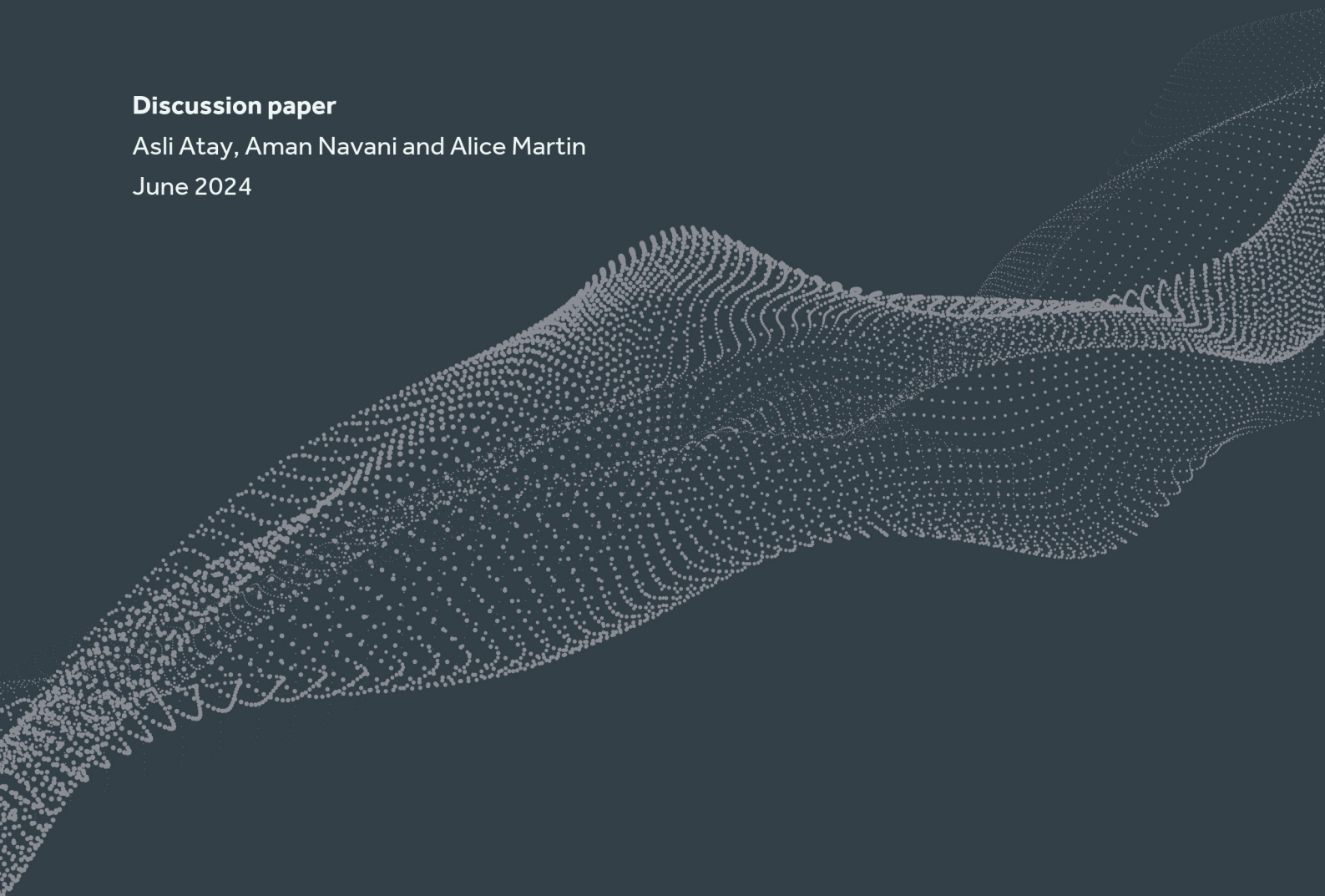


# TIME OFF: REDESIGNING LEAVE POLICIES TO SUPPORT LONGER, HEALTHIER WORKING LIVES

**Discussion paper**

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June 2024



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## ABOUT THE WORK FOUNDATION

The Work Foundation is a think tank focused on improving working lives across the UK through applied research and new ideas. For over a century, we have worked to break down the barriers individuals and communities face in accessing good work.

We believe everyone should have access to secure, rewarding and high-quality work. By engaging directly with workers, employers, policymakers and leading academics, we deliver rigorous applied research to tackle structural inequalities in the labour market and improve working lives across the UK. We are part of Lancaster University's Management School, and work with a range of partners and organisations across our research programmes.

## CITATION

If you are using this document in your own writing, our preferred citation is: Atay, A., Navani, A. & Martin, A. (2024). Time Off: Redesigning leave policies to support longer, healthier working lives. The Work Foundation at Lancaster University.

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## METHODOLOGY

The research is based on a detailed literature review, secondary analysis of ONS Labour Force Survey, a series of expert interviews, and a survey of 1,167 senior business leaders across Great Britain, conducted by Survation. The fieldwork took place online between 29 April and 7 May 2024.

Note: The Office for National Statistics (ONS) Labour Force Survey has suffered from data quality issues in late 2023. This research has used data from the most recent quarter (January – March 2024), using an updated methodology. Where data is released on an annual basis, we have decided to use data from previous years which is more robust than estimates from late 2023.

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## EXECUTIVE SUMMARY

People in the UK are living and working longer than ever before. However, the Covid-19 pandemic and its aftermath have exposed serious physical and mental health issues facing our workforce.

Over the last century, rights and access to time off from work to rest and recuperate have been established and have steadily risen. But our workforce is ageing, developing more complex health needs and will have different wellbeing requirements to previous generations. There are now a record 2.83 million people economically inactive due to long-term health issues and the Health Foundation is forecasting considerable growth in the number of working-age adults with a diagnosed major illness by 2040. Workers are also expected to work longer with the pension age rising to 67 between 2026-28, and the International Longevity Centre warns that it will need to increase to 71 by 2050, if no action is taken.

Employers are facing worker shortages in key sectors as the economy recovers after the pandemic and global economic shocks. Ahead of the General Election in July 2024, policymakers are under pressure to grow the working population and the economy over the coming Parliament.

This policy discussion paper aims to investigate whether current time off policies are sufficient to support an older and sicker workforce to stay in or return to work. It challenges both the next UK Government and employers on how they can use existing time off policies and new models to enable workers to live healthier lives. The paper does so by analysing Office for National Statistics data, a Survation survey of senior business leaders across Great Britain in May 2024 and existing literature.

### Time off in the UK has become widespread, but access to it is unequal

In the last 100 years, most workers have become entitled to leave and time away from work including for holidays, sickness, maternity and paternity. However, not every worker can access these policies to the same degree and, as employers compete to recruit and retain talent, leave entitlements are becoming increasingly unequal.

Work Foundation analysis highlights that, overall, lower earners have less access to paid time off. Employees with earnings above the UK average income of £32,882 per annum have on average two more days of annual leave entitlement than those with earnings below the UK average. Almost a third (32%) of those earning above the average income have an entitlement to annual leave that exceeds 30 days. By contrast, only a quarter of those who earn lower than the average income do so (25.4%). This makes above average earners 1.26 times more likely than lower paid workers to have over 30 days annual leave.

