Mind the gap

Income protection gap study
Western Europe
Foreword

There is growing awareness of the pension gap, but most people underestimate an even greater risk to their standard of living: losing the ability to work. In Western Europe, up to 25 percent of the workforce could become unable to work during their lifetime. Zurich conducted research in six countries to find out how aware people are of this risk and who they think should pay for it.

Kristof Terryn
CEO Global Life
Zurich Insurance Group

The pension gap is arguably one of the most discussed topics in the insurance industry. People are increasingly aware that with the changes being introduced to current pension systems and due to demographic trends, they will not be able to maintain their current standard of living after retirement. Most of the working population, however, underestimates an even greater challenge: the risk of becoming unable to work, and, as a consequence a lower income. This is what we call the income protection gap.

Due to demographic shifts and increased budget pressures in many countries, we are seeing a trend toward a gradual withdrawal of state-funded social security guarantees and corporate protection and pension plans. People increasingly need to take personal responsibility to protect themselves. But are they fully aware of the risk?

To find out, we polled more than 6,000 people in Germany, Ireland, Italy, Spain, Switzerland and the UK. Our survey unveiled a significant discrepancy between perception and reality.

For example, one in two respondents see their personal risk of becoming unable to work as less than 10 percent. But statistics show that up to 25 percent of the workforce may become unable to work. Currently just one in three Europeans knows about income protection possibilities.

We believe that as a global insurer, we have a responsibility and an important role to play in helping society mitigate the emerging risks associated with the income protection gap.

Raising awareness is a vital first step. Only when people understand the risk can they take measures to protect themselves and their loved ones from the financial impacts of becoming unable to work.

This brochure contains the key findings of our survey presented for all six countries together, and for each of the six countries separately.

In the coming months we will continue to conduct research into the income protection gap and will publish further findings later this year.
Overall findings

Zurich asked about 6,000 people in six European countries to answer 53 questions related to their preparedness and understanding of income protection. Their responses reveal that most people underestimate the risks they face.

Three-quarters of Europeans believe that they do enough to protect themselves from becoming unable to work. Germans are less likely to believe this, with only two-thirds stating that they do enough.

On average, Europeans report having set aside 4.6 years of savings, investments, insurance policies and pensions. In Ireland, Spain and Italy, this buffer is only about 3.5 years, while in Switzerland and Germany it is about 6.5 years.

More than half of respondents believe that the financial crisis had a negative impact on their financial situation. In Spain, Italy and Ireland that figure rose to 75 percent. Many say that income was reduced, while debt, fear of getting ill and stress levels increased.

Just one-third of Europeans are aware of income protection possibilities. Awareness is highest in Germany, where almost half of the respondents claim to be aware, and lowest in Spain with only one in six indicating awareness.

Average savings* buffer

<table>
<thead>
<tr>
<th>Years</th>
<th>Total</th>
<th>UK</th>
<th>Ireland</th>
<th>Spain</th>
<th>Italy</th>
<th>Switzerland</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.0</td>
<td>4.6</td>
<td>4.5</td>
<td>3.6</td>
<td>3.3</td>
<td>3.4</td>
<td>6.4</td>
<td>6.8</td>
</tr>
</tbody>
</table>

*Savings, investments, insurance policies and pensions to cover living expenses.
Source: Zurich
Overall, half of the respondents in Europe believe that they have a less than 10 percent chance of losing the ability to work, though only three in 10 believe that this is the norm for the rest of Europe.

Europeans significantly underestimate their own risks. In fact, statistics show that up to 25 percent of people become unable to work during their working lifetime.

The age groups with the highest likelihood of becoming unable to work vary significantly across Europe. People older than 55 carry the highest risk of disability in Ireland, Italy, Switzerland and the UK, but in Germany it is men aged 47 to 51 and women aged 45 to 47 that are most at risk. In Spain, the average age of those becoming work disabled is 51.
Less income expected, but more needed

Seven in 10 respondents believe that they would get less than 75 percent of their last household income if they became work disabled, with two in five estimating they would get less than half of the last household income. At the same time, six in 10 say that they would need the equivalent, or more than, their income to maintain their current lifestyle.

High hopes for state support

About two in three Europeans expect the state to provide financial support to those who are unable to work. In Italy and Spain, expectations placed on the state are even higher, with four out of five expecting their government to be the main provider of assistance. In Switzerland, only 54 percent of respondents say that they would rely on the state.

While respondents in Switzerland, the UK and Germany are generally confident in their government’s ability to deliver on its social obligations, trust in state social welfare programs is much lower in Ireland, Italy and Spain.

