Time out
Reforming Statutory Sick Pay to support the Covid-19 recovery phase

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Summary

Even before the coronavirus crisis began, the UK was almost at the bottom of the OECD league table for the generosity of Statutory Sick Pay (SSP) and its international equivalents. Since the outbreak of coronavirus, the UK has fallen further down the list. The eligibility criteria, leaving out 2 million of our lowest paid, and low replacement rates mean people struggle to make do while on sick pay. This is a significant problem for individuals’ livelihoods when they have to self-isolate or fall ill. Given the pressures households have already dealt with over the past nine months due to the economic fallout of the coronavirus crisis, it is unjustifiable to continue placing the financial burden of self-isolating on the individual. And perhaps even more importantly, the pandemic has meant the consequences of a poorly working sick pay system are more severe: going to work with a cough can now be a question of life or death. The early evidence is stark: during the first wave of Covid-19, the Office for National Statistics (ONS) found care homes that paid sick pay were significantly less likely to have seen Covid-19 cases among residents in the early weeks of the pandemic.

Some sensible changes have already been made, such as scrapping the four-day wait for SSP, but there is more to do. A simple way to improve the situation would be to let employers use the Job Retention Scheme (JRS) for workers who are ill with the virus or need to self-isolate, allowing them to receive 80 per cent of their previous earnings. This would mean that the median worker was entitled to £330 a week from the JRS rather than £96 in SSP. We estimate this would cost around £314 million a month (with additional payments of the JRS at £426 million, with an offsetting £112 million saving in SSP) if 643,000 employees used the scheme. The JRS is due to end at the end of March, but the JRS for self-isolation should be retained after that. To make sure that the lowest-paid are covered with or without JRS, SSP should also be extended to all employees, by permanently removing the need to have earned over £120 a week.

Self-employed workers who need to self-isolate are currently directed to the Self-Employment Income Support Scheme (SEISS). This should be changed so that self-employed workers who have to self-isolate can claim grants covering 10 or 14-day periods of self-isolation, paid at 80 per cent of their previous earnings, and these self-isolation SEISS should be extended beyond the end of March. If this cannot be done, then the self-employed should continue to be directed to the existing SEISS scheme which pays out grants covering 80 per cent of three months’ worth of earnings, and the Government should introduce a mechanism for partially clawing back any excess grants.

The new Track and Trace Support Payment (TTSP) provides an additional way that policy supports those on low incomes who need to self-isolate. But in its current form it is too complex, too narrowly targeted and too reliant on additional funds from local authorities.
to have significant impact. If our suggested reforms to JRS and SEISS are implemented, then there will be less need for TTSPs, but they should continue in order to provide support for those who would otherwise be entitled to nothing. TTSPs should be extended beyond 31 January, and entitlements granted to those who cannot work because their children cannot attend school or notified to self-isolate via the NHS Covid app. The Government should also review the formula for paying local authorities for discretionary payments so that it relates directly to local infection rates.

The pandemic is showing the drawbacks of SSP, with its low levels of payment and its system of determining support – a historical hangover from our old contributory system – that means that low earners are entitled to nothing. Beyond the pandemic, we need to rethink this important part of the welfare state safety net, and ask questions about its generosity, recognising that its existence benefits us all.

Even before the current crisis, Statutory Sick Pay was poorly fit for purpose

In normal times, Statutory Sick Pay (SSP) acts as the minimum – albeit a low one – of financial support that employees should receive when they can’t work because of illness. It amounts to just £95.85 per week in 2020-21 and is available for up to 28 weeks a year, paid by the employer. To be covered, workers have to be classed as an employee or agency worker and earn an average of at least £120 per week (this is the Lower Earnings Limit (LEL) in the National Insurance system). Sick pay starts after four days of illness, called ‘qualifying days’; and after seven days, the employee needs a ‘fit note’ from their GP.

