

# Family – income – pension. How to fully use the life insurance potential?

Introductory lecture based on Research on the Income Protection Gap by Zurich Insurance Company and the Smith School of Enterprise and Environment at Oxford University  
Sopot, May 8, 2018

**Dr. Stefan Kroepfl**



# Structure of the presentation

- Family – income – pension: Overview and the role of Income Protection Gaps
- The scope of Income Protection Gaps in Poland and the EU
  - Increasing disability risk (and relevance of premature death)
  - Increasing longevity
  - Changing employment
  - Pressure on national budgets
- What customers think about it
- Potential solutions – What insurers, governments and employers can do

# Family – income – pension. Where does life insurance help?



## 1 Death/Disability (mortality and morbidity risks)

Coverage of **biometric risks** prior to retirement and hence the **protection** of income and family (dependent family members)

## 2 Accumulation / Investment

Provision of **long-term / retirement savings** products with attractive risk/return profile, incl. in some cases the coverage of **investment risks**

## 3 Decumulation and Longevity

Provision of a regular **retirement income** until death, i.e., coverage of **longevity** and in some cases also coverage of **investment risks**

# What is the potential of better / “fully” using life insurance

## Situation – generic view

## Situation – some data for Poland

### 1 Death/Disability (mortality and morbidity risks)

- Significant **Income Protection Gaps** due to (among others)
  - Lack of awareness
  - Underestimated subjective risks
  - Overestimated costs
  - Reliance on others (e.g., welfare state)

- 17% of the population younger than 65 years experiencing some form of disability
- 12% of the working age population die before retirement

### 2 Accumulation / Investment

- Significant **Retirement Savings Gaps** due to (among others)
  - Lack of awareness
  - High time value of money
  - Lack of disposable income
  - “1 size fits all approach” to savings

- Annual pension savings gap (2016): EUR 65 bn / 14% of GDP
- Pension income expected to drop from 54% to 37% of pre-retirement income (Aviva – Mind the Gap 2016 report)

### 3 Decumulation and Longevity

- **Retirement Income Gaps** (risk of outliving your savings) due to (among others)
  - Underestimation of life expectancy
  - Bequest motive (want to leave money behind)
  - Reliance on others (e.g., welfare state)
  - Limited understanding of annuities

- Life expectancy has increased from 70.6 years in 1984 to 77.6 years in 2014

# What is the Income Protection Gap?

## **The Income Protection Gap can be defined as:**

“A reduction in household income due to serious illness, disability or another severe reason of the primary salary earner, taking all public and private sources of replacement income into account.”

# Income Protection Gaps are widening

## FORCES WIDENING THE INCOME PROTECTION GAP

I



**Increasing disability risk and relevance of pre-mature death**

II



**Increasing longevity**

III



**Changing employment**  
(more part-time and temporary workers)

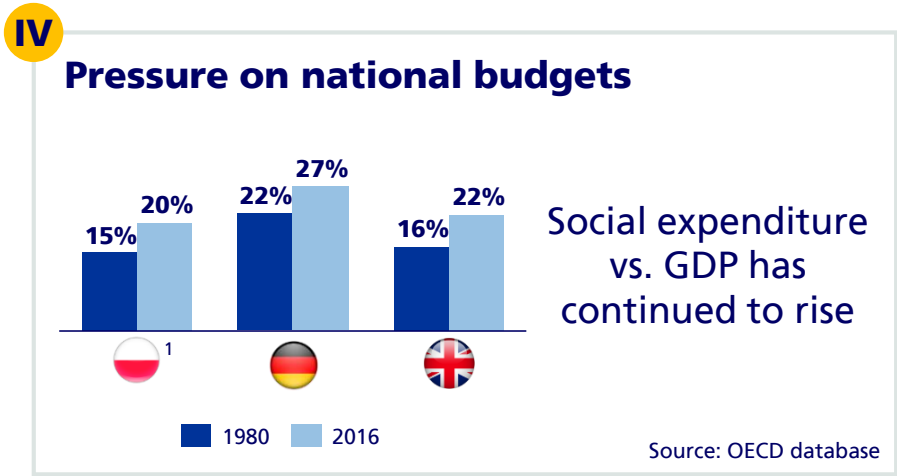
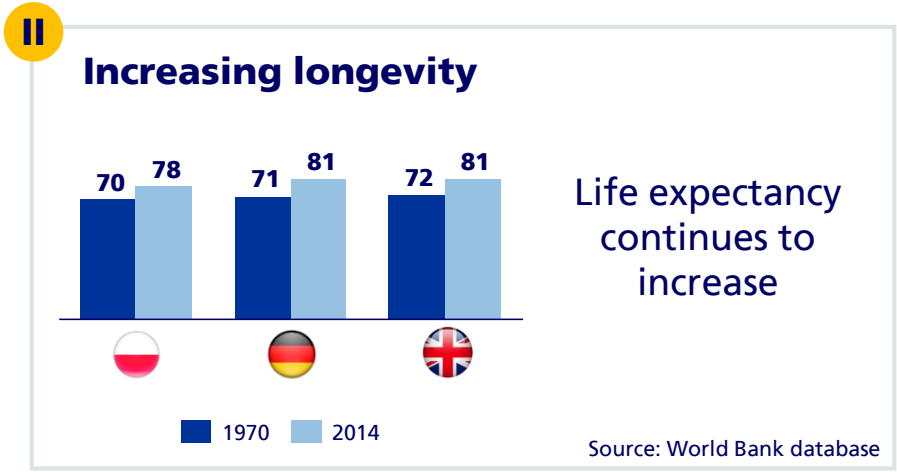
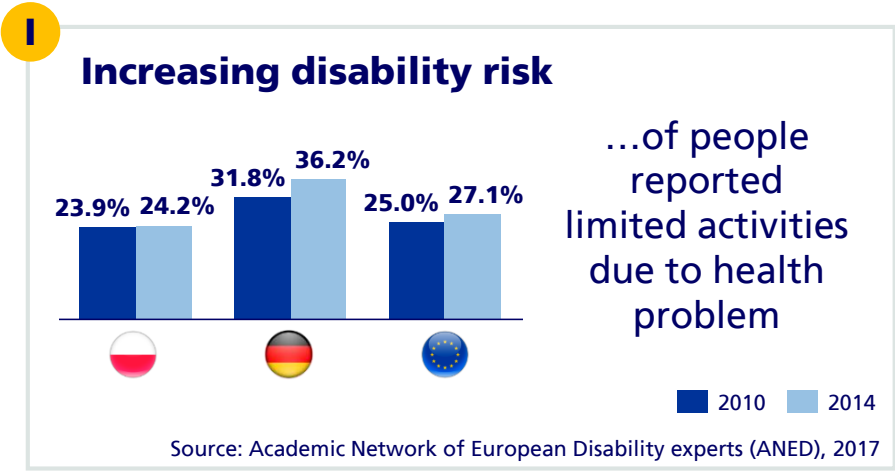
IV



