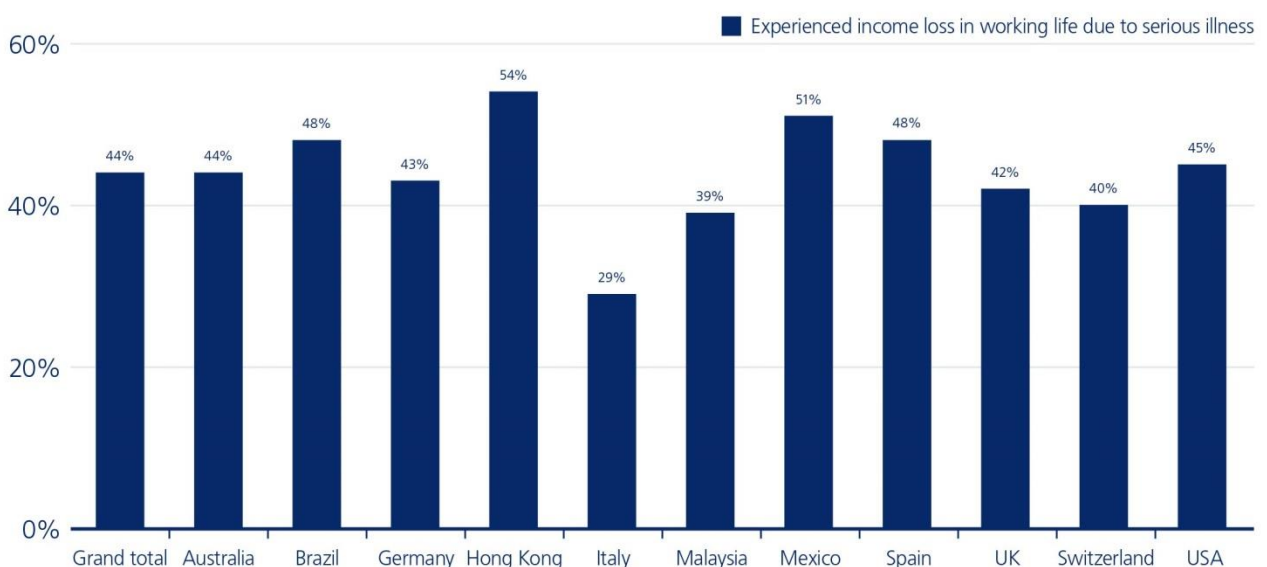
## Consumers overestimate cost of insurance coverage

The fact that those surveyed in most countries have a great deal of confidence in insurers is shown in their answer to the question about whose advice they trust the most. Insurance companies place ahead of financial advisers and consumer protection organizations.

Even so, those providing counsel still have a lot of outreach to do on the subject of IPG and its costs. Almost half of survey participants without insurance responded to the question on what would persuade them to purchase coverage by saying that they would first need to know more about it. This indicates a possible area in which we can mitigate IPG: awareness. An even greater number mentioned 'lower premiums.'

The price of insurance protection plays a decisive role. The good news is that many respondents seem to overestimate the cost of such coverage. A third would be willing to spend between five and nine percent of their income for income protection, one in five is willing to spend more than 10 percent.

## 4. Income loss due to serious illness

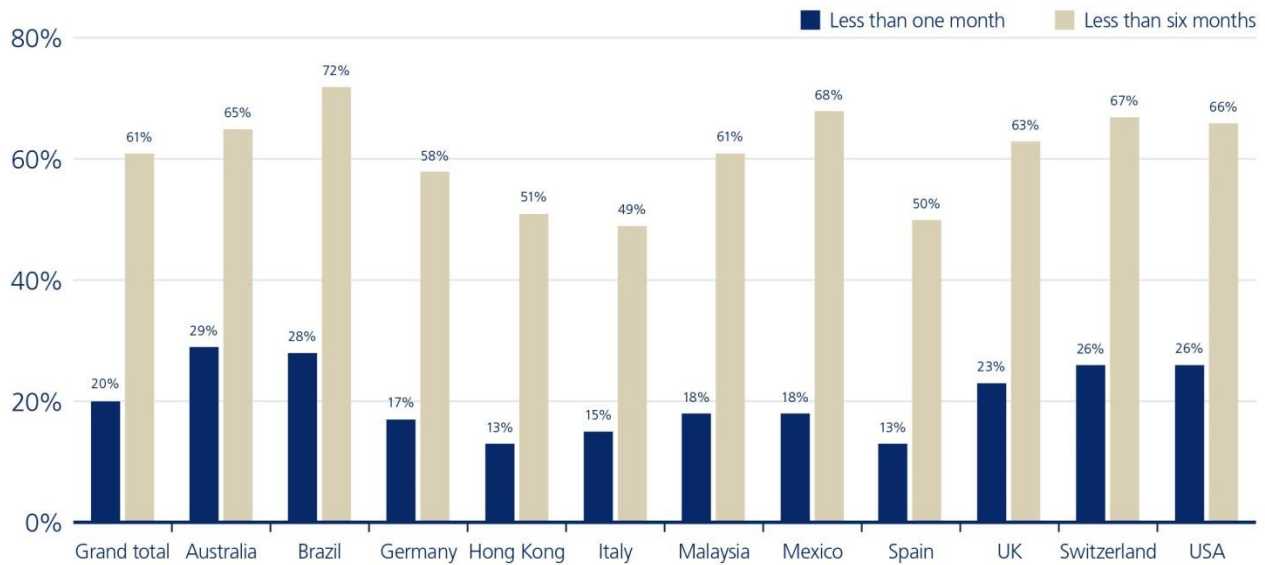


Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584



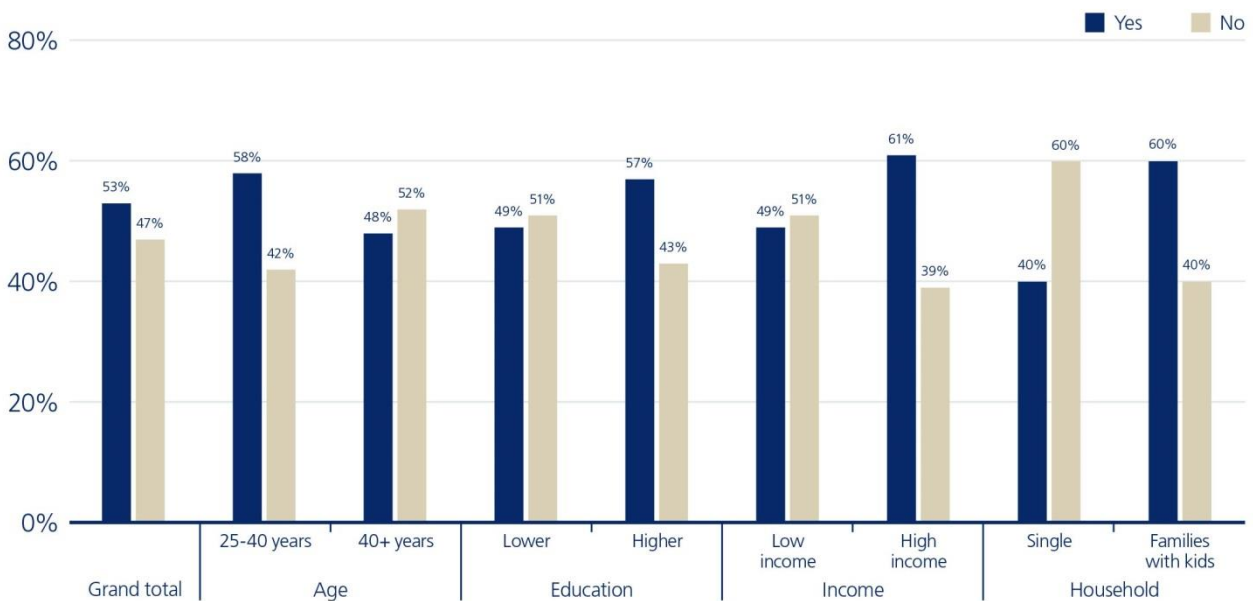
## 5. Savings cover in case of serious illness/disability



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

## 6. Who's interested in income protection?



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=6,481

In actual fact, such protection is available for significantly less than 5 percent of earnings, though individual costs vary by factors such as age and level of protection required.

Malaysian, Mexicans, Brazilians, and Chinese from Hong Kong are prepared to spend most on insurance protection.

Australians are the least willing to spend money on insurance protection.

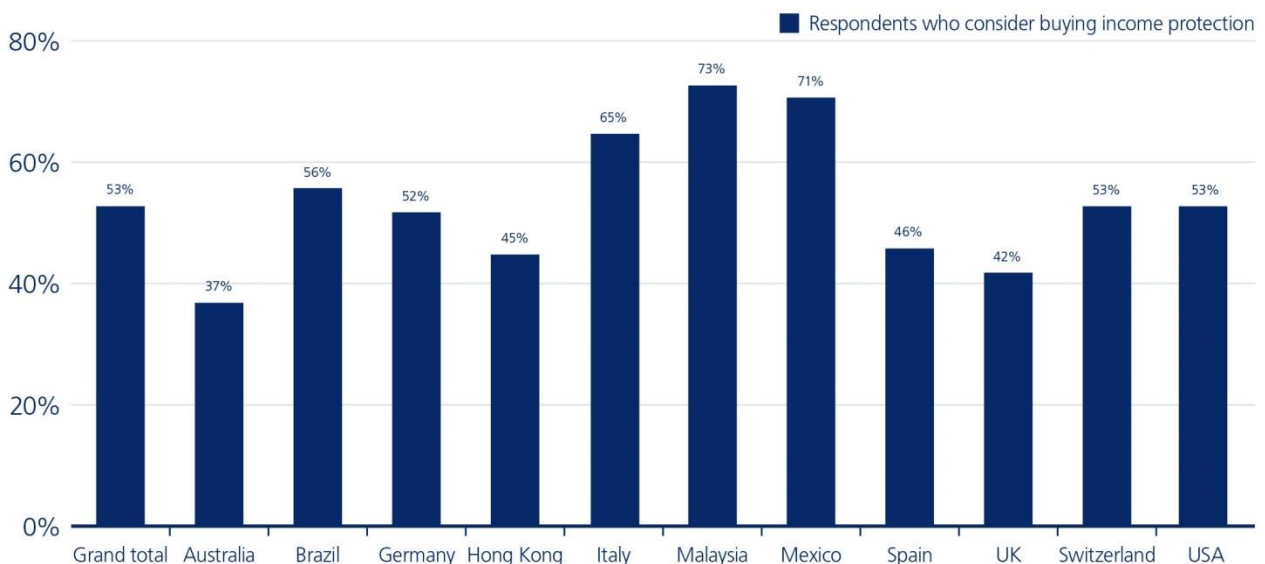
## Six in ten preferred benefit packages to higher wages

The income protection gap presents significant challenges for employers. There is strong evidence that income protection gaps can reduce productivity in the workplace, as sick employees are unwilling to take time off. This problem is known as presenteeism. Nevertheless, only 13 percent of the respondents in this survey say they have been offered income protection by their employer, while 6 in 10 would prefer a benefits package that includes income protection to higher pay. That suggests that there is room for employers to use benefit packages including income and life protection to attract and retain talent in today's competitive skills market, while also helping to reduce IPG.

One of the findings of this survey is that income protection needs differ across countries, demographics and on an individual basis. There is no one-size-fits-all solution. Neither the state nor the private sector can address this challenge alone. Zurich has set itself the task of casting light on this increasingly pressing issue. As a next step, we are conducting a deeper analysis of the survey results with the University of Oxford.

Given the scale and impact of the challenge, it is important to properly investigate the drivers of demand, to gain a better understanding of the challenges and opportunities, and how we can best design solutions. We will be exploring these drivers across four broad dimensions – gender, health/age, experience, and institutional arrangements – and will publish further insights later this year.