The mandatory rates of sick pay in the UK are low when compared to those in other countries. Before the outbreak of Covid-19, the average mandatory paid sick leave among OECD countries replaced just over 60 per cent of an eligible employee’s wage1, and even reached 100 per cent in a few countries including Austria, Iceland and Luxembourg. By comparison, the replacement rate for a worker in the UK was just over 10 per cent, which is higher only than South Korea and the United States, where employees do not have a legal right to any sick pay at all.2

In part, current SSP is a product of its history, rather than a system designed specifically for its purpose. Originally, SSP was a full part of the social security system, with the government reimbursing employers for most of the payments in a similar way to Statutory Maternity Pay. But this stopped for large employers in 1993 and for all

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1 The results refer to an eligible full-time private-sector employee who is: married with no children, age 40, earning an average wage, has worked for the same employer for one year, and who cannot work from home. The replacement rate is calculated over a four-week sickness spell.
2 S Scarpetta et al., OECD Policy Responses to Coronavirus (COVID-19): Paid sick leave to protect income, health and jobs through the COVID-19 crisis, OECD, July 2020
employers in 2014, and since then SSP has acted as a minimum payment that firms must make to eligible employees when they are off sick. This half-baked benefit was not adequate before the current crisis and is certainly not designed to deal with a pandemic.

The pandemic has highlighted pre-existing flaws in sick pay and underlined its consequences

As more people have had to take time off for illness, so the pandemic has highlighted the pre-existing flaws with SSP. But more importantly, many more families have also had first-hand experience of the consequences of presenteeism this year than previously. Because sick pay affects individuals’ ability to take time off work when they show symptoms or are told to self-isolate, it will directly influence the rate of transmission of Covid-19. Going to work with a cough was standard practice before the pandemic, but can now be a matter of life and death. Very strikingly, during the first wave of Covid-19, the Office for National Statistics (ONS) found that care homes paying sick pay were significantly less likely to have seen Covid-19 cases among residents in the early weeks of the pandemic.3

The Government made some changes to SSP eligibility when Covid-19 hit, allowing (qualifying) employees to receive support if they were told to self-isolate (as well as when they were ill), and for it to be paid from the first day of Covid-related illness or self-isolation, rather than day four (the old system remains in place for non-Covid-related illness). Very sensibly, to help employers cope with the extra cost of SSP, the Government is covering the cost of SSP payments for up to two weeks for small-to-medium businesses through the SSP rebate scheme.4

Two million of the lowest-paid workers are excluded from the current SSP

The need to earn above the LEL, currently £120 a week, to qualify for any SSP means that close to 2 million employees at the bottom of the earnings distribution are ineligible for it.5

Figure 1 shows the fraction of workers in different groups who are not able to claim SSP if they fall ill or self-isolate. Because SSP eligibility is determined by weekly pay, those who are not eligible are typically working in low-paid jobs or working part-time (or both). This is clear in Figure 1 which shows that 25 per cent of part-time workers are ineligible. In addition, the figure shows that women, younger and older workers, and workers with atypical contracts are all more likely than the average worker to be ineligible, due to

4 Gov.uk, Check if you can claim back Statutory Sick Pay paid to employees due to coronavirus (COVID-19), April 2020.
5 RF estimates based on ONS, Labour Force Survey.
the higher incidence of low pay or low hours among these groups. Similarly, workers in customer-facing industries are less likely than the average worker to be eligible, with one-in-seven (16 per cent) workers in industries such as retail, hospitality, arts and leisure being ineligible for SSP. It is particularly alarming that workers in sectors with a lot of social interaction, or where workers are in regular close contact with vulnerable groups, have relatively low coverage of SSP. It makes no sense, either for our economy or the health of the population, to have a situation where the workers who are most at risk of spreading the virus are not adequately supported to self-isolate when they may have contracted it.

FIGURE 1: Women, people on insecure contracts and workers in sectors that depend on social interaction are most likely to be ineligible for SSP

Proportion of employees earning below the Lower Earnings Limit, by selected demographic groups: UK, 2019

NOTES: SSP covers all types of employment contracts, but employees on flexible or zero-hour contract have to prove their average earnings, which can be a challenge. Therefore, these figures may underestimate how many workers would receive SSP in case of illness. Atypical contracts include agency workers and workers on temporary and zero-hour contracts.