**Pressure on national budgets**  
and reduction in state welfare

# Evidence across countries and topics

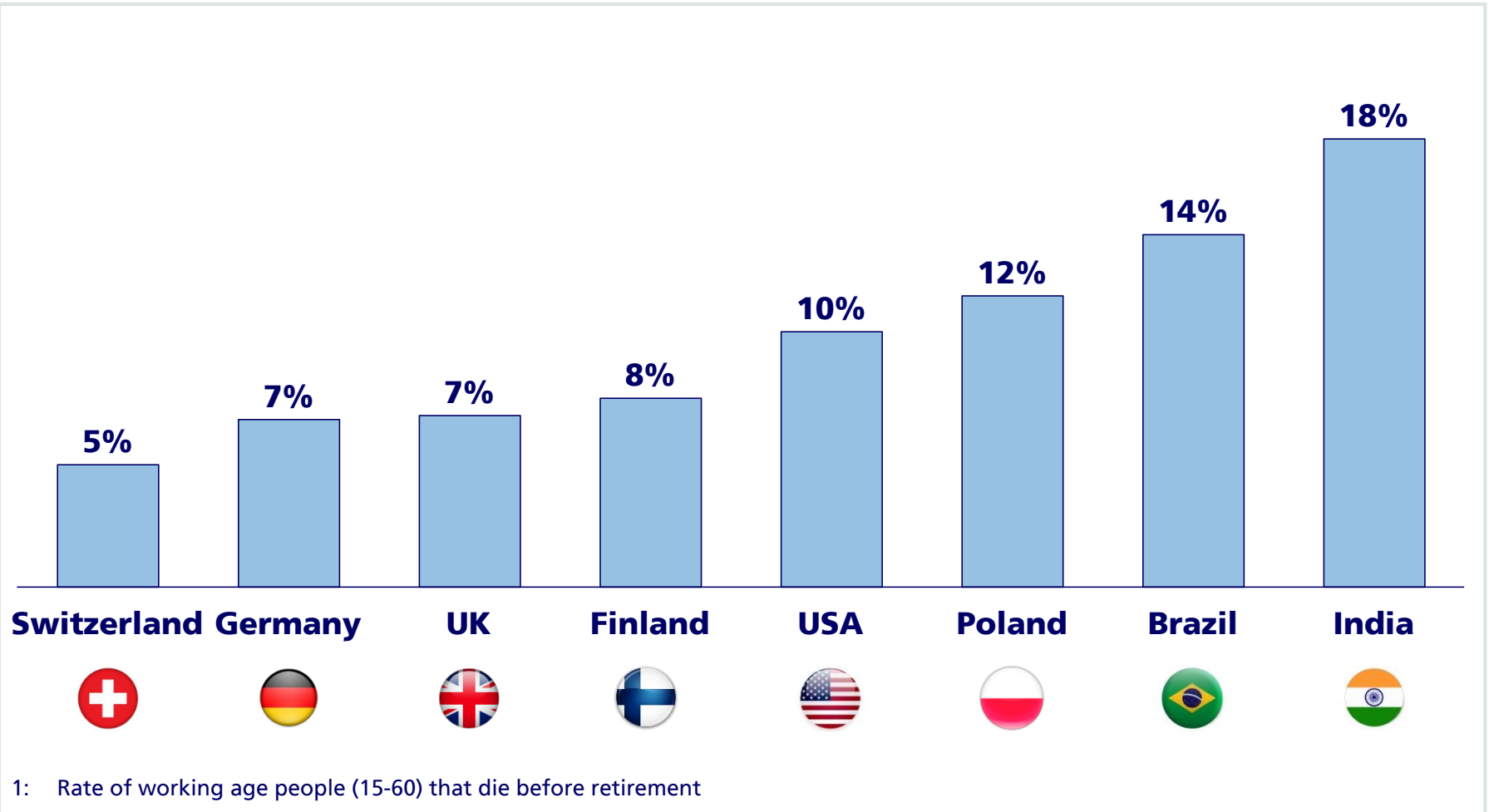
## SOME STATISTICS



1: Data for 1990 and 2016

# The risk of premature death is significant – and higher in Poland compared to Western Europe

## PREMATURE DEATH RATES, BOTH SEXES (2015)<sup>1</sup>





# Risk of dying from heart diseases, cerebrovascular diseases and lung cancer relatively high in Poland

## TOP 10 CAUSES OF PRE-MATURE DEATH, AGE-STANDARDIZED RATE PER 100'000 (2016)

	Ischemic heart disease	Cerebrovascular disease	Lung cancer	Self-harm	Road injuries	Colorectal cancer	Lower respiratory infect	Cardiomyopathy	Alcohol use disorders	Congenital defects
Poland	2,333.0	875.8	868.7	610.7	447.7	434.8	312.2	308.6	297.2	285.4
Comparison group mean (High SDI)	1,219.4	489.1	639.7	537.8	391.6	310.5	252.1	112.9	88.8	237.9
Brunei	1,923.0	958.9	602.7	197.7	636.8	406.9	524.7	228.3	7.4	524.7
Cyprus	1,599.0	453.5	473.1	187.3	476.8	212.4	134.4	55.8	19.2	151.4
France	684.7	331.7	702.4	599.4	302.2	291.7	160.0	69.9	132.7	181.6
Italy	910.3	385.2	569.9	223.8	337.5	278.6	88.0	81.2	11.6	185.1
Lithuania	3,709.7	1,179.5	576.6	1,317.8	526.0	328.1	366.6	373.5	386.6	310.8
New Zealand	1,162.6	410.8	512.0	535.5	375.5	389.6	108.1	110.8	30.3	281.1
Slovakia	3,184.8	967.9	620.5	422.4	355.9	518.9	462.9	151.9	88.9	317.1
Sweden	1,160.6	410.1	409.4	504.4	160.9	298.0	157.5	81.9	80.4	174.9
Taiwan	940.0	654.2	596.6	513.8	562.8	367.0	379.9	60.1	43.1	222.8
Virgin Islands, U.S.	2,795.2	887.4	470.0	244.8	470.4	453.6	415.8	249.7	202.1	339.1

■ Significantly lower than mean    
 ■ Statistically indistinguishable from mean    
 ■ Significantly higher than mean