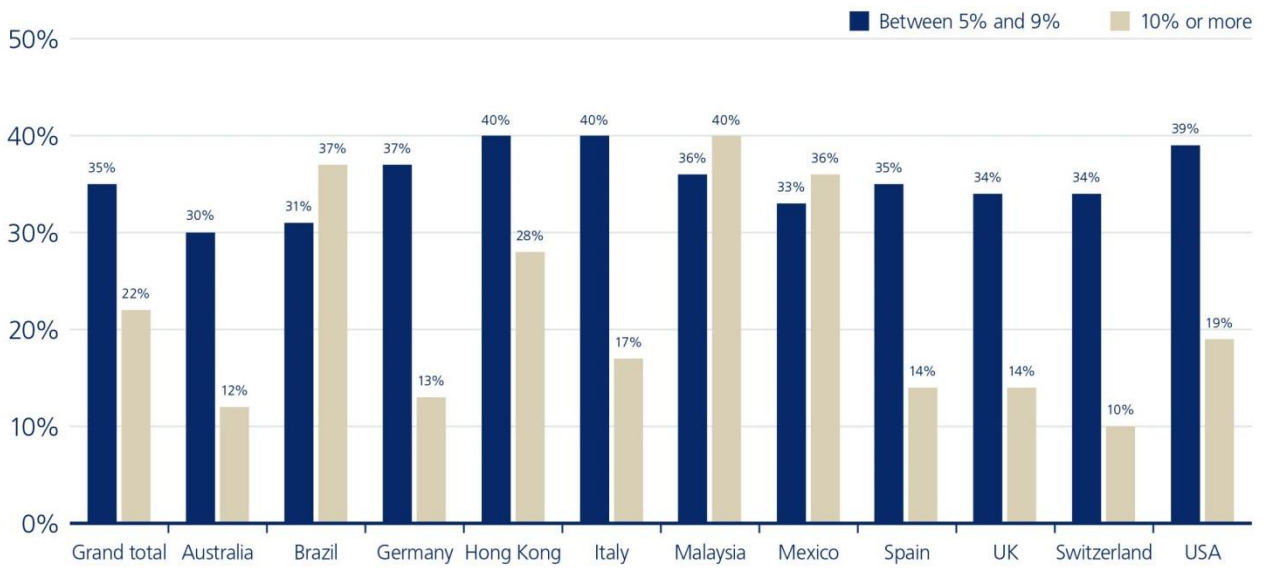
## 7. Many can imagine buying income protection



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=6,481

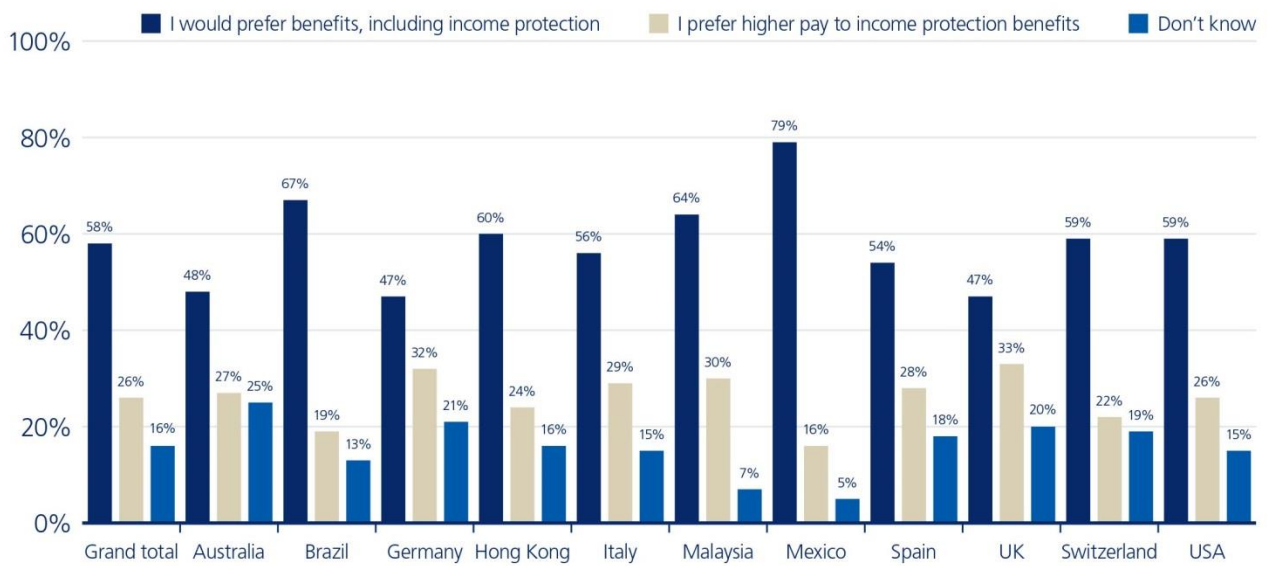
## 8. Percentage of income people are willing to spend for income protection



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

## 9. A clear majority prefers income protection to higher pay



Source: Zurich/Smith School, University of Oxford, 2016

Base: Total n=11,584

# Overconfidence and false expectations may explain wide income protection gap

Relative to their global peers, Australians demonstrated limited appetite for income protection products, partly due to expectations of government support and the belief that they were unlikely to need it.

## Australia



### Population, total<sup>1</sup>

23,470,118

### GDP per capita (USD)<sup>1</sup>

61,979

### Number of people employed<sup>2</sup>

11,820,200

### Employment-to-Working-Age Population<sup>2</sup>

60.7%

### Fertility rate<sup>1</sup>

1.9

### Population aged 0–14<sup>1</sup>

18.7%

### Median age<sup>3</sup>

37.5 years

### Population aged 65 and over<sup>1</sup>

14.7%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

2.8%

### Life expectancy<sup>1</sup>

82.3 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

Australia has long been considered a model for income protection insurance among the English speaking OECD countries, but data from Lifewise shows that 45 percent of working Australians in the country are underinsured by USD 728 million in terms of income protection, and half by more than USD 72,000 for life cover.<sup>4</sup>

This short-fall is reflected in the survey data. While 44 percent of Australians had experienced some degree of income loss due to sickness or accident, only 27 percent had protected their income, and less than a fifth (19 percent) said they had a meaningful knowledge of income protection insurance. A quarter (25 percent) had cover against lost income due to premature death. The question remains whether Australians are getting their priorities right, particularly bearing in mind that ownership of car insurance, which protects something far less valuable, sits around 83 percent.<sup>5</sup>

Of the Australians without income protection insurance, just 37 percent said that they would consider buying it, the lowest percentage of any of the 11 countries surveyed. One factor that may help explain this is that Australians were also the most confident nation, with a whopping 47 percent of respondents stating that they had a less than 10 percent chance of lost earnings due to disability or illness.

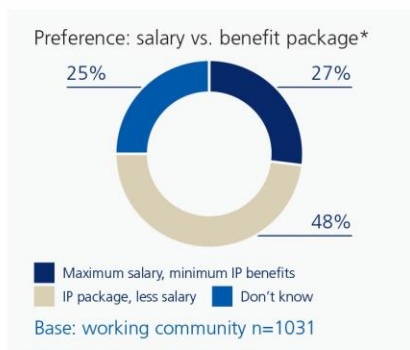
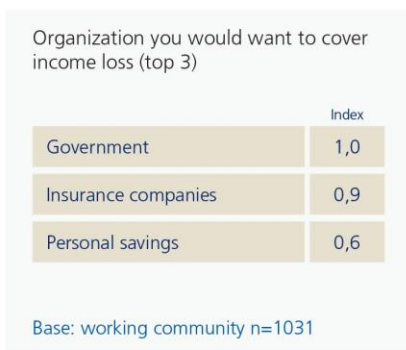
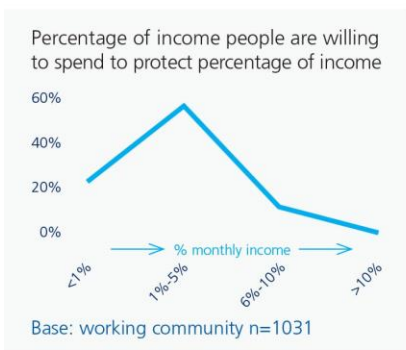
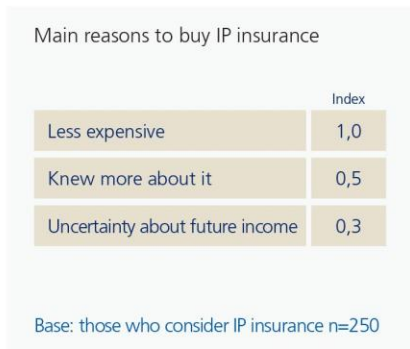
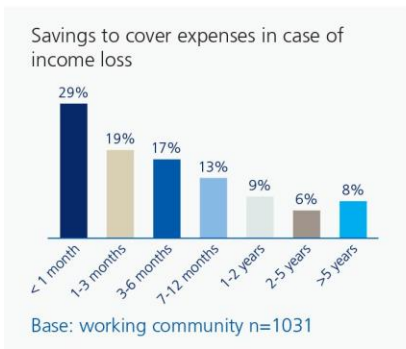
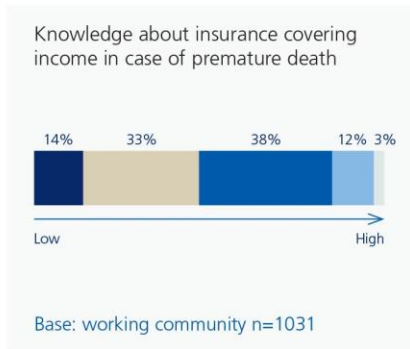
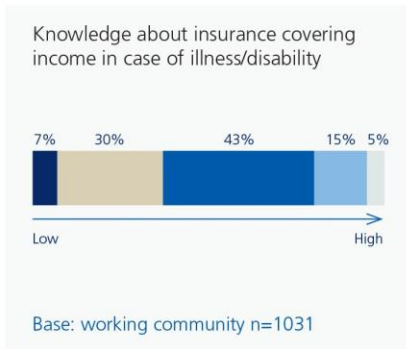
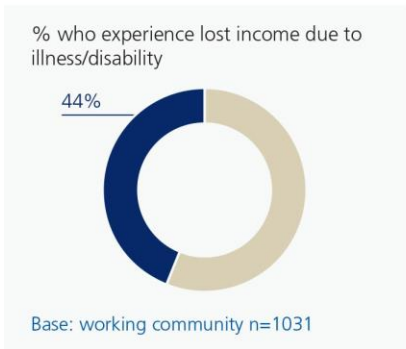
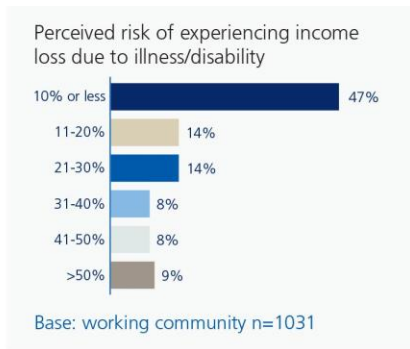
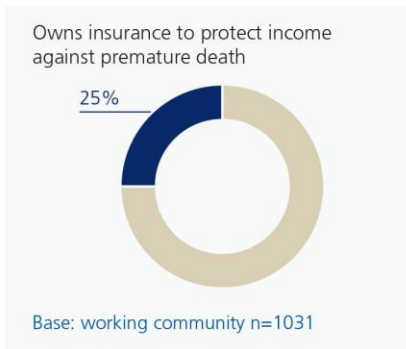
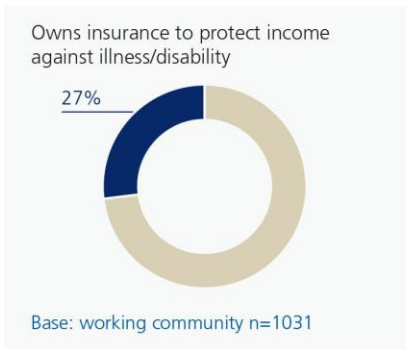
There was also an expectation that in the event of being unable to work due to sickness or accident, the government would compensate approximately 40 percent of their income. Respondents generally had a preference – and an expectation – that the government would cover lost income, though 57 percent said they would prefer to purchase such protection from an insurer.

The expectation of government support is overly optimistic for higher earners, with means testing of disability benefits limiting their availability. Benefit adequacy is also an issue, with the standard Centrelink disability benefit equating to roughly one third of the median weekly wage. Workers compensation benefits are only available to employees and only apply to work related disabilities. Such benefits are generally capped under state legislation and for many people the amounts payable will fall well short of their normal weekly income.

Interestingly, younger people in the survey were more likely to buy income protection insurance, which suggests that there has been a shift in expectations as state provisions have been reduced.

<sup>4</sup> <http://www.lifewise.org.au/facts-research>

<sup>5</sup> <http://www.lifewise.org.au/facts-research>



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Political turmoil puts social income protection at risk

Brazil has been bolstering social protections, including income protection, in recent years. However, an economic contraction and recent political turmoil is raising questions about the sustainability of this approach, leaving millions at risk.

