The social policies of middle class households – Individual risk management in British liberal capitalism

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Introduction

Social policies have been defined as collective insurances against social risks (Esping-Andersen 1996). Welfare states have protected citizens against these risks in different ways; in the British liberal market economy, state benefits are low, and policy-makers rely on the voluntarism of businesses, which recruit and retain employees by offering occupational welfare and on individuals who have an interest in insurance that supplements low state benefits. For decades, successive British governments have shifted the responsibility for, and risk associated with, income protection from the state to (not only better-off) households. Propagating the take-up of private sources of income protection, such as personal pensions, governments have aimed to increase levels of financial 'capability' and 'literacy' with the hope of improving households' awareness, willingness and capacity to engage in planning for personal income security (e.g. England and Chatterjee, 2005). Collective insurance, in other words, is developed less in the British liberal welfare state than in the social democratic or conservative ones. This also means that a wider range of actors makes decisions about protection against risks: public policy makers, businesses, charities and private households.

The literature on social policy decision-making in liberal market economies and on actors' motives does not reflect this range. It has focused on the first two, collective actors and predominantly on the first, the state. The developed body of literature on public policy-making identifies as main variables affecting public decision-making institutions, economic and demographic trends, political power and ideas. For a long time researchers have paid less attention to how social policy decisions are made by collective actors in the non-state sphere, i.e. in the realm of business, by employers and insurers. However, over the last decade a number of studies investigated why and how employers would get involved in occupational

welfare (eg Mares 2001; Martin 2000; Martin/Swank 2004; Swank/Martin 2001; Korpi 2006).

Compared to knowledge on the state and business, the household and its individual members remains understudied. In 1995 Klein and Millar (303/4) called for a better understanding of 'do-it-yourself social policy':

> 'to concentrate on collective policies and institutions is to miss at least half the story: the fact that, increasingly, social policy is becoming a branch of the do-it-yourself industry. If we are to understand the potentials and limits of collective action, we must first understand the way in which individuals set about designing their own social policies — and the interaction between public and private spheres of decision-making'.

This call has not been heeded sufficiently. Little social policy research has been done on how individuals plan their (long-term) security: how do they feel about a possible event such as unemployment, illness, need for long-term care or old age? (How) do they plan to protect themselves? Which of these concern them most? How do they decide about the appropriate insurance for themselves and their partner or family? Answers to such questions allow conclusions about how comfortably citizens are playing the role of individual social policy agents cut out for them in liberal market economies.

Explaining the apparent lack of research interest in such issues one might argue that individual insurance should not concern social policy analysis, it is individualised and private. However, this justification is less convincing for liberal welfare regimes where citizens are expected to make such individualised decisions because of the weaker presence of collective insurance. Instead, it is perhaps more plausible that researchers simply assumed household behaviour to be predictable, not warranting further analysis because individual motives can be deducted from the incentives created by institutional frameworks.

This paper is dedicated to the issues above. It draws on interviews with 122 individuals living in 61 couples which covered the areas of public benefits, private insurance, employer related provision and other sources of income security (e.g. savings, property, family support). Couples were asked about how they expected to cope financially during periods out of work, which sources of income replacement was relevant for them in case of sickness, what they were planning for their incomes in retirement and what they thought they might do if they need long-term care.

Given our research interest in individuals as social policy agents we wanted to interview members of households with above average earnings. Higher income levels give people more room to plan their finances and more options for investment (Klein and Millar 1995). The

option of taking out private insurance, for example, or of buying a property presupposes a certain level of regular disposable income. We selected couples rather than individuals because decisions on the type and level of income protection are likely to be made in the context of the family. All couples were homeowners, mostly with a mortgage still to be paid off; they also had at least one dependent child living with them.

We recruited households of core working age, who had finished training, but whose retirement was not yet imminent. Therefore, both partners were aged between 30 and 55. They had an above the British average annual household income: between £40,000 (roughly the median income for couples with the characteristics outlined above) and £90,000. The sample was broadly divided into just above middle and higher income households (see appendix). At least one member of the couple was in full time employment, in some cases in self-employment. The majority of respondents worked as employees, and for these respondents there was a roughly even split between the public and private sector, with just a few working in the third sector. In the public sector, interviewees were working in the NHS, in schools, in local government, as civil servants, police and fire officers. In the private sector, respondents worked for employers in both the manufacturing and service sectors. Many couples were fully dual earner couples (both working full-time), whilst in just over a third of couples, one of the couple (usually, but not exclusively the female partner) worked part-time. Only six individuals did not work due to staying at home to care for children, one was unemployed and one was re-training. Nearly everyone in employment was on an open-ended contract and the majority worked for large employers (see Appendix).