Neither current SSP replacement rates nor personal finances allow people to take time off ill

It is striking that the Government so far has not made any changes to the rates received under SSP. This means that mandatory sick pay replacement rates in the UK have slipped further down the international league table since the outbreak of the pandemic, as about half the countries in the OECD have increased the replacement rates that employees
receive when they are ill or need to self-isolate because of Covid-19. For example, the US put in place a mandatory sick pay for Covid-related self-isolation at a replacement rate of 50 per cent of previous earnings, Finland increased their mandatory replacement rate from 70 per cent to 100 per cent, New Zealand raised theirs from just over 30 per cent to 50 per cent, and Ireland doubled their replacement rate to nearly 40 per cent.6

The level of SSP at £96 pounds per week means that, for those who earn just enough to qualify (£120 per week), it provides a replacement rate of 80 per cent. But, as Figure 2 shows, the fixed rate of SSP means that replacement rates fall rapidly in higher earnings deciles, so that SSP represents less than half of weekly earnings for all workers outside the bottom earnings decile, and only a quarter of weekly earnings, on average.

**FIGURE 2: Current Statutory Sick Pay covers just one-quarter of gross average weekly earnings**

Mean Statutory Sick Pay gross replacement rates for those earning above the LEL, by weekly earnings deciles: UK, 2019

![Graph showing replacement rates in different earnings deciles](image)

NOTES: Figures do not include workers earning below the LEL.

Some employees benefit from top-ups to these rates under occupational sick pay schemes, but estimates from the Department for Work and Pensions (from 2014) are that one quarter (26 per cent) rely on SSP alone when they are ill (a further 17 per cent reported that they did not know what they were entitled to, meaning that the true proportion getting only SSP could be higher). Breaking this figure down by demographic

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groups, as we do in Figure 3, shows a similar pattern to that observed in Figure 1. Among workers who get some sick pay, the proportion who get only SSP and do not get any occupational sick pay is higher in customer-facing occupations, with two-fifths (39 per cent) of workers in caring, leisure and service occupations receiving only the statutory minimum when ill. Reliance on SSP is also more prevalent among the youngest and oldest workers, and for workers on atypical and part-time contracts.

FIGURE 3: One-quarter of workers receiving any sick pay rely solely on SSP
Proportion of eligible workers on different sick pay schemes, by selected demographic groups: UK, 2014

If SSP does not provide adequate earnings replacement when workers have to self-isolate, then we are effectively asking them to fund self-isolation from their own resources. But many families can’t afford to cover their bills if they lose a significant portion of their income, even for a short period of time. Before the crisis started, one-in-thirteen workers (7 per cent) said that they could make ends meet for no more than a week if their household lost their main source of income, and a little more than twice that (15 per cent) said that their household could make do without their main source of income for more than a week but not for not a full month.7

NOTES: Figures do not include workers earning below the LEL.
SOURCE: RF analysis of DWP, Health in the workplace – patterns of sickness absence, employer support and employment retention.

And the fact that the crisis is in its eighth month means that many households have already had to draw on personal reserves. In our latest survey, we saw that financial stress is building. For example, more than four-in-ten (42 per cent) adults in September reported using at least one form of borrowing (credit cards, borrowing from family and the like) to cover everyday living costs. Most worryingly, this figure rises to over half (54 per cent) for those living in the lowest income families, indicating not only the pressure such households are under currently, but also that a debt problem may be building. With this in mind, it is easy to understand that having to forego earnings in order to self-isolate is becoming ever less tenable as the crisis continues.

The new Test and Trace Support Payment has patched up some of the holes in SSP, but is narrowly targeted and overly complex

One step the Government has taken so far to recognise the costs incurred by workers who self-isolate is the new £500 Test and Trace Support Payment (TTSP). The TTSP is available to employees or self-employed workers who are told by NHS Test and Trace to self-isolate, and who are receiving one of a number of benefits targeted at low-income families. The scheme will run until 31 January and there is currently little clarity on what will happen after this.