## Brazil



### Population, total<sup>1</sup>

206,077,898

### GDP per capita (USD)<sup>1</sup>

11,727

### Number of people employed<sup>2</sup>

99,671,900

### Employment-to-Working-Age Population<sup>2</sup>

62.3%

### Fertility rate<sup>1</sup>

1.8

### Population aged 0–14<sup>1</sup>

23.5%

### Median age<sup>3</sup>

31.3 years

### Population aged 65 and over<sup>1</sup>

7.6%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

n/a

### Life expectancy<sup>1</sup>

74.4 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

In recent years, Brazil has defied the global trend and expanded social protections. The entire population enjoys protection against disability or premature death through a compulsory social insurance program for workers and social assistance for the unemployed. Public sector workers also participate in a mandatory disability scheme. A previous report by Zurich noted that social spending had risen to 11.3 percent of GDP, high for a developing country.

Recent events, however, have raised questions about the sustainability of these social programs. The Brazilian economy shrank 3.8 percent in 2015, according to the IMF, and GDP is expected to fall a further 3.8 percent this year. The contraction has led to serious political unrest. In May, president Dilma Rousseff was impeached in regard to accusations of corruption, in a move that her supporters labeled a coup.

Even before recent events, there were significant gaps in the system as Brazil has a relatively low level of formal employment, at only about 60 percent of the workforce. As a result, many self-employed people fall through the cracks.

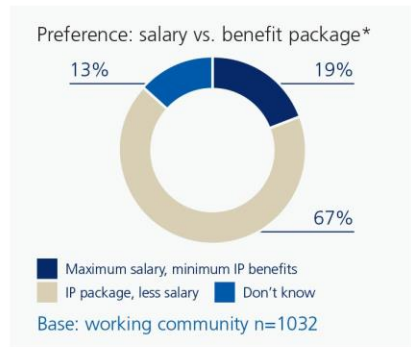
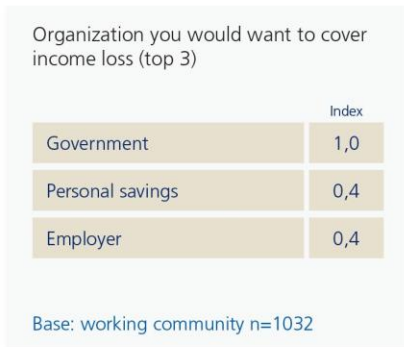
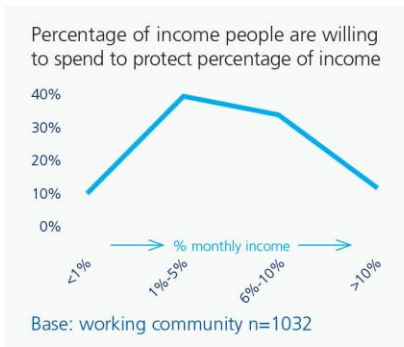
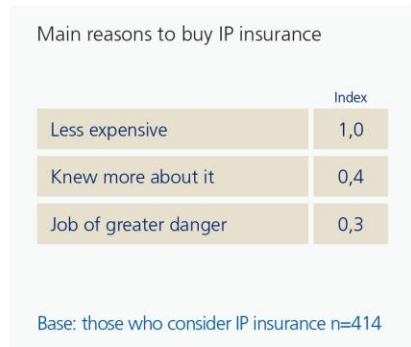
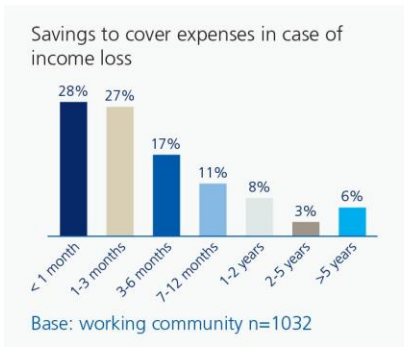
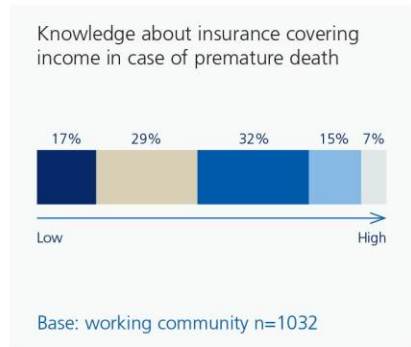
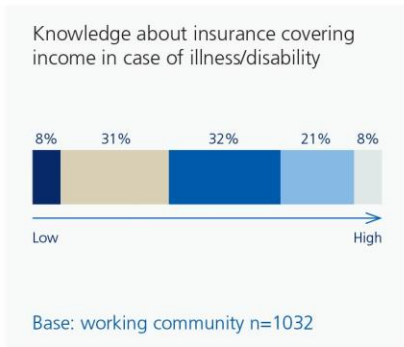
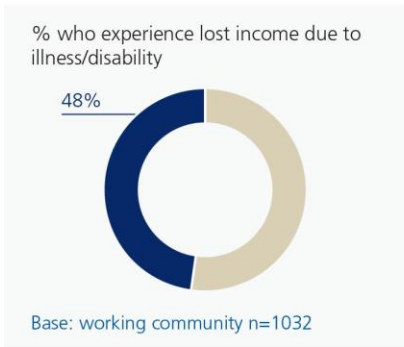
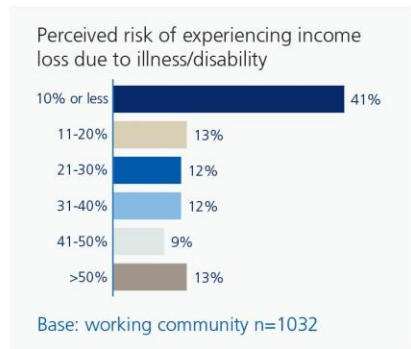
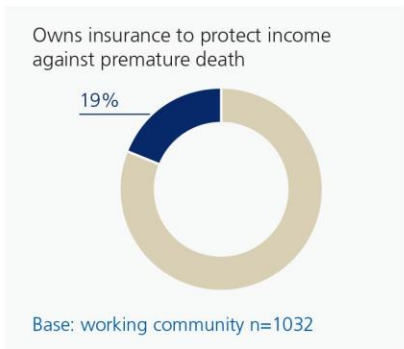
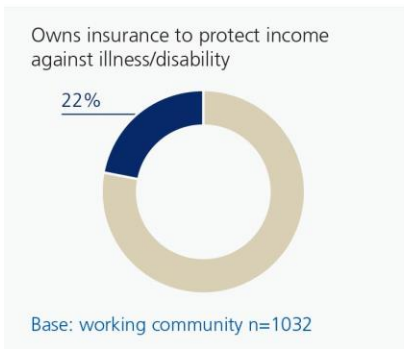
Despite these challenges, only 1 in 5 Brazilians (22 percent) own insurance protect their income against disability or illness, which is similar to wealthy countries with generous welfare systems but unusual for a developing economy. Alarmingly, just 19 percent have life cover, the lowest percentage of any of the countries surveyed. While there is definitely room for improvement, this shortfall cannot be explained by a lack of financial

understanding. 3 in 10 respondents (29 percent) claimed to have a good knowledge of disability products, and 22 percent of life insurance. Both figures are in line with the global average.

The key reason given for buying income protection is that it was offered by an employer as part of a benefits package.

More troubling still is that 72 percent of respondents said that they could survive for less than six months without their income. This makes Brazilians the most vulnerable to income protection gaps of all the countries surveyed. Of those without income protection insurance, 56 percent said they would consider buying it, with price as a key consideration.

The government was seen as the primary source of income in the event that respondents were unable to work, with personal savings a close second. On average, respondents believed the state would pay out 51 percent of their income, and most believed the government should cover income loss. However, 61 percent said they would prefer to purchase income protection from an insurance company and the consensus opinion was that insurance companies and banks, which are a key provider of personal insurance, were the most reliable sources of advice. As the survey was conducted before the current political crisis, it will be interesting to see how faith in the government's ability to provide income protection evolves.



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# A lack of financial knowledge contributes to shortfall in income protection

Survey results in Germany suggest that the public has a very strong expectation that the state will provide support in the event of significant income loss, with few respondents making provisions against disability, even as the government is facing tough choices to cut spending.

## Germany



### Population, total<sup>1</sup>

80,970,732

### GDP per capita (USD)<sup>1</sup>

47,774

### Number of people employed<sup>2</sup>

40,459,900

### Employment-to-Working-Age Population<sup>2</sup>

57.6%

### Fertility rate<sup>1</sup>

1.4

### Population aged 0–14<sup>1</sup>

13%

### Median age<sup>3</sup>

46.2 years

### Population aged 65 and over<sup>1</sup>

21.1%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

3%

### Life expectancy<sup>1</sup>

80.8 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

In Germany, a pay-as-you-go social insurance system offers income-linked protection for all risks. This protection probably explains why only 17 percent of respondents in Germany owned insurance against income loss due to disability or illness.

State protection, however, is under increasing budgetary pressure due to population aging, rising healthcare costs and sluggish economic growth. Disability rates are tightly controlled, with half of applications being refused and fresh measures being introduced to get marginal cases back into work<sup>6</sup>, creating a widening protection gap. Bridging that gap could be challenging, as Germans also had the least self-reported knowledge of insurance products of any nation surveyed. A high 53 percent said they have little to no understanding of disability products and 55 percent said the same about life products.

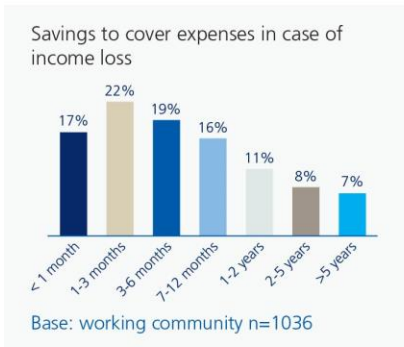
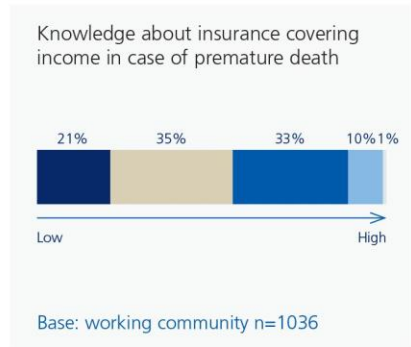
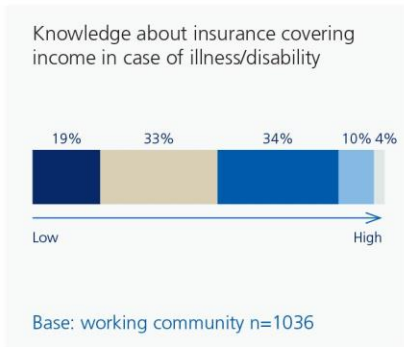
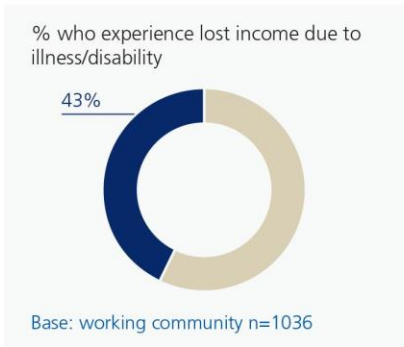
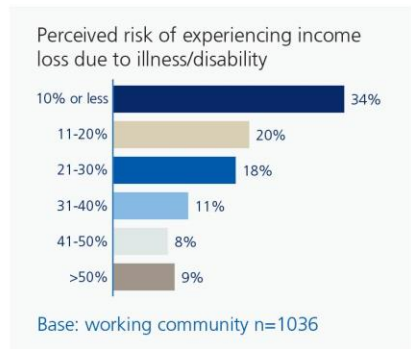
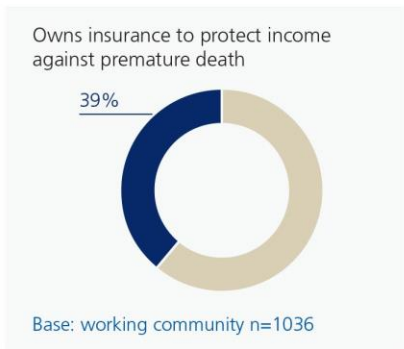
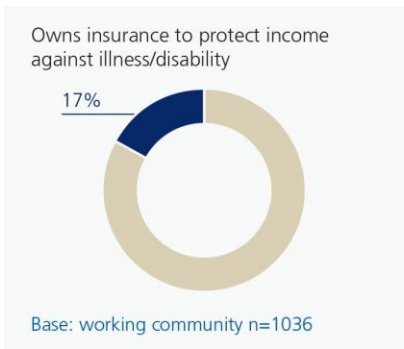
Despite this knowledge gap, 39 percent of respondents own life protection. This is probably due to the fact that endowment insurance policies are widely used in Germany to build up assets systematically. The key reason respondents gave for buying income protection is that other sources of protection such as personal savings would not be sufficient.

