

## An Employee Benefits Perspective

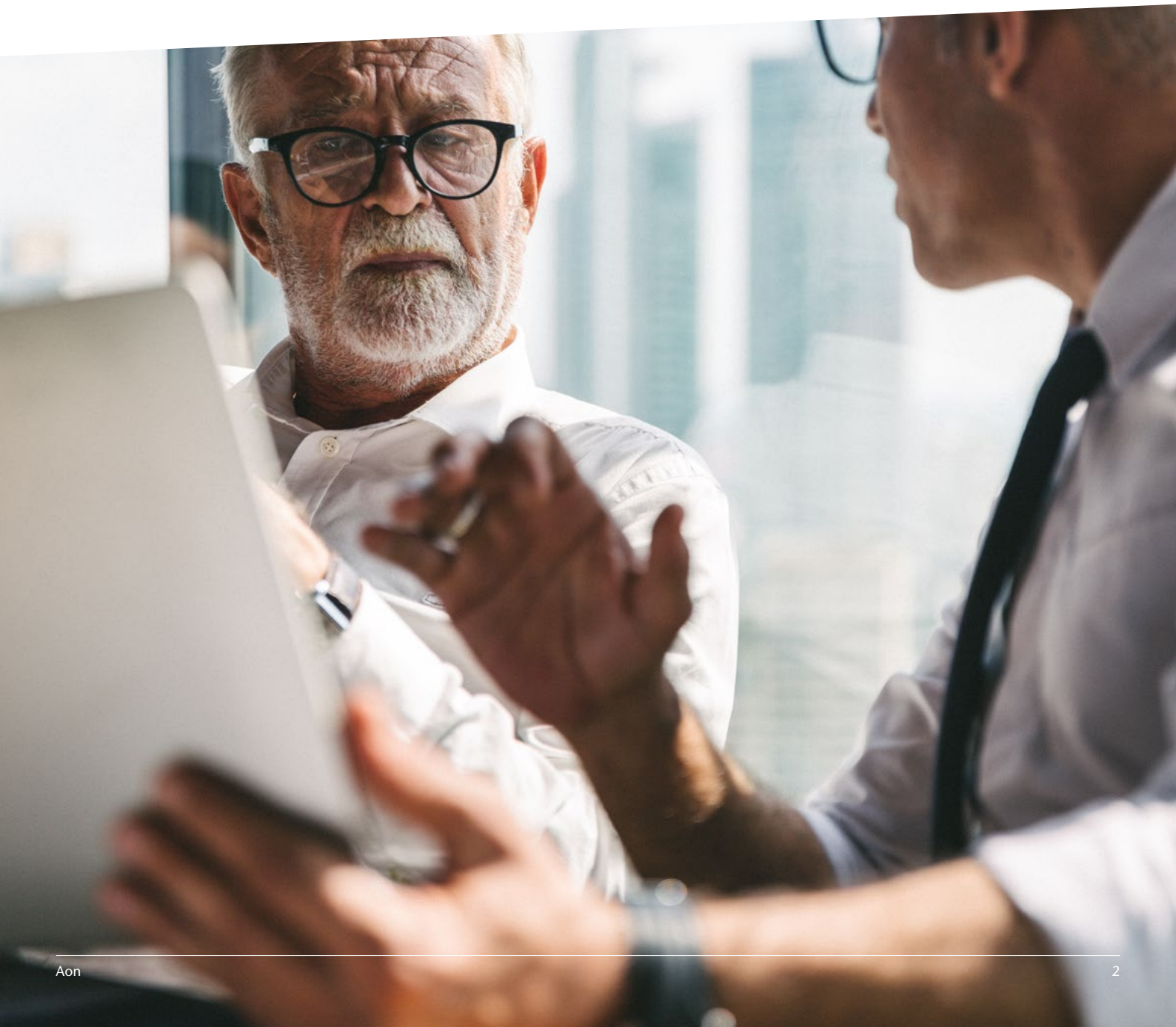
## An Employee Benefits Perspective



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# The Aging Population: Why it's time to take notice

Much has been said about the aging population and the wide range of issues and challenges this presents to employers and employees alike. But even in these most testing of times we have yet to see significant evidence that this growing people risk issue has reached the forefront of employers minds. Whilst the ongoing impact of the Coronavirus pandemic quite understandably has forced other issues to the top of the agenda, COVID-19 and its lasting impact will further serve to evidence that the aging population is one demographic megatrend that employers will need to understand and act upon in the very near future, for the benefit of their people and also for the ongoing performance of their business.