Unfortunately, the TTSP does not address the wider problems of SSP. Potential eligibility to the standard TTSP extends to only one-in-eight workers, and the payment is not automatic but has to be claimed from the local authority. Furthermore, workers are not eligible if they are required to stay at home because their children have been told to self-isolate because of an outbreak at school.

Although no systematic information has been released by the Government, it appears that actual take-up so far has been low. In addition, although local authorities have the power to offer £500 discretionary payments to people in work and on a low income who do not meet the criteria for the TTSP but would face financial hardship as a result of not being able to work while self-isolating, the budgets allocated to them to fund these do not bear any relation to the local rate of infection. In some cases, this means that budgets intended to cover the period until 31 January have already been used up. We discuss this more in Box 1, which draws on data provided to us covering the West Yorkshire combined authority.

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8 Ibid.
10 The TTSP is a specific scheme in England only, but the Scottish Self-Isolation Support Grant, the Welsh Self-Isolation Support Scheme and the Discretionary Support Self-Isolation Grant in Northern Ireland similarly offer payments to those in need of financial support to self-isolate.
12 See for example a letter to the Chancellor from Anneliese Dodds MP.
BOX 1: Test and Trace Support Payments and discretionary support payments in West Yorkshire

So far, we have seen little if any data on the success of TTSP and Local Authorities’ discretionary grants, although there has been plenty of anecdotal evidence and speculation. We have been able to see some real-time data from West Yorkshire on how the process has worked for them, covering grants paid up to 25 November. The situation in West Yorkshire may not be representative for the country, not least because Yorkshire and the Humber have had higher-than-average levels of infection rates, but early evidence from the region suggests there are mismatch problems between funding and need, especially as this payment can be the main source of support for some families being asked to self-isolate.

Leeds, Bradford, Wakefield and Calderdale have together received funding for a total of 1,191 discretionary support payments. In order to manage this budget, Local Authorities have added criteria to that specified by the central government website. But these criteria differ between different Local Authorities, depending on the funds available and the local need, meaning that any small mismatch between the level of funding and local need generates a postcode lottery. For example, Wakefield, with a current estimated current infection rate of 1.91 per cent, had spent nearly 1.5 times their discretionary budget by the end of November. Bradford and Calderdale both have estimated infection rates of over 2 per cent and have each spent more than their initial allocation of TTSP (indicating that demand for TTSPs is similar in the two areas), but the use of their discretionary budgets is very different: Bradford has spent nearly all (97 per cent) of theirs by 25 November, but Calderdale had spent only one-third (33 per cent).

Devising local rules, seeking additional internal funding and processing payments at pace is resource-intensive for Local Authorities. With the end of the scheme approaching quickly, there are important questions about how to build on what we have learnt about this scheme so far.

Employers should be allowed to use the Job Retention Scheme for workers who need to self-isolate

More needs to be done if we are to safely loosen restrictions as we come out of lockdown. NHS Track and Trace is key to the national strategy to limit the transmission of
Covid-19, but research shows that adherence to test, trace and isolate behaviours after testing positive for Covid-19 is low, with just under one-fifth (18.2 per cent) self-isolating. Although this is not all due to low levels of sick pay, multiple studies from before the pandemic show that levels of sick pay are important in determining whether contagious people stay at home.

And even though vaccination has started to be rolled out, it will take a number of months before we can return to our pre-coronavirus world: we require a community-level vaccine coverage of over 80 per cent for herd immunity. This means that financial support for self-isolation is likely to be an important consideration throughout 2021, and is likely to influence the timing and pace of economic re-opening and recovery.

One response to the low level of support provided by SSP to those who fall ill or self-isolate would be to pay it to all employees, and make it proportional to earnings, so as to boost the replacement rate. But there may be a quicker solution. Workers who are furloughed are able to receive up to 80 per cent of their previous earnings through the Coronavirus Job Retention Scheme, a far greater sum than is provided by SSP. Currently, government guidance specifically says that the JRS should not be used for employees on sick leave or self-isolating as a result of Covid-19. But this is a missed opportunity to use a pre-existing structure that is already working well to support employers and employees in the short term.