This can create a vicious cycle as people with lower incomes and insecure working lives find themselves having to risk their health by having less time away from work for holidays and other forms of leave.

### Statutory Sick Pay must be redesigned to protect vulnerable workers

In addition, our analysis highlights that 3.5% of the UK workforce (1.15 million people) are not eligible for Statutory Sick Pay (SSP) as they do not meet the earnings threshold of £123 per week. Ineligibility disproportionately impacts groups already facing structural inequalities in the labour market – nearly two thirds are women (69.2%), a third are disabled workers (33%) and over half are young workers aged 16-24 (52.4%).

But even when a worker is eligible, SSP currently replaces just 17% of average weekly earnings and its value has halved relative to earnings since its introduction in the 1980s. While over a quarter of employers (29%) have reported a rise in sickness absence of their employees in the

last four years, nearly half of employers (47%) do not go beyond the statutory minimum level of sick pay provision. This leaves many workers either struggling to make ends meet during periods of illness or deciding not to take sick leave to rest and recuperate, with possible consequences for their long-term health.

Consecutive Governments have consulted on the need to reform SSP but reforms have been piecemeal or time limited, such as during the COVID-19 pandemic. In 2024, the Work and Pensions Select Committee inquiry concluded that SSP failed to provide sufficient support for workers most in need of protection from financial hardship during periods of sickness absence.

### Policies that enable workers to take time off to sustain working lives

Against a backdrop of rising economic inactivity due to ill health, and the likelihood that the majority of workers will need to sustain longer working lives before retirement, it is vital that action is taken now to address the barriers that prevent many from accessing time off across their lifetime. With a General Election in 2024, the next Government has an opportunity to explore new and reformed policies that better reflect the nature of working lives in the 21<sup>st</sup> century.

To help boost and sustain levels of labour market participation in the future, the Work Foundation calls on the next UK Government to:

#### 1. **Strengthen statutory leave policies through a comprehensive Employment Bill within the first 100 days in office**

Alongside wider changes to workplace rights and protections, an Employment Bill should:

- a) **Reform Statutory Sick Pay** by removing the lower earnings limit, reducing the waiting time, creating a roadmap to increase the rate in line with living costs, enabling flexibility for a phased return to work, and reviewing support for small employers.
- b) **Create a Single Enforcement Body** and improve employer transparency and resourcing for enforcement to ensure workers' rights, including rights to time off, are upheld.

#### 2. **Commission an Independent Review on Statutory Leave and Pay to establish the fairness, flexibility, and suitability of leave for the future labour market**

We recommend the next Government commits to an Independent Review of Statutory Leave and Pay within the first year of the next Parliament.

This **Independent Review** – undertaken with support from employers, trade unions and health bodies – should seek to build on entitlements protected by Working Time Regulations and make recommendations to Government on issues including effectiveness, fairness, and uptake of existing UK statutory leave entitlements and the creation of new leave entitlements to support longer and healthier working lives.

# 1. INTRODUCTION

A healthy workforce is the backbone of a successful economy. However, in the UK, recent trends suggest the workforce is getting older and sicker. The pension age is gradually rising and workers are increasingly being expected to work longer, while the Covid-19 pandemic and its aftermath has highlighted the challenges workers face when choosing between their health and their work.

Economic inactivity due to long-term ill health has risen by a third in the last five years, to a record 2.83 million record.<sup>1</sup> Other comparable economies have seen labour market participation levels recover since the pandemic, but at the time of publishing, the UK labour market shows no such signs of improvement.<sup>2</sup> Indeed this long-term sickness trend looks set to continue, with the Health Foundation predicting that 3.7 million workers will have a major illness by 2040 – up nearly 25% from 2019 levels.<sup>3</sup>

Against a backdrop of sluggish economic growth and worker shortages in key sectors, this presents huge challenges for the UK labour market, the economy and the exchequer. Employers – who have been struggling to recruit and retain staff in recent years – will increasingly face the challenge of supporting their workforce through long-term health conditions and retaining more workers into their late 60s and 70s.

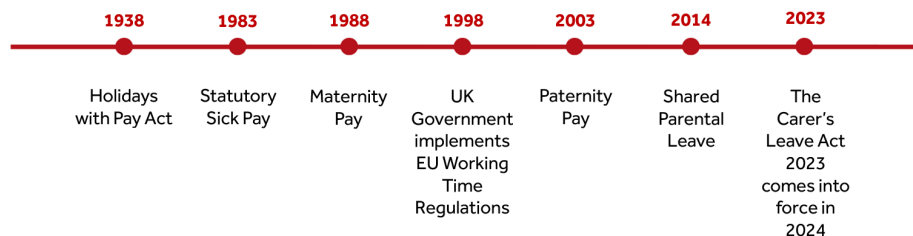
As we approach the beginning of a new Parliament, the next Government must urgently articulate a long-term plan for how employers and policymakers can enable workers to have longer, healthier working lives.

## The importance of leave policies

Leave policies can play a crucial role in this strategy. The right to time off from work is vital for workers to rest from daily work, recuperate from sickness or to balance responsibilities such as becoming a parent or caring for relatives. For employers, leave has several important benefits such as reducing sickness and attrition and helping to create a productive and happy workforce.

The UK has a wide range of statutory leave policies that support workers to take time away from their job, from annual leave (holiday entitlement) to sick pay and family friendly leave. Some of these policies have been around for nearly 90 years while others are still relatively new to the labour market – paid holidays were introduced in 1938 (Holidays with Pay Act), Statutory Sick Pay was introduced in 1983 (The Statutory Sick Pay (General) Regulations 1982), Statutory Maternity Pay (1998) and Statutory Paternity Pay (2003). The latest addition is an entitlement to one week off per year, unpaid, to care for relatives, through the Carer’s Leave Act 2023.

**Figure 1: Timeline of leave policies in the UK**



Yet despite the importance of these reforms, the culture surrounding leave entitlements does not always reflect their status as a key worker protection. Today, such policies are often discussed as ‘employee benefits’ – used primarily to attract and retain staff in a competitive labour market.<sup>4</sup>

But leave policies are not simply perks offered by employers – they are a crucial means of supporting people to remain healthy and balance work with outside pressures. Although progress has been made to introduce statutory requirements, the reality is not everyone has equal access to them. This leaves many workers – often from groups and communities already facing structural inequalities in the labour market – vulnerable to additional work stress, burnout and lack of adequate support when they become ill.

## Redesigning leave policies for the 21<sup>st</sup> century

In light of the labour market challenges facing UK policymakers and employers, it is vital that we redesign how leave policies and other interventions that support time away from work, can be instrumental in supporting a healthier workforce for the future.

That includes downstream interventions capable of responding to the kinds of acute periods of ill health experienced by workers, such as statutory and occupational sick pay; as well as upstream interventions, such as paid carer's leave or sabbatical policies that can enable workers to remain in work and healthy for longer.

To establish how this can be done most effectively, this report reviews the strengths and weaknesses of the UK's current leave policy framework and seeks to answer three key questions:

- To what extent is access to leave from work unequal?
- How can we quickly strengthen Statutory Sick Pay and sick leave to support workers to recover when ill?
- Which new or enhanced policies can best support workers to stay healthy during longer working lives?

To answer these questions, the analysis draws on several approaches to leave policy adopted by other countries and forward-thinking organisations, before setting out a series of recommendations for policy makers and employers.