More than half (52 percent) of those without income protection said they would consider buying income protection insurance. And many respondents mentioned a better knowledge about income protection as an important driver. Germans are not willing to pay as much for protection as other nations, however, second only to Australians in this regard. That unwillingness to pay may be partly due to high expectations of state support. The government was seen as the second most likely source of income in event of disability, after holidays and sick leave. The attitude towards the role of the state seems contradictory as survey data shows that Germans are among the most pessimistic about future state performance: 6 in 10 respondents expect state funds to decrease over the next five years.

The state was the organization that most people thought should and would provide income protection. But two-thirds (64 percent) of respondents said they would prefer to buy protection from an insurance company if they had to.

<sup>6</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

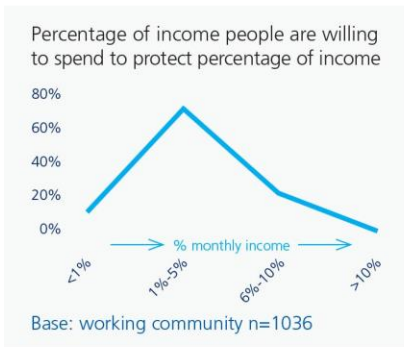




**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Knew more about it	0,8
Job of greater danger	0,4

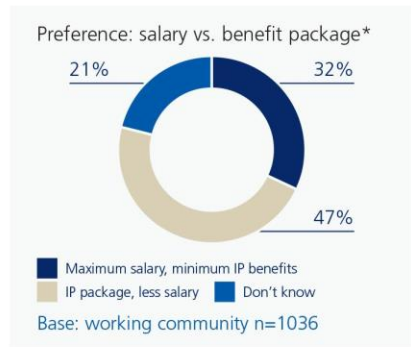
Base: those who consider IP insurance n=303



**Organization you would want to cover income loss (top 3)**

	Index
Government	1,0
Insurance companies	0,8
Personal savings	0,4

Base: working community n=1036



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Insurance seen bridging the gap in social protections

Hong Kong has well-established social protections against income loss, but respondents were very aware of the limitations of these systems and of the need to insure their own risks.

## Hong Kong



### Population, total<sup>1</sup>

7,241,700

### GDP per capita (USD)<sup>1</sup>

40,169

### Number of people employed<sup>2</sup>

3,743,100

### Employment-to-Working-Age Population<sup>2</sup>

58.3%

### Fertility rate<sup>1</sup>

1.1

### Population aged 0–14<sup>1</sup>

11.9%

### Median age<sup>3</sup>

43.2 years

### Population aged 65 and over<sup>1</sup>

14.5%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

n/a

### Life expectancy<sup>1</sup>

84 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

Hong Kong's social security scheme, in place since 1966, has two main components. The first is a tax-funded social assistance and public welfare scheme that offers a universal allowance to all disabled persons unable to work, supplemented by means-tested assistance in cases of need. The second consists of mandatory pension contributions and employer-funded healthcare insurance and compensation for work-related injuries. In addition, the country introduced a private provident fund in 2000, which can be liquidated in the event of permanent disability or unexpected death.

This system provides a degree of income protection in the event of disability or death, but it is under growing pressure due to increased longevity and rising healthcare costs. In addition, it only covers a proportion of income, leaving a significant protection gap.

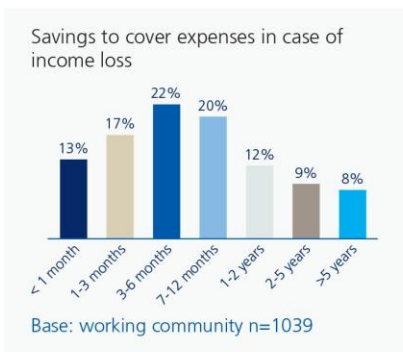
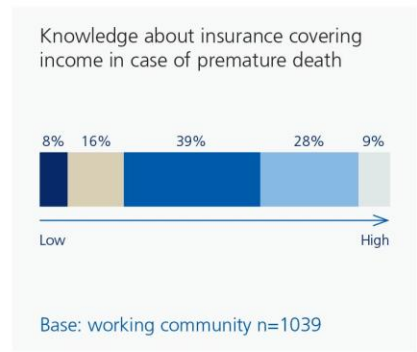
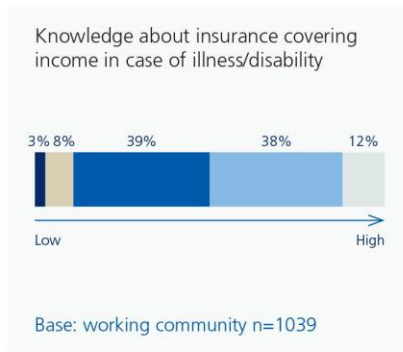
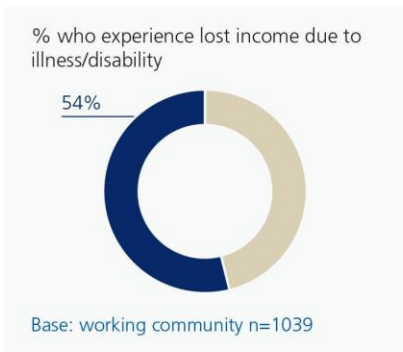
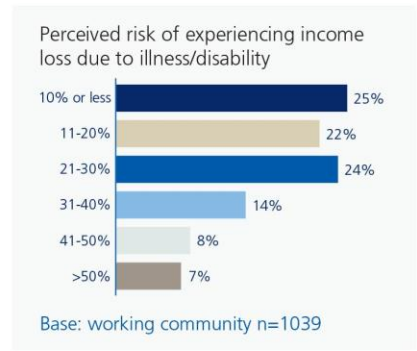
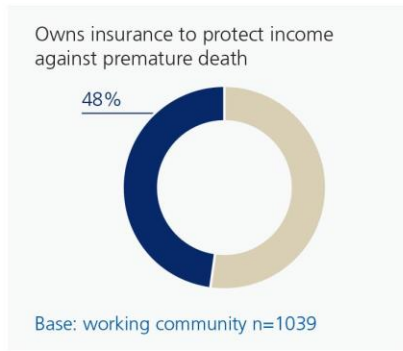
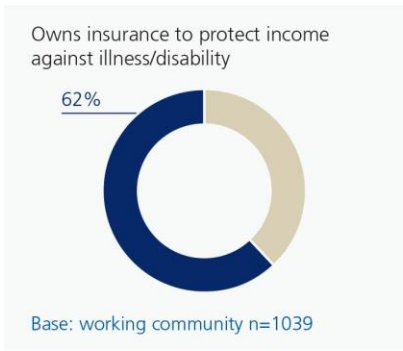
Survey respondents in Hong Kong appeared to be well aware of the limits of social safety nets. 6 in 10 (62 percent) have insurance to protect their families against lost earnings due to premature death and nearly half (48 percent) have disability insurance. A high percentage said that they would prefer to buy such cover through a broker (64 percent in the case of disability, 57 percent for life). Roughly half bought insurance because they felt other sources of protection were inadequate.

There was also a surprisingly high level of knowledge about life and disability protection, with 50 percent rating their understanding of disability insurance as fair or better, and 37 percent claiming a similar grasp of the intricacies of life insurance. That is second only to Malaysia in both cases.

Of those without insurance, 45 percent said that they would consider buying it, with most saying that price was a key consideration. Respondents were also more aware of income protection risks. Just a quarter rated their risk of suffering income loss as less than 10 percent, the most pessimistic view of any country, while 54 percent have already suffered income loss, the highest level of any country. Higher earners had a higher understanding of their insurance options and were more aware of their risks.

Respondents were also very aware of the limitations of state support. Most expected they would have to dig into savings or rely on insurance if they could not work, while on average they believed that the state would only cover 35 percent of income.

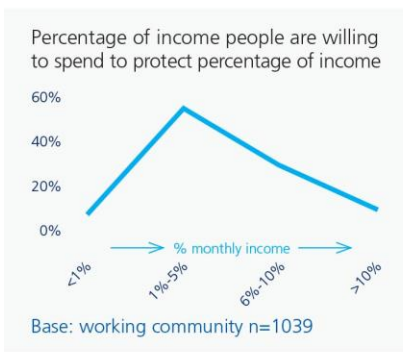
The consensus opinion was that income loss should be covered through private resources, with 60 percent of respondents saying that they would prefer to buy such protection through an insurance company. Insurance companies were also seen as the most reliable source of information on protection products and solutions.



Main reasons to buy IP insurance

	Index
Less expensive	1,0
Knew more about it	0,6
Uncertainty about future income	0,6

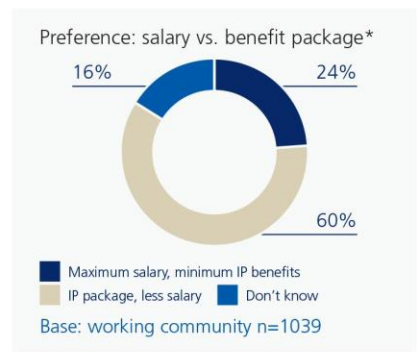
Base: those who consider IP insurance n=140



Organization you would want to cover income loss (top 3)

	Index
Insurance companies	1,0
Personal savings	0,7
Government	0,5

Base: working community n=1039



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Growing awareness of the need for personal provision against income loss?

Italian families have traditionally relied upon the state to provide protection against loss income due to illness, disability or premature death. The data suggests, however, that this could be changing.

## Italy



### Population, total<sup>1</sup>

60,789,140

### GDP per capita (USD)<sup>1</sup>

35,223

### Number of people employed<sup>2</sup>

21,938,100

### Employment-to-Working-Age Population<sup>2</sup>

42.5%

### Fertility rate<sup>1</sup>

1.5

### Population aged 0–14<sup>1</sup>

13.8%

### Median age<sup>3</sup>

45.9 years

### Population aged 65 and over<sup>1</sup>

22%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

2.5%

### Life expectancy<sup>1</sup>

82.7 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

The Italian government provides generous income protection against disability or premature death through pay-as-you-go social insurance pensions.<sup>7</sup>

This may go some way to explaining why just 29 percent of Italians reported having experienced income loss, a full 10 percentage points lower than any other country.

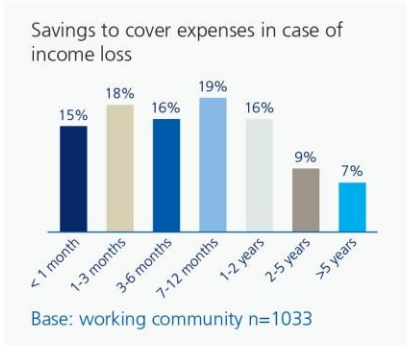
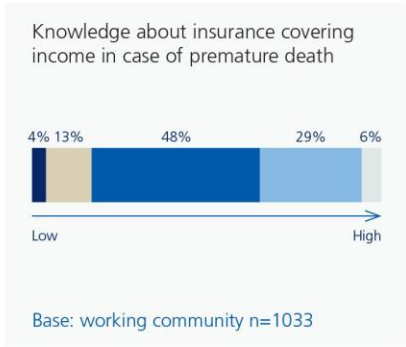
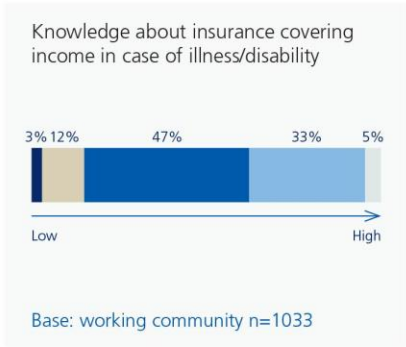
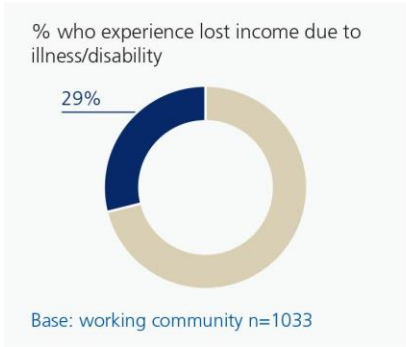
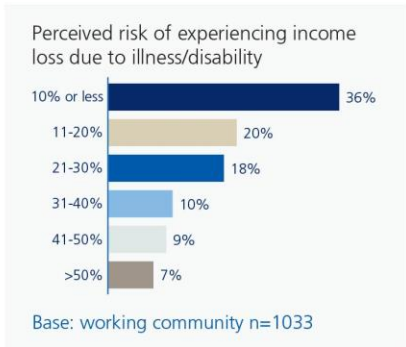
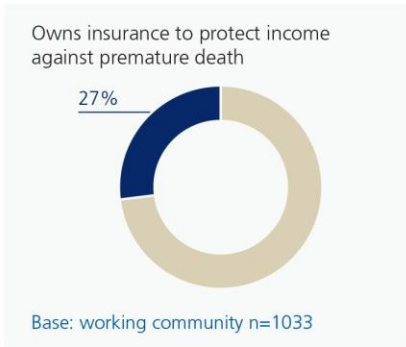
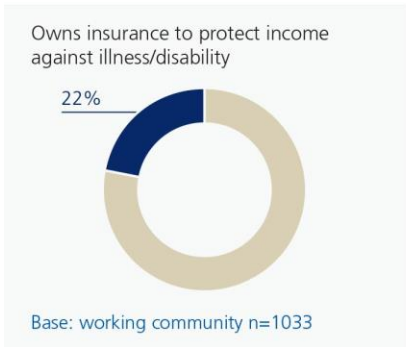
More than a third claimed to have a fair or good knowledge of income protection against both disability (37 percent) and premature death (34 percent). 1 in 5 (22 percent) have insurance against lost income in case of illness or disability, and 27 percent have policies protecting their family against income loss in the case of premature death. That is below the average for all countries surveyed, but in line with other EU states.