## Look at the numbers

In the UK average life expectancy has increased from 75 to 81 over the past 30 years and projections are that this will continue to rise to over 85 by 2040<sup>1</sup>. However, the impact of this continuing trend is further magnified when some closely linked statistics are also taken into consideration.

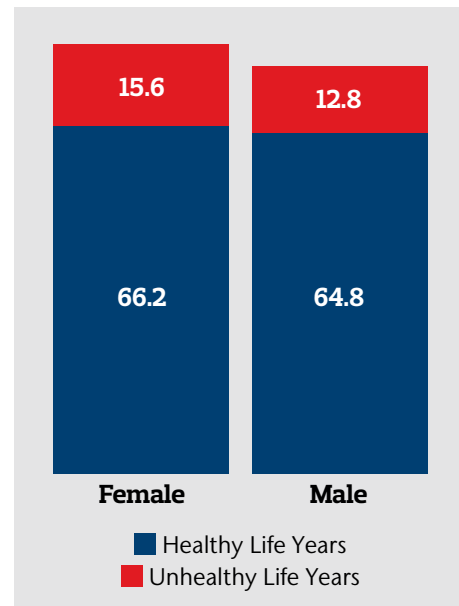
Firstly, we have to take into account the impact of “healthy life years”<sup>2</sup>. This is the period of our lives when we can be considered to be in a state of good health. Increased life expectancies increase the chance of extended periods of poor health in our later lives, especially if unhealthy life behaviours persist.

The second key theme is that aging populations coupled with consistent birth rates in the UK has meant that there has been a shift in the child/adult dependency ratio<sup>3</sup>. Adults of working age (20 to 65) will soon have a greater number of adult dependants (many with potential care needs) than child dependants (under 15s). Projections again suggest that this trend will only further accelerate in the years ahead.

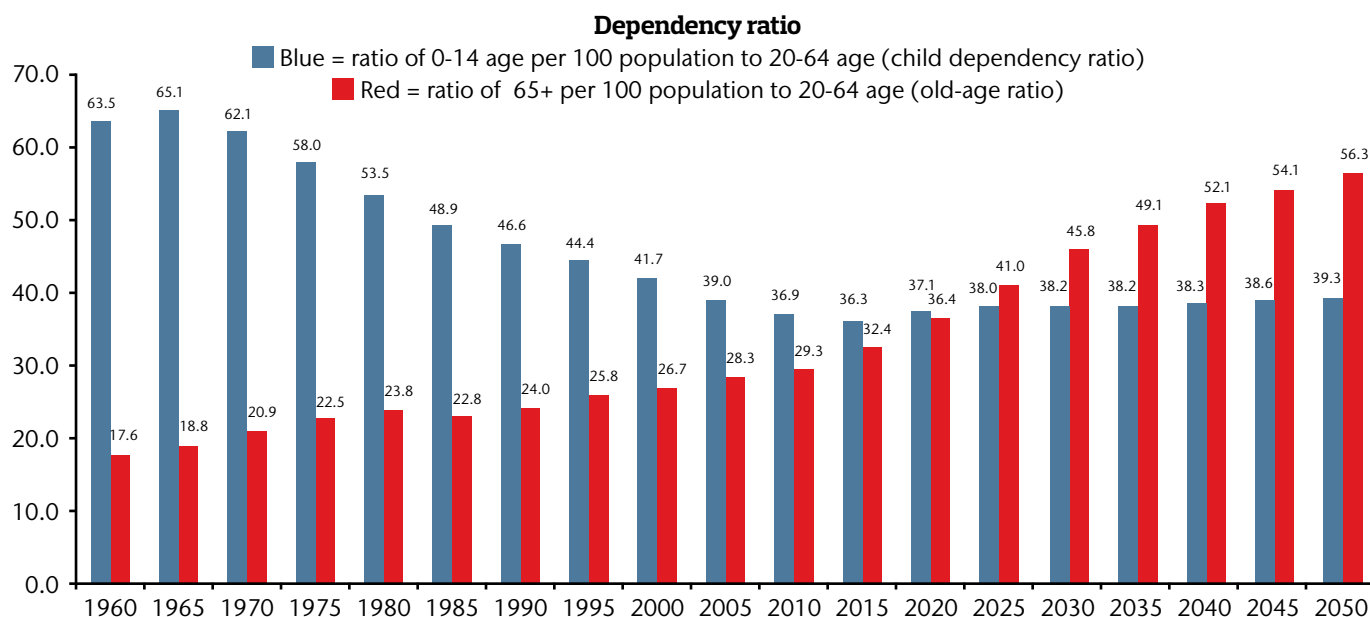
There is one final factor to take into account to fully round out this issue. A guarantee of a known income for a retirement that starts from the age of 65, or even earlier, is an increasingly uncommon outcome from many working lives. When coupled with our previous charts, increases to the state pension age, the fall in numbers with access to a Defined Benefit pension arrangement and continuing low levels of investment returns makes this a headline issue for most of the current and future workforce.