## 2. ACCESS TO LEAVE IS UNEQUAL

Workers in the UK are supported by a series of statutory leave entitlements that have been implemented and evolved over the last century. The overarching aim of these entitlements is to provide workers with universal access to minimum standards of time away from work – whether that be annual leave to ensure regular breaks are taken, or maternity and paternity leave to allow parents to care for newborn children.

However, in practice, there are significant disparities in the extent to which workers have access to these entitlements or can fully utilise them. Income levels, employment status, and employee agency can all impact people’s access to leave across their working lives. Understanding and tackling these inequalities will be critical in ensuring more people are able to live longer and healthier working lives in the future.

**Figure 2. Overview of the UK’s statutory policies by type of leave**

	Current UK policy	Policy limitation	How the UK compares to other countries
<i>Downstream measures: Interventions that occur after a problem has already occurred</i>			
Leave for health reasons	<b>1. Sick leave</b>		
	Statutory Sick Pay is £116.75 a week from day four up to 28 weeks. <sup>5</sup>	<ul style="list-style-type: none"> <li>Many workers do not qualify</li> <li>The rate is low meaning those who qualify cannot always afford to take sick leave</li> <li>Long-term sickness is not covered unless the employer has an enhanced policy</li> <li>Workers need to wait four days to qualify.</li> </ul>	<p>The UK’s Statutory Sick Pay ranks among lowest in OECD.</p> <p>Norway offers sickness benefit to anyone who has been in work for four weeks, paid for up to 1 year with the first 16 days paid by the employer at the employee’s regular wage.<sup>6</sup></p>
<i>Upstream measures: Interventions that aim to address root causes of an issue with the goal of preventing or mitigating problems before they occur</i>			
Leave for recuperation	<b>2. Holiday entitlement</b>		
	All workers are entitled to 5.6 weeks’ (28 days) paid leave per year. This includes agency workers, workers with irregular hours and part-time workers. <sup>7</sup>	<ul style="list-style-type: none"> <li>Income levels can dictate how much leave is taken.</li> </ul>	Spain offers a minimum of 22 working days annual leave in addition to 14 national public holidays or state and local holidays. Spanish leave entitlements cannot be exchanged for monetary compensation. <sup>8</sup>



Leave for caring	<b>3. Maternity and adoption leave</b>		
	Mothers can take up to 52 weeks' maternity or adoption leave – the first 26 weeks are considered as "ordinary maternity leave" and the last 26 weeks are "additional maternity leave." For the initial six weeks, 90% of a woman's average earnings are paid. <sup>9</sup>	<ul style="list-style-type: none"> <li>Some workers do not qualify due to status or length of service</li> <li>Income levels can dictate how much leave is taken.</li> </ul>	In Estonia, maternity leave is for 100 calendar days (14 weeks) paid at 100% of earnings without cap, at least 30 calendar days of which have to be taken before the expected birth. <sup>10</sup>
	<b>4. Paternity and adoption leave</b>		
	Fathers are eligible for up to two weeks paid leave, at £172.48 a week or 90% of their average weekly earnings (whichever is lower). <sup>11</sup>	<ul style="list-style-type: none"> <li>Some workers do not qualify due to status or length of service</li> <li>Income levels can dictate how much leave is taken.</li> </ul>	The UK's paternity leave is one of the lowest in Europe.  In Denmark, fathers are entitled to up to 14 weeks of paternity leave. <sup>12</sup> While in Sweden, fathers are entitled to 240 days of paid leave, or 480 days if they are a single parent. <sup>13</sup>
	<b>5. Shared parental leave</b>		
	Parents can share up to 50 weeks of leave and up to 37 weeks of pay. To do so, the mother must forgo a portion of their 52 weeks of maternity or adoption leave. <sup>14</sup>	<ul style="list-style-type: none"> <li>Some workers do not qualify due to status or length of service</li> <li>Unaffordable for many families.</li> </ul>	In Finland, all parents are given – regardless of their gender or whether they are a child's biological parents – 160 days paid leave. <sup>15</sup>
	<b>6. Unpaid parental leave</b>		
Subject to eligibility criteria, parents may take up to 18 weeks of unpaid leave per child, up to their child's 18 <sup>th</sup> birthday. A maximum of four weeks may be taken per calendar year. <sup>16</sup>	<ul style="list-style-type: none"> <li>Some workers do not qualify due to status or length of service</li> <li>Unaffordable for many families</li> <li>Lack of flexibility regarding how much leave can be taken.</li> </ul>	In Poland, parents may collectively take 41 weeks of paid parental leave until the end of the year their child turns six. <sup>17</sup>	
<b>7. Carers' leave</b>			
Employees have the right to take a week of unpaid leave per year to give or arrange care for a 'dependant' who has a physical or mental illness, disability or care needs because of their old age. <sup>18</sup>	<ul style="list-style-type: none"> <li>Unaffordable for many families.</li> </ul>	In Germany, both short- and long-term carer's leave are protected in law. This includes a number of paid days. For long-term leave workers are entitled to six months of unpaid leave at 10 days notice, during which they can claim benefits. <sup>19</sup>	



8. Sabbatical Leave			
Leave for managing life transitions	<p>Whilst there is no statutory entitlement to sabbaticals, an employee can request to take a period of extended leave under flexible working legislation. The terms - such as whether the leave will be paid or unpaid - are at the discretion of the employer.<sup>20</sup></p>	<ul style="list-style-type: none"> <li>No statutory standard</li> <li>Few workers have access to a leave of absence whilst protecting employment</li> <li>Insufficient breaks for life transitions contribute to attrition rates in demanding sectors.</li> </ul>	<p>Swedish workers are entitled to a leave of absence after six months with an employer, for either education or starting their own company. Whilst the breaks are unpaid, jobs are protected for up to six months<sup>21</sup></p> <p>Finnish workers are entitled to take a sabbatical whilst claiming unemployment benefits. This model ran from 1997-2024.<sup>22</sup></p>

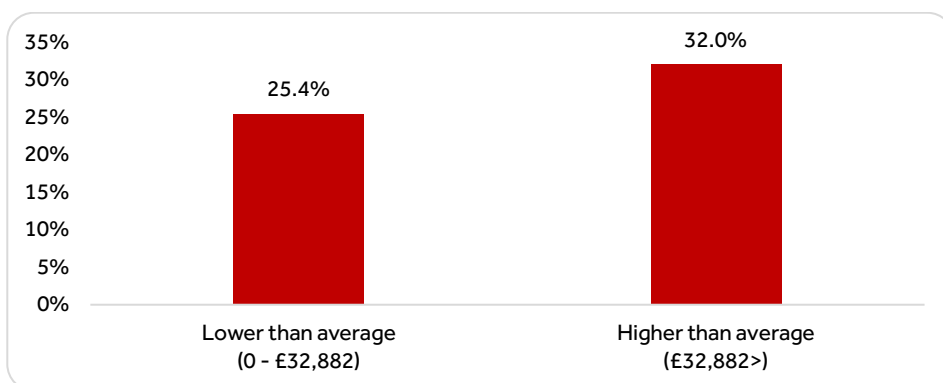
### Annual leave: Lower earners have less paid time off

Annual leave can be defined as the period during which workers take time away from their work while continuing to receive an income from their employer. In the UK, all people classed as workers are legally entitled to 5.6 weeks' (28 days) paid annual leave a year.<sup>5</sup> For some workers, this includes eight public holidays, while others receive time off for public holidays in addition to annual leave.<sup>6</sup>

Yet access to annual leave entitlements vary significantly, often driven by the fact that high paid sectors tend to offer more progressive leave policies while some workers face financial or workload pressures to work through their leave days.

