



Summary report:

Making Statutory Sick Pay Work

The business, governmental and societal benefits of sick pay reform

July 2023

A WPI Economics report for the Centre for Progressive Change

About WPI Economics

Founded in 2016, WPI Economics makes an impact through economics that people understand, policy consulting and data insight. We work with a range of organisations – from FTSE 100 companies, to SMEs, charities, central and local government – to help them influence and deliver better outcomes through improved public policy design and delivery.

Our focus is on important social, environmental and economic policy debates, such as the future of the green economy, productivity and growth, levelling up and mental health. We are driven by a desire to make a difference, both through the work we do and by taking our responsibilities as a business seriously. We are a Living Wage employer, currently working towards BCorp accreditation.



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About this report

This document provides a summary of a full report that was commissioned by the Centre for Progressive Change, with support from Unison and the Alex Ferry Foundation. It leads on from work on Statutory Sick Pay reform that WPI Economics has previously undertaken with Scope and Unum.

The full report is available at: <https://wpieconomics.com/publications/SSP-reform/>

About the Centre for Progressive Change

The Centre for Progressive Change (CPC) is a not-for-profit organisation aimed at building national organising campaigns for a more progressive society.

We do this by driving our own national campaigns, carrying out research on what works when creating progressive change at scale, and by sharing our expertise through training and consultancy to support others to be effective.

This report is funded by:



Foreword

Dan arrived at the doctor's surgery with a lump on his side. After nervously awaiting a scan, he was later diagnosed with cancer. An assistant manager at a supermarket, he needed to take a period out of work for a gruelling course of radiotherapy.

While dealing with this life-changing event, Dan discovered that after about three weeks of his employer's occupational health scheme he would only receive statutory sick pay, the legal minimum. He'd then get less than £3 an hour, a tiny proportion of his normal salary. Dan ended up on sick pay for four months and needed to rely on his partner for help with rent and travel costs. He eventually left his job, taking a prolonged period off to recover properly, after suffering anxiety and depression from the stress of the situation.

Through our Safe Sick Pay campaign, the Centre For Progressive Change has heard thousands of stories like this one from workers who don't get enough occupational sick pay from their employer. We have heard of people being diagnosed with a serious illness or suffering a workplace accident and finding they are unable to pay the bills. Care workers who can lose an entire week's income due to the three unpaid 'waiting days'. Some people getting no sick pay at all and seeing their physical and mental health worsening and their careers cut short as a result.

This is why we are campaigning for reform. We listened to 500 workers in the cleaning industry who told us it would increase their quality of life and keep them in work longer. Now this important new research explains how the benefits outweigh the costs of making sick pay changes.

The Government made it a priority to get people back to work in the March 2023 budget. As this compelling new evidence from WPI Economics demonstrates, Rishi Sunak's Government needs to reform sick pay to make that a reality. By ensuring every worker gets a decent income from day one of their illness, we can leapfrog competing nations by increasing the number of productive days workers spend in work, whilst allowing them time to recover from illness. Longer term, we'll see better workforce health outcomes.

COVID taught us all the value of workers and the people they serve being safeguarded from illness. But the lessons of that era have not yet translated into policy change. Long gone are the days where we are ok with people coming to work with an infectious disease. To keep our families and communities safe we need to ensure people can stay home when ill. We encourage the Government and MPs of all parties to work with us in making these common sense reforms, which have the potential of adding billions to the economy, a reality.

Amanda Walters

Director, Centre for Progressive Change



Executive Summary

Statutory Sick Pay (SSP) does not work for people, the economy or society. SSP is set at a level that means that the equivalent hourly rate for a full-time worker needing to take three days off sick over a week-long period, can be as low as £1.10 an hour. With this in mind, it is no surprise that more than half (52%) of people who rely on SSP are living in poverty. SSP also does little to ensure that employees and employers have the support they need, so that the onset or recurrence of a health condition or disability is not a one-way track to claiming long-term benefits.