The aging population and these associated trends effectively leaves us as individuals with three key challenges:

- **How to mitigate the impact of poor health as we move into our later years**
- **Funding retirement**
- **A “sandwich” generation coping with dual responsibilities for care, with the shift increasingly moving to eldercare responsibilities**



The challenge for the modern employer will be to understand the impact and value of helping support their employees with these pressing issues beyond their historical obligations around pension and the duty of care.



1. United Nations Data (our world in data)

2. <http://www.aal-europe.eu/about/the-ageing-demographic-old/eurostat>

3. ONS Data

# Why should employers take note?

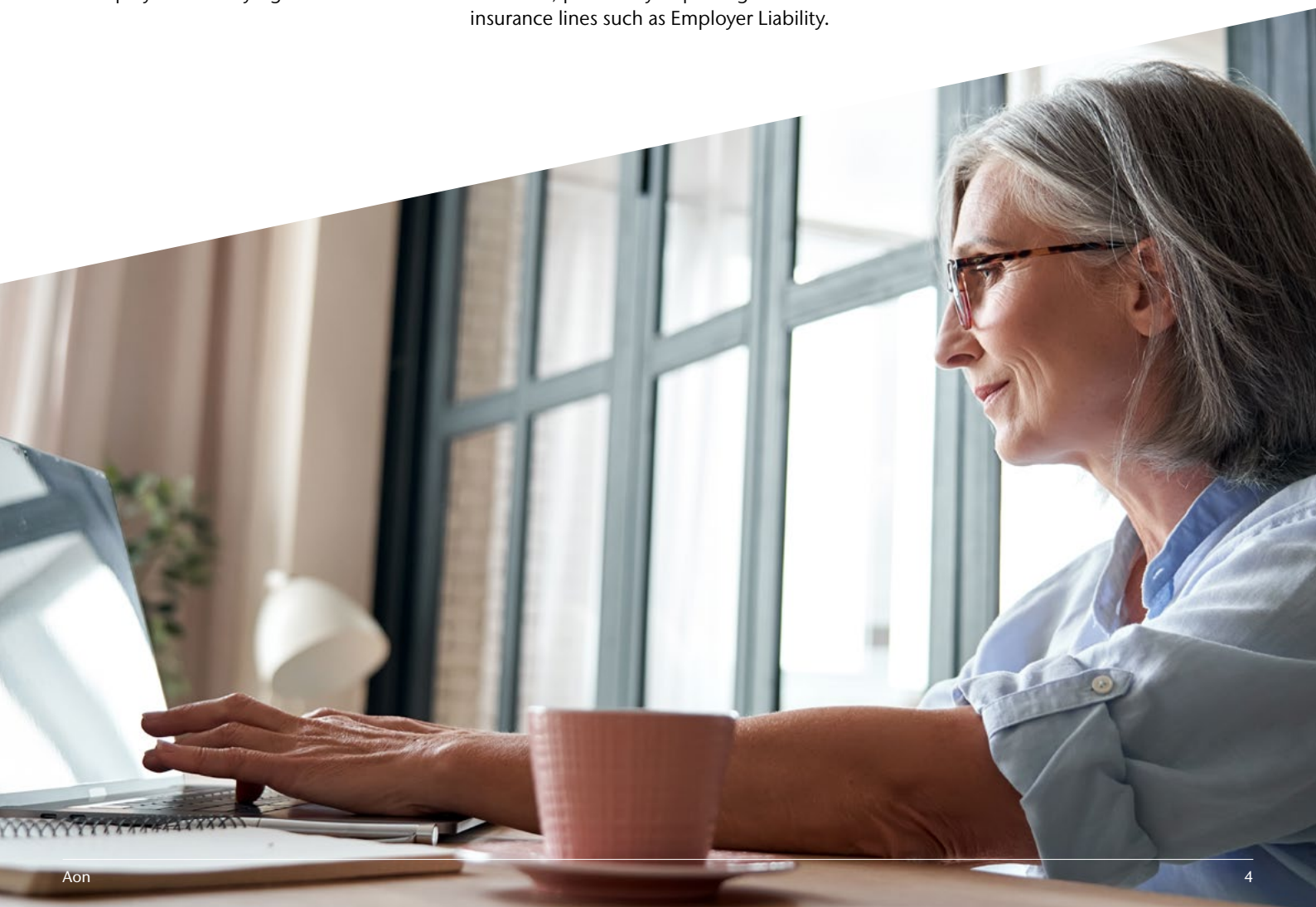
We know that an aging population already inherently presents a growing challenge to employers and this will be further exaggerated if increasing numbers are in a poor state of health. Reflecting on how many employers may already be facing the costs and risks associated with this demographic trend we can look to some traditional benefits and insurances for evidence of impact:

- Higher average ages amongst insured populations presents an increased risk of claim, will drive up underlying rating and therefore premiums on benefits such as life assurance, income protection and medical
- Costs may be further impacted by increased actual claim numbers especially when little is being done to mitigate the impact of aging on employees underlying state of health

➤ Many employers are looking to reduce risk through wellbeing programmes aimed at changing health behaviours for the better; engaging effectively with multiple generations in the modern workforce presents new challenges