This results in variation in annual leave entitlement by full-time workers across income levels. Almost a third (32%) of those earning above the average income have an entitlement to annual leave that exceeds 30 days. By contrast, only a quarter (25.4%) of those who earn lower than the average income do so. This makes above average earners 1.26 times more likely than lower paid workers to have over 30 days annual leave.

**Figure 3: Access to annual leave entitlements of 30+ days a year**



Source: Work Foundation calculations of Labour Force Survey microdata, Oct-Dec 2022. For this estimate, we decided to use 2022 data as there have been quality concerns with Labour Force Survey data from late 2023.

A study conducted by PeopleHR which tracked data from 3,000 UK companies in 18 industries found that both leave entitlements and uptake has declined in recent years.<sup>7</sup> Office National Statistics data does not reflect this finding which suggests a discrepancy between organisational HR records and people's perception of their time off.

According to a Censuswide survey of 1,500 working age adults in 2023, most people surveyed (60%) did not take their full holiday allowance.<sup>8</sup> The most common reason cited (15%) was being paid for unused time off, suggesting wage pressures are competing with people's need for time away from work. Other common reasons include not wanting to take the leave or pressure from management.

Left unchecked, these trends could create a vicious cycle whereby people with lower incomes and more demanding work lives risk their health by having less time away from work. To explore this further, the illustrative scenarios below highlight how these inequalities can play out across different working lives.

**Figure 4: Illustrative scenarios of how inequalities play out across working lives**

#### **Anna the zero-hour worker**

**Anna**, in her 30s, grapples with work-life balance challenges. Working on a zero-hour contract in a care home, Anna often experiences irregular and unpredictable work schedules.

Anna's leave entitlements meet only the statutory minimum required by law. This means she receives a pro-rata amount of 28 days of annual leave, based on her changing part-time work schedule. Her entitlement includes public holidays and she often chooses to work them to top up her wages.

Her work only offers maternity leave on full pay for six weeks. To afford more time off following the birth of a child, Anna uses her annual leave, meaning she is unable to take holiday for the rest of the year. Therefore, when she requires time off Anna has to decline shifts, reducing her pay packet.

When she falls ill - instead of taking sick leave - Anna typically arranges shift swaps with colleagues. This is because she would not qualify for Statutory Sick Pay without missing several shifts in a row, which she cannot afford. Similarly, when her elderly parents require support, Anna must forego more shifts.

#### **Sam the salaried employee**

**Sam**, also in her 30s, and enjoys the benefits provided by the insurance company she works for. Her company values work-life balance and provides generous leave policies, including 30 days of paid annual leave in addition to the UK's eight public holidays. She is entitled to three months of fully paid sick leave – and in the case of prolonged illness – an additional six months of leave on half-pay. The company also supports her professional development by allocating days for training.

Considering that on average, an employee in the UK takes 5.7 sick days per year,<sup>\*</sup> under this policy framework Sam would be covered for 164.73 days of sickness leave on full-pay over her lifetime.<sup>\*</sup>

Sam's employer also offers an enhanced maternity leave package with 26 weeks on full pay to both parents. She can also take five paid days per year to care for relatives, which she uses when her elderly parents require assistance.

## Access to and uptake of family friendly leave is unequal

While maternity leave is generally perceived as being effective at keeping new mothers in paid work following time off to care for their children, there are substantial inequalities in mothers' abilities to access and utilise maternity leave which raise concerns for the future.<sup>9</sup>

In part this is due to limitations in the paid leave on offer. While mothers can take up to 52 weeks' maternity leave, they receive payment only for part of their leave.<sup>10</sup> Statutory Maternity Pay – a cost that employers can claim back from the Government – covers 90% of a woman's average earnings for an initial six weeks. For the following 33 weeks, Statutory Maternity Pay is either £184.03 a week or 90% of average weekly pay, whichever is less.<sup>11</sup>

This results in a level of income replacement that falls short of the International Network on Leave Policies and Research's definition of "well-paid" (66% or more of the employee's salary).<sup>12</sup> In this context, the UK lags behind countries such as Albania, Bosnia and Herzegovina and Bulgaria which offer maternity leave periods of a similar length.<sup>13</sup> Even with employer top-ups, maternity pay provides low levels of earnings replacement over the course of maternity leave – less than 50% for individuals earning £500 per week.<sup>14, 15</sup>

This has significant consequences for mothers in low-income jobs, who take on average just 23 weeks of maternity leave, four months less than the UK average.<sup>16</sup> Some mothers' lack access to maternity leave altogether, depending on their employment status or length of service. Data suggests this is a particular issue for those of a black or ethnic minority background, who make up a substantial proportion of the 28% of British workers who cannot access parental leave.<sup>17</sup>

Meanwhile, paternity, parental and shared parental leave are significantly more limited. Statutory Paternity Pay was introduced in the UK in 2003, and currently employees can choose to take either one week or two consecutive weeks' leave. However, the UK's paternity leave is one of the poorest in Europe, with fathers only being eligible for up to two weeks paid leave, at £172.48 a week or 90% of their average weekly earnings (whichever is lower). Perhaps unsurprisingly in this context, the uptake of paternity leave in the UK has been low and over half of the families who take paternity leave (53%) go on to experience financial struggles.<sup>18</sup>

Parental leave was introduced with The Maternity and Parental Leave etc Regulations 1999, however, it is unpaid in the UK – contrary to many other countries offers.<sup>19</sup> Eligible employees can take unpaid parental leave to care for their child for up to 18 weeks while their employment rights are protected. Those working for less than a year in their job, agency workers contractors and self-employed are exempt from parental leave which decreases the uptake.<sup>20</sup>

Since its introduction in 2015, Shared Parental Leave (SPL) allows UK employees to share up to 50 weeks of leave and up to 37 weeks of pay between parents. However, take up has been low. A Government evaluation in 2023 found that among eligible couples, 1% of employee mothers and 5% of fathers took SPL following the birth or adoption of their child.<sup>21</sup>

This matters for equality in the labour market and workforce participation more widely. Evidence suggests when such leave is primarily taken by women, it increases their chances of exiting the labour market or continuing only in part-time work, which can impact career progression and long-term income.<sup>22</sup> Additionally, research indicates that paid parental leave policies have positive effects on mental and physical health for both mothers and fathers.<sup>23, 24</sup>