In Switzerland and Germany, a significantly higher number of people indicate that insurers should be the main providers of financial support. This might be related to the fact that respondents in Europe on average have four insurance policies, but the average in Germany is five, and in Switzerland it is six.

Misperceptions about accidents and disability

Respondents consider severe illnesses, mental and nervous disorders and accidents as the main causes of disability. In fact, in Germany, Ireland, Switzerland and the UK, mental and nervous disorders rank first, while in Italy skeletal and muscular diseases are the leading cause of disability and in Spain rheumatic diseases are at the top. Respondents generally overestimated accidents as a cause of disability.

Europeans believe a healthy lifestyle and a good work/life balance are the best ways to prevent occupational disability, although Spaniards and Italians put greater emphasis on workplace safety. Interestingly, 10 percent of Spaniards and 20 percent of the British are more resigned to the risk, believing that nothing can be done to prevent an accident, seeing it as just a question of bad luck.
Survey respondents in Germany are generally confident in their ability to weather a short-term loss of income, but only a third expect to be able to maintain their lifestyle. Overall, Germans underestimate the risk they face.

Three out of five German respondents believe that they are doing enough to prevent the risk that they will become unable to work. They believe that the best way to prevent occupational disability is to maintain a good work/life balance (32 percent), while a quarter (26 percent) indicate that a healthy lifestyle is key to prevention. And 47 percent are confident that they understood the tools at their disposal to protect their income. Yet almost 70 percent of respondents have no income insurance and roughly the same number say that their employer does not offer income protection cover.

On average, Germans indicate they have established a buffer of 6.8 years of living expenses through savings, investments, pensions and insurance policies. This is the highest value in Europe with the European average being 4.6 years. Those Germans who are aware of income protection possibilities believe that their savings buffer would even suffice for 8.3 years of living expenses.

Seven out of 10 Germans expect to receive less than 75 percent of their salary should they no longer be able to work. Yet every second person says they would need the equivalent of, or more than, their current income to maintain their lifestyle or just to have a decent lifestyle.

### Monthly household income in case of disability

<table>
<thead>
<tr>
<th>Expected monthly household income if main earner unable to work</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25% current income</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected monthly income needed to maintain current lifestyle</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25% current income</td>
</tr>
<tr>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected monthly income needed to maintain decent lifestyle</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25% current income</td>
</tr>
<tr>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Zurich

Base: Total n=1018
Germans underestimate risks of becoming unable to work

Two in three Germans put the risk of becoming occupationally disabled at less than 20 percent. When asked about their personal risk, 40 percent consider it to be less than 10 percent. These figures compare with statistical data that shows that 25 percent of the workforce in Germany become unable to work during their working lifetime.

Most Germans (56 percent) say that the state would be the main source of income if someone was unable to work for the rest of their life. Besides the state, one in four believe that insurance has the biggest role to play in the first five years after losing the ability to work.

There are different disability pension systems in place in Germany, depending on age. People born before 1961 receive about two-thirds of the government retirement pension until retirement age. Those born later receive about 40 percent of their last gross income until they reach retirement age.

Accidents overestimated as cause of disability

Mental and nervous disorders are considered to be the main cause of occupational disability (30 percent), followed by severe illnesses such as cancer (23 percent) and accidents (21 percent). Statistics show that while mental and nervous disorders do indeed rank first (29 percent), they are followed by skeletal and muscular disorders (21 percent) and cancer and other malignant tumors (16 percent). Accidents, however, are overstated as a cause of disability as they account for less than 10 percent.¹

Germans’ biggest fears related to disability are poverty and physical pain or mental distress.

Germans believe that those aged 45 to 54 years have the highest risk of becoming disabled, followed by those aged 55 to 64. This assumption is correct. Statistically², men face the greatest risk of disability between the ages of 47 and 51, when one in 25 becomes disabled. For women, the risk is highest between the ages of 45 and 47. Women also face a slightly higher risk than men.

¹ Source: Morgen&Morgen

² Source: Munich Re
Respondents from Ireland appear to be less resilient to income loss through disability than their peers in the UK, Germany or Switzerland, and are more skeptical about their government’s ability to support them.

While four out of five Irish believe they do enough to prevent themselves from becoming unable to work, only 44 percent say they know how to protect their income in the event of occupational disability. A healthy lifestyle (45 percent) is perceived to be the best way to prevent occupational disability, followed by a good work/life balance (29 percent).

Irish respondents indicate they have set aside a buffer of 3.6 years of living expenses through savings, investments, pensions and insurance policies, well below the European norm of 4.6 years.