➤ Changes to the modern pension landscape has meant that employers are faced with some tough decisions about how best not only to fund retirement income for their staff, but also how they can support the extended financial wellbeing experience through all its phases

Other areas carrying potential risk for the employer are harder to support with tangible data at this time, but connections can still be drawn. Older employees, especially those in a state of poor health may present a higher risk of workplace accidents, potentially impacting other insurance lines such as Employer Liability.



## Vulnerable customers

Employers may also have the recently closed Financial Conduct Authority (FCA) consultation on protecting vulnerable customers on their radar<sup>4</sup>. The FCA are to make this a key priority in 2021 with the intention that consumers, including those in vulnerable circumstances, should be confident that they are getting fair access, price, and quality when using financial services. To ensure this happens, firms in all sectors will need to pay attention to the fair treatment of vulnerable consumers

across all their products and services and embed this approach into their culture, policies and processes. Ill-health and old age have both been called out by the FCA as contributing factors and needs to be set against a landscape that requires individuals to have to tackle issues of choice and greater complexity, especially in relation to financial benefits and services.



4. <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8-exec-summary.pdf>

## The burden of care

The scale of the issue at hand is already significant. But if we are to look beyond the impact on the core pillars of employee benefits and insurance and reflect on one of our other key themes, that of eldercare, the statistics demand attention<sup>5</sup>.

With the ratio of affected workers projected to increase from 1 in 7 to 1 in 6 by 2040 it is important to reflect on the impact on the carer themselves<sup>6</sup>.