The Government should therefore extend the JRS so that it can be used flexibly for workers who need to take short-term absences because of ill-health or the need to self-isolate. This ability to use JRS for self-isolation should be made more flexible. First, the constraint that employees have to have been on the payroll by end of October should be scrapped. Second, JRS should be extended to parents of all children who are ill or self-isolating, by including parents of children whose schools have told them to learn remotely.

To prevent any fraudulent claims, employees could be asked to register an instruction from NHS Test and Trace or an ‘isolation note’ from NHS 111, as is currently required to certify Covid-related claimants of SSP, with a similar system used to verify that parents need to be off work when their children need to self-isolate. To align employers’ incentives, the employer contribution to the JRS should be set to zero for those employees using the JRS because of illness or self-isolation. The JRS is due to end at the end of March, but JRS for self-isolation should be retained after that, given that Track and Trace will continue to play an important role in keeping down the Covid-19 caseload into the back end of next year as vaccination is rolled out.
The amount of income replacement provided by the JRS and current SSP rates are shown in Figure 4. Allowing a self-isolating worker to be on the JRS would mean that the median worker was entitled to £330 a week rather than £96 in SSP, increasing the replacement rate from around one-quarter to 80 per cent. This would significantly change the support provided to employees when they have to self-isolate, as well as for the first time providing support for the 2 million low-paid employees who are currently not eligible for SSP.

We estimate the cost of this change would be around £314 million a month (with extra spending on JRS of £426 million being offset with a £112 million saving in SSP). This can be thought of as a central scenario where we assume that self-isolating workers receive support only if they are not able to work from home, whereas people who fall ill with the virus receive support regardless of whether they are able to work from home or not.

FIGURE 4: Self-isolating workers should be allowed to be put on the Job Retention Scheme

Net weekly income replacement rate under JRS, Statutory Sick Pay and Universal Credit

NOTES: Adults assumed to be aged 25+ and eligible for Universal Credit.
SOURCE: RF analysis using the RF microsimulation model.

Our suggestion to allow employers to use the JRS for sick or self-isolating employees is intended to be a pragmatic suggestion that can be implemented quickly. But the Government must still address the flaw in SSP that excludes those who earn below £120 a week. Such a restriction – limiting payments to those who have previously paid National Insurance contributions – is a historical echo of the UK’s old contributions-
based insurance system. It has been a long-standing point of contention. Indeed, in 2019, a government consultation proposed that SSP eligibility should be widened to include those on the lowest incomes. Despite calls to do so during this crisis (including from the Resolution Foundation), the Government has not changed the earnings threshold. This needs to be abolished as soon as possible, with employees who earn less than £120 per week being entitled to SSP amounting to 80 per cent of their average weekly earnings, in line with the JRS replacement rate.

The self-employed should use a reformed self-isolation SEISS

Self-employed workers are not covered by SSP, and also would not be able to make use of the JRS if that was extended to self-isolating workers. The recommended route open to the self-employed who need to self-isolate is to claim via the Self-Employment Income Support Scheme (SEISS).

The SEISS is currently made on a lump-sum basis, paying eligible self-employed workers up to 80 per cent of three months’ trading profits. An ideal system would pay the SEISS for periods of less than three months so that, for example, a self-employed worker who has to self-isolate for 10 (or 14) days receives 80 per cent of their previous income over 10 (or 14) days, not over three months (it is very hard to justify why SEISS should be allowed to claim 80 per cent of three months’ worth of earnings even when self-isolating for just 10 days, with the average SEISS payment being £2,518). If such a system can be implemented, then it should continue beyond 31 March 2021, until the crisis is over, in line with our suggestions for the JRS for self-isolating workers.

However, if it is not possible to pay the SEISS over shorter intervals then, in the absence of an easy alternative to provide income replacement for the self-employed who have to self-isolate, the Government should continue to tell the self-employed to claim the SEISS if they have lost income as a result of self-isolating. But in this case, it becomes even more important to introduce a mechanism for partially clawing back some of the grants.