There is a considerable gap between expected income in case of work disability and what is needed to maintain the current lifestyle. Seven out of 10 people expect to receive less than 75 percent of their current household income in the event of disability, while more than half say they would need at least the equivalent of their current income to maintain a decent lifestyle.

The Irish also tend to underestimate the risks. A third of respondents believe that less than 10 percent of the population will become unable to work. That compares to statistics showing that 13 percent of people in Ireland are unable to work. The likelihood of becoming work disabled is highest among those older than 60.

---

Source: Zurich
Base: Total n=1074

3 Source: Disability and Work – The picture we learn from official statistics
While the majority (65 percent) believe the state should be the main provider of financial support to people who cannot work anymore, only one in five believes that they would be eligible for and would use government support should their household income be reduced by 30 percent. The weekly invalidity pension is EUR 193.50. This adds up to an annual pension of EUR 10,062. Nevertheless, two out of three people in Ireland do not own an insurance policy that protects their income.

Since the financial crisis, almost all (86 percent) have become less willing to trust financial institutions like banks and insurance companies. Only one in five say they trust financial companies or advisers to treat them fairly and honestly.

Among Irish, 37 percent consider severe illnesses such as cancer to be the main cause of becoming unable to work. Mental or nervous disorders (19 percent) and skeletal and muscular diseases like rheumatism and back pain (17 percent) are seen as the next biggest causes of disability. Statistics show that mental, nervous and emotional disorders rank first. The Irish are correct, however, in thinking that accidents do not play a major role in causing disability.

---

4 Source: Citizen’s Information Board – invalidity pension

5 Source: Disability and Work – The picture we learn from official statistics
Key findings
Italy

Italian respondents express a high dependency on the state in case of disability, but have little confidence in its ability to provide support. Overall, they underestimate the risks they face and are less resilient to them than many of their peers in Europe.

While 82 percent of Italians expect the state to provide financial support should they become disabled, only 6 percent believe their employer should support them and just 4 percent rely on insurance. Despite this dependency, trust in the government’s ability to successfully fund all social schemes has fallen to 10 percent since the financial crisis and only 8 percent believe the state can assure a comfortable and secure lifestyle.

Most would rely on their savings (30 percent) and the state (28 percent) in the first six months without income, but longer term they would start to rely more on their families (25 percent), and less on their savings (24 percent) and the state (23 percent). If unable to work for the rest of their lives, they once again would rely on the state (46 percent) and the family (27 percent).

Not being able to support their families (32 percent) and being a burden to loved ones (29 percent) are the greatest fears Italians have when imagining becoming unable to work. They indicate that they have set aside an average buffer of 3.4 years of living expenses through savings, investments, pensions and insurance policies, much less than the European norm of 4.6 years.

Despite this, four out of five Italians believe that they are doing enough to keep themselves from becoming unable to work. About one in four claims to be knowledgeable about income protection. A good work/life balance (29 percent), workplace safety (28 percent) and a healthy lifestyle (25 percent) are considered to be the best ways to prevent occupational disability. Almost one in four Italians expects that less than 10 percent of the working population will become unable to work, and almost one in two thinks their own risk of occupational disability is below 10 percent. Statistics reveal that 7 percent of the workforce in Italy become unable to work during their working lifetime. The likelihood of becoming work disabled is highest among people older than 60.

---

6 Source: ISTAT, the Italian National Statistical Institute
Italians tend to feel insecure due to the discrepancy between what they think they need and what they believe they are entitled to receive if they are unable to work. While 59 percent say they would need at least the equivalent of their current household income to maintain a decent lifestyle, should they be disabled, 62 percent expect to get less than 75 percent of that amount. This is illustrated by the average monthly disability and pension provided to those unable to work in Italy, which was EUR 918 in 2013.\(^7\)

Severe illnesses such as cancer are thought to be the main cause of becoming occupationally disabled (45 percent), followed by accidents (20 percent) and mental or nervous disorders (16 percent). In fact, however, skeletal and muscular disorders, followed by cancer and mental and nervous disorders are the leading causes of disability.\(^8\) As in other countries, people overestimate the risk of becoming disabled due to an accident.

\(^7\) Source: www.inps.it

\(^8\) Source: ISTAT, the Italian National Statistical Institute
Key findings

Spain

Most Spaniards appear to have limited resources to protect themselves from a loss of income through disability, and a surprising number of survey respondents appear to underestimate the risks.