# Unexpected / pre-mature deaths have severe consequences

## IN THE U.S.



**2/3 of impoverishment** among women who lose their partner



**and 1/3 for men**

results from inadequate life insurance

## IN THE UK



**1/3 of households** drop into a lower income quintile



**20%** fall into poverty

after an unexpected adult death

**Families increasingly fall into poverty and are forced to tap into pension savings due to IPGs**

# Disability risks are even higher

## PEOPLE WITH DISABILITIES, IN PERCENT (2014)

### EU COUNTRIES

### POLAND

AT LEAST  
PARTIALLY  
LIMITED  
ACTIVITIES

27.1%

24.2%

STRONGLY  
LIMITED  
ACTIVITIES

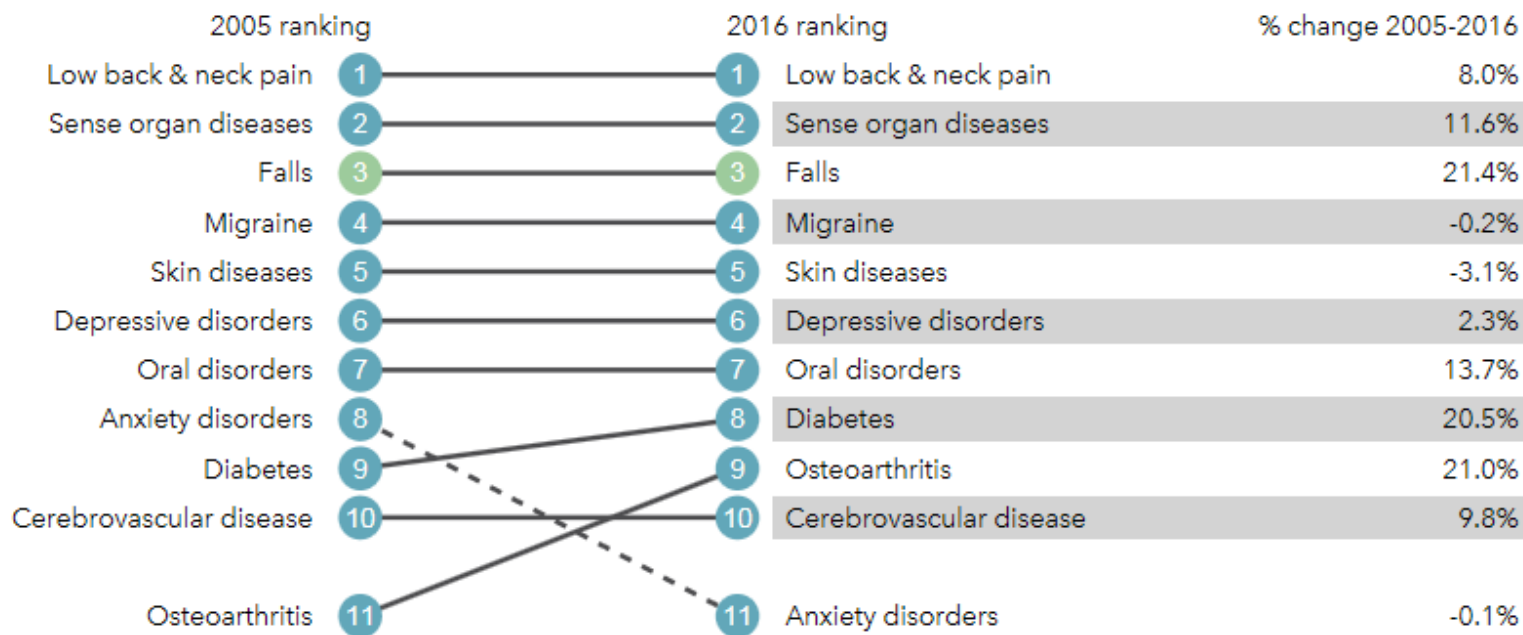
8.6%

7.6%

# Muscular-skeletal problems are a key driver of disability in Poland

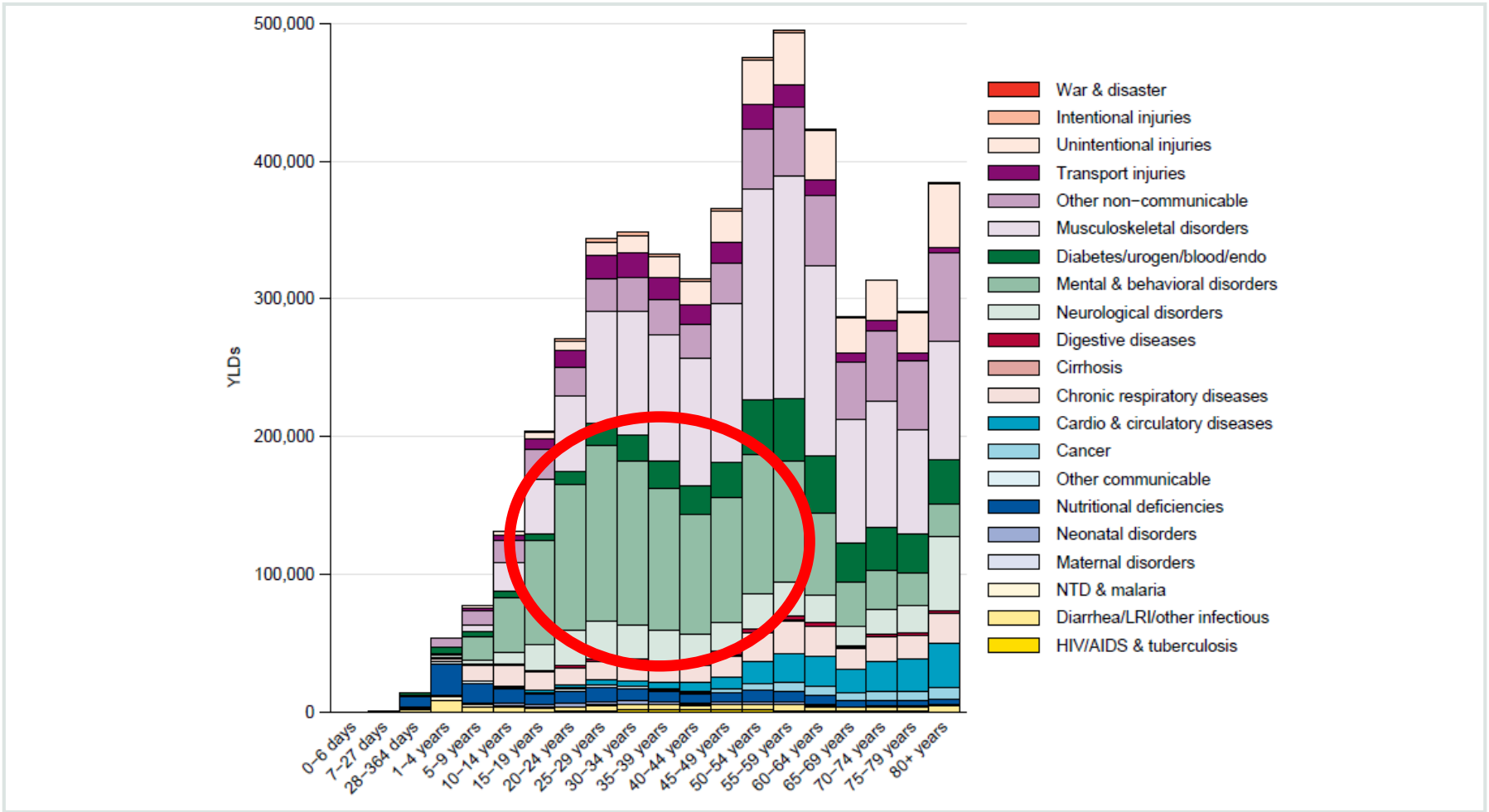
## TOP 10 CAUSES OF YEARS LIVED WITH DISABILITY IN POLAND ALL AGES, NUMBER (2016)

- Communicable, maternal, neonatal, and nutritional diseases
- Non-communicable diseases
- Injuries