Nearly two-thirds (65 percent) of respondents without income protection insurance said they would consider buying it, particularly if it were cheaper and if they knew more about it. This strong interest is all the more surprising when contrasted with data from a previous Zurich survey which show that four out five Italians expect their government to be the main provider of assistance if they should lose the ability to work.

By comparison, in the latest survey, most respondents said the income loss should be covered out of personal savings, though they would prefer the state or an insurance company to do so. On average, survey respondents expected the government to pay out 43 percent of lost income, while most thought they would have to dig into their savings before they would receive any income support from the state. Most said they would prefer to buy income protection and receive advice about it from an insurance company.

The confidence in the state to provide support seems to have broken: Italians are among the most pessimistic about future state's contributions. More than 6 in 10 respondents expect state support to decrease over the next five years. The figures suggest that Italian families are revising their expectations of state support in response to the country's precarious public finances. If that is the case, it would be an important step towards bridging the income protection gap through private cover.

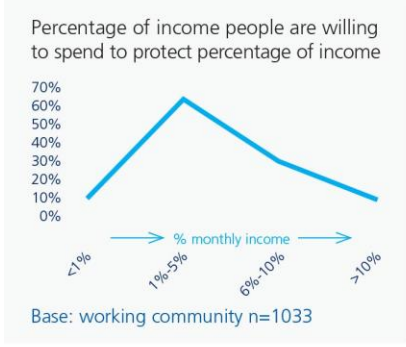
<sup>7</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015



**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Knew more about it	0,7
To offset risk of existing loans/debts	0,3

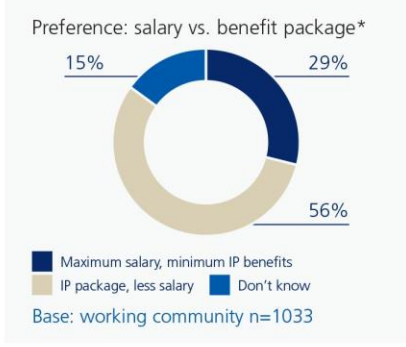
Base: those who consider IP insurance n=440



**Organization you would want to cover income loss (top 3)**

	Index
Government	1,0
Insurance companies	0,5
Personal savings	0,3

Base: working community n=1033



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Awake to income protection risks

Malaysians enjoy a relatively high level of income protection, but are also very aware of the need to protect themselves and their families.

## Malaysia



### Population, total<sup>1</sup>

29,901,997

### GDP per capita (USD)<sup>1</sup>

11,307

### Number of people employed<sup>2</sup>

14,071,700

### Employment-to-Working-Age Population<sup>2</sup>

61.5%

### Fertility rate<sup>1</sup>

2

### Population aged 0–14<sup>1</sup>

25.4%

### Median age<sup>3</sup>

28.5 years

### Population aged 65 and over<sup>1</sup>

5.7%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

n/a

### Life expectancy<sup>1</sup>

74.7 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

In 1951, Malaysia established a national Employee Provident Fund (EPF), which is used to fund retirement and income loss due to unforeseen circumstance including disability or illness. As of 2012, all private sector workers are required to pay 11 percent of their monthly salary into the fund, while employers are expected to contribute a further 12 percent (or 13 percent if the worker earns less than RMB 5,000/month).<sup>8</sup>

The fund pays an annual dividend, based on the performance of its investment portfolio. If a contributor to the fund should die, their accrued assets will be paid out to a nominated individual, usually a spouse or family member.

This system has garnered international acclaim in recent years as a viable alternative to more traditional pay-as-you-go social welfare systems. However, it is coming under increasing pressure due to a rapid increase in life expectancy and rising healthcare costs. According to a recent survey by Willis Towers Watson, private healthcare costs in Malaysia increased by 15 percent in 2015.<sup>9</sup> Another issue is that beneficiaries can start withdrawing funds from the age of 50 and can withdraw all their funds at 55.

This may go some way to explain why Malaysians were far more aware of the threat of income protection gaps than respondents from any other country. An impressive 59 percent said they had a better than fair understanding of

their option for protecting themselves and their family from income loss due to disability or illness, 30 percentage points more than the international average. And 41 percent were confident of their understanding of life insurance, again more than any other country. That translated into a very high number of respondents with insurance against such risks (63 percent claim to have disability insurance and 45 percent life insurance).

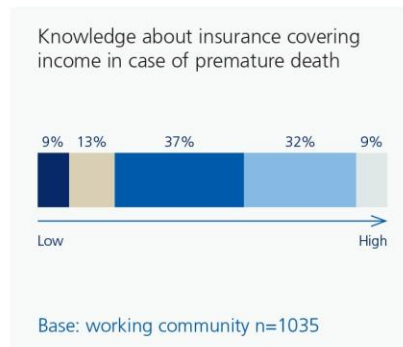
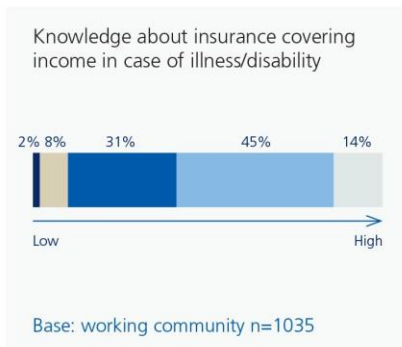
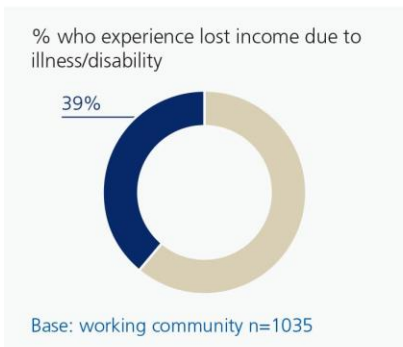
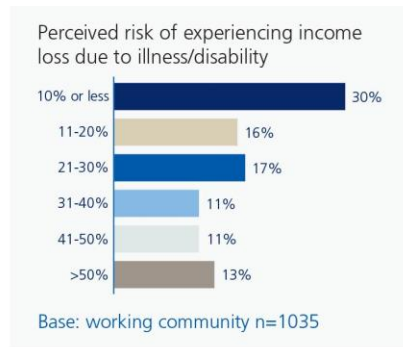
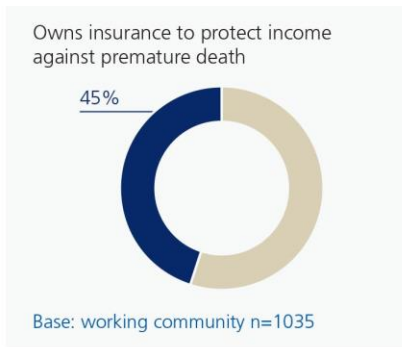
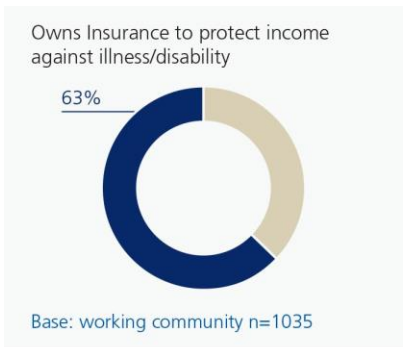
Nearly three-quarters (73 percent) of respondents who did not currently have income protection insurance, said that they would consider buying it, once again more than any other country.

The key drivers of this interest in income protection appear to be a slightly heightened awareness of the risks to income and relatively low expectations of government support. While some 39 percent of respondents, below the global average, said they had personally experienced income loss due to disability or illness, just 30 percent rated their risk of needing income protection as lower than 10 percent. At the same time, Malaysians believed that state support would cover just 34 percent of their current income, with most saying that they would rely on savings, insurance or family if they were to lose the ability to work.

Interestingly, most respondents thought that private insurance ought to cover income loss, while government did not rank in the top three in this category. In fact, 81 percent said they would prefer insurers to provide this protection and the majority said that insurers were the most reliable source of such protection.

<sup>8</sup> [https://en.wikipedia.org/wiki/Employee\\_Provident\\_Fund\\_\(Malaysia\)](https://en.wikipedia.org/wiki/Employee_Provident_Fund_(Malaysia))

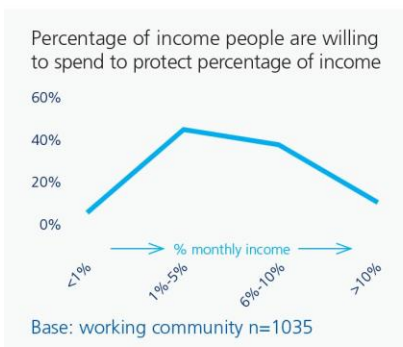
<sup>9</sup> 2016 Global Medical Trends Survey, Willis Towers Watson: <https://www.willistowerswatson.com/en/insights/2016/04/2016-global-medical-trends-survey-report>



**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Job of greater danger	0,4
Uncertainty about future income	0,4

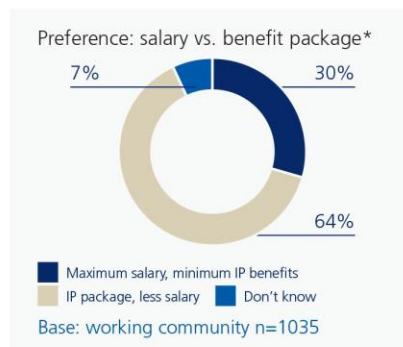
Base: those who consider IP insurance n=232



**Organization you would want to cover income loss (top 3)**

	Index
Insurance companies	1,0
Personal savings	0,5
Government	0,3

Base: working community n=1035



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Weak safety nets create high demand for income protection

Limited social protection and uncertain working conditions mean that Mexicans are more aware of the need for income protection than people in other markets.

## Mexico



### Population, total<sup>1</sup>

125,385,833

### GDP per capita (USD)<sup>1</sup>

10,325

### Number of people employed<sup>2</sup>

54,722,500

### Employment-to-Working-Age Population<sup>2</sup>

59.5%

### Fertility rate<sup>1</sup>

2.2

### Population aged 0–14<sup>1</sup>

28.1%

### Median age<sup>3</sup>

27.4 years

### Population aged 65 and over<sup>1</sup>

6.3%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

6.7%

### Life expectancy<sup>1</sup>

76.7 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

Income protection is limited in Mexico, covering a minority of the working population, according to research published by Zurich Insurance Group.<sup>10</sup> Social security covers public sector workers and formally-employed private sector workers, estimated at 37 percent of the working population in 2010, and there are few legal protections for disabled workers.

This was reflected in this year's survey data, which showed a comparatively wide income protection gap relative to other countries and wide-spread recognition of the need for income protection solutions.

More than half (51 percent) of respondents reported having experienced income loss due to illness or disability. Of those, 54 percent had to dig into their own savings to cover the shortfall in their earnings, while 44 percent looked to their families for support. Only about a third was insured against income loss due to illness, disability or death.

As a result, about 71 percent had considered purchasing income protection insurance even though 35 percent thought there was less than a 10 percent chance they would actually need it. Despite the perceived risk, 58 percent of respondents had insufficient savings to cover more than six months of income loss. Similarly, 63 percent believed that their employer would cover no more than six months of lost income, with 14 percent expecting no support at all, while

61 percent thought they would get less than six months support from the state. On average, the state was seen paying out just 37 percent of lost income.