This paper is part of on-going work on a book project which will cover four areas of income protection: sickness, unemployment and old age and long term care. In our first two parts we cover all areas, but we report interview findings exclusively in the areas of sickness and unemployment.

In four sections our analysis below will address the following questions:

1. What are the chances that our individuals become unemployed or ill during before retiring, what are their chance of retiring and needing care during that time of life, how much could these risks cost and how well are they protected against them by the state? Before we show how our respondents perceive two of the four key risks of income loss and before we show what their plans for protection are, in this first section we assess our group's probability of experiencing these risks and what their costs might be.

2. What do we know about how individuals make decisions about the four risks we are interested in? In this second step we will discuss central contributions in behavioural science and social policy analysis to knowledge about human decision-making.
3. How do middle class couples asses their risks of illness and unemployment? How do they plan to protect themselves against income loss? We will answer this question by presenting the findings from our study.
4. What are the implications of our findings for social policy scholarship and for policy-makers?

The paper shows first that the probability, cost and statutory protection of our four risks vary, but in different ways. Sickness is the most likely and least expensive risk. Pensions and long-term care are also likely, but more expensive. Existing statutory provision in the UK covers these risks badly, recognising best the severity of the pension risk. Thus, typical for a liberal welfare state, levels of risks and compulsory protection do not match. Individuals need to consider supplementary protection under these circumstances.

If the first section shows how difficult assessment of personal risks is, in the second we ask what role probability assessments play for individuals. The section demonstrates that people make decisions by assessing their individual circumstances and not by considering their chance of an event based on statistical models. Moreover, social policy analysts have shown that citizens know little about the conditions and benefits in these four areas.

Overall our findings resonate with key results of section one and two. The "middle class" expects little from the state. This attitude goes so far that some are not aware that their public entitlements, in particular in the area of pensions, are more substantive than their occupational benefits or private savings. However, this disengagement only works because many middle income citizens rely on large businesses as their main means of protection against social risks, and their gain a peace of mind from that type of protection. Where this protection is not available, i.e. for the self-employed or employees of small businesses, citizens feel much more vulnerable and rely on a patchwork of insurance.

1. The risk of unemployment, sickness, retirement and need of long-term care

The four risks of our project are quite different regarding their probabilities and timing, the level of state protection against them and thus their possible demand on individuals' resources.

For our group, unemployment is perhaps the least likely, but together with illness also the most immediate: it could happen any time. Using cross-sectional data to calculate the average

unemployment risk for British citizens with at least upper secondary education levels between 1998-2014, on average the unemployment risk was below 5 per cent (table 1). Even if cross-sectional data does not capture the risk of an individual over time and is therefore limited for our purpose, we know from other studies that middle class employees and particularly those of core working age with long working biographies and tenures have a considerably higher level of job security than workers on lower incomes and with lower qualifications (Stam and Long 2010). This is even more so for those who work for large employers. Nevertheless, the most recent economic crisis has been a reminder that even large private companies and public sector organisations are not immune and have been making redundancies. Moreover, the demand for particular skills may diminish over time, or companies may be sold and the production of goods and services relocated. Particularly in liberal market economies with relatively low levels of employment protection, such as the UK, it is thus not unreasonable to assume that middle class employees are concerned about the possibility, and consequences, of redundancy. Compulsory benefits would compensate those affected by unemployment for about 16 per cent of average wages (table 1), this is a low level, leaving a lot to supplementary provision such as occupational benefits, private property and insurance. Thus, it can be surmised that middle class families would give some consideration to ways of coping financially in case of unemployment.

Short-term illness is also a more immediate possibility, but far more likely than unemployment. There are no statistics on the share of the working population in Britain who need to take days off work because of an acute illness, but in our interviews many respondents talked about their own illnesses and those of people they know. According to official statistics about the length of such illnesses, in 2009 they lasted two to three weeks for the 16-44 year olds and about a month for those between 45-64. Again, statutory cover is low, 19% of average wages (table 1), so as with unemployment, middle class families would need to draw on other sources of income to prevent their living standard to fall significantly during an illness.