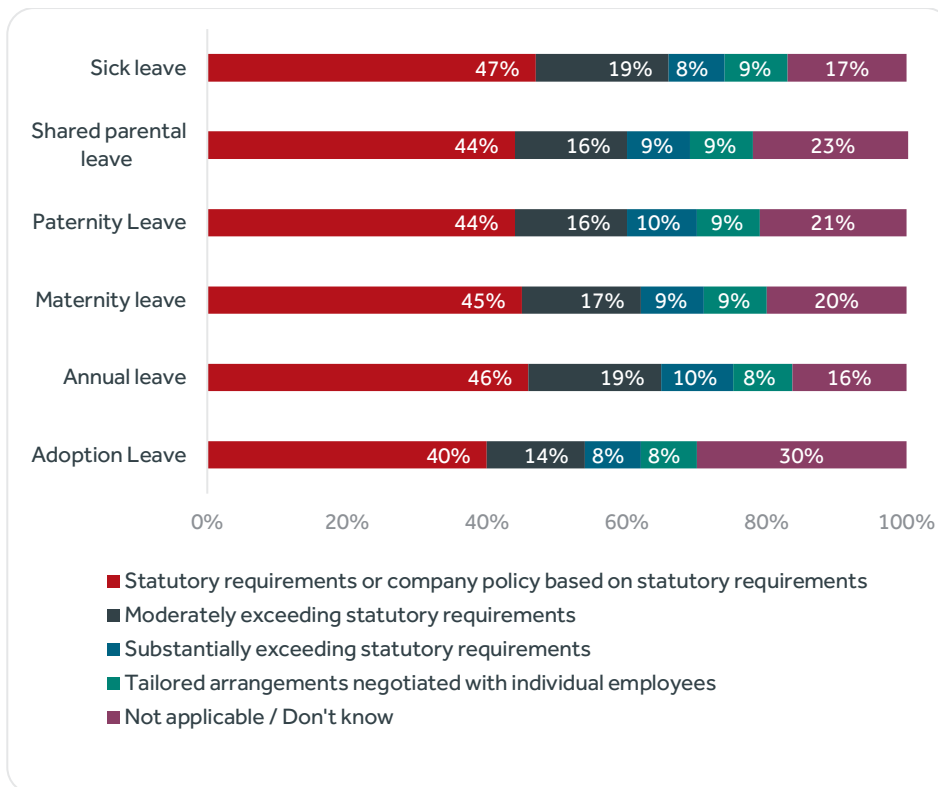
## The role of employers

Employers have a significant role to play in the provision and uptake of statutory leave, but also in providing enhanced offers to support their workforce to take more time away from work.

Both workers and employers stand to benefit from supportive leave policies. Paid sick leave has been linked with greater productivity and worker retention,<sup>25, 26</sup> while paid family leave can improve worker health.<sup>27</sup>

Unfortunately, data suggests many employers only implement the statutory requirements. Our survey of senior business leaders revealed that close to half of all employers do not go beyond the statutory requirements for most forms of protected leave. This compares to between a quarter and a third of employers who offer policies that moderately or substantially exceed statutory requirements.

**Figure 5: The balance of statutory and enhanced leave policies provided by employers**



Source: Work Foundation survey of senior-decision makers across GB (April/May 2024: n=1,167)

If we are to address the kinds of inequalities in accessing leave that are outlined in this section, Government will need to strengthen existing statutory leave entitlements, and potentially introduce new forms of statutory leave.

### 3. SICKNESS LEAVE AND PAY

In the context of rising economic inactivity due to ill health, access to comprehensive leave and pay if a worker is injured, becomes unwell, or develops a long-term health condition is key to supporting individuals to recover while remaining connected to their job.

In the UK, Statutory Sick Pay (SSP) and sick leave entitlements aim to achieve this. SSP is the minimum amount of sick pay an employee should receive from their employer for absences due to illness.<sup>28</sup> It is a statutory requirement paid by employers that was introduced in 1983 under the Social Security Benefits Act of 1982<sup>29</sup> as a replacement for a social security payment.<sup>30</sup>

Sick leave allows employees to take time off during times of ill health. In the UK, employees are entitled to sick leave but are required to provide proof of illness if absent for more than seven days, typically in the form of a 'fit note'.<sup>31</sup>

There are, however, several significant flaws in the UK sickness pay and leave regimes which leave many workers vulnerable during periods of ill health which may also be driving the recent rise in economic inactivity due to ill health.

#### Many disadvantaged workers are ineligible for Statutory Sick Pay

In order to qualify for SSP you must meet an earnings threshold of £123 per week, which leaves an estimated 1.15 million employees – or 3.5% of the UK workforce – unable to access the benefit.\*

Figure 6: Workers unable to access statutory sickness pay



Source: Work Foundation calculations of Labour Force Survey microdata, January-March 2024. Disabled workers are defined under the Equality Act 2010.

Often these workers are not able to meet the earnings threshold as they find themselves in part-time employment or forms of insecure work like zero-hour contracts, where pay is low, and hours are changeable.<sup>32, 33</sup>

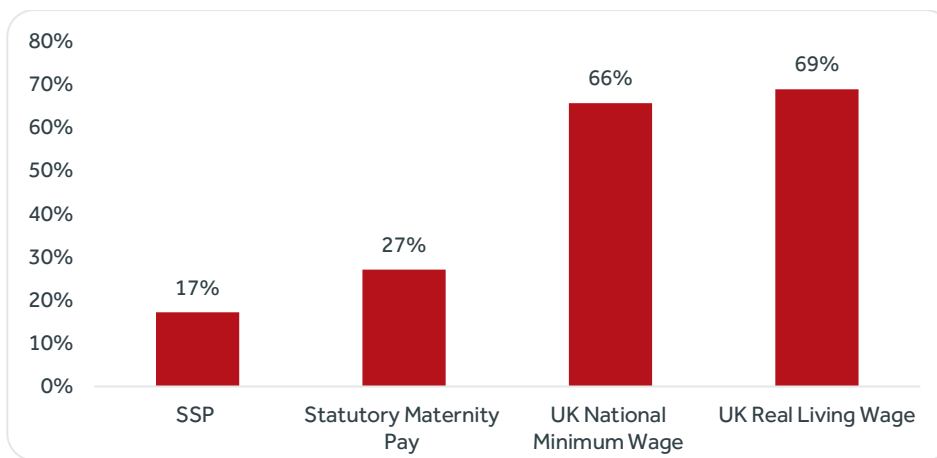
\* Work Foundation calculations using Labour Force Survey microdata, January-March 2024. We estimate the proportion and number of employees who are not eligible for SSP based on earning less than £123 in the reference week. This figure can fluctuate based on a number of variables including the employment rate, changing income levels and hours worked.

As a result, many workers in ill health opt to change their shifts rather than taking the time off to get better. The current four day waiting period before qualifying for SSP also means that for people with low and precarious incomes, many cannot afford to miss the consecutive shifts with no pay in order to qualify.

### The rate of Statutory Sick Pay is too low

Since its inception 40 years ago the value of SSP has halved relative to earnings, and is currently set at £116.75 per week, paid up to 28 weeks.<sup>34, 35</sup> At this rate, SSP replaces just 17% of average weekly earnings.<sup>†</sup> Our survey of UK business leaders found that almost half of all UK employers (47%) do not go beyond the statutory minimum level of sick pay provision. Just over a quarter (27%) provide a policy that either moderately or substantially exceeds statutory requirements.