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Beyond this, the eligibility criteria mean that seven in ten sick days are not covered by the scheme and up to 2m people would not qualify for its support at all, because they earn too little.¹ Evidence we heard as part of this research suggested that this leads to people having to come into work sick, when they should be having time off to get better; leading to a deterioration in health and impacting productivity. The costs to us all are significant. The most recent evidence suggests that:

- 185m working days were lost to sickness absence in 2022.²
- The average days lost per worker to presenteeism (when someone comes into work despite being sick and unable to fulfil their job role effectively) amounts to 35 days per year.³
- 45% of new claims to disability-related benefits come from employees that had taken a period of sick leave before claiming.⁴

Of course, the causes of this are deep and widespread. Workplace health and wellbeing is not good enough in the UK and, collectively, employers, Government and employees do too little to support it. Tackling this would reduce sickness absence, stem the flow of employees from work to long-term benefits and bring significant benefits to individuals, businesses and society. That means that, as we look towards the next Parliament, there is a real chance to grasp the opportunity for a widespread debate about how to improve workplace health and wellbeing, whose responsibility it is, and how (as a society) we are prepared to pay for it.

The starting point of this should be Statutory Sick Pay. Evidence from other countries, and from during the pandemic, shows that aside from the benefits to employees, more generous sick pay systems increase productivity, reduce both time off sick and presenteeism and lead to better public health outcomes, because people are not spreading illness by coming into work sick.

Real life view on the impact of being on SSP:

“It’s [SSP] devastating. I’m below the poverty line as it is. I don’t smoke, I don’t drink, I don’t take drugs, I don’t socialise, but my income doesn’t meet my outgoings as it is. Even losing £10 is going to affect me.”

“It does discourage you from taking time off if you’re ill because you simply can’t afford to. You get a lot of people going into work ill which is no good for them and not good for everyone else either because everyone ends up getting it.”

Source: Qualitative research published by DWP

These are not new arguments. In fact, reform of SSP has been on the policy agenda for many years, with the Department for Work and Pensions recently consulting on various options. However, despite positive feedback from those who responded to the consultation (including business groups), these proposals were subsequently dropped. In part, this is likely to be due to concerns over the potential cost of SSP, and any future reform, to business. But these concerns fail to consider the potentially significant business benefits of reform and, due to a lack of robust evidence, are likely to overestimate any potential costs.

This report tackles those issues head on. It attempts to provide a solid evidence base on which policy thinking can be taken forward as we approach the next General Election. Using original analysis of the Labour Force Survey it provides updated figures for the number of sickness absence days where SSP is actually paid each year, and the estimated business costs of this. From this baseline, it then provides estimates of the direct business costs of three potential reforms to SSP:

- **Day one sick pay.** This would remove the waiting days requirement, so that people can claim SSP from the first day of sickness absence;
- **Removing the lower earnings threshold,** so that people can claim SSP regardless of the level of their earnings; and
- **Increasing the rate of SSP.** The report provides a range of scenarios including paying the real Living Wage, the National Living Wage (NLW) and 75% of the NLW.

For each of these, the potential benefits to businesses, the Exchequer and society are estimated, using conservative assumptions about the potential impact of these policies.

Six in ten (62%) employers agree that SSP is currently set at a rate that is too low and should be increased.

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The direct costs of the current system

The starting point is to understand who currently receives SSP and the direct costs to businesses of paying it. This report finds that relatively few people actually receive SSP. This is because around 70% of sickness absences are taken during spells of sickness that last for between one and three days; making the employee ineligible for SSP. Others are excluded because of their low level of earnings or employment status. Of the remainder, a significant proportion (the evidence suggests between 50% and 85%) are already covered by more generous occupations schemes, making SSP irrelevant to them.

Taken together, this underpins our estimate that, of the total of 185m days lost to sickness absence, around 14.5m are likely to have been paid SSP in 2022, with an associated total direct business cost of the SSP system of around £300m.