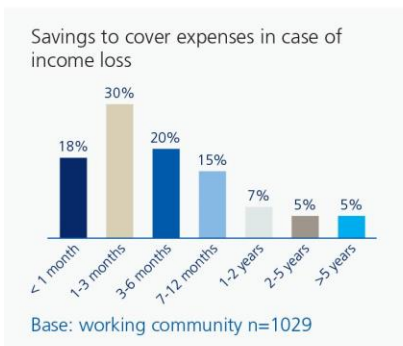
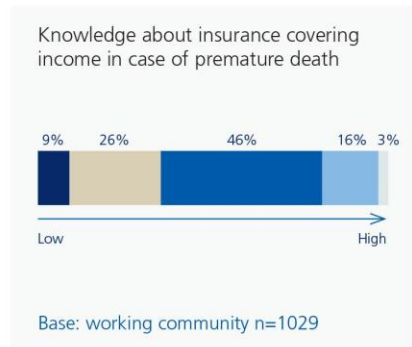
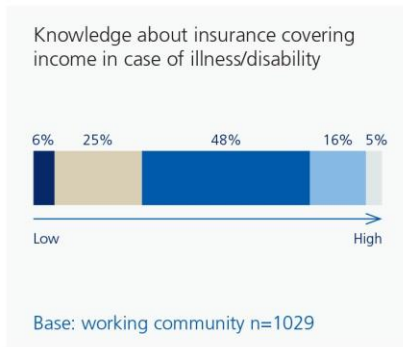
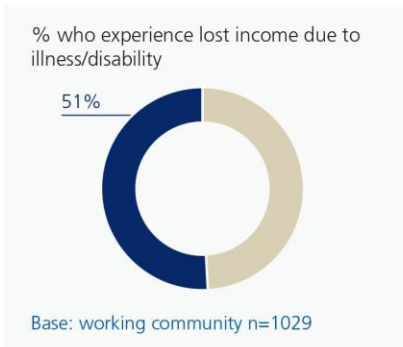
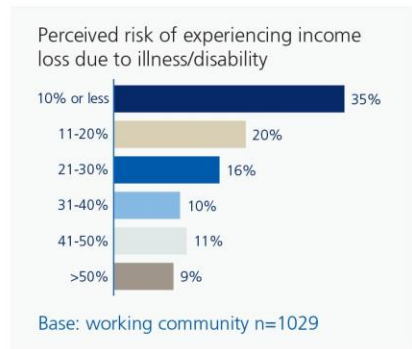
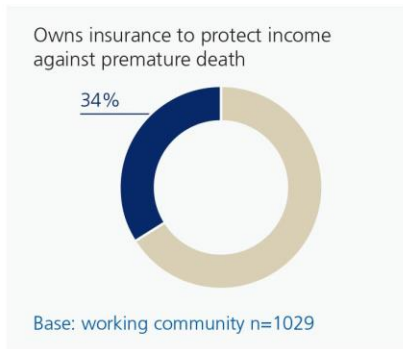
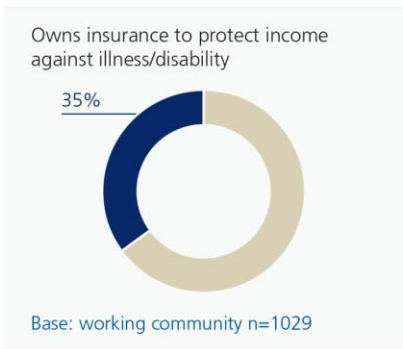
Given this level of uncertainty, it is hardly surprising that 79 percent of respondents said that they would prefer to receive a lower salary coupled with an income protection package from their employer. Just 16 percent said they wanted more money with fewer benefits. Given the choice, 78 percent said they would prefer to receive income protection from an insurance company rather than their employer (30 percent) or the state (16 percent).

Despite the strong awareness that it is needed, it is unlikely that the state will make income protection or health care for people further up the income scale a priority given the country's aging population<sup>11</sup> and a commitment in 2013 to increase tax-funded transfers to the poor and provide a universal minimum pension. That means the onus for providing income protection will most likely fall on individuals, employers and insurers.

<sup>10</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

<sup>11</sup> The United Nations Department of Economic and Social Affairs/Population Division 29 World Population Prospects: The 2015 Revision, indicates that the percentage of Mexico's population over 60 will rise from 11.1 percent in 2015 to 30.1 percent by 2050.

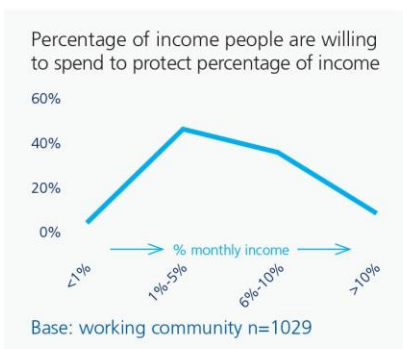




**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Knew more about it	0,8
If available through employer	0,4

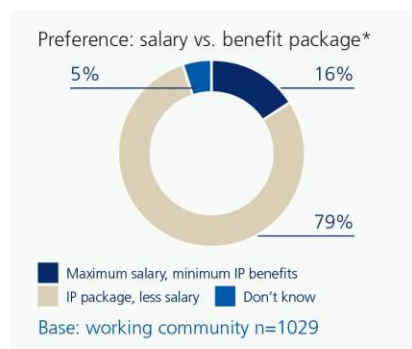
Base: those who consider IP insurance n=366



**Organization you would want to cover income loss (top 3)**

	Index
Insurance companies	1,0
Government	0,9
Employer	0,8

Base: working community n=1029



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Fragile economy contributing to widening income protection gap

Spain was one of the countries that was hardest hit by the financial crisis in 2008, putting enormous strain on its social safety nets. Despite this, survey respondents relied heavily on the state to provide income protection, raising the prospect of significant funding gaps in future.

## Spain



### Population, total<sup>1</sup>

46,476,032

### GDP per capita (USD)<sup>1</sup>

29,721

### Number of people employed<sup>2</sup>

17,777,300

### Employment-to-Working-Age Population<sup>2</sup>

45.3%

### Fertility rate<sup>1</sup>

1.3

### Population aged 0–14<sup>1</sup>

14.9%

### Median age<sup>3</sup>

43.2 years

### Population aged 65 and over<sup>1</sup>

18.4%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

2.4%

### Life expectancy<sup>1</sup>

83.1 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

By law, all employed persons in Spain are required to pay into a social security system which provides healthcare, as well as benefits for temporary incapacity, maternity and premature death, among other things.

These benefits are limited. For instance, if a person is no longer able to work in any profession at all (absolute permanent disability), the monthly benefit is only EUR 1,071.<sup>12</sup> In addition, there are variations in administration across the country's various autonomous regions which can create a significant bureaucratic burden to accessing social benefits. Those restrictions go a long way to explaining why Spain has a comparatively low incidence of reported disabilities.<sup>13</sup>

Spaniards generally said they had a poor understanding of the options available to them with regard to income protection. Only 17 percent of respondents said they had a fair or better understanding of disability insurance and a mere 10 percent, the lowest of any country surveyed, were confident in their knowledge about life insurance. 1 in 5 (25 percent) had insurance against lost income due to disability or illness, while 28 percent had life insurance.

Of those without insurance, 46 percent said that they would consider income protection insurance, with cost and better

knowledge being the key drivers for any decision. A high 46 percent of respondents, second only to Australia, estimated their risk of requiring income protection to be less than 10 percent. This is quite surprising given the fact that almost one in two respondents (48 percent) had already experienced income loss in their working life due to illness and two in three know someone unable to work due to illness/disability.

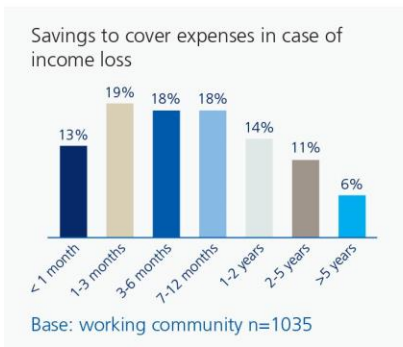
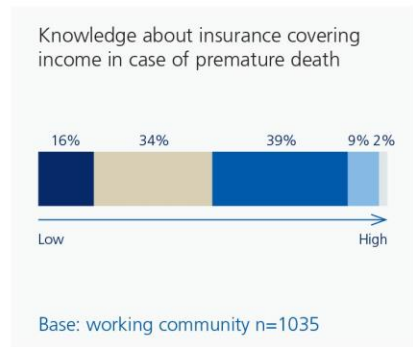
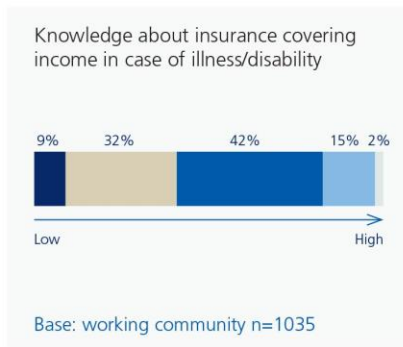
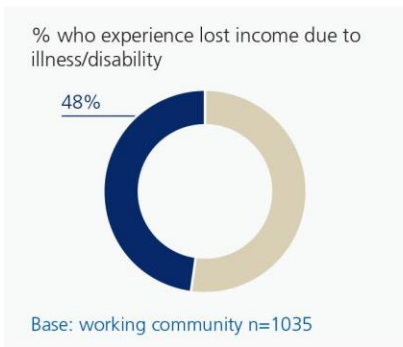
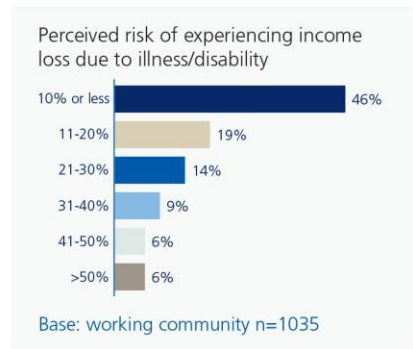
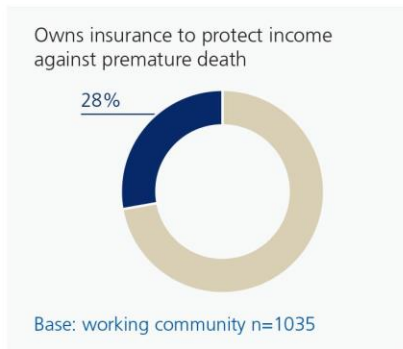
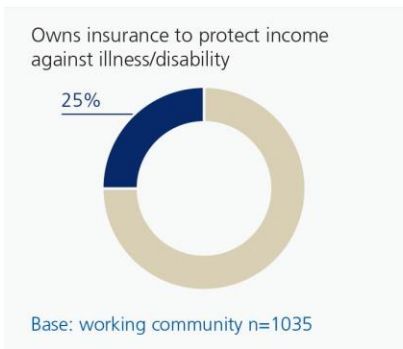
Respondents felt strongly that the state should cover income loss, though 64 percent said that if they had to buy an income protection policy they would prefer to purchase it from an insurance company. Given the challenges to the Spanish economy, this expectation of state support is likely to be challenged. Surprisingly, while most expected to live on savings if they were unable to work, respondents on average expected that the government would pay out an average of 53 percent of earnings if they were disabled.

Insurance companies are regarded as the most reliable organizations when it comes to providing advice on income protection.

While 89 percent of respondents with surplus income said that they saved money, 35 percent said they had made no investments in the previous year, while 34 percent used excess earnings to pay off debts and 24 percent paid into their properties. That suggests that there is substantial room for Spanish people to invest in provisions against potential lost income or other life-changing events.

<sup>12</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

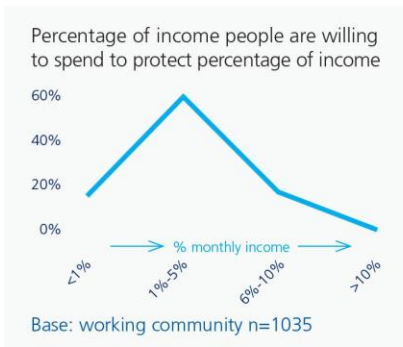
<sup>13</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015



**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Knew more about it	0,9
Uncertainty about future income	0,6

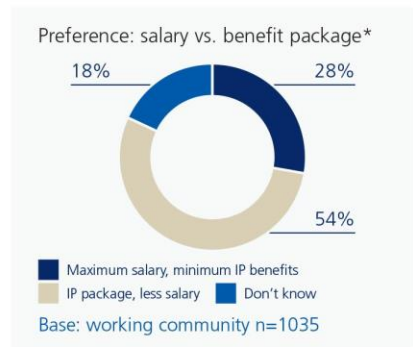
Base: those who consider IP insurance n=299



**Organization you would want to cover income loss (top 3)**

	Index
Government	1,0
Employer	0,4
Insurance companies	0,4

Base: working community n=1035



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Well protected but poorly informed

The Swiss feel they are poorly informed about the financial consequences of disability and premature death. Most have limited savings and would welcome a benefit package rather than higher wages.