Pensions and need for long-term care are risks require more long-term thinking; they are associated with an age after retirement; as we will see in the section below, to think that far ahead is particularly difficult for people. At the same time both events are likely to last much longer than unemployment or sickness, they therefore require significantly more resources. Regarding pensions, the vast majority of British adult citizens will reach retirement age. A woman aged 30 in 2011 had a life expectancy of 84 years, a man of 80. This has been increasing steadily in recent decades, and particularly members of better off households can

expect to live longer than their parents and grandparents (ONS, 2014). Considering a retirement age of 68, this would mean a phase of more than 15 years to be covered by a pension. Thus, retirement is the longest lasting and the most expensive event of the four and the date of its occurrence is the best foreseeable. Statutory coverage is highest of the four types, considerably higher than sickness and unemployment payments, with the state pension amounting to about a third of average wages (table 1). However, middle income households will be unlikely to be contended with this level, considering it is much below their accustomed living standard.

Finally, having to cover the costs of long-term care arguably presents more of a risk for the UK population today than for any generation before them. For a current adult, it is the risk furthest away from the presence if we disregard the low probability that a person will need long-time care before retirement age. Whilst living longer may imply many more years of healthy living (Christensen *et al.,* 2009; Spijker and MacInnes, 2013), living longer, particularly beyond 85 years, is also associated with increasing morbidity and disability, including cognitive decline and dementia (Christensen *et al.,* 2009; Doyle *et al.* 2009). Progress in medical knowledge and technology mean that the months of life needing care may be extended in duration, whatever the age at which these months occur (Sanderson and Scherbov, 2010). Therefore, even though the risk lies relatively far in the future, there is a distinct probability that a member of a middle income household will need long-term care in old age. For instance, already, in 2012, 43% of all 75-84 year old British women living in households with incomes above the average (in the fourth quintile) judged themselves to have "severe health problems" that lead to "long-standing limitations in their usual activities", only 29% of men in that age group said the same (Eurostat 2014). Other estimates suggest that three-quarters of the UK population will be in need of long-term care at some point during their lifetime (Dilnot, Warner and Williams, 2011). At the same time a decreasing proportion are available to provide care, either formally or informally. Long-term care can thus be defined as a 'new social risk' (e.g. Morel, 2006). Regarding statutory protection currently there are no non-means-tested benefits for citizens, and middle income households would have difficulties passing the means-test. This notwithstanding, long-term care is also expensive, one estimate puts it at GBP 500 a week for 2008 (Mayhew, Carlsson, Rickayzen 2010: 487); this was more than five times the Basic State Pension and just above the average wage.

To sum up, this section has shown that the likelihood, cost and statutory protection of our four risks vary, but in different ways. While the most likely risk is acute sickness, almost

everyone will be off work because of it at some point in their lives, it is also the cheapest, and as we will see below, it is one well covered by large employers. Pensions and long-term care are also two events many people will experience – in contrast to acute sickness they are much more costly. Unemployment is the least likely risk in our group, it is more expensive than sickness, but its costs are still low if compared with pensions and long-term care. All four risks are only partly covered by existing statutory provision. It recognises best the most expensive and highly likely retirement risk, but even here only about a third of the costs are covered. The risk of needing long-term care is hardly protected and compulsory insurance offers little to the unemployed and the acutely sick. Thus our first section shows clearly the mismatch between level of risks and compulsory protection in the British welfare state. It demonstrates how relevant it is that individuals consider supplementary protection. We will see below that those feeling most secure about their futures enjoy the occupational benefits of large employers.

2. Decisions about risk in behavioural science and social policy

The literature examining how individuals make decisions about their lives is extensive and the evidence suggests that social statistics do not play a large role. One influential voice, the psychologist Daniel Kahneman, uses the concept of WYSATI – what you see is all there is – to illustrate human consideration of probabilities (Kahneman 2011: 85-88). This refers to the fact that individuals use the information readily available in their minds to create consistent stories of events, independent of how reliable and systematic the information is.