# As in many European countries, mental health is a major problem in younger ages

## YEARS LIVED WITH DISABILITY BY CAUSE AND AGE IN POLAND (2010)



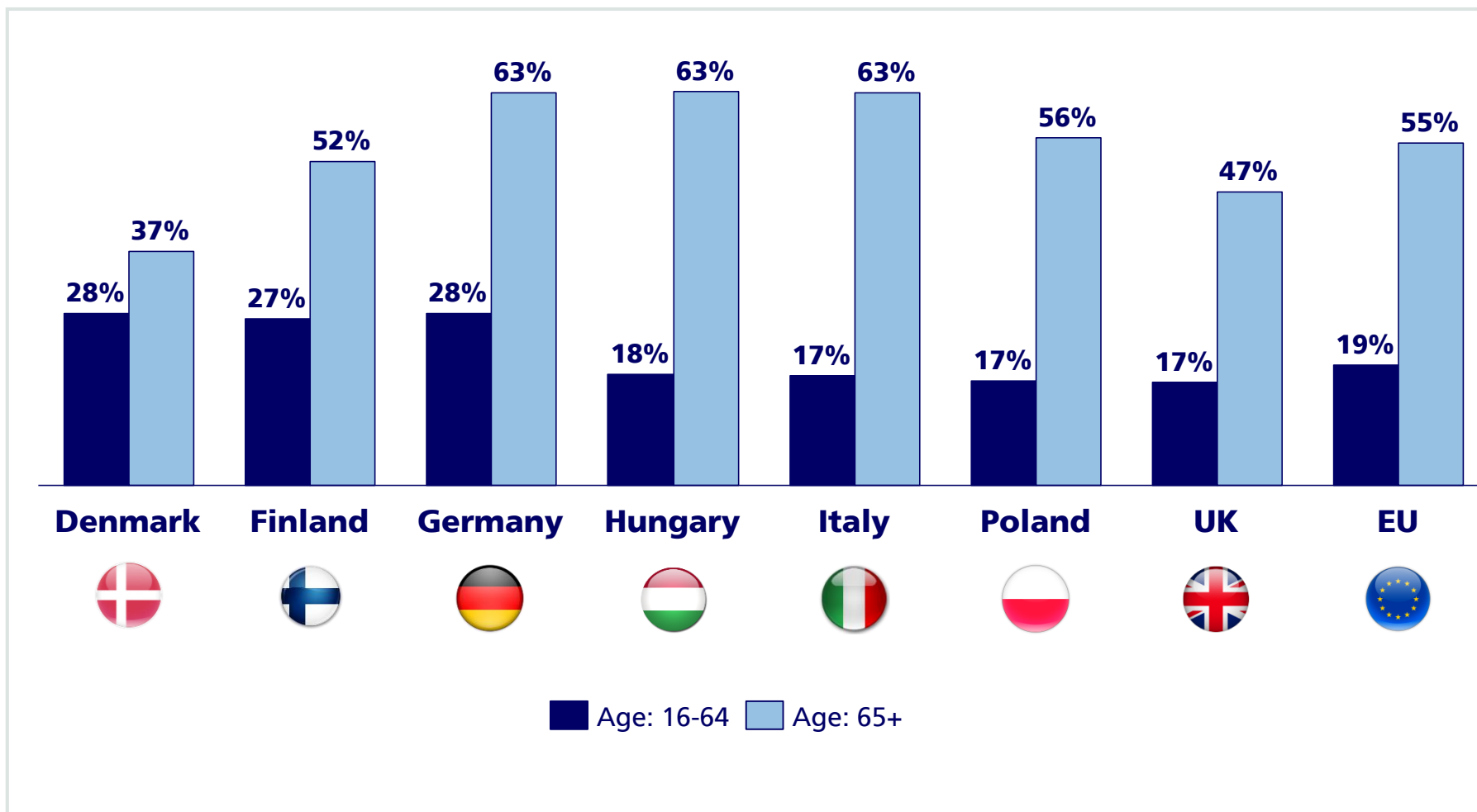
# Mental Health is a global challenge

## WHO: Depression Largest Cause of Disability Worldwide



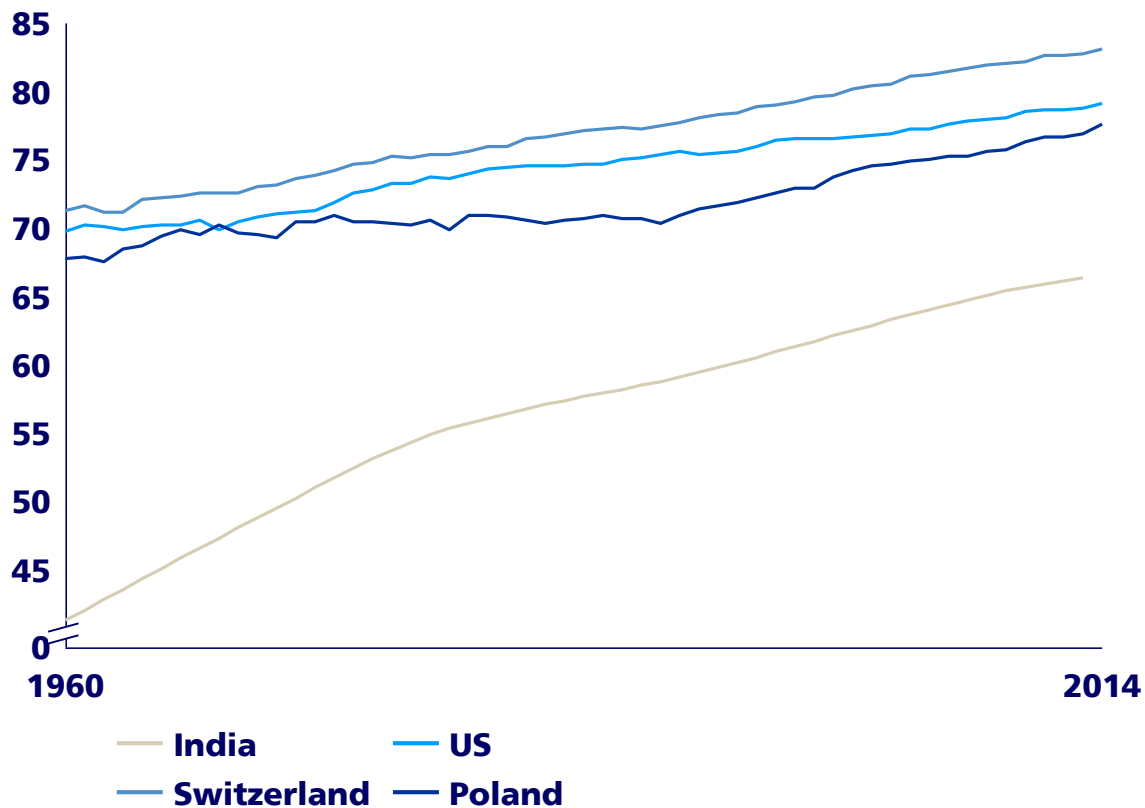
# Prevalence of disability is increasing with age

## PEOPLE WITH DISABILITIES BY AGE GROUP (2014)



# People are living longer globally

## LIFE EXPECTANCY AT BIRTH (1960-2014)



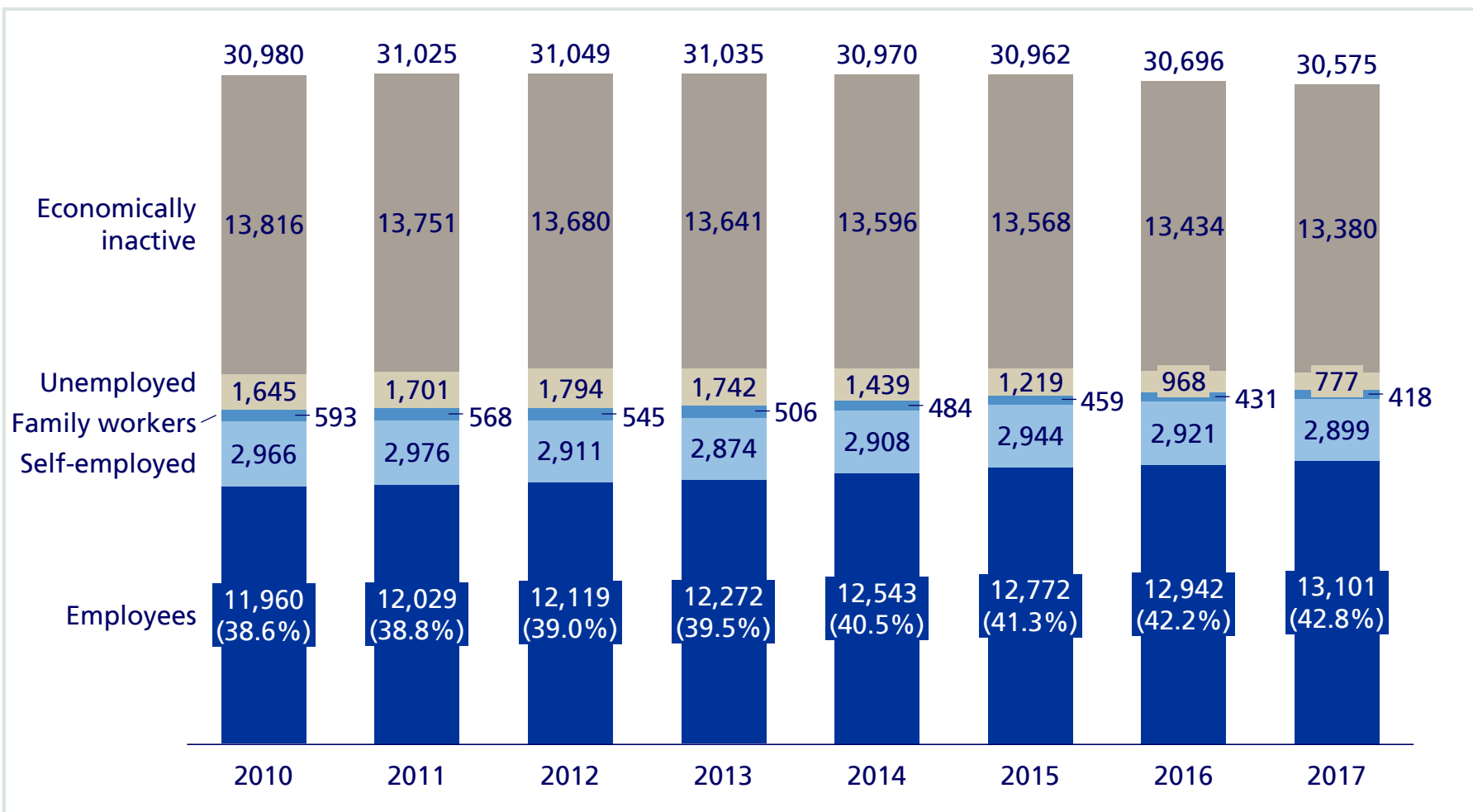
### Improvements in life expectancy since ...