**Figure 7: Replacement rates (% of average weekly earnings) of various pay entitlements**

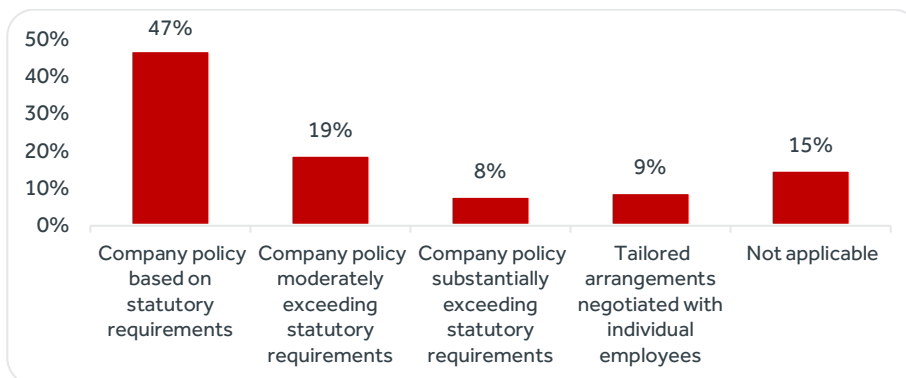


Source: Work Foundation calculations of Labour Force Survey microdata, January-March 2024

Under these circumstances, the reality for many workers is that this is insufficient to support them in taking time off work to recover from their illness, often leaving them with little choice but to return to work while sick.

More than two in five employers (43%) stated that the current SSP falls short of what is needed for people to live off.

**Figure 8: How do employers determine the duration of paid sick leave offered?**



Source: Work Foundation survey of senior-decision makers across GB (April/May 2024; n=1,167)

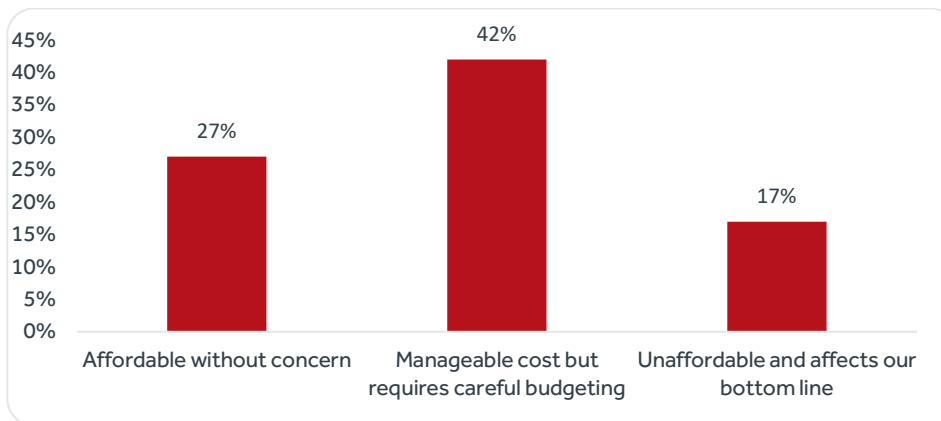
<sup>†</sup> Work Foundation calculations of based on the current rate of Statutory Sick Pay (£116.75) divided by average weekly earnings as of March 2024.

## Employer concerns regarding reforming Statutory Sick Pay in the UK

A significant barrier to reforming SSP in the UK has been a concern regarding the additional burden that doing so would place on employers – either due to higher costs or the perception that a more generous regime could lead to higher levels of absence from work.

These concerns were also reflected in our survey of UK business leaders, which found that two in five (42%) felt current sick pay is a manageable cost but requires careful budgeting from their organisation. One in six (17%) said it is unaffordable and this affects their bottom line. Only a quarter of respondents (27%) said providing sick is affordable without concern.

**Figure 9: Employer views on the affordability of providing sick pay**



Source: Work Foundation survey of senior-decision makers across GB (April/May 2024: n=1,167). Other responses included "Not applicable" (11%) and "Don't know" (3%).

It is these financial concerns that UK business leaders often cite as preventing them from offering more generous sick pay and leave policies. Two in five employers (43%) stated that financial constraints are preventing their organisation from providing enhanced sick pay, while other key challenges included compliance with legal requirements (31%), administrative burden and complexity (28%) and perceived impact on staffing levels (31%).

However, such attitudes vary significantly depending on the size of organisation in question and appear to be a particular challenge for small and medium sized employers (SMEs). Leaders of SMEs (1-250 employees) were more likely to report that sick pay is unaffordable and effects their bottom line (17%) when compared to large employers (14%). By contrast 38% of large employers (250+ employees) felt it is manageable without concern, whilst only 31% of SMEs did. Overall, our survey found that almost a third (29%) of senior business leaders have observed an increase in the number of sick days taken in the last four years – which is to be expected given the national data on rising levels of sickness following the pandemic.

But perhaps surprisingly, small employers (1-49 employees) were the least concerned about the impact of sick leave on staffing levels. Only 28% expressed this was a concern compared with 44% of medium sized employers (50-249 employees) and 40% of large employers (250+ employees). Small employers were also less concerned about the administrative burden or legal compliance sick pay and leave policies entail compared to larger employers.

An additional compounding finding from our survey highlighted that among the employers surveyed whose workforce have no option to work from home, only 14% offered enhanced sick pay. By contrast 33% of employers who offer remote and hybrid working also provide enhanced sick pay.



This suggests that workers within organisations that require people to work on-site also have fewer opportunities for paid time off to recover from illness – which could be detrimental to their health, but also that of their colleagues, should they be contagious.

## A pathway to reform

There are a number of well-developed proposals for reforming SSP and sick leave entitlements in the UK – including the Government’s 2019 Health is Everyone’s Business Consultation, the Department for Work and Pensions’ Select Committee 2024 Inquiry Report into the matter, and from civil society organisations.<sup>36</sup>

There is a consensus regarding several areas of reform that should be prioritised by the next Government, particularly that the level of SSP should be raised and the lower earnings threshold should be abolished. Many organisations are campaigning for the minimum waiting period of four days before SSP entitlements kick in to also be abolished.

Several of the proposals address employer concerns regarding potential changes, including introducing a SSP rebate for small and medium-sized businesses, who are particularly vulnerable to increased costs – reflecting a similar scheme introduced during the pandemic.<sup>37</sup>

These urgent reforms to SSP are needed. However, there is also a need to consider how to ensure the model is sustainable in a context where the working-age population is increasingly subject to physical and mental health issues.

Moves to strengthen the provision of SSP must sit alongside wider interventions to support longer and healthier working lives, to keep more people in employment during periods of ill health, and to seek to mitigate the risks of workers falling ill in the first place.

## 4. POLICIES FOR LONGER, HEALTHIER WORKING LIVES

Today, workers are expected to navigate longer careers alongside responsibilities such as caregiving and managing ill health. The rise in economic inactivity over the last five years suggests that for many the current model isn't working.