## Switzerland



### Population, total<sup>1</sup>

8,188,102

### GDP per capita (USD)<sup>1</sup>

85,617

### Number of people employed<sup>2</sup>

4,650,100

### Employment-to-Working-Age Population<sup>2</sup>

65.7%

### Fertility rate<sup>1</sup>

1.5

### Population aged 0–14<sup>1</sup>

14.8%

### Median age<sup>3</sup>

42.3 years

### Population aged 65 and over<sup>1</sup>

17.8%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

n/a

### Life expectancy<sup>1</sup>

82.8 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

Swiss social protection is among the most comprehensive and generous in Europe. Fiscal incentives encourage voluntary personal pension savings, forming a third pillar on top of state and mandatory occupational pensions. Workers with insufficient contributions (part-time workers) can claim means-tested supplements. Rehabilitation has become a priority in recent years. This effort has been reasonably successful: The number of new disabled people registered peaked in 2005 and new claims fell by 45 percent.<sup>14</sup> Over 60 percent of those reporting a disability have a job of some type.<sup>15</sup>

One out of every three Swiss people has insurance against premature death, and nearly three in 10 have insurance against serious illness/disability. This is approximately the international average. However, few in Switzerland know how to protect their income. Only one in ten feels well-informed regarding term life insurance, and more than 50 percent admit to knowing little or nothing about it. This is the second-highest percentage among the countries surveyed. The Swiss know a little more about serious illness/disability insurance, but once again a large percentage admits to not being well-informed. The question arises as to whether many in the Swiss workforce believe that they are already sufficiently protected by their pension fund.

However, coverage in the case of disability due to illness is significantly poorer than in the case of disability

due to an accident.<sup>16</sup> Some Swiss have very little set aside for a rainy day. One out of every four of those surveyed stated that, if worst comes to worst, they would not be able to meet their expenses for even a month, and two out of three stated that their savings would last for less than six months – both are high percentages in comparison with other countries.

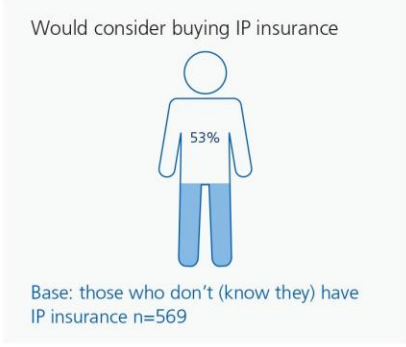
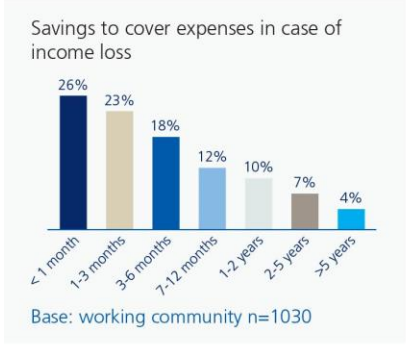
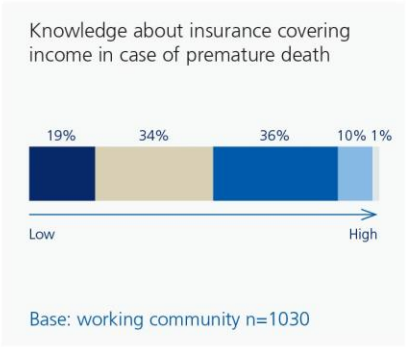
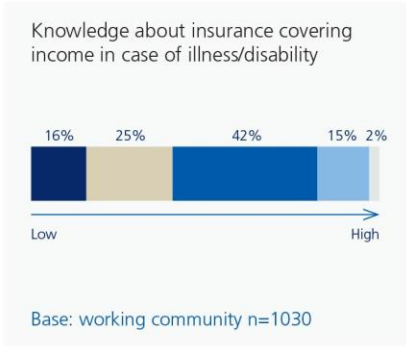
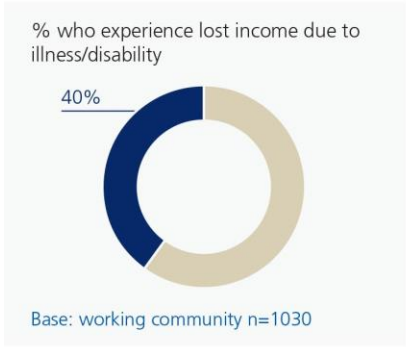
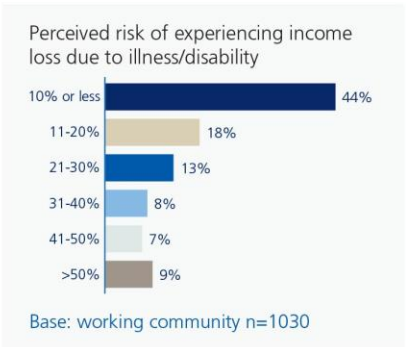
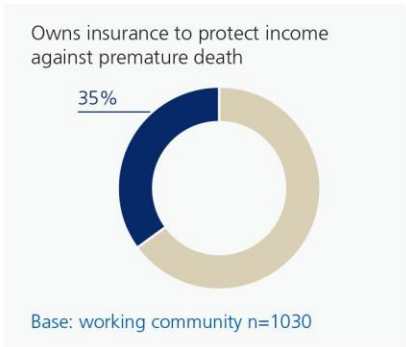
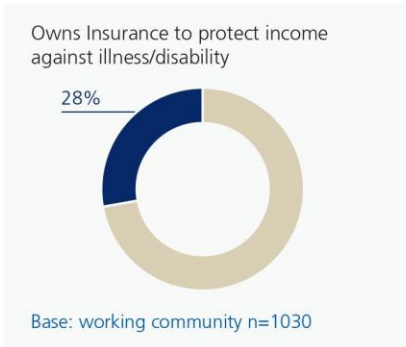
Only a tenth have already been offered income protection by an employer as part of a benefits package. Most of those surveyed found that such a package made sense. Six out of ten would prefer a benefits package that included income protection to a higher wage, and nearly half (45 percent) would consider protecting their income with an insurance plan if they knew more about it.

The Swiss also have an interesting relationship with their government: Unlike the respondent in the other countries included in this survey, the Swiss stated that insurance companies, and not the state, should protect income. Accordingly, insurance companies are by far the preferred providers of such solutions and also the most trusted advisors, coming in ahead of consumer protection agencies and brokers. More than half of those surveyed in Switzerland also assume that, within five years, the government will reduce coverage in the case of a loss. In such cases, the Swiss usually rely on their own families for support. In more than a third of cases, the family provided support, i.e. more often than insurance companies and employers.

<sup>14</sup> OECD (2014) Mental Health and Work: Switzerland, Paris, OECD

<sup>15</sup> Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

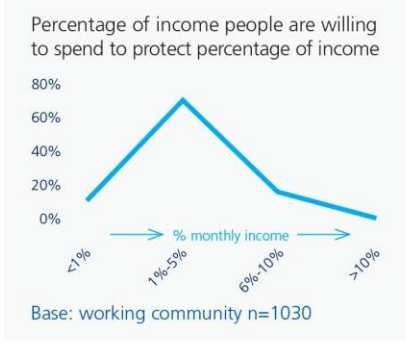
<sup>16</sup> Mind the gap, Income protection gap Survey, Zurich Insurance Company Ltd, August 2015



**Main reasons to buy IP insurance**

	Index
Knew more about it	1,0
Less expensive	0,9
Uncertainty about future income	0,6

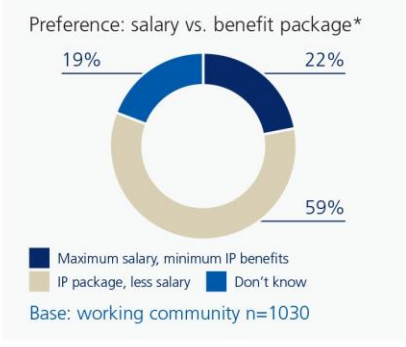
Base: those who consider IP insurance n=299



**Organization you would want to cover income loss (top 3)**

	Index
Insurance companies	1,0
Government	0,8
Employer	0,6

Base: working community n=1030



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Widening income protection gap as austerity bites

Faced with challenging economic growth and a substantial debt burden, the UK government has been cutting welfare provisions, which has contributed to a widening protection gap. The survey shows, however, that private individuals have yet to recognize the risks.

UK



**Population, total<sup>1</sup>**

64,559,135

**GDP per capita (USD)<sup>1</sup>**

46,297

**Number of people employed<sup>2</sup>**

31,529,700

**Employment-to-Working-Age Population<sup>2</sup>**

59.3%

**Fertility rate<sup>1</sup>**

1.9

**Population aged 0–14<sup>1</sup>**

17.7%

**Median age<sup>3</sup>**

40 years

**Population aged 65 and over<sup>1</sup>**

17.5%

**Premature Death Rate (potential years of life lost)<sup>4</sup>**

3%

**Life expectancy<sup>1</sup>**

81.1 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

The UK government offers low, flat-rate benefits which, in the case of disability, are also means tested. In recent years the welfare system as a whole has been subjected to significant austerity measures, such as the decision in 2011 to expand the state's Work Capability Assessment program to include a further 1.5 million people already receiving Incapacity Benefit.

One in five households that include a disabled person live below the poverty line,<sup>17</sup> while a third of households drop into a lower income quintile after an unexpected adult death, with 20 percent falling into poverty.<sup>18</sup>

Despite those stark figures and the reduction in an already low level of state support, only one in five of UK respondents to the survey were insured against income loss due to disability or illness, the second lowest product penetration of such products after Germany. Only 21 percent had life insurance. However, around 42 percent of respondents had experienced income loss in their working life due to serious disability or illness, just two percentage points below the average for the 11 countries surveyed.

The low penetration rate can be partly explained by a lack of financial education, with only 19 percent of respondents claiming to have a good knowledge of disability products and 17 percent of life insurance. Most,