	<u>1984</u>	<u>2004</u>
CH	6.5 y	2.0 y
US	4.5 y	1.8 y
Poland	7.0 y	2.6 y



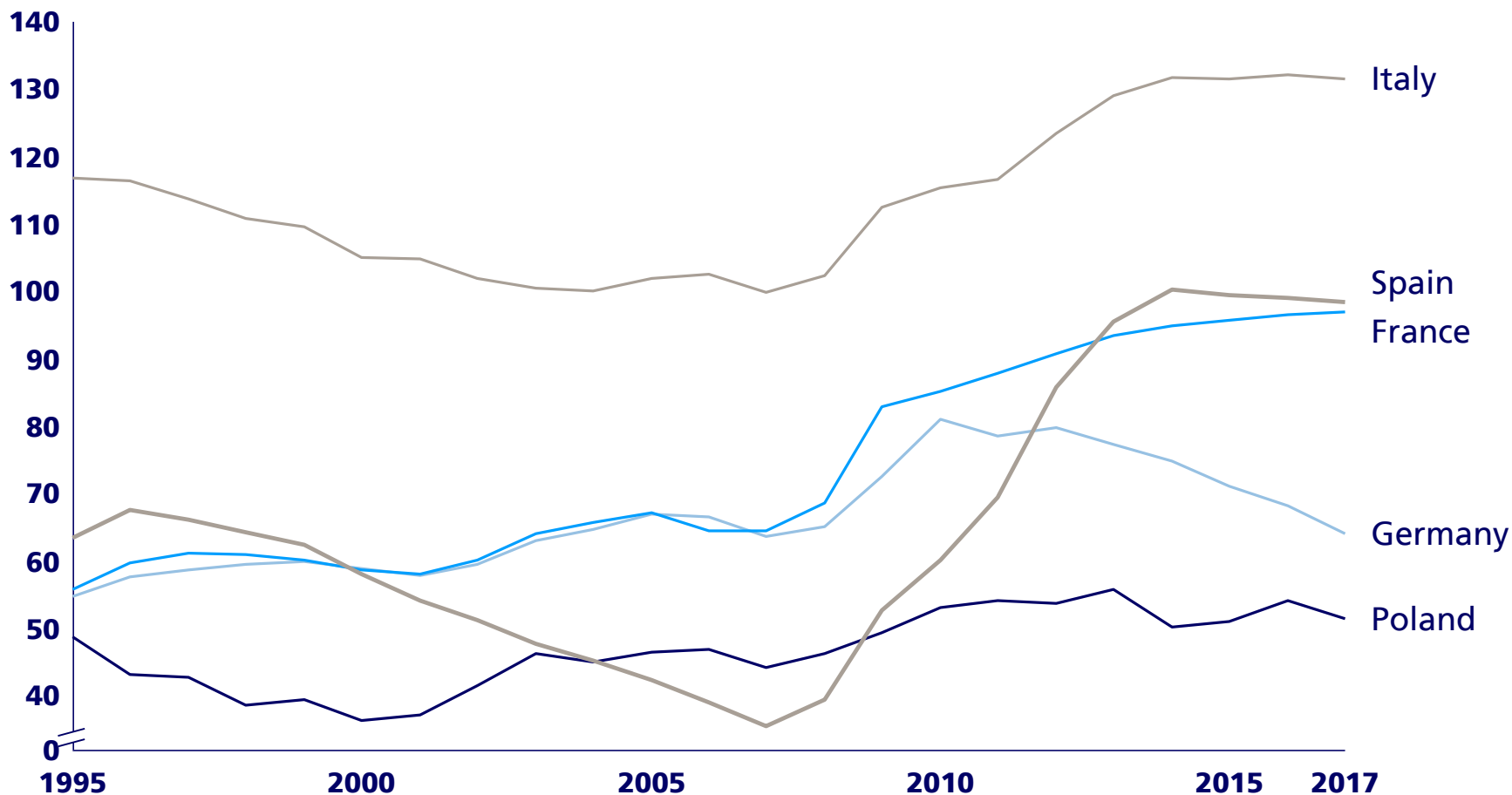
# About 43% of the labour force in Poland are employees

**EMPLOYMENT STATUS OF LABOUR FORCE IN POLAND AT Q4, IN THOUSANDS (2010-2017)**

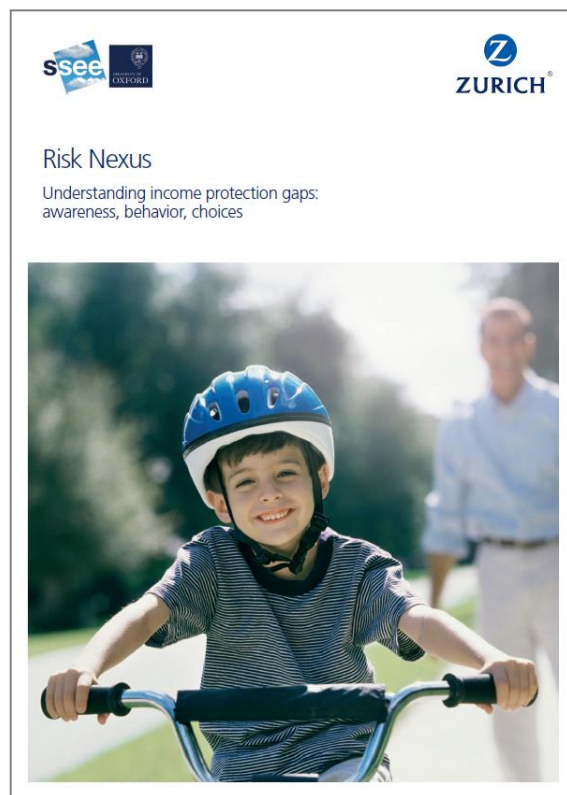


# Increasing levels of government debt; relatively good position for Poland

## GENERAL GOVERNMENT GROSS DEBT, IN PERCENT OF GDP (1995-2017)



# Understanding attitudes towards income protection



## Why

To better understand the income protection gap from the demand side – what are the behavioral and institutional factors influencing people to protect their income?

## How

13,500 people in 12 countries responded to a survey exploring:

- Awareness, behaviors, choices as well as knowledge and beliefs
- Attitudes toward personal finance & income protection insurance
- Roles of governments, employers and individuals in providing protection

