



► HR

Protecting your business against
sickness and absence costs

Part 2 - Cure

An Ink Guide to ...

Protecting your business against sickness and absence costs

Part 2: Cure

We believe that the best insurance against the cost of sickness absence is simply reducing sickness absence in the first place! You can do this by adopting a 'best practice' approach to HR and people management, and we discuss this in Part 1 of this guide, 'Prevention'.

We recognise, however, that not all sickness absences are preventable and, as a business owner, you must factor the cost of sickness into your business plan. By holding a pragmatic view on the probability of sickness (which is a sad fact of life for all of us) you can serve your business well financially and, more importantly, provide peace of mind to your employees.

This guide looks at the 'cure options' available to you when the financial health of your business is at risk from sickness absence. Please note, these options are not mutually exclusive.

Option 1: Support from the State

As you know, you can no longer reclaim the cost of Statutory Sick Pay from the Government. This compensation was repealed in April this year, and has hit businesses hard.

Although the first three days of any sickness absence are unpaid, and most absences tend to be for one or two days, your liability for sick pay will still average out at around 5 or 6 days – i.e. one week – for each employee. If you run a business with, say, 25 employees, and your sickness absence is equal to the national average, then you will be approximately £2,188.75 worse off in 2014 than you were in 2013.

As you also know, the true cost of sickness absence is far greater than what you no longer receive in SSP off-sets. Just calculate the value of a day's pay for each absentee, add in the cost of any temporary cover, and you'll come up with a number that will probably make you wince. The Government will only start to take the pain away for you when an employee has been off sick for over 28 weeks. At that time, they may qualify for Employment Support Allowance (ESA) but, at just £101.15 per week (i.e. equivalent to an annual salary of £5,259.80) this will only transfer the pain from you to your employee ... who probably has quite enough to be worried about without the additional anxiety of wondering how they're going to pay their household bills.

Option 2: Self-Support – Company Sick Pay

Clearly, there's a gap to be filled between the support that comes from the State and the support that your business needs, financially, and the support that your people need - both financially and emotionally. Company Sick Pay may have a cost to your P&L but it provides an upswing to the 'balance sheet' of employee commitment. And this, in our view, shouldn't be under-estimated.

You can protect yourself from inauthentic sickness absence quite easily – Part 1 of this Guide suggests how. By developing clear systems of absence management you can significantly reduce the risk of paying for hangovers and hooky and **only** provide contractual sick pay for genuine and/or long-term sickness absence. Remember, you are free to design a Company Sick Pay scheme to suit your business. For example, you might have a qualifying period of 6 months or one year's service. You might have phased reductions in benefit, such as 100% of income for up to 4 weeks, 75% for the next 4 weeks, and 50% for the next four weeks and then 25% until Employment Support Allowance kicks in (at 28 weeks).

Option 3: Third Party Support - Insurance

The great news for employers is that you can insure against the cost of sick pay (at the SSP level) and you can provide income protection to employees who are long term incapacitated.

Short Term

If you take out Sick Pay Insurance you will normally expect to pay a premium of around £200 per employee per year. Only you can tell whether this premium will make sense for you; if you have high levels of sickness absence (of one week or more) then it will.

Long Term

If you want to make sure that your employees will earn more than the EAS limit of £101.15 during long term sickness absence you should explore the options for Income Protection Insurance.

Cover is available for groups of as few as 3 employees and annual premiums start at around £750, giving your long-term absent employee an agreed percentage of their salary (typically 30% to 80%) for a set period of time which may be until normal retirement age. The insurance will kick in after an agreed period of absence, which is typically 13 to 52 weeks.

Apart from the obvious benefit of cost control, insuring your sickness and absence costs opens your company up to a huge range of value added services and expertise across the insurance market. Employers with Income Protection Insurance can

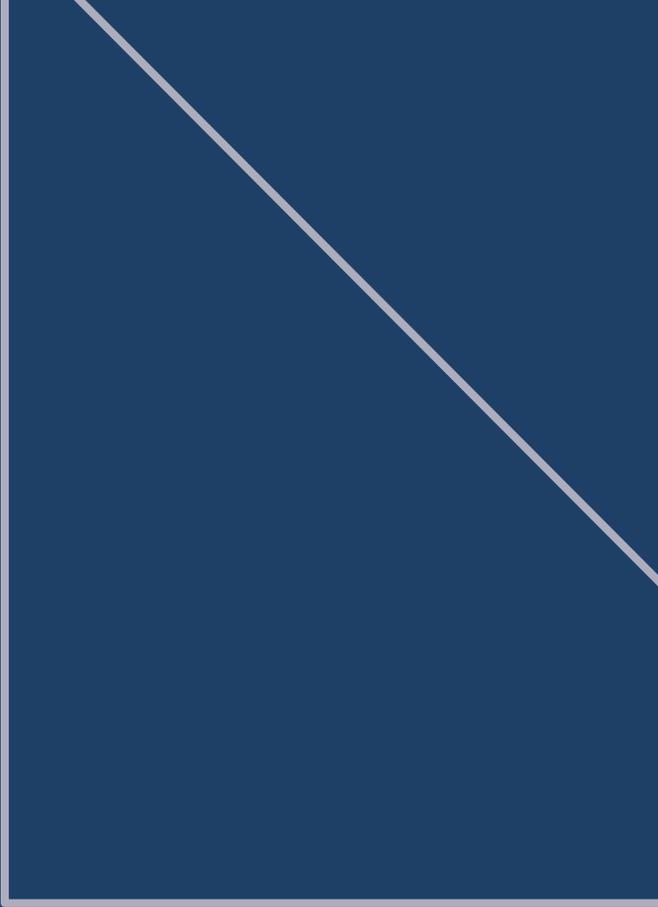
reasonably expect to also have access to the following benefits for their employees (included within the annual premium):

- Employee Assistance Programmes (EAP)
- Occupational Health
- Vocational Rehabilitation
- Legal Advice Helpline

In addition, many insurers offer a facility to pay claims directly, which enables the employer to remove an individual from the payroll (leading to potential savings against the cost of the company insurance premium).

Summary

When 'prevention' can only go so far, it's good to know that there are cure options for employers who are worried about the cost of employee sickness. When these insurances are provided as a visible benefit to the employee the value to the company goes far beyond the financial impact. The reassurance that protection is in place, and that the employee's financial health is being taken care of creates significant return in commitment, engagement, and productivity.



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