The research demonstrated that people do not normally employ probabilistic thinking, i.e. they prefer constructing plausible stories to deducting probabilities from averages (Kahneman 2011: 182). They call this the 'availability bias' (Kahneman 2011: 138-140). The work of the psychologist Daniel Gilbert fits well with Kahneman's and Tversky's concept of the 'availability bias' in reasoning. Gilbert has analysed how people imagine the future when making plans. His work shows that the images are selective. Individuals tend to focus on central future events or goals and that they omit relevant aspects and distort others; for instance research has shown a gap between the imagined joy of becoming a parent and the real everyday experience of couples with small children (Gilbert 2006: 220-2). Moreover, individuals imagine that the future will be a version of the present. Because it is impossible to anticipate the future correctly people build projections on their present experience and emotional state. Finally, individuals see the self in a positive light and transform negative

feelings about personal events into positive ones (Gilbert 2006: 162, 224-6). For example repeated studies have shown that participants rate themselves above the average in any number of fields (Thaler and Sunstein 2009: 34-6).

Economists have used the research above to understand how people plan household finances. Because humans tend to be "unrealistic optimists" (Thaler and Sunstein 2009: 36) they will estimate their own risks to be below the average person (Brakewell 2007: 82-7). In addition, because of presentism individuals' outlook and planning is likely to be influenced by their present feelings; positive feelings make the future seem bright, negative ones cloudy. Applied to financial risks this means that those feeling well protected currently are less likely to be interested in thinking about longer-term financial risks, and if they did they would be at risk of underestimating them (Thaler and Sunstein 2009: 36, 80). Even when the need to act is recognised, inactivity often prevails because people are hesitant to change the status quo (Madrian and Shea 2001; Thaler and Sunstein 2009: 37-9). Those suffering current loss would be more inclined to act, but the existence of the "psychological immune system" also suggests that they would have some propensity for accepting loss.

These psychological insights have shortcomings when applied to our sample of households. They are based on laboratory research and controlled experiments, i.e. they confront respondents with limited hypothetical dilemmas only rather than studying their behaviour in the context of daily lives. Likewise, they pay little attention to how individuals see the society around them. Despite these concerns many of these observations reinforce our results.

As we stated above, in the social policy literature only little research has been done about how middle income individuals think about their future risks, and what they want to do to protect themselves from income loss. However, the existing work shows that class, gender and age affect people's attitudes towards risk in distinct ways. Women are more risk averse than men, older people more than young, the poor avoid risk. In addition, people sharing the same household make joint decisions about risk management, and more affluent households pool resources, but they also lack the knowledge to understand fully savings products and insurances, many of which are highly complex (Burchardt 1997; Clark and Strauss 2008: 850; Loretto/Vickerstaff 2013; Rowlingson 2002).

Echoing the findings of behavioural science above, qualitative research on how people think about pensions and how they plan their long-term protection (Rowlingson 2002) has shown why British adults from different social backgrounds do not plan well to ensure a sufficient income after they retire. An important reason is that they do not know what their long-term future will hold – this is true for their personal lives, their relationships, their careers, but in

addition it is also true for the world at large – pension policies change over time, so do economies. Individuals do not trust the state to remain stable, for example. The further away an event, the less confident people are about their ability to assess its impact well. A second important reason to avoid planning a pension is that it is associated with a time of life that might be unpleasant; serious illness or disability is more likely, loss of autonomy, ultimately the phase ends with the end of life, a thought many do not want to pursue for long.

So far we have shown that adults living in British middle income households will suffer a steep drop in income if they rely exclusively on public insurance should they become sick, unemployed, in need of long-term care and after retirement age. To avoid this decline they need to insure themselves in other ways. However, in our literature discussion above we also saw that people tend to think about the future in the light of the present, i.e. they find it hard to imagine a reality and needs very different from current circumstances. In addition, the studies of how people 'do social policy themselves' suggest that the circumstances under which the most expensive risks retirement and long-term instability might materialise are difficult to project, because many unknown public and private variables will affect them.

In the following section we will turn to our empirical material for two policy areas, unemployment and sickness. We will start with overviews of existing benefits, followed by a description of how our respondents viewed them.

3. Protecting against income loss due to sickness and unemployment

As pointed out above, this paper is part of ongoing work on a book project which covers four areas of income protection. Here we leave out pensions and long-term care and concentrate only on short-term sickness and unemployment. Prior to discussing some preliminary findings, it seems appropriate to reflect further on the conceptual differences between these two 'risks' areas, as well as the way in which they are addressed within the British institutional context.