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13 DWP, Health is everyone’s business Proposals to reduce ill health-related July 2019, CP 134.
14 Resolution Foundation Analysis, Doing what it takes: Protecting firms and families from the economic impact of coronavirus, Resolution foundation, March 2020. See also a letter to the Government signed by 100 colleagues and taken up in a House of Commons debate on 18 March, where zero-hours contract workers are emphasised as a vulnerable group.
15 Gov.uk lists SEISS as one key option for self-employed people needing to self-isolate because of contact with Covid-19, as self-isolation is listed as one of options under the criteria ‘Previously trading but you are temporarily unable to do so’. Read more at Gov.uk, Guidance: How your trading conditions affect your eligibility for the Self-Employment Income Support Scheme, updated September 2020.
16 Read more at: Gov.uk, Guidance: Check if you can claim a grant through the Self-Employment Income Support Scheme, updated September 2020.
paid to self-employed workers who have seen their incomes actually rise this year while claiming SEISS, as set out in previous Resolution Foundation research.\(^{18}\)

**Those who have to self-isolate and do not qualify for JRS or SEISS should use the welfare system, and a reformed TTSP**

For workers who have to self-isolate and do not qualify for either the reformed JRS or self-isolation SEISS, the welfare system acts as the final safety net.

In particular, any self-employed worker who cannot work because they are sick or self-isolating and who has previously paid National Insurance contributions can claim Employment Support Assistance (ESA).\(^{19}\) But ESA was not increased by £20 a week when rates of Universal Credit and tax credits were boosted in April 2020, and so it remains at only £74.35 a week, even lower than SSP. On current policy, the rate will remain at this lower level for 2021 (after an adjustment for inflation\(^{20}\)) so, to support the self-employed who have to self-isolate, the Government should reverse this decision and increase ESA by £20 per week, bringing it in line with the current rates of Universal Credit (and this boost should be made permanent).

As discussed above, self-isolating workers in receipt of certain benefits can claim the TTSP, and others in work and on a low income and suffering hardship from self-isolating may be entitled to discretionary payments. If our suggested reforms to JRS and SEISS are implemented, then there will be less need for TTSPs, but they should continue, so as to provide support for those who would otherwise be entitled to no support, particularly the self-employed.\(^{21}\) To make these more useful, TTSPs should be extended beyond 31 January, and continued alongside the other measures recommended in this note until the end of the health crisis. Crucially, TTSPs should also be made available to eligible parents of all children who are ill or need to self-isolate, regardless of whether this information is given by NHS Track and Trace or individual schools. Finally, the Government should review the formula for paying local authorities for discretionary payments so it relates directly to local infection rates.

**Sick pay needs to be seen again as a collective benefit**

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\(^{19}\) To make ESA more useful during the current crisis, the Government removed the seven-day waiting period so that claimants can receive benefits from their first day of sickness. ESA can also now be claimed by self-employed workers who are asked by NHS Track and Trace to self-isolate, or whose children have been asked to self-isolate. In addition, employed and self-employed workers whose income is reduced sufficiently when self-isolating will be able to claim Universal Credit. But many will find they have no entitlement, because UC payments depend upon the income of any partner and the amount of savings in the family.


\(^{21}\) Figures provided to us covering Leeds shows that the self-employed were slightly more likely to claim TTSPs than employees (25 per cent of claimants were self-employed, compared to a regional average of 17 per cent), perhaps reflecting that the self-employed cannot get any sick pay at all.
In some ways, SSP typifies the worst aspects of the British system of benefits, with its low levels of payment, but also continues with a historical hangover from our old contributory system that means that low earners are entitled to nothing. The pandemic has shown clearly the limitations of such a system. As the health of each of us and our family depend on the ability of our colleagues to self-isolate, sick pay is rightly being seen again as a collective benefit.

In the short term, there is an urgent need to shift incentives toward staying at home instead of going to work for those who may have contracted Covid-19. Such a shift is crucial if we are to safely come out of lockdown and start getting on with the recovery in the new year. In the near term we have – in the JRS – a ready-made vehicle to support those needing to self-isolate. But the issues with SSP brought to light in this crisis run deeper than this, and in the longer term we need to move to a system that is fit for purpose.
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