

Changes to ESA/WRAC – Impact on Group Income Protection

Since 1995 any UK individual who has been unable to work due to illness or injury has been able to claim an incapacity benefit from the UK Government providing they meet the necessary eligibility criteria.

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ESA is a weekly benefit of £73.10 (2015/2016) paid by the state to individuals who are unable to work due to illness or injury and is payable after completion of 28 weeks statutory sick pay.

Following a steep rise in claims between 1995 and 2004 the Government believed the eligibility criteria needed to be more stringent and replaced the incapacity benefit with the ‘Employment and Support Allowance’ (ESA) for all new claims from 2004.

ESA is a weekly benefit of £73.10 (2015/2016) paid by the state to individuals who are unable to work due to illness or injury (known as ESA Basic Allowance) and is payable after completion of 28 weeks statutory sick pay. Any additional benefit depends on whether the individual is assigned to the ‘work related activity group’ or the ‘support group’, which is determined by a Work Capability Assessment.

Individuals who are considered capable of undertaking work related activities are placed in the ‘work related activity group’ and are entitled to receive a weekly benefit of £29.05, in addition to the ESA Basic Allowance, totalling £102.15 per week. This benefit is known as the ‘Work Related Activity Component’ (WRAC).

Individuals placed in the ‘support group’ are considered to have more severe illnesses or disabilities which restrict them from seeking employment or undertaking work related activities. They are entitled to receive a weekly benefit of £36.20, in addition to the ESA Basic Allowance, totalling £109.30 per week. This benefit is known as the ‘Support Component’.

The current ESA weekly payment structure:

Absence Period	Benefit	Weekly Amount (2015/2016)
Day 4 to Week 28	Statutory Sick Pay	£88.45
Week 29 to Week 41	ESA Basic Allowance	£73.10
Week 42 for up to 39 weeks	ESA Basic Allowance	£73.10
	Work Related Activity Component	£29.05
Week 42 for up to State Pension Age	ESA Basic Allowance	£73.10
	Support Component	£36.29

Changes

Following the March 2015 Budget, the Government announced plans to change the UK’s welfare system with a view to halving the disability employment gap.

The new system is designed to remove financial incentives for claimants and to encourage them to actively seek employment. Part of this involves the removal of the Work Related Activity Component by 1 April 2017.

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Employers who insure their employees under a group income protection policy, which are linked to state benefits, will potentially see the effect of this change.

Any new claimants not considered to be in the support group post 1 September 2016 will only receive the ESA Basic Allowance of £73.10 per week and therefore will see a reduction in their weekly allowance of £29.05, based upon current levels. Those currently claiming WRAC will continue to receive their additional weekly payment of £29.05 from week 42 of incapacity up to a maximum of 39 weeks thereafter.

There are no plans to amend or remove the current Support Component. Support group claimants are eligible to receive the additional benefit after week 42 of incapacity up to state pension age.

Impact on Group Income Protection Schemes

Employers who insure their employees under a group income protection policy, which are linked to state benefits, will potentially see the effect of this change.

To calculate an employee's income protection benefit, for policies linked to state benefits, insurers currently subtract an annualised Employment Support Allowance and Work Related Activity Component (£5,312 - 2015/2016) from the percentage of salary.

Whilst the majority of group income protection insurers have yet to issue formal publications on this matter, we have received details of one insurer's proposal. Their approach is to apply a fixed offset amount (£5,300) to replace the current Employment Support Allowance and Work Related Activity Component. We believe that whilst this approach will simplify matters and benefit employers from a premium point of view, employees will receive a lower benefit in total as the Work Related Activity Component is being removed.

We believe this subject requires further thought in terms of design options which will benefit both the employer and employee.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Kevin O'Neill via the following:

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