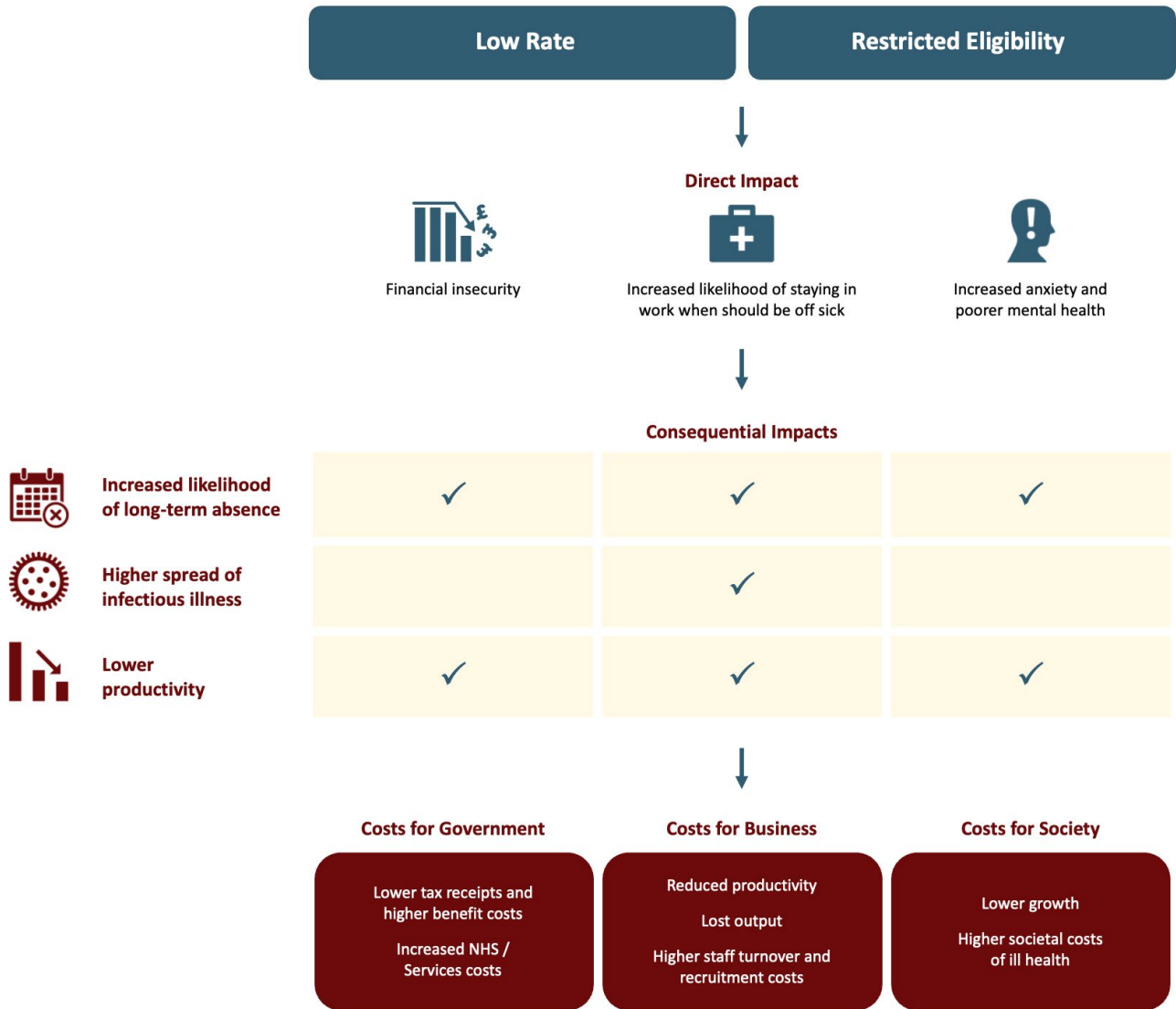
The potential benefits of SSP reform

The estimates of benefits are based on the framework outlined below, this shows how, by leading to increased financial insecurity and increased likelihood of presenteeism, the low rate and restrictive eligibility criteria lead to:

- An increased likelihood of long-term absence, as employees do not take the time off they need, potentially exacerbating physical or mental health problems. Financial insecurity also increases stress and anxiety.
- A higher spread of infectious diseases because people come into work when they are sick and infect people on the way into and at work. Poor health (physical or mental) has also been shown to increase risks of accidents and harm in the workplace.
- Lower productivity as people who are sick or have a physical condition are less productive at work. More broadly, there are strong links between how businesses treat their staff and overall wellbeing and productivity. Support during sickness is a key part of that.



Figure 1: How problems with SSP feed through to costs for government, business and society



Source: WPI Economics

The costs and benefits of reform

Overall, this is an area of policy that has a significant lack of accurate and up-to-date data on which to base analysis and research. In this report we use what we believe to be the most accurate data possible and combine this with a range of assumptions. We have based these assumptions on the existing evidence from the UK and abroad and chosen what we believe to be conservative estimates. Key assumptions include:

- **Business costs:** As outlined above, the impact of reforms to the direct business costs of SSP will hinge on the number of people who are currently covered by more generous occupational schemes. Existing evidence suggests that between 50% and 85% of the working population are in this situation. We have chosen to assume that two in three businesses (66%) provide more generous occupational sick pay schemes (either formally or informally) to their employees.
- **Benefits:** Whilst there is little direct evidence of reforms to systems like the UK's SSP, there is a wealth of evidence from other countries on the impacts of paid sick leave, absenteeism, presenteeism and the wider economic and productivity impacts. As such, we have used the evidence that is available to populate a range of key assumptions. Where there is significant uncertainty surrounding an assumption, we have chosen what we believe to be a conservative estimate. These assumptions are also only applied to those affected by the policy, meaning that no wider spillover effects are assumed. The assumptions behind our headline findings are that SSP reform leads to:
 - A reduction of sickness absence of 12.5% amongst those who have to take time off sick and are newly eligible for SSP (based on evidence from the United States that the introduction of mandatory paid sick leave reduced the overall number of scale of sickness absence by 25%).⁵
 - A reduction of sickness absence of 5% for the workplaces covered by SSP – again based on the US evidence (which suggested that aggregate sick leave was reduced, even for those not in the same workplace as those newly eligible).⁶
 - A reduction of the flow on to long-term benefits of 5%, for those affected. Combining a range of evidence into a conservative and plausible assumption.⁷
 - An overall increase in productivity equivalent to half a day of extra output, per employee affected. Combining a range of evidence into a conservative and plausible assumption.⁸

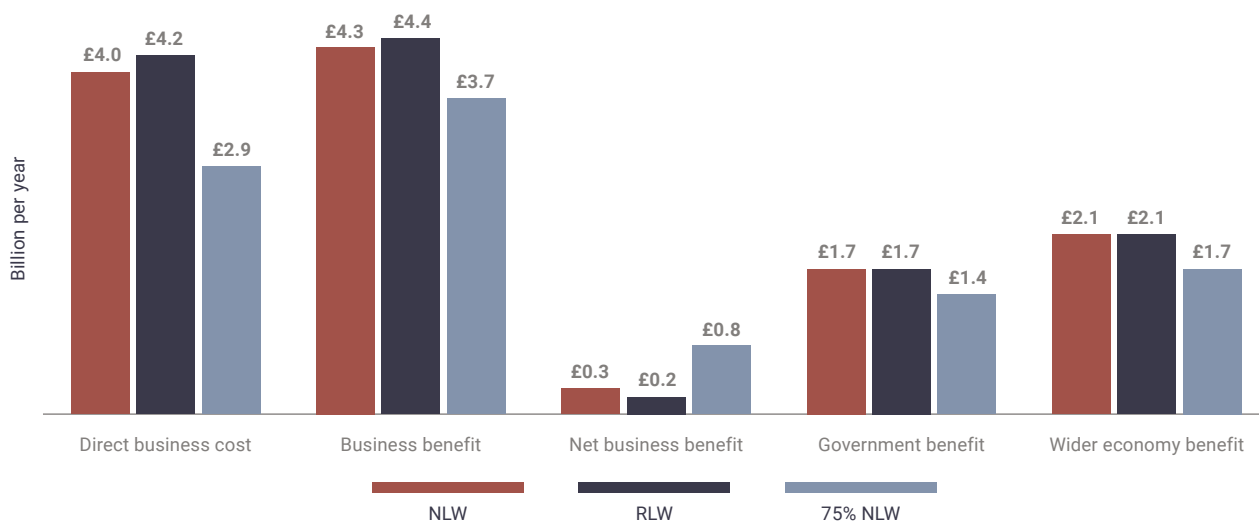
Headline results, based on these assumptions are shown below. In each case, the direct costs to business are more than covered by the business benefits. This means that each of these policies is estimated to lead to a net benefit to businesses. Significant benefits are also found for Government and for the broader economy.