Further evidence from the Office for National Statistics (ONS) supports the adverse impact on the mental health of carers:

- **84% of carers feel more stressed than previously**
- **55% report that they suffered from depression as a result of their caring role**
- **More than two thirds of carers are using their own income and savings to cover the cost of care and two in five say they struggle to make ends meet**

With mental health becoming the dominant health risk impacting the modern workforce, mitigating the effect of such a widespread driver of poor mental health will become a priority for many employers.

**4.87 million** employees in the UK are balancing their day job with caring responsibilities. That works out to...



**1 in 7** of the entire country's workforce.

**2 million**



have reduced their working hours to care for a dependant. This is in fact considerably fewer than the 3 million measured in 2013. However...

**2.6 million**



have given up work altogether to provide care – nearly a 12% increase over the same period.

Source: Carers UK: Caring Behind Closed Doors, October 2020



**50%** routinely **check in** with an elderly relative by phone, with **33%** **managing** their **medication**.



**46%** have taken **distressing news** from their relative, with around **20%** having to **leave work** at short notice.



**44%** describe their situation as **tiring** and **stressful** – with **20%** **falling ill** themselves.<sup>7</sup>

5. Carers UK

6. Invisible Carers , 2017, Atomik

7. Figures taken from the 'Invisible Carers' quantitative study of 2,004 working carers (2017, Atomik)



## COVID-19

Any contemporary assessment of people risk must take into account the impact and likely legacy of the Coronavirus pandemic.

As highlighted in the panel opposite<sup>8</sup>, carers already under pressures pre-lockdowns have found these exaggerated by the ongoing situation. They are needing to devote more time, the needs of their dependants are greater, they are less able to rely on support from other sources and this is affecting their emotional and physical wellbeing.

Although there has been some evidence of positive outcomes from the lockdown periods, with some carers able to devote more time as a result of new ways of working, these may only be temporary bright spots. In the longer term many employers and employees will need to reassess whether such flexibilities remain financially and logistically viable.

81%



of carers are providing more care since the COVID-19 pandemic

64%



Two thirds of carers have not been able to take any breaks from their caring role during the COVID-19 pandemic

40%



of carers are providing more care because the needs of the person they care for have increased

64%



Almost two thirds of carers say that their mental health has worsened as a result of the COVID-19 pandemic

38%



of carers are providing more care because of local services reducing or closing

74%



Three quarters of carers are feeling exhausted and worn out from caring during the COVID-19 pandemic

78%



8 out of 10 carers said the needs of the person they care for have increased since the COVID-19 pandemic

Source: Carers UK: Caring Behind Closed Doors, October 2020



## What can we expect from the State?

It has, for some time, been acknowledged that the State is increasingly unable to carry the full burden for health and welfare. The continued debate over NHS funding levels, erosion of state disability benefits and the increasing state pension age are but three examples. Employers are faced with difficult decisions as to how much of the shortfall they are willing or able to pick up. The aging population is one of the key drivers behind this continuing shift and has only been highlighted further during the course of the COVID-19 pandemic. There will be much debate as to whether Governments in the UK have provided sufficient support during this time. For each commentator pointing to support made available through the Furlough Scheme or the Adult Social Care Winter Plan, there will be many others saying that more investment is needed.

Looking to the longer term, in August 2020 the Government concluded consultation on changes for carer's leave and whilst this will go some way to providing a legislative framework to support carers in the UK, it is likely to still fall some way short for those lobbying for support such as 10 days of statutory paid leave to be made available. Likewise, calls for additional funding for local authorities to meet their ever-growing social care needs will be a challenge for the Government to fully meet. For those employers who do acknowledge the value in providing support beyond that available from the State they face a challenge in effectively sourcing, co-ordinating and communicating support from other sources.

Despite annual spending from local authorities already standing at around **£15 billion a year**, by 2025 it is estimated that there will be a **£3.56 billion funding shortfall** in adult social care.