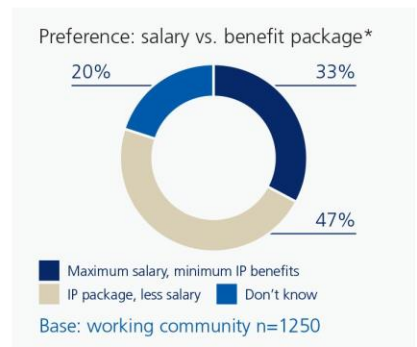
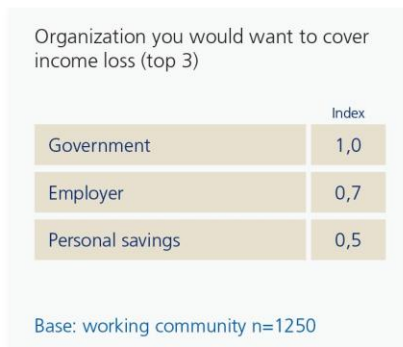
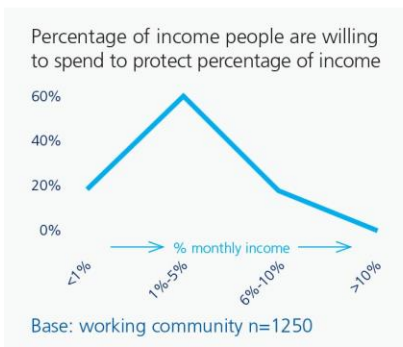
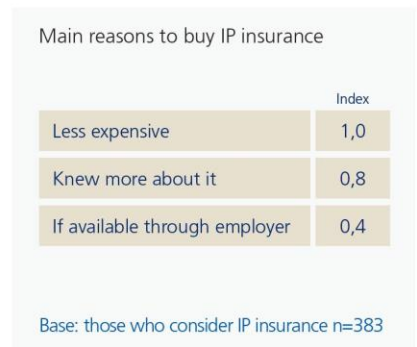
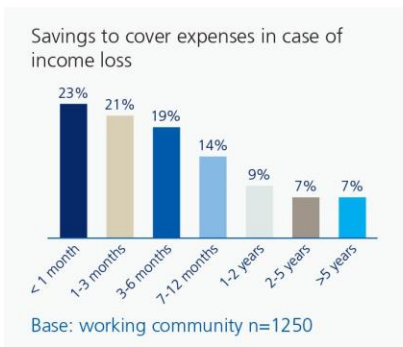
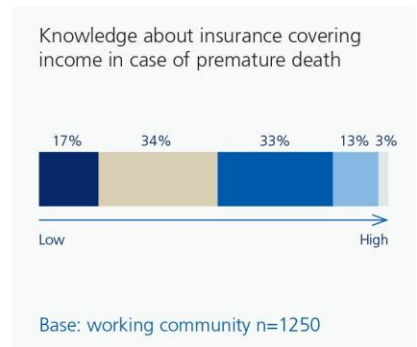
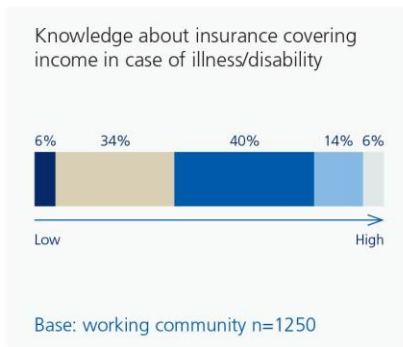
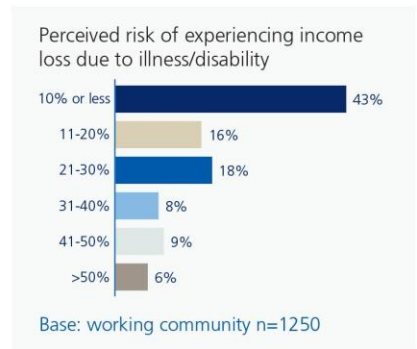
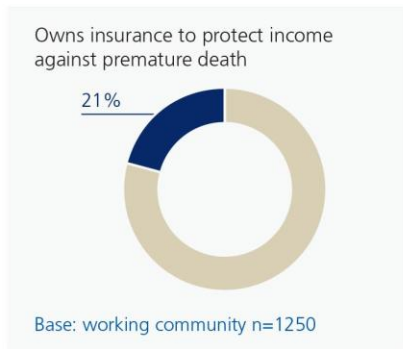
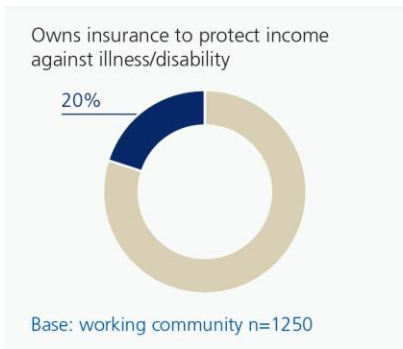
however, expected to rely on savings rather than sick leave, holidays or the state in the event that they were unable to work. Only 42 percent of those that didn't have this cover said that they would consider buying income protection insurance, the lowest percentage after Australia.

Wealthier respondents with children were more likely to insure against lost income and claimed to know more about the products available to them.

Respondents felt that the government should cover income loss ahead of their employer or personal savings, but 53 percent said that they would prefer to buy income protection from an insurance company. A third of respondents (33 percent) said that they would prefer to receive higher wages than a benefits package including income protection benefits, the highest of any country surveyed, though not by a significant margin. Higher earners were more willing to sacrifice income for protection which could correlate to education levels or earnings at risk as state benefits are capped.

<sup>17</sup> DWP (2013) Households Below Average Income: 10.

<sup>18</sup> Cordon, A., Hirst, M., Nice, K. (2008) Financial Implications of the Death of a Partner Working Paper no. ESRC 2288 12.08: 153-5  
<http://www.york.ac.uk/inst/spru/research/pdf/Bereavement.pdf>



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

# Penetration of income protection continues to decline

The survey data shows a further decline in the penetration of income protection insurance products in the U.S., despite rising healthcare costs and dwindling social safety nets, and a strong preference for private over state solutions.

## U.S.



### Population, total<sup>1</sup>

318,857,056

### GDP per capita (USD)<sup>1</sup>

54,630

### Number of people employed<sup>2</sup>

153,348,100

### Employment-to-Working-Age Population<sup>2</sup>

58.8%

### Fertility rate<sup>1</sup>

2

### Population aged 0–14<sup>1</sup>

19.1%

### Median age<sup>3</sup>

38.0 years

### Population aged 65 and over<sup>1</sup>

14.4%

### Premature Death Rate (potential years of life lost)<sup>4</sup>

4.6%

### Life expectancy<sup>1</sup>

78.9 years

<sup>1</sup> World Bank – World Development Indicators

<sup>2</sup> International Labor Organization

<sup>3</sup> United Nations

<sup>4</sup> OECD

The U.S. has a substantial income protection gap. In 2012, only 44 percent of U.S. households carried life insurance, down from 62 percent in 1982, according to a study by Swiss Re.<sup>19</sup> Sales of life insurance policies has dropped from a peak of around 18 million a year in the 1980s to 10 million by 2012. As a result, the country had a life protection gap of USD 20 trillion, around 135 percent of GDP.

Disability benefits in the U.S. are also relatively low. The average monthly benefit is USD 1,256 for men and USD 933 for women.<sup>20</sup> As a result, many workers choose to work through minor disabilities. It is estimated that this 'presenteeism' will cost U.S. businesses more than USD 150 billion a year in lost productivity.

The survey data indicates a further decline in income protection insurance penetration. Of the respondents, 40 percent owned disability insurance and just 33 percent owned life policies, suggesting the income protection gap in the U.S. is continuing to widen.

Despite this, 44 percent of U.S. respondents claimed to have good knowledge of income protection insurance against disability or illness, considerably above the average of 29 percent for the 11 countries surveyed. That compares to just 27 percent who were confident in their understanding of income protection against premature death. There was a clear generational split, with

respondents over the age of 40 indicating that they were less knowledgeable about, and therefore less likely to own, income protection products.

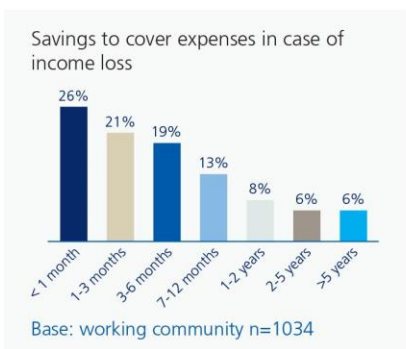
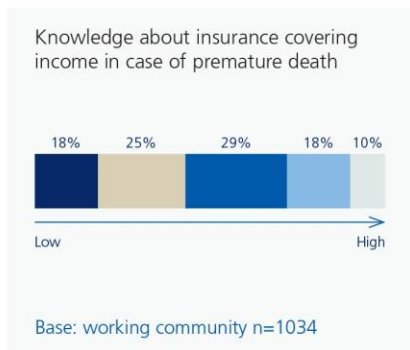
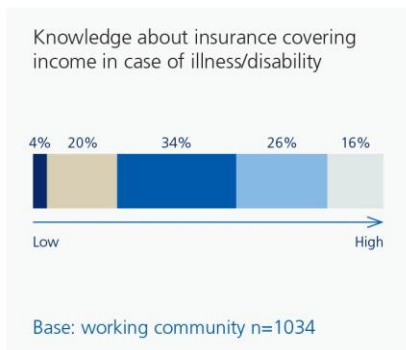
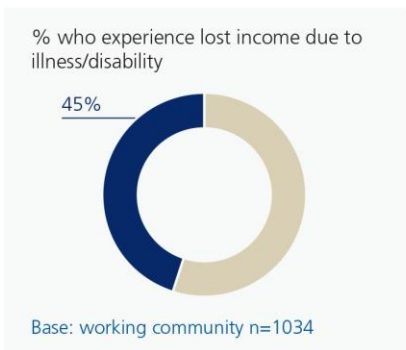
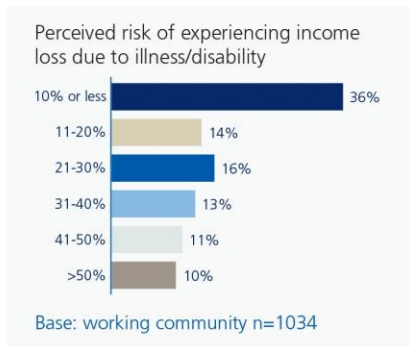
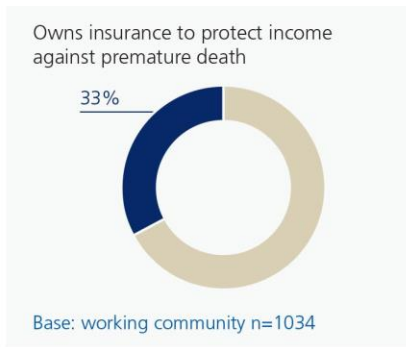
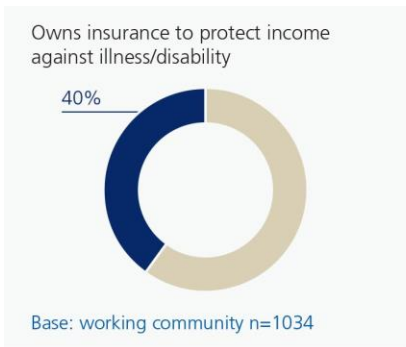
Roughly half (53 percent) of respondents said that they would consider buying income protection, while 36 percent estimated their chance of losing income due to disability or ill health at less than 10 percent. On average, respondents believed the state would compensate 42 percent of their income should they become unable to work. Surprisingly, younger respondents had higher expectations that the state would support them, despite recent cutbacks.

The U.S. was also unusual among developed economies in that respondents believed that personal savings and insurers ought to cover lost income, with the state in a distant third place. They also said they would prefer insurance companies to provide that support than the state, with a very strong preference for purchasing income protection from an insurer than through an employer or the government. They also believed that insurance companies were best positioned to provide advice and 76 percent of respondents were open to the idea of sharing personal medical information for lower premiums.

<sup>19</sup> The mortality protection gap in the US, Zurich: Swiss Reinsurance Company, [http://media.swissre.com/documents/Exp\\_Pub\\_mortality\\_protection\\_gap\\_US.pdf](http://media.swissre.com/documents/Exp_Pub_mortality_protection_gap_US.pdf)

<sup>20</sup> [http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)

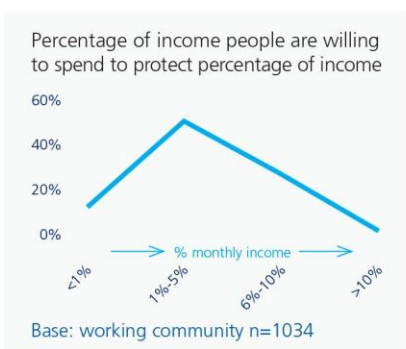




**Main reasons to buy IP insurance**

	Index
Less expensive	1,0
Knew more about it	0,6
If available through employer	0,2

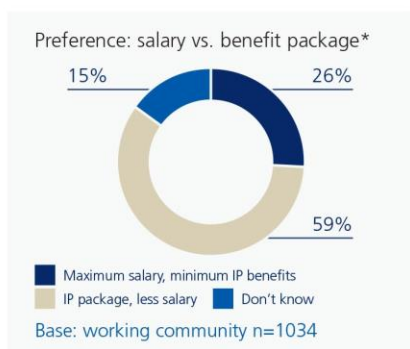
Base: those who consider IP insurance n=289



**Organization you would want to cover income loss (top 3)**

	Index
Insurance companies	1,0
Government	0,8
Personal savings	0,7

Base: working community n=1034



\* Source: Zurich/Smith School, University of Oxford, 2016

Note: IP insurance meaning 'insurance to protect income against serious illness/disability or premature death'

## About this study

For this survey, Zurich worked with the Smith School of Enterprise and the Environment at the University of Oxford on a poll of more than 11,000 people in 11 countries.

Zurich's Income Protection Gap Survey was carried out by Epiphany Research Based Consultancy in March and April 2016. The survey is based on a nationally representative sample of consumers aged 25 to 60 in Germany, Italy, Spain, Switzerland, Brazil, Mexico, Hong Kong, United Kingdom, Malaysia, Australia and the United States.

Approximately 1,000 respondents per country completed an online survey consisting of 57 questions.

The terminology used in this report has been standardized and may differ from common usage in some countries.

We will continue to publish more on this topic in the coming months.

### Further materials:

Find further information on [www.zurich.com/protectiongap](http://www.zurich.com/protectiongap)

- Video Gary Shaughnessy, CEO Europe, Middle East and Africa, on the most important findings of the survey.
- News release about the survey
- Infographics illustrating the key findings
- Income protection gap blog

For further questions, please refer to

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