Scenario	Direct business cost per year	Benefits per year		
		Business	Government (by year 5)	Broader economy (by year 5)
Day one sick pay	Total: £525m Per employee: £60	£2.9bn	£800m	£600m
Remove lower earnings threshold	Total: £125m Per employee: £15	£1.1bn	£400m	£350m
Increase rate to NLW	Total: £850m Per employee: £90	£1.3bn	£700m	£1bn
Increase rate to RLW	Total: £900m Per employee: £100	£1.4bn	£800m	£1.2bn
Increase rate to 75% of NLW	Total: £550m Per employee: £60	£825m	£500m	£700m

Source: WPI Economics

The figure shows the costs and benefits of various combinations of these policy options.

Figure 2: The costs and benefits of introducing day one sick pay, removing the lower earnings threshold and increasing the rate of SSP



The results show that across each of the three headline scenarios, there are small positive net benefits to businesses. As already highlighted, these are based on what we believe to be conservative assumptions. This means that we might reasonably expect the actual benefits to businesses to be higher. Reasons include:

- The increase in productivity could be higher than assumed here.
- There are wider potential benefits (in terms of reduced overall sickness absence of those not affected by SSP reform) for employees in firms not affected by the SSP reforms that are not considered here. This includes the potential reduction in the spread of infectious illnesses outside of the impacted workforces.
- There are wider spillover effects that would flow from reduced presenteeism and increased labour supply across the economy, which are not considered here.

A further consideration is the potential for Government to support those businesses that are most impacted by the proposals. We have identified a potential Exchequer benefit (increased taxes, reduced social security payments) of around £1.7bn. Allocating half of this to a fund that supports those businesses most affected would ensure that the overall direct business costs of the policies would reduce – providing further benefits to business.

Alongside these business and Exchequer benefits, there are also potentially sizable benefits to broader society. Together this means that reforms to SPP are good for people, business, the Exchequer and society. Our hope is that this report provides the basis for an evidence-based exploration of how these reforms could finally be implemented.

Endnotes

- 1 <https://www.tuc.org.uk/research-analysis/reports/sick-pay-all>
- 2 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/2021>
- 3 <https://ig.ft.com/special-reports/health-work/2019/>
- 4 <https://www.gov.uk/government/publications/understanding-the-journeys-from-work-to-employment-and-support-allowance>
- 5 Stearns, J., & White, C., (2018), 'Can paid sick leave mandates reduce leave-taking?'. Labour Economics, 51. p22-246. <https://doi.org/10.1016/j.labeco.2018.01.002>
- 6 Stearns, J., & White, C., (2018), 'Can paid sick leave mandates reduce leave-taking?'. Labour Economics, 51. p22-246. <https://doi.org/10.1016/j.labeco.2018.01.002>
- 7 See body of main report for references.
- 8 See body of main report for references.

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