Source: Age UK

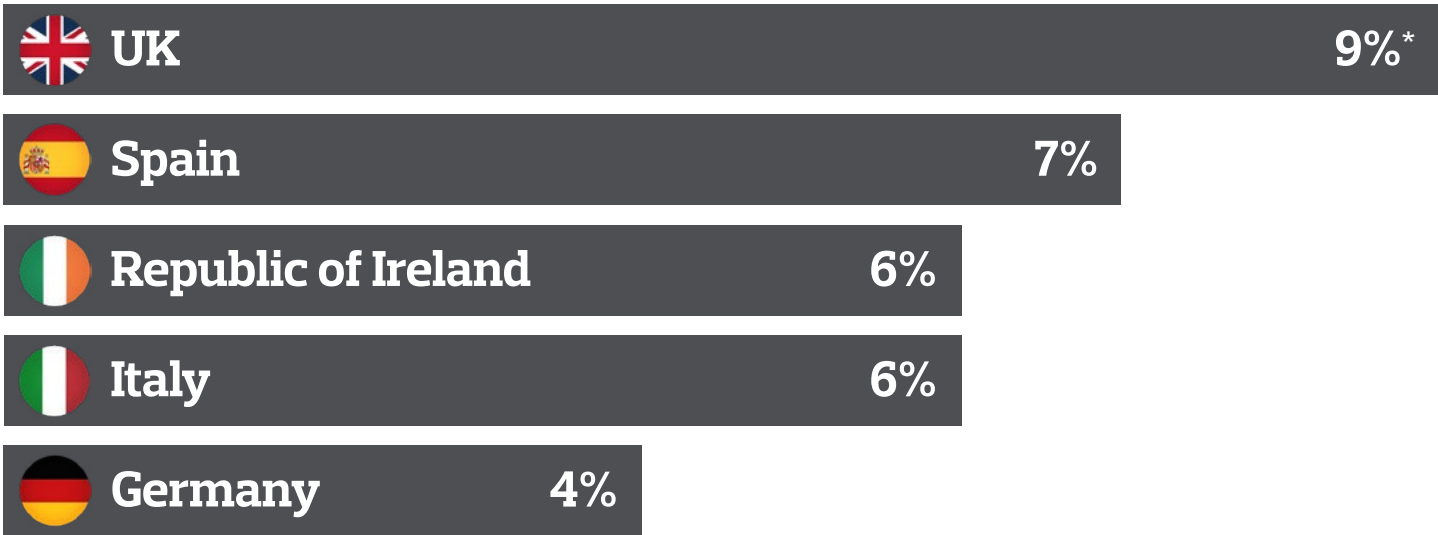


# This is not just a challenge for UK employers

Whilst the UK statistics paint an especially sombre picture, for those employers looking to address key people challenges across a number of different countries it is important to highlight that this is an issue that is having an impact across the EMEA region. By 2060, 30% of Europe's population will be 65+ and over 44million people - double today's number - will suffer from a minimum of one disability that inhibits daily activities.

In most European countries, the old-age dependency ratio will rise to 50 percent or more, while the population of those 80+ will double or possibly triple. To keep up with the projected increase in the number of elderly people needing care, while maintaining the ratio of carers to care-recipients, the number of carers would need to increase by an annual growth rate of 2.5% until 2035<sup>9</sup>.

## % of informal carers of employed population in 2018



\* These figures are from the European Commission study – as detailed earlier some UK estimates are as high as 15%.

9. Source: all stats from European Centre for Social Welfare Policy and Research, European Commission



## The Eldercare Eco-System

Feedback from employees suggests that flexible working policies, a supportive and understanding line manager and additional paid leave for caring purposes are all key requirements. However, over a third of working carers currently feel that no support is being made available from their employer<sup>10</sup>.

Given the wide-ranging impacts of the aging population there are a number of ways an individual or an employer can take action. An eco-system of policies, services and benefits can be pulled together to create a robust programme of support. Some areas are already well established. Others still present a limited number of

options or providers but market innovation will demand employers keep up to date with latest developments.