The failings of the current system are felt most heavily by women. One in four older female workers in their 50s and 60s shouldering caregiving responsibilities and a growing number assuming a role as dual caregivers for both children and parents – the so called 'sandwich generation'.<sup>38</sup> More than a quarter of women (25.3%) between the age of 16 and 64 are economically inactive due to caring for their family or home, compared to 7% of men.<sup>39</sup> Women are also leaving the labour force at a greater rate than men due to ill health, exceeding caring as the primary reason women are not in the labour market.<sup>40</sup>

Meanwhile retirement becomes an increasingly distant prospect for many due to the rising pension age and poverty in older age. In April to June 2022, the number of people aged 65 years and over in employment increased by 173,000 on the quarter to a record 1.5 million.<sup>41</sup>

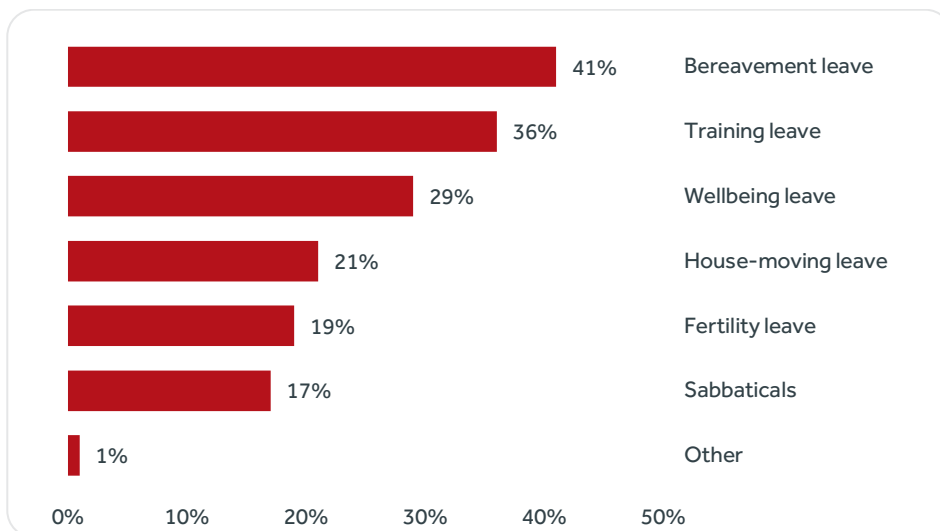
For older generations who still want to work, there is a need to ensure jobs can be balanced with other demands and that leave entitlements scale accordingly.

### Designing new policies and leave entitlements for longer working lives

Beyond traditional forms of statutory leave, policy options like paid carer's leave, sabbaticals and phased retirement could offer individuals the chance to recalibrate the demands of their professional lives in recognition of the fact we are working for longer across our lifetime.

There are several forms of additional leave offered by employers which suggests needs are going unmet by statutory requirements. Employers have the autonomy to design policies to meet these evolving needs based on the preferences of their workforce, while the Government has a key role in preventing further gaps in leave entitlement from emerging.

**Figure 10: Percentage of employers providing the following leave policies on a paid basis**



Source: Work Foundation survey of senior-decision makers across GB (April/May 2024: n=1,167). Two options for this graph were shortened from "Shorter working week without changing pay level" and "Sabbaticals or a long service paid sabbatical".

## Rolling out paid leave for carers

There are an estimated 10.6 million people who provide unpaid care and support to a family member or a friend in the UK, which means one in five adults provide care to someone. In the age group of 25 to 49 years olds, approximately 1.1 million people are economically inactive due to caring responsibilities.<sup>42</sup> According to a Carers UK survey, 40% of carers leave their jobs to fulfil caregiving duties, while 22% reduce their working hours.<sup>43</sup>

As estimates suggest over nine million people will be living with a health condition in England by 2040, this will likely result in an increased need for carers and strengthened care leave policies.<sup>44</sup>

In the UK, there is a statutory right to time off to provide care to a dependant in an emergency which could be a child, spouse or other family member with care needs. In addition to this, in response to the pressing need to more proactively support caregivers in employment, the Carer's Leave Act 2023 was recently introduced. The Act enables employees to provide or arrange care for a dependant with a qualifying condition, including physical or mental illness or injury that is expected to need care for more than three months, for up to one working week in 12 months. The Act aims to improve the leave entitlements for millions of carers, enabling them to balance work and caregiving responsibilities.

Whilst over two million employees may benefit from the new rights outlined in the Act,<sup>45</sup> in practice, the uptake is likely to be limited because the leave is unpaid, and most people cannot afford to forgo time off work without pay. Our survey indicates that 42% of employers offer the statutory requirement for carer's leave. Only 14% go beyond this with a moderate or substantially enhanced offer. A further 10% have individually tailored arrangements with their workforce.

The aim of the UK Government should be to move towards an allocation of paid leave from work for all carers in employment, to be taken flexibly.

In Germany, for example, 'pflegezeit' (caring time) entitles employees with care-dependant relatives to apply for up to ten days of paid leave over a dependants' lifetime at 90 per cent of their income. In addition, employees with care-dependant relatives are entitled to take up to six months of full or partial unpaid caring time. During this period, employees have the legal right to receive an interest-free loan from the Government to compensate their lost income. Pflegezeit does not require the consent of employers.<sup>46</sup>

## Sabbaticals to attract and retain people in high-intensity jobs

Alongside entitlements to annual leave, paid sabbaticals can offer individuals the chance to take an extended break from work, which could help ensure they remain fit and healthy to remain in work for longer throughout their lives.<sup>47</sup>

While there is currently no specific employment law covering sabbaticals in the UK, employees can make a request for paid or unpaid sabbatical leave under flexible working legislation. They have become of particular interest in parts of the public sector facing recruitment and retention challenges.

One in six senior business leaders (17%) surveyed said they provide options for paid sabbaticals to their employees. Areas of the public sector are also deploying these policies, but payment is not guaranteed. For example, the NHS is one provider of sabbaticals with some Trusts offering leave for certain occupations of between three months and five years to staff with 12 months' service.<sup>48</sup> These are paid only in cases where funding is available and specific benefits to the organisation are identified.

Conditions exist, for example, those who take a sabbatical under a year can return to the same job, whereas someone taking a sabbatical for longer can return to a similar one.<sup>49</sup> These offers

allows qualifying NHS staff to take extended leave from their roles while maintaining their employment status. It enables them to pursue personal development, further education or career enhancement opportunities.

In 2018, Damian Hinds, the then Secretary of State for Education, proposed introducing a paid sabbatical pilot scheme for teachers with a view to increase retention in the sector.<sup>50</sup> At the time, the Government said teachers with over 10 years' experience would be able to apply "with a specific project in mind", and if successful, salaries would be paid for up to a year. The policy was supported by the National Union of Teachers but was later dropped.

Nevertheless, there is clearly potential for these kinds of initiatives to be pioneered by Government in the future to help support and sustain public service workforces and provide a wider precedent for employers across the country. There are sectors such as social care where the risk versus reward calculation for workers appears to be out of kilter, leading to persistent labour shortages. Paid sabbaticals may offer a way to attract people to jobs such as those where the physically and mentally challenging nature of the work is not rewarded by pay or progression routes. For example, sabbaticals based on length of service could enable social care workers a series of career milestones which may be used for professional development or to rest and recuperate.

This programme would need to be phased in to avoid sudden departures of existing staff on sabbatical leave. If designed well, this risk would be offset by a steady flow of new recruits attracted by the improved job offer. The costs of such a scheme could be shared between employers and the Government in recognition of the savings made to both in the form of improved retention.