## Who is at risk and who is best protected?

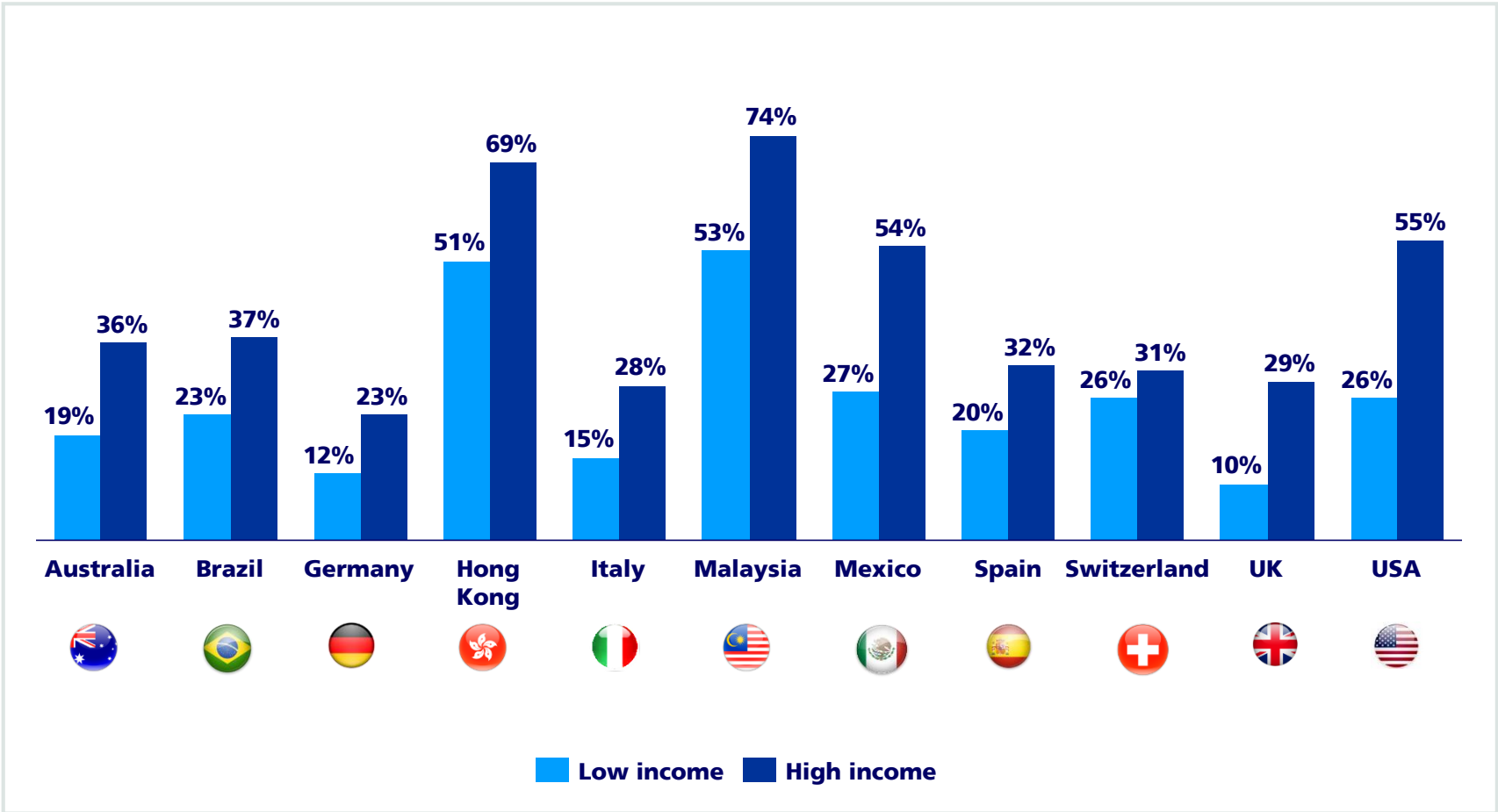
- There is **significant untapped demand** for income protection insurance: 52% of people without insurance consider buying it
- **Middle-income earners** are **most at risk** of IPGs as government support is increasingly focused at the lower end of the income scale
- **Older workers** are more likely to **lack** – and need – **protection**, e.g., only 30% of 40+ years old people vs. 52% of below 40 years old covered in the US
- **Primary wage earners** and **full-time workers** are most likely to have income protection insurance

## What are the drivers of demand?

- **Drivers of demand** for income protection insurance **vary significantly** across countries and cannot be explained by any conventional factors
- Yet, **Financial Literacy** in general and **personal experience of IPGs** in particular is one of the **most important drivers** of demand across all countries
- **Misconceptions** about price of results in people not taking up insurance to protect their income – willingness to pay remarkably consistent at 5% of income

# People with high income are more likely to hold income protection insurance

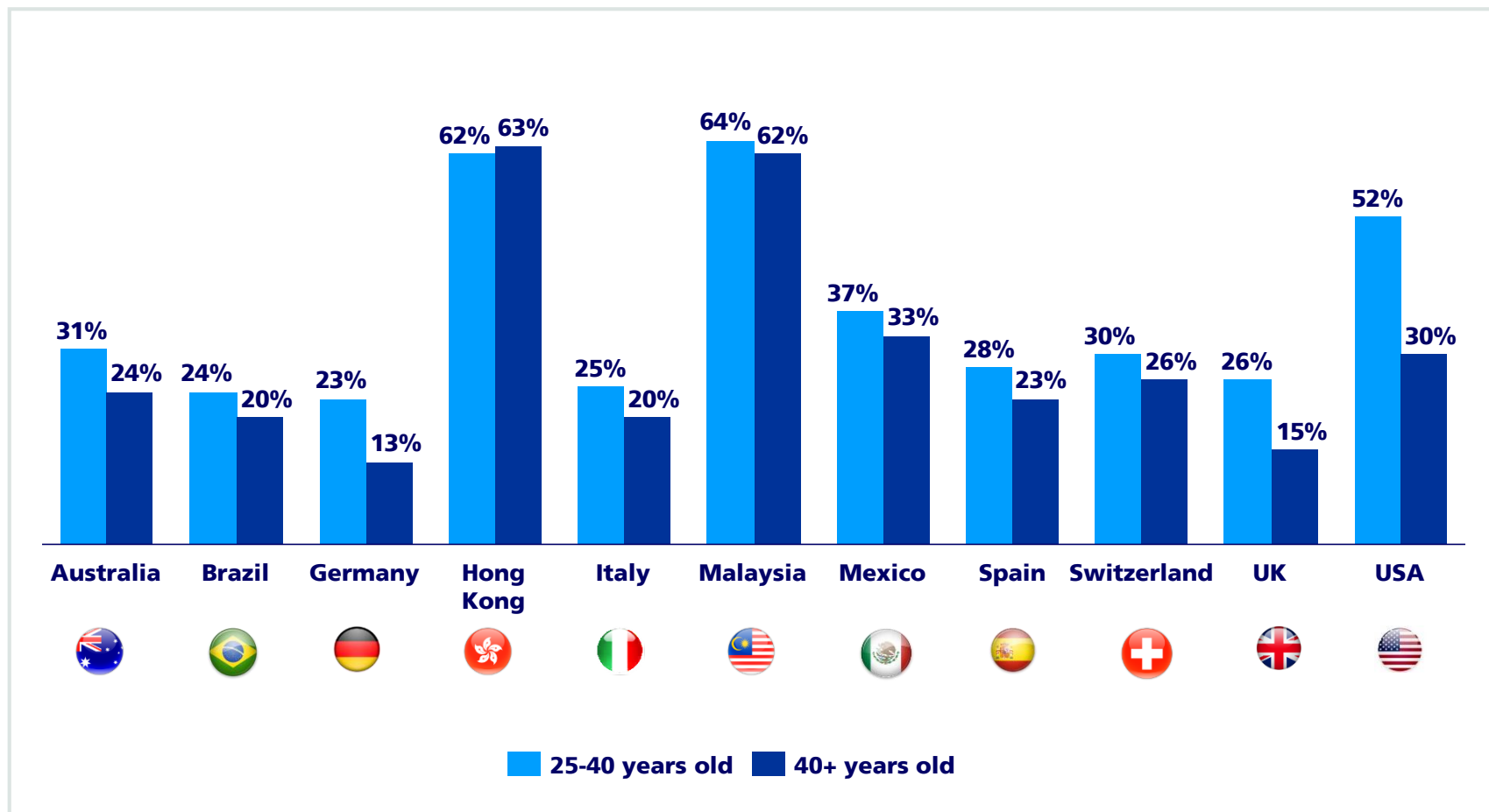
## PEOPLE WITH INSURANCE BY INCOME LEVEL