Whatever solutions are ultimately sourced, true value will only be realised if these are aligned to real need from their own workforce and are delivered through a targeted engagement strategy.



10. Carers UK, January 2019

# Supporting diversity, equity and inclusion

Before the pandemic we were already seeing the rise of the “purpose-led” organisation: establishing clear objectives largely around the environment, sustainability, communities, and diversity, equity and inclusion (DEI). As the impact of COVID-19 quickly unravelled two key things happened. First, it quickly became apparent just how important people are to any organisation's success. Ensuring that employees remain resilient physically, emotionally and financially became a top

priority. Second, we collectively seemed to become much more aware of global issues around our impact on the environment and on each other – whether that's the communities in which we live, work and do business or around our approach to diversity, equity and inclusion. Aon's 2021 [Benefits and Trends Survey](#) showed that nearly half of Employers in the UK called out DE&I as one of their top two priorities<sup>11</sup>.

Targeting the issues associated with an aging population will go a long way to supporting the DE&I agenda and we can identify several key segments of the demographic who at present are particularly adversely affected.

## Sandwich Generation – Dual care responsibility

- ▶ The ‘sandwich generation’, those facing multiple caring responsibilities are rising due to longer life spans and people starting families later
- ▶ One in four of the UK's adult population experience ‘sandwich caring’ at some point during their lives

## Age – Impacting business leaders

- ▶ Currently, the population has a 50:50 chance of providing unpaid care by the time we are aged 50
- ▶ Those aged between **35-64 years** are more likely to be carers

## Gender – A negative impact on diversity

- ▶ Women are more likely to face the pressure of informal care and ‘sandwich caring’ – and are **four times more likely than men to have given up work** due to multiple caring responsibilities
- ▶ In the UK, c. 60% of informal carers are women

## Income bracket – Low-income workers

- ▶ **Lower socio-economic status** has been associated with a higher likelihood to provide more hours of informal care
- ▶ High care costs force lower income workers to leave the workforce to provide care

11. Source Aon UK Benefits & Trends Survey 2021



# How else might employers see value?

As with any new investment there is often an associated demand to measure impact and value. No matter how well intentioned and important the initiative. Some potential metrics may be easier to point to such as fewer claims or managing insurance costs, lower rates of employee absenteeism and presenteeism or higher engagement scores. In other areas value is harder to measure but should inherently support all aspects of our individual wellbeing. Helping create stronger, more resilient employees, able to cope better with the stresses of modern life.

## Potential Value for the Employer

- Healthier more focused employees
- Higher productivity
- Increased employee engagement
- Making the employee value proposition modern and relevant
- Differentiator for recruitment
- Mitigating impact on future insurance costs
- Targeting presenteeism
- Lower absence rates
- Reducing staff turnover
- Enhanced financial wellbeing
- Supporting diversity, equity & inclusion
- Improving employee wellbeing and resilience

## Improving Employee Wellbeing

Positively impacting all five key pillars of employee wellbeing:

- Physical
- Emotional
- Social
- Financial
- Career





## Employer checklist – Are you ready?

Given the increasing scale and wide-ranging impact of this subject, it is perhaps no surprise that the questions to be answered and potential action that can be taken is equally extensive. Key to establishing a successful strategy will be an understanding of the key areas of focus, the specific risks this presents to your organisation and then an understanding of what support and options are available. Top considerations would include:

- ☒ Do you understand the potential impact of the aging population on your benefits and insurance programmes?
- ☒ Do you have a strategy in place to manage these costs?
- ☒ Does your financial wellbeing strategy effectively support employees through all stages of their working life and into retirement?
- ☒ Are you able to effectively engage employees from different generations to support the full range of wellbeing needs?
- ☒ Does company culture and policy provide an environment to support working carers?
- ☒ Do you provide or provide access to specialist support to help employees navigate complex Eldercare issues?

If you want to discuss any of the issues raised in this guide further, or require any support with your Eldercare strategy please contact your usual Aon consultant or [letstalkbenefits@aon.co.uk](mailto:letstalkbenefits@aon.co.uk).

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### About Aon

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This guide was produced for the UK market.