Four in five Spanish feel that they do enough to prevent themselves from becoming unable to work. Yet only 17 percent are aware of possibilities to protect their income, while 35 percent indicate that they are extremely unknowledgeable about this topic.

Spaniards believe the best way to prevent occupational disability is to maintain a healthy lifestyle and pay attention to workplace safety (32 percent). One out of 10 has a more resigned attitude, believing that nothing can be done to prevent it, and that it is just a question of bad luck.

Spaniards most fear becoming a burden to loved ones and not being able to support their family anymore in the event they can no longer work. The average Spaniard indicates they have set aside 3.3 years of living expenses through savings, investments, pensions and insurance policies. This is the lowest value in Europe with the European average being 4.6 years.

This leaves Spaniards vulnerable to income loss. Seven out of 10 people expect to receive less than 75 percent of their current household income in the event of disability, while two in three say they would need at least the equivalent of their current income to maintain a decent lifestyle.
Three in five believe there is a less than 10 percent chance that they personally will lose the ability to work, indicating that they believe their own risk is lower than that of the general population. That compares to statistics from Spanish Social Security,\(^9\) which show that 16 percent of the Spanish working population will become unable to work.

Respondents believe severe illnesses such as cancer are the main cause of occupational disability (39 percent), followed by accidents (22 percent) and nervous or mental disorders (17 percent). In reality, rheumatic diseases\(^9\) such as back pain, which account for more than 50 percent of permanent disabilities, rank at the top.

The risk a person will become work disabled is highest at age 51.

While 83 percent believe the state should be the main source of financial support for people who can no longer work, only 7 percent are confident in the government’s ability to provide a comfortable and secure lifestyle.

The Spanish social security system distinguishes between several disability levels. If a person is no longer able to work in any profession at all (absolute permanent disability), 100 percent of the base pension is paid. The average monthly disability pension is EUR 1,071.\(^9\)

---

9 Source: Social Security – in any given year 0.4 percent of the Spanish workforce become unable to work. Based on a 40-year working life, this adds up to 16 percent of the Spanish working population.
Swiss appear to be better prepared to cope with income loss than many of their European counterparts. However, income protection is low for disability caused by an illness.

The Swiss generally feel they do enough to prevent themselves from becoming unable to work (78 percent). They perceive a good work/life balance to be the best prevention (36 percent), followed by a healthy lifestyle (21 percent). Three out of ten people indicate that they are aware of ways to protect their income if they became occupationally disabled.

If income loss is due to a disability, the Swiss are better prepared to cope with the situation than most European peers.

On average, the Swiss indicate to have set aside 6.4 years of living expenses through savings, investments, pensions and insurance policies. This is far above the European average of 4.6 years.

One in three Swiss believes that less than 10 percent of the working population will become unable to work. Half of the respondents estimate their own risk of becoming unable to work at below 10 percent. Statistics show that they are right, as only 6.1 percent\(^{10}\) of the Swiss are disabled. The likelihood of becoming work disabled is highest among people older than 60 years.

\(^{10}\) Source: IV Statistik 2015
Income protection is low for disability caused by an illness

Although more than half of Swiss respondents indicate they would need the equivalent or more than their current income if they lost the ability to work, only 16 percent expect to receive this. This is a reasonable assumption. In cases of disability due to illness, pensions from disability insurance and mandatory pension fund cover only about 60 percent of income – the higher the wage, the lower the percentage. The income situation is slightly better when the disability is the result of an accident. If someone is completely disabled after an accident, combined pensions (pension funds and disability insurance) might allow for 90 percent of the pension-able salary to be reached with a certain limit. The amount is capped at CHF 113,400.

Illness is the leading cause of disability

Mental and nervous disorders are considered to be the main causes of occupational disability (31 percent), followed by accidents (30 percent). While it is correct that mental and nervous disorders rank first, people overestimate accidents as a cause of disability. Nine out of ten cases of disability are due to illnesses.

Physical pain or mental distress, poverty and being unable to support their family are among the biggest fears when people imagine becoming disabled.

In Switzerland, 54 percent of respondents say the state (including social security) should provide financial support to people who cannot work anymore. This is significantly lower than in other European countries; for example, 80 percent of Italians opt for the state as main provider of financial support. One in four Swiss also says they expect insurance to provide financial support, which is higher than in most other European countries.
Key findings

UK

While most of survey respondents in the UK are confident they are doing enough to protect themselves from income loss through disability, many are underestimating the risks and few have sufficient protection in place.