Note: Results for the UAE not included above

# Although more at risk, older people are less protected against IPGs

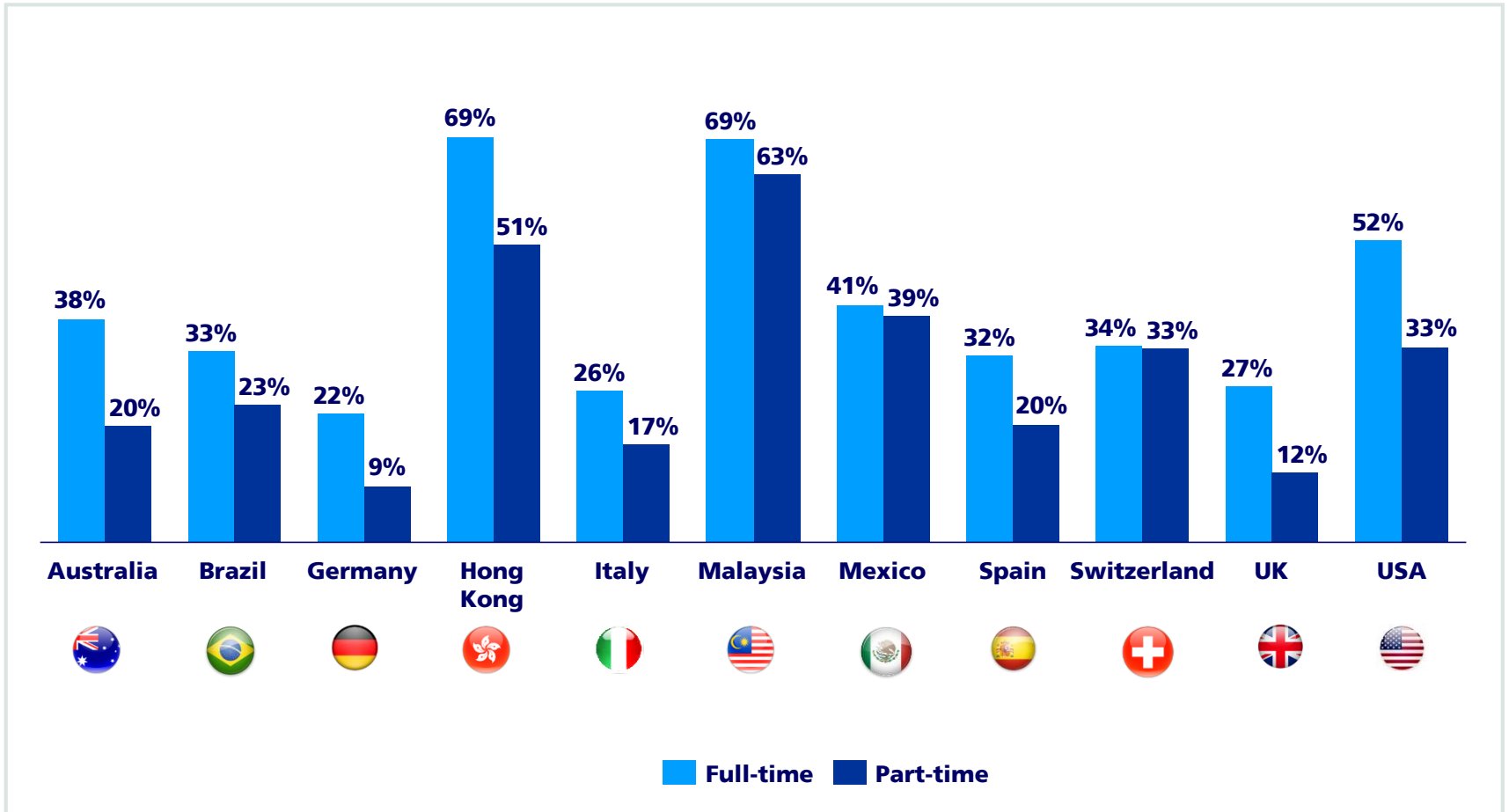
## PEOPLE WITH INCOME PROTECTION INSURANCE BY AGE



Note: Results for the UAE not included above

# Full-time workers are better protected than part-time or self-employed workers

## PEOPLE WITH INSURANCE BY WORK STATUS



Note: Results for the UAE not included above

# Closing IP Gaps by guiding the individual

In countries and sectors where income protection insurance is not universally mandated, the challenge of closing the IPG is essentially twofold:



increasing enrollment in benefits programs and sustaining regular, sufficient contributions over time



1

**Nudge workers** to enrol in income protection schemes – and sustain adequate coverage over time

2

**Choose culturally** appropriate nudges

3

Combine nudges with engagement to **encourage informed financial decision-making**

4

Combine **classroom-style** financial literacy instruction **and hands-on practice** and counselling

5

**Tailor financial education** to the needs of different demographic groups

6

**Increase the transparency** and clarity of income protection products

7

Experiment with **digital methods to bolster education**, provide regular nudges and enhance engagement



# Closing IP Gaps by implementing workplace-based solutions

Productive employment



**1** Evaluate the **risks and rewards** of coercion

**2** **Gain awareness** of which **measures** aimed at cost-cutting actually cut costs

**3** Promote **awareness of mental health** – and a culture of **acceptance** around it

**4** Integrate return to work (i.e. rehabilitation) initiatives into **well-being programs**

**5** Focus policy measures on **'progressive retirement'**

**6** **Avoid a one-size-fits all** approach to retirement

# Closing IP Gaps by introducing new policy approaches

**1** Create state-sponsored extensions of private insurance cover

**2** Promote return to work as a matter of state policy

**5** Harness the potential of IT platforms to enable 'portability' across jobs and jurisdictions

Incentivizing employers to **safeguard the incomes of disabled employees**



would encourage **early intervention and rehabilitation**



**3** Extend employer responsibilities for medically impaired employees

**6** Collect robust national data to help measure income protection gaps

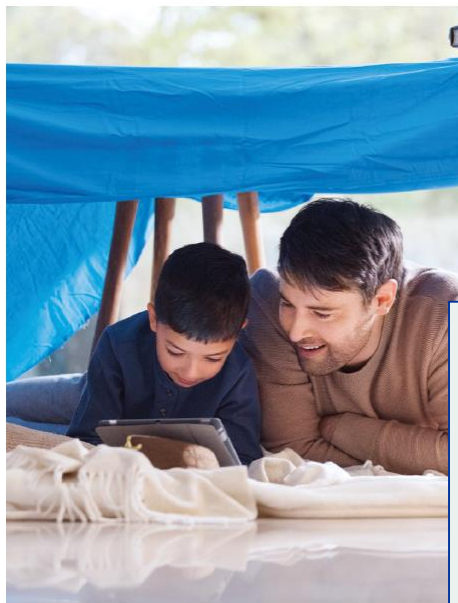
**4** Redefine the employer-employee relationship in the sharing economy

**7** Keep an eye on the long-term results of global experiments with universal basic income (UBI)

# Two existing examples from Australia and the Netherlands



Embracing the income protection gap options and solutions



## Box 3: Australia: combining cover for disability and old age

In Australia, all contributors to the country's mandatory Superannuation ('Super') scheme are provided with default cover against the risks of total and permanent disablement (TPD) and premature death, and also receive a form of limited income protection known as salary continuance. This additional cover operates on an opt out basis, although this is currently under review. Tax privileges under salary sacrifice encourage lower-paid workers to supplement their Super savings. The mandatory element of Australian cover is limited. But some Super schemes also offer elective life insurance and cover the costs of specialist medical treatments and

rehabilitation programs (although the Australian government has recently introduced a social insurance disability scheme). For Australian employers choosing a Superannuation scheme, the managerial cost of adding additional premium is marginal.

The scheme's strengths include basic protection against the risks of total disability or premature death, offered by default, with premiums deducted from members' accounts and – in some cases – supplementary cover. For major funds, automatic cover for large numbers of subscribers offers economies of scale. Its weaknesses stem from the opaque nature of provisions and the minimal cover

provided by law, which means that members, including the self-employed, are responsible for paying TPD insurance or supplementary life premiums – and in practice, many do not. Nonetheless, the success and popularity of the Superannuation scheme, which has been in existence for 30 years, explains why life cover is much more extensive in Australia than in the UK – and why protection against permanent disability or premature death, being so closely linked with retirement savings, gets more attention in Australia than in other English-speaking countries.