First, as shown above, based on the prevalence of risks occurring, it can be assumed that middle class employees more readily expect to be off work due to short periods of illness than redundancy. Indeed, unlike unemployment, many more interviewees reported to have experienced periods of illness or injury at some point during their working life. Second, once the period out of work due to sickness comes to an end, employees usually simply return to work generally resume their old job. Thus, in contrast to unemployment, the connection

between employer and employee continues during sickness and the social status of the latter remains intact. This is one reason why the degree of anxiety associated with sickness can be assumed to be lower, and level of (perceived) certainty of maintaining living standards therefore higher. Indeed, respondents were aware of, or generally assumed, to be receiving an income during illness and that this income would be the equivalent of a full salary for a particular period of time. The level of knowledge about this was better than for income replacement during unemployment, not least due to spells of illness experienced by respondents themselves, or colleagues who spent (sometimes long) periods out of work due to ill health. Finally, some people out of work because of illness may be entitled not only to income replacement but also benefits in kind. For example, several respondents we talked to were covered by employer subsidised private health insurance schemes which provides medical care. There is no equivalence of this in the area of unemployment. However, understood more narrowly as risk to family income there are some similarities, as well as differences, in which unemployment and sickness are addressed via different sources of income replacement.

Public benefits

Both (non means-tested) forms of unemployment benefit (Jobseekers Allowance, JSA) and statutory sick pay (SSP) are contributory benefits payable for 6 months. Just as JSA, SSP is a flat rate benefit which can be claimed from the fourth day of sickness. Its level is somewhat higher than JSA, but as shown above, both benefits are well below 20% of average earnings. There is one considerable difference: while unemployment benefit is publicly financed and delivered, the payment and provision of SSP is obligatory for employers. This changes only after 28 weeks of illness, when the publicly funded Employment and Support Allowance (ESA) may be received (either as a contributory or means-tested transfer). In any case, better income earners would be faced with considerable drop in income if they had to rely on public sickness or unemployment benefit only. This applies to both contributory and means-tested versions of each transfer.

It is thus not surprising to find similarities in the ways in which middle class couples perceived public unemployment and sickness benefits. There was an awareness that state benefits in both cases are well below accustomed levels of earnings. Moreover, there was a widespread (misguided) assumption of benefit eligibility as being subject to means-testing. In both cases there was some support for the principle of 'reciprocity' as a fairer (or

complementary) condition than 'need'. If anything, and perhaps because of employer as first resort provider of sick pay (see below), the knowledge about the role of the state was (even) weaker in sickness benefit than in the case of unemployment benefit. At the same time, there is a stronger justification of deservingness especially in the case of long-term absence from work due to ill-health, reflecting structural differences between two risks and the suspicion that, unlike illness, unemployment may be voluntary.

Occupational benefits

As discussed above, companies are responsible for the payment of sick pay, and also for a minimum redundancy pay (1 week's pay per year of employment capped at twenty years; or 1.5 week's pay for those older than 41). Thus, once again statutory redundancy pay offers relatively little financial security for those who qualify (i.e. those with a minimum of two years' service with the same employer). And yet, for middle class employees it is their employers who are their main source of income protection in both cases. This is because companies tend to provide more than what they are required to by law. There is no comprehensive database which would allow for a systematic assessment of the scope of voluntary occupational sick pay or redundancy pay. However, it is well known that especially large employers exceed statutory minima (Lloyd, 2003; IDS, 2009, 2011). For redundancy pay this involves, for example, removing the earnings cap, increasing the number of weeks paid per year of service or simply making additional lump-sum payments to redundant workers. At times such payments are incorporated in collective agreements but often simply either offered by employers or agreed with trade unions at times of looming redundancies. As for sick pay, many employers typically pay full wages for the first 6 months out of work, and half wages for another 6 months, with some employers being more generous than this. However, as with redundancy pay, there seems to be great diversity across sectors, type of employers and staff covered. Given the mostly private nature of this agreement, there is a paucity of publicly available information. There is no comprehensive database or source of government survey data which would allow for a systematic assessment of the scope of occupational provision with regards to redundancy pay.

Against this background it is not surprising that for unemployment well over half, and for sickness about three quarters of our couples, regarded occupational provision as a very important source of income protection for times out of work. This applied especially to those employed in the public sector or by large private companies. Couples in the older age bracket and higher income group in particular perceived firm-level based redundancy and sickness

pay entitlement as by far the dominant single source of income protection. By contrast, interviewees who did not think that they could rely on such protection had either not been in their current job for a sufficient amount of time, were employed by a less generous private employer, or were self-employed.

On the whole three themes emerged from our interviews: a general awareness that the level of occupational redundancy (and sometimes also sickness) pay is related to tenure, an expectation of occupational pay providing a relatively good level of protection, but also notions of declining generosity. Typically, couples were unsure about the exact amount and nature of their potential redundancy packages, but were more knowledgeable about their entitlement to sick pay.

Private insurance – protecting the family home

Rather than providing a replacement income as such the purpose of private insurance is often to be able to continue mortgage payments (or paying off part of the mortgage) and thus avoid the potential loss of the family home (Pryce, 2002; Pryce and Keoghan, 2002). This is also why relevant private insurance policies, such as MPPI (mortgage payment protection insurance) often jointly cover sickness and unemployment (and also accidents). At the point of a claim MPPI benefits are usually deferred (of up to 12 weeks), after which policies cover mortgage repayments (interest and capital) and sometimes related costs (such as MPPI premiums or endowment premiums) for typically a maximum period of 12 months. In addition, householders may take out critical illness insurance (CI) which covers a range of predefined short-term (e.g. heart attack, stroke) and long-term illnesses (e.g. Parkinson's disease, dementia).

The idea of entering such private insurance policies was rejected by many couples. Reasons include poor value for money and mistrust in the private insurance industry. Others felt that their occupational sick pay (and partly redundancy cover) made private provision pointless. Particularly for those with relatively good occupational cover, both in terms of sick pay and 'death in service' benefit, private provision appeared unnecessary. Nevertheless, about a third of our couples had some form of private sickness insurance (and a quarter of all couples had private unemployment cover) in the form of mortgage related policies. This is in line with the picture nationally for households with the same characteristics as our middle class couples (Family Resources data for 2009/10).

Interviews suggested that private income protection need to be conceptualised not as focused on unemployment or sickness income replacement per se, but as a means to safeguarding achieved living standards and the family home in particular. Maintaining the ability to meet regular mortgage payments, which also represent the largest single item of monthly spending, is paramount. However, while private cover was not unusual amongst middle class couples (especially in the case of sickness) many couples did not regard it as primary form of income protection but as complementing other sources, and particularly occupational sick pay. Also, some existing policies were based on 'old' contracts, entered into when respondents were at a different stage in their lifecycle and related to particular events in the past, such having small children or purchasing the first joint property. Some couples had since cancelled these policies, mainly because they felt to have moved on to a more secure type of employment which offered better income protection. Others claimed that they had either forgotten to cancel or decided to maintain these policies because the premium was considered to be small. This suggests that the presence of private insurance needs to be set in biographical contexts as well as, in some case, influenced by lethargy.

Nevertheless, a minority appear to be deliberately and primarily relying on private insurance. Some had recently joined their companies and did not expect any occupational sick pay over and above the statutory minimum, or were unsure about their entitlement. Typically, they were working in smaller companies or as self-employed, and were in the younger and in the lower income brackets. This corresponds with the data on take-up reported by private insurance companies (Mintel, 2009).

Other sources

The loss of earnings due to short spells of unemployment or sickness may be compensated in many other ways. A heavier reliance on partners' earned income was referred to by several couples, while wider family and informal financial support did not seem to play a role. Finally, it should be pointed out that other ways of adjusting to the loss of disposable income were mentioned, such as cutting back certain types of expenditure. Most couples referred to saving spending on family holidays, for example, as a response especially to longer periods out of work.

Savings as a means of income protection in case of illness seems to matter relatively little for middle class families. Compared with occupational sick pay and private insurance cover most respondents regarded savings inadequate or inferior. As for unemployment, some (especially in the lower income brackets) found it difficult to save while particularly those with more

income perceived savings as a stop-gap support during what were believed to be only relatively short periods of time until another job was secured. The equivalent to three months wages was often cited.

A highly relevant single source of 'other' ways of compensating lost income is the use of property (home ownership). All middle class couples we talked to were homeowners, and most were repaying mortgages. The relevance of this has already been discussed in the context of private insurance cover, the main objective of which is the ability to repay mortgages and thus maintain possession of the family home (taking 'mortgage holidays' or remortgaging allows a degree of financial flexibility here). However, home ownership is relevant also in other respects. For some this implied investing in property; for others selling and moving to a smaller home. The former was mentioned by a few couples within the higher income brackets and with entitlement to relatively generous occupational sick pay, often for both partners. Some relied on rental income from properties. Others stated that they would sell their investment in property if necessary. These forms of investment were sometimes explicitly based on deliberate choices and rejection of alternative options, such as private sickness insurance. For others, owning property is a means of being able to adjust to the possible loss of earnings. Selling the family home and 'downsizing' is regarded as way of cutting back without compromising disposable income. However, for many this option constitutes a last resort only and associated with a means to be coping with long-term absence from work (e.g. due to long-term illness).

4. Conclusion and implications

In the first section of this paper we have shown that of the four risks that are the subject of our project, unemployment and sickness are the shorter term ones, i.e. they occur during employment, while they are also less costly than pensions and long term care. Nevertheless, in line with its reputation the British liberal welfare state only offers a low level of statutory insurance against loss of income should these risks occur, creating an incentive for middle income earners accustomed to higher living standards to seek complementary insurance in order to avoid a steep decline in their income. Despite this incentive, the literature review has illustrated the difficulties of long-term planning, becoming harder the longer the time horizon. In this regard the areas covered in our paper are the more short-term and less costly ones, therefore perhaps easier to imagine. Against this background, what are our findings?

The main result is that British middle class couples, and especially those who work in large organisations, seem fairly confident about being able to cope with the risks of unemployment and illness, at least in the short term. Firstly, our respondents, on the whole, had a strong sense of job security and regarded (long) periods out of work as unlikely due to a confidence in their personal expertise, experience, work contacts and work ethic. This lack of anxiety is in line with section 1 where we have shown that the probability of unemployment for this age group and occupational position is lower than for others. Secondly, the members of our sample not only judged state benefits to be low, but many even underrated their actual nature, believing eligibility would be subject to means-testing. The reason for their sense of security was therefore not public benefits but their occupational income protection. Large employers have granted comparatively good benefits for one year of sickness absence and security increases with tenure. Thus, individual risk planning was not required for employees of large companies. Of course, as the global economic downturn in 2008 has shown, even larger companies are not immune to economic difficulties, and redundancies affected British public sector jobs too. Strong feelings of job security might therefore also have been informed by the robust optimism Thaler and Sunstein have highlighted.

Overall, the research confirmed the limited role of the state for middle classes and the importance attached to other forms of income security, particularly employers. This significance of employers reduces the need for individual planning and thus for a process that, as we have shown in section two, is fraught with difficulties. Even though our paper excludes pensions the evidence for this area is very similar.

Private insurance, i.e. the form involving more individual planning, plays some role for income security, but it is clearly less important than employers. Moreover, in the UK private insurance needs to be conceptualized as intrinsically associated with the need to maintain mortgage payments which, as largest regular single monthly expenditure for many, represents the ‘object’ of insurance cover.

Couples have often an imprecise knowledge of the level and quality of income protection they are entitled to. Nevertheless, there is a general awareness of the availability, and also relative generosity of the different sources of income security which mirrors their significance roughly. Moreover, middle class couples typically expect to be relying on more than one type of income protection, with the employer as the single most important source. This is not strictly the result of calculated forward planning, but contingent planning and types of action in response to circumstances – i.e. determined by employment biographies, life events and institutional contexts (e.g. the availability home ownership and the way it is

financed). However, one could argue that such behavior is appropriate under the circumstances. Large employers still offer protection and pool risks, making it sufficient for individuals to know that the general level of protection is good. Going back to the argument presented initially that in British liberal capitalism citizens have to resort to 'do-it-yourself social policy' our evidence suggests that less individual planning is required than this term suggests for the middle income group because many are guided by large employers.

Thus, politicians who sometimes claim that people act irrationally, e.g. by not saving (enough) for a pension or failing to buy private insurance which would cover them adequately, fail to see that many (but certainly not all) middle class couples actually engage with income protection planning and know as much as they need to. Even though this is often broad and based on assumptions rather than concrete information it is a form of rationality (Zinn, 2011) which responds sensibly to institutional contexts and life stages, as well as intrinsic differences between different types of 'risks', i.e. in this case between unemployment and illness, and the ways in which both are regulated and institutionalised.

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Table 1
The significance of pensions, long-term care, unemployment and sickness as risks for middle class women and men: 2011, UK

Summary	Costs: No. of annual wages needed excluding compulsory provision		Likelihood of event occuring			Quality of state protection: compulsory provision as % of average wage		
	Women	Men		Women	Men		Women	Men
pensions	5.9	4.4	acute sickness	100%	100%	pensions	32.6	32.6
long-term care	5.2	2.9	pensions	73%	72%	acute sickness	18.8	18.8
unemployment, 6 months	0.42	0.42	long-term care	42.5%	28.9%	unemployment	15.6	15.6
acute sickness	0.08	0.08	unemployment	3.3	4.2	long-term care	0	0

Details

Pensions	Likelihood		Costs: number of average annual wages		Quality of state protection		
	reaching pension age of 68	reaching average life expectancy (m:80; f:84)	Calculation	annual wages needed	compulsory provision % of average wage	no. of annual wages covered until average mortality	no. of annual wages needed & not covered by compulsory provision
women, 30 in 2011	91%	73%	16 x 0.7	11.2	32.6	5.3	5.9
men, 30 in 2011	87%	72%	12 x 0.7	8.4	32.6	4.0	4.4

Long-term care	Likelihood		Costs: number of average annual wages		Quality of state protection		
	being severely limited, fourth income quintile		if needed age 65-74	if needed age 75-80:m;75-84:f	compulsory provision % of average wage	no. of annual wages covered until average mortality	no. of annual wages needed for 2.5:m/4.5:f years & not covered by compulsory provision
	age 65-74	**age 75-84**					
women, 2012	17.4%	42.5%	5.2	5.2	0	0	5.2
men, 2012	12.8%	28.9%	5.2	2.9	0	0	2.9

Sickness	Likelihood: no of days		Costs: number of average annual wages		Quality of state protection
average number of restricted activity days due to acute illness or injury, 2009	age 16-44	age 45-64	age 16-44	age 45-64	compulsory provision in % of average
women, lower managerial & professional	21	31	0.05	0.08	18.8
men, lower managerial & professional	16	30	0.04	0.08	18.8

Unemployment	Likelihood: unemployment rate		Costs: number of average annual wages		Quality of state protection		
Average unempl.rate 1998-2014	Age 35-59	Age 15-74	3 months	6 months	compulsory provision in % of average wage	no of annual wages needed f.3 & 6 months & not covered by compulsory provision	
women upper 2nd/post 2nd	4	6	0.25	0.5	15.6	0.21	0.42
women tertiary and above	2.6	3.1	0.25	0.5	15.6	0.21	0.42
women, all qualifications	4.1	5.6	0.25	0.5	15.6	0.21	0.42
men upper 2nd/post 2nd	4.2	6.3	0.25	0.5	15.6	0.21	0.42
men tertiary and above	4.1	3.5	0.25	0.5	15.6	0.21	0.42
men, all qualifications	4.2	6.5	0.25	0.5	15.6	0.21	0.42

Sources
Life expectancy: ONS cohort data
Pension replacement rates: 2012 rules. OECD 2013: 137
Self-perceived long-standing limitations in usual activities due to severe health problems: Eurostat, EU SILC
Cost of care: see estimates of 500 GBP per week in 2008: Mayhew, Carlsson, Rickayzen 2010: 487; average weekly earnings, GB
Sickness: 100% likelihood: own assumptions based on interviews. No. of days: General Lifestyle Survey, Office for National Statistics;
Unemployment: Eurostat, Labour force survey, own calculations; Contribution-based Jobseeker's Allowance: 2011 GBP 67.50 p/w f. 182 days (MISSOC)

Please note this table is not explained in the text, but we have included it because it contains some of the sources referred to above.

Appendix

Interviewee sample

	Number of households
Household income brackets	
£40,000 – £59,000	27
£60,000 - £89,999	29
£90,000 upwards	5
Total households	61
	Number of individuals
Activity status	
Full-time employed	78
Part-time employed	24
Self-employed (full-time or part-time)	12
Stay-at-home carer	6
Unemployed or in training	2
Total individuals	122
Sector	
Public	45
Private	54
Not for profit	3
Contract type	
Permanent	96
Fixed term or casual	6
Size of employer	
Small	11
Medium	6
Large	85
Total employed	102