Three out of four people in the UK believe they do enough to prevent themselves from becoming unable to work, but only four in 10 are aware of how to protect their income should they become unable to work for health reasons and few have reliable protection in place. They believe the best way to prevent occupational disability is to maintain a healthy lifestyle (42 percent). A high proportion – one person out of five – actually believes that nothing can be done to prevent it, and that it is just a question of bad luck.

On average, UK respondents say they have set aside 4.5 years of living expenses through savings, investments, pensions and insurance policies, which is roughly the European average.

But most underestimate the risk of income loss through disability. One in two respondents believes that their personal risk of becoming unable to work is below 10 percent, whereas 60 percent believe the risk for the general population is between 11 percent and 30 percent. That compares with statistics which show that 16 percent of the population of working age in the UK are disabled. 33 percent of those surveyed believe the age group 45 to 54 years has the highest risk of not being able to work anymore due to medical reasons, only surpassed by the 45 percent who think it is the age group 55 to 64. In fact, the likelihood of becoming unable to work increases from the age of 40 to almost one in five. At the age of 55 it is as high as 28 percent.

There is a considerable gap between the expected household income and what is needed to maintain someone’s lifestyle. Six out of 10 people in the UK expect to receive less than 75 percent of their current income in case of a disability, while only one in three would expect to be able to maintain their current lifestyle with this reduction in their income.

Source: www.papworthtrust.org.uk - in 2012/13, 7 percent of children were disabled, compared to 16 percent of adults at working age and 43 percent of adults over state pension age – four out of five disabled people acquire their disability during their lives.
The state (including social security) is considered to be the main source of income if someone has a work disability. Yet only one in five believes that they would be eligible for support if their income dropped by 30 percent. Initially the employer and savings are considered a main source of income as well, but separate research shows that 55 percent of people have only enough savings to survive financially for three months, with 29 percent having only enough for one month.\(^\text{12}\)

Payments by insurers are thought to play a minor role. Seven out of 10 respondents say that their employer does not offer income protection insurance, and almost three in four say they have no such insurance.

Not being able to support their families and poverty are among the greatest fears people have when imagining becoming disabled, and as a result lose their income.

Severe illnesses such as cancer are considered to be the main cause of occupational disablement, followed by mental or nervous disorders or physical diseases (e.g., rheumatism, back pain). In fact, mental health issues are the single leading cause of disability, followed by cancer and cardiovascular disease.\(^\text{13}\)

---


\(^{13}\) Source: www.papworthtrust.org.uk
About this study

Zurich’s Income Protection Gap Survey was carried out by market research company Epiphany in April and May 2015. The study is based on a nationally representative sample of consumers aged 18 to 70 in Germany, Ireland, Italy, Spain, Switzerland and the UK.

Approximately 1,000 respondents per country completed an online survey consisting of 53 questions.

We will continue to publish more on this topic in the coming months.

A word of caution regarding comparability of statistics: disability statistics vary significantly among countries as there is no common set of rules or definitions as to what work disability means. While some countries provide statistics on the number of people who become disabled during their working life, others provide only total percentages of disabled people – including those who were disabled from birth.

This report is published in English and German. In the event of inconsistencies in the German translation, the English original version shall prevail.

Further materials:

- Video Kristof Terryn, CEO Global Life, on the most important findings of the study.
- News release about the survey
- Infographics illustrating the key findings
- Income protection gap brochure in German
- Income protection gap blog

For further questions, please refer to

Zurich Insurance Group
Media Relations
Mythenquai 2
8002 Zurich
media@zurich.com
www.zurich.com
+41 (0)44 625 21 00
@Zurich
Disclaimer

This publication has been prepared by Zurich Insurance Group Ltd and the opinions expressed therein are those of Zurich Insurance Group Ltd as of the date of writing and are subject to change without notice. This publication has been produced solely for informational purposes. All information contained in this publication have been compiled and obtained from sources believed to be reliable and credible but no representation or warranty, express or implied, is made by Zurich Insurance Group Ltd or any of its subsidiaries (the ‘Group’) as to their accuracy or completeness.

This publication is not intended to be legal, underwriting, financial, investment or any other type of professional advice. The Group disclaims any and all liability whatsoever resulting from the use of or reliance upon this publication. Certain statements in this publication are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans, developments or objectives.

Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by numerous unforeseeable factors. The subject matter of this publication is also not tied to any specific insurance product nor will it ensure coverage under any insurance policy.

This publication may not be distributed or reproduced either in whole, or in part, without prior written permission of Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland. Neither Zurich Insurance Group Ltd nor any of its subsidiaries accept liability for any loss arising from the use or distribution of this publication. This publication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.