## Box 4: Promoting a timely return to work in the Netherlands

Social security reforms in the Netherlands have encouraged employers, rather than government, to take responsibility for disabled workers. Dutch employers are required to pay for the first two years of incapacity at 70 percent of salary. By mandating employers to cover both the incomes and rehabilitation costs of disabled workers (or pay higher social insurance contributions), the Dutch government has encouraged highly regulated cooperation between companies and the private insurance sector.

This has reduced the numbers of people with impairments receiving state benefits. All Dutch companies must employ a company doctor. Immediate medical/psychiatric assessments facilitate an eventual return to work. Insurers take the lead in monitoring the physical and psychological health of workers, arranging medical assessments and individualised rehabilitation or retraining programs, specialist care and treatments.

# And there are many more examples – not all addressing IPGs to the same extent

**Current initiative on PEPP  
(Pan-European Pension  
Product)**



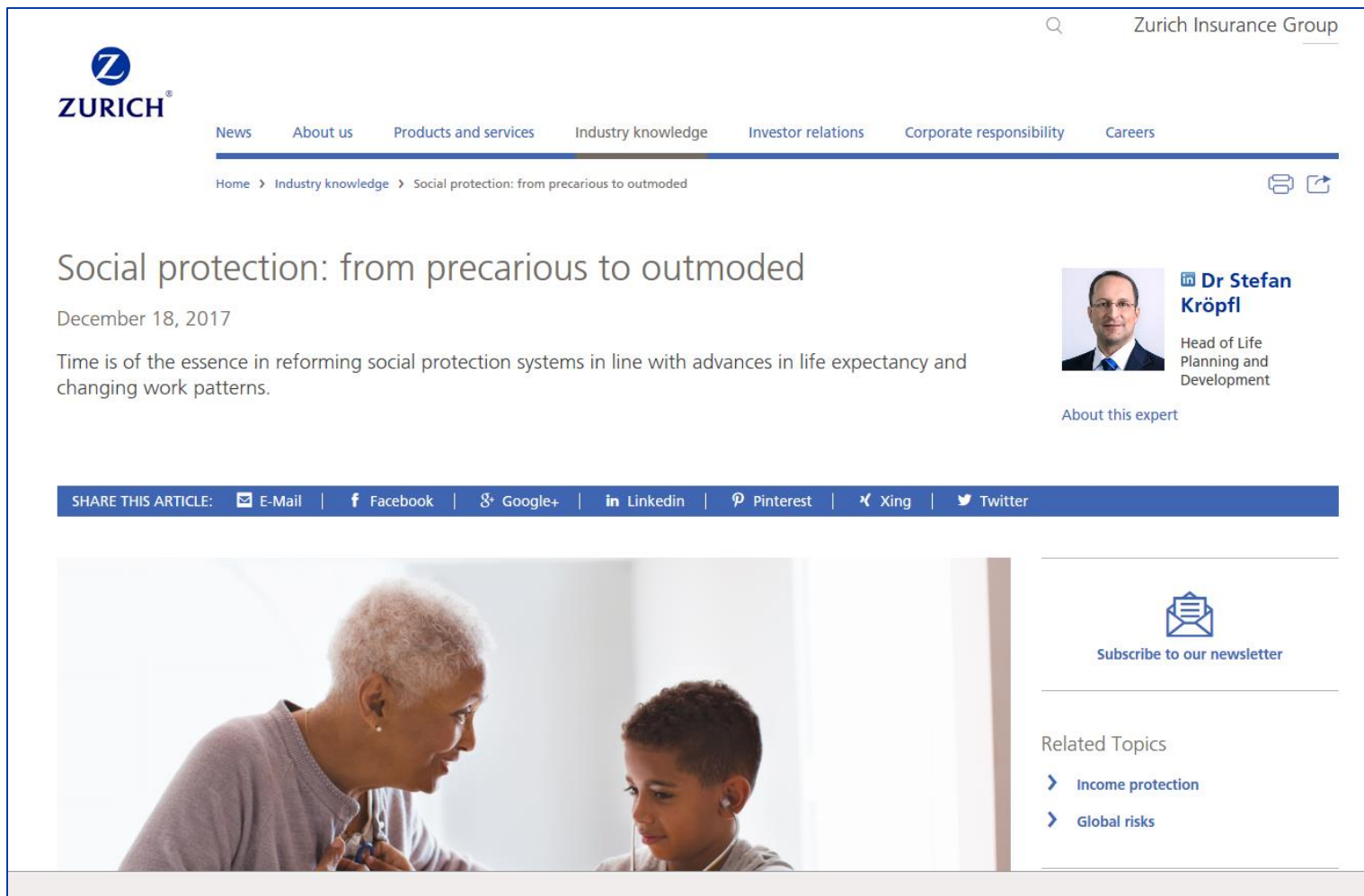
**Workplace pensions and  
auto-enrollment**



**Superannuation schemes**

**Workplace pensions /  
BVG**





The screenshot shows a Zurich website article page. At the top left is the Zurich logo. To the right is a search icon and the text 'Zurich Insurance Group'. Below the logo is a navigation menu with links: News, About us, Products and services, Industry knowledge, Investor relations, Corporate responsibility, and Careers. A breadcrumb trail reads: Home > Industry knowledge > Social protection: from precarious to outmoded. The main heading is 'Social protection: from precarious to outmoded' with a sub-heading 'December 18, 2017'. The article text begins: 'Time is of the essence in reforming social protection systems in line with advances in life expectancy and changing work patterns.' To the right is a profile for 'Dr Stefan Kröpfl', Head of Life Planning and Development, with a photo and a link 'About this expert'. Below the article is a social sharing bar with icons for E-Mail, Facebook, Google+, LinkedIn, Pinterest, Xing, and Twitter. At the bottom left is a large image of an elderly woman talking to a young boy. At the bottom right is a 'Subscribe to our newsletter' button with an envelope icon and a 'Related Topics' section with links for 'Income protection' and 'Global risks'.

<https://www.zurich.com/en/knowledge/topics/income-protection>

# Appendix

# Limited understanding of Life expectancy – Example Germany: Life expectancy underestimated by 7 years on average



Privatkunden > Vorsorge & Vermögen > Initiative der Deutschen Versicherer Du lebst 7 Jahre länger als Du denkst

Eine Initiative der Deutschen Versicherer


## Du lebst 7 Jahre länger als Du denkst - Jetzt ist die richtige Zeit

"Du lebst sieben Jahre länger als Du denkst" ist eine Initiative der Deutschen Versicherer. Sie soll dafür sensibilisieren, dass wir immer älter werden und länger fit bleiben. Denn die meisten Deutschen unterschätzen ihre eigene Lebenserwartung deutlich. Viele haben zudem ein überholtes Bild vom Älterwerden.

<https://www.zurich.de/de-de/privatkunden/vorsorge-und-vermoegen/7-jahre-laenger>



**7 JAHRE LÄNGER**   MAGAZIN   TOOLS   STANDPUNKTE   Suche



### Wie Wohnen mit Oma funktionieren kann

In Deutschland gibt es immer weniger Mehrgenerationenhaushalte. Einige haben aber auch wieder Lust auf „alle unter einem Dach“.

[» Zum Artikel](#)

**GESUNDES ALTERN**  
**15 Jahre hängen am Lebensstil**  
Dr. Eckart von Hirschhausen gibt Tipps für ein langes Leben  
[» Zum Interview](#)

**SCHÄTZEN SIE, WIE ALTE SIE WERDEN.**

**STIEGENDE LEBENSERWARTUNG**  
**7 Gründe, warum wir immer älter werden**  
[» Zum Artikel](#)

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