There may also be merits in exploring wider legislation on sabbatical leave as a lever for fostering a healthy and mobile workforce across the economy. In Finland, the Sabbatical Leave Act of 1997 allowed full-time employees who had been in work for 20 years or more to take leave from their job for between 90 and 359 days. The employee on leave receives 60% of the daily unemployment benefit from the state to which they would be entitled if unemployed. Meanwhile the employer is obliged to recruit someone who is out of work – not necessarily to perform the former duties of the person on leave – as a form of work rotation to open new opportunities. Under the terms of the scheme, people taking vocational training during this time were also eligible for an additional allowance.<sup>51</sup> The scheme is being wound up in 2024 after over 20 years of operation.<sup>52</sup>

### Flexible leave and phased retirement to support longer working lives

If we are to extend our working years, we must consider how to support individuals in taking necessary time off and in facilitating their return to work if desired – particularly as workers reach the latter stages of their careers.

While some retirees re-enter the workforce out of necessity, ideally individuals would be supported to plan for retirement in a financially sustainable way. Several countries have introduced programmes that seek to extend working hours at older ages, while others give flexibility in the choice of when to retire such as reaching a certain threshold age or having contributed a certain amount of working time. Some countries also offer retirement while still working or within a specific age range.<sup>53</sup>

Phased retirement, while different from other types of leave discussed in this paper, is an agreement between employers and employees that provides more flexibility in managing the transition from full-time employment to retirement.

It allows retirees to make a more gradual transition into retirement, while allowing employers and the UK economy to benefit longer from the knowledge and experience built up by workers in their 50s and 60s throughout their careers who might otherwise retire early.



In April 2023, a YouGov survey revealed that three out of five retired British employees believe phased retirement has the potential to improve work-life balance (62%).<sup>54</sup> The survey found that three in five retirees consider that phased retirement could lead to a positive impact on employee retention.<sup>55</sup>

It could also bring financial benefits to those reaching the end of their career too if it leads to individuals ultimately extending their working lives. In countries such as Canada, Denmark, Japan and the UK, deferring pensions pays a 6-8% bonus for each year of deferral, in addition to higher earned entitlements when working.<sup>56</sup> The bonus can be partially offset as income tested benefit components are withdrawn, which is the case in Canada and Denmark.<sup>57</sup>

There is also scope to look at better integrating sick leave and SSP with flexible working approaches and welfare payments to support a phased return to work whilst managing health conditions. The UK is an outlier in Europe in that employers are required to cover the full cost of SSP at a fixed rate.<sup>58, 59</sup> In contrast, the predominant approach in other European countries is that the cost of sick pay is shared between employers, health insurance schemes and the government.<sup>60</sup> This shared approach can also enable a focus on wider policy aims, such as increasing labour market participation.

Whilst the main purpose of paid sick leave is to allow people to recover and return to work, regimes in Austria, Denmark, Finland and Sweden, put an emphasis on rehabilitation and labour market reintegration programmes as part of their policy approaches to sickness absence.<sup>61</sup> These programmes seek to prevent the exit from the labour market through early retirement or disability pensions of people affected by long-term illness.<sup>62</sup> In these models, employers are supported to keep jobs open for workers who become sick, and in some cases their return to work is facilitated through part-time sick leave alongside part-time work and occupational health support. These flexible models can allow people to continue in suitable work and earn wages alongside receiving some benefits. Austria provides an additional benefit that is intended to enable re-training when people can no longer carry out their former job due to their health status.<sup>63</sup>



## 5. CONCLUSION AND RECOMMENDATIONS

A healthy workforce is the backbone of a successful economy. However, in the UK forecasts indicate the workforce is getting older and sicker. The pension age is gradually rising, and workers are increasingly being expected to work longer, while economic inactivity due to long-term ill health has risen by a third in the last five years to a record 2.83 million people.

Against a backdrop of sluggish economic growth and worker shortages in key sectors, this presents huge challenges for the UK labour market, the economy and the exchequer. Employers – who have been struggling to recruit and retain staff in recent years – will increasingly face the challenge of supporting their workforce through long-term health conditions, while also retaining workers in the workplace into their late 60s and 70s.

That means policy makers and employers should move beyond primarily conceiving of leave policies as a ‘workplace perk’ designed to attract individuals to an organisation, and instead think of them as a range of upstream and downstream interventions that can help people remain healthy and in work.

To achieve this, the analysis in this paper suggests action to be taken in three key areas:

- **Making access to leave equal:** To ensure the rules about taking time off match the reality of our working lives and should be equally accessible to all workers
- **Strengthening sick pay:** To ensure we have a model for sick pay that supports people to recover
- **Planning for a healthier workforce into the future:** As people live and work for longer, leave policies need to change too, to ensure they meet the needs and preferences of the workforce.

### Recommendations

A new approach to increase and sustain labour market participation is needed. The Work Foundation calls on the next Government to:

#### 1. **Strengthen statutory leave policies through a comprehensive Employment Bill within the first 100 days in office**

There remains an urgent need to update employment law and key statutory leave policies to reflect the ways in which the UK labour market has changed in recent years, and ensure all workers have access to core leave entitlements and are able to take them up.

Alongside wider changes to workplace rights and protections, an Employment Bill should:

- a) **Reform Statutory Sick Pay** by:
- Removing the lower earnings limit to allow all workers to claim SSP
  - Reducing the waiting time for SSP from four days to start on day one
  - Creating a roadmap for increasing SSP to 60% of usual wages or the equivalent of Real Living Wage, pro-rated by the usual number of hours worked, whichever is highest
  - Making SSP more flexible to support workers make a phased return to work
  - Providing a Government rebate to support smaller employers who might find it challenging to meet the cost
  - Standardising employment status in order to ensure all workers have access to key rights and protections, including statutory leave policies.

- b) **Create a Single Enforcement Body for Employment Rights** and improve employer transparency and resourcing for enforcement to ensure workers' rights are upheld. This should include:
- Extending state enforcement to cover all statutory leave entitlements, ensuring employers comply with their uptake and pay, to guarantee vulnerable workers have access to time off
  - Monitoring and evaluating leave entitlements and uptake, by requiring employers to communicate with the Government in a clear and consistent manner
  - Requiring disclosure of additional key workforce data from large employers including on attrition, sickness absence, hours worked, and employment status.

## 2. **Commission an Independent Review on Statutory Leave and Pay to establish the fairness, flexibility, and suitability of leave for the future labour market**

From 2026-28, the State Pension age will rise to 67 and there is a vital need to understand the role that statutory leave policies can play in supporting longer, healthier working lives.

We recommend the next Government commits to an **Independent Review of Statutory Leave and Pay** within the first year of the next Parliament. This Independent Review – undertaken with support from employers, trade unions and health bodies – should seek to build on entitlements protected by Working Time Regulations and make recommendations to Government on:

- The effectiveness of existing UK statutory leave policies, including against international comparators, in the context of rising ill health among the workforce
- The role of employers and enforcement bodies in ensuring all workers access their leave and take-up existing entitlements without financial or occupational detriment
- Cost-sharing between employers and Government, particularly with regards to workers experiencing long-term ill health, ensuring liveable incomes are provided across SSP, Personal Independence Payments and Employment and Support Allowance
- Options for new initiatives to boost retention in key sectors and enable workers to have healthy working lives for longer. This should include an allocation of paid leave for carers, and the potential role of sabbaticals, and phased retirement
- The role of Government as an employer transforming leave and employment practices across the wider economy, including via pilots in areas of the public sector, and changes to procurement practices to encourage the adoption of more progressive leave policies by employers
- Parameters for a periodic review of mechanisms to increase time off, for example via additional public holidays or new forms of statutory leave, in line with any future rises to the State Pension Age.

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