

2026 STATUTORY SICK PAY IS YOUR BUSINESS READY?

1. INTRODUCTION

Substantial restructuring of the Statutory Sick Pay (SSP) system is coming in April 2026. These significant reforms are designed to bolster financial security for sick employees and support public health initiatives, such as limiting the spread of infectious diseases. However, as we explain in this Hot Topic, they will inevitably raise employer costs and increase the administrative burden of absence management. The heaviest financial and operational impact will fall on Small and Medium-sized Enterprises (SMEs), which account for 99% of all UK businesses.

SMEs must therefore urgently review their payroll systems and HR policies to prepare for these crucial operational and financial changes. In this month's Hot Topic, we analyse the full impact of these reforms on Human Resource Management and provide expert guidance on the critical steps your business must take now to prepare.





2. UNDERSTANDING THE REFORMS TO STATUTORY SICK PAY

The structural reforms to SSP represent a significant overhaul of the system, fundamentally altering both employee eligibility and the timing of payments to enhance financial security during illness and curb the spread of infectious diseases.

The reforms focus on two primary changes to the current SSP framework:

- 1. Removal of the lower earnings limit (LEL):** Currently, an individual must have average weekly earnings at or above the Lower Earnings Limit, which is £123 per week, to qualify for SSP. The reforms remove the LEL requirement, making SSP available to all employees regardless of their weekly earnings.
- 2. New rate calculation for low earners:** For lower-paid employees, including those previously earning below the LEL, their SSP rate will no longer rely solely on the flat statutory rate. Instead, their payment will be set at 80% of their normal weekly earnings, or the flat statutory rate (currently £118.75), whichever is lower. This percentage rate is intended to balance financial security for employees while limiting additional costs to businesses.
- 3. Removal of waiting days:** Under current policy, eligible employees are only paid SSP from their fourth working day of sickness absence. The reforms remove this waiting period, meaning all employees will be entitled to receive SSP from their first day of sickness absence.

3. IMPACT OF REFORMS ON HUMAN RESOURCE MANAGEMENT

These changes bring millions of employees into new entitlements and impose an additional financial cost on businesses, that include:

- Bring up to 1.3 million currently ineligible low-paid employees into the SSP system due to the removal of the LEL
- Around 25% of all employees who rely solely on SSP during sickness absence will now receive sick pay from their first day of absence
- The estimated cost to businesses of removing waiting days and the LEL (replacing with the 80% percentage rate) is an additional £450 million annually, averaging approximately £15 more per employee. The Government justifies this cost by noting that employers stand to benefit from increased productivity and reduced spread of infectious diseases.
- The enforcement and disputes process for SSP will be integrated into a new single enforcement body, the Fair Work Agency.

Operationally, these structural changes present distinct challenges for HR and payroll management within SMEs:

- **Increased absenteeism:** With all employees in scope and SSP becoming a day one entitlement, it will consequently lead to increased short-term absenteeism.
- **Increased payroll complexity:** HR teams must handle the new variable SSP calculation. For low earners, payroll systems must be able to accurately track weekly earnings to apply the 80% calculation and ensure the payment does not exceed the flat statutory rate.
- **Wider claim management:** Extending eligibility to up to 1.3 million previously excluded workers means HR teams will manage SSP claims for a broader pool of employees.
- **Policy rewriting and communication:** Existing sickness absence policies must be immediately revised to reflect the changes in law. Clear communication to employees about the enhanced entitlements is vital.

- **Financial burden management:** The combined cost of removing waiting days and the LEL and using the 80% percentage rate, is estimated to cost businesses an additional £450 million annually, averaging about £15 more per employee. SMEs must integrate this estimated increase, along with the 3.8% annual uprating for 2026-27, into their financial forecasts.
- **Workforce planning:** Increased eligibility or longer periods of paid sick leave can complicate workforce planning, staffing, and shift management and will require a greater focus.
- **Manager training:** Line managers will require training on new SSP policies, acceptable evidence, and absence handling procedures to ensure consistency.
- **Compliance and enforcement:** SSP, including enforcement and disputes processes, will be brought under the newly established single enforcement body, the Fair Work Agency. This centralised enforcement body necessitates scrupulous adherence to the new rules to avoid potential regulatory issues.
- **Reporting requirements:** Keeping accurate records for potential HMRC inspection, including SSP claims and any adjustments will be vital.
- **Auditing and oversight:** HR teams may need to implement new internal checks to ensure compliance with updated SSP rule.
- **Productivity benefits:** While costs increase, the Government believe that employers are expected to benefit from increased productivity, because of the day 1 payment rule encourages unwell staff to take time off, reducing presenteeism and limiting the spread of infectious diseases.

4. CRITICAL STEPS – HOW SMES SHOULD PREPARE NOW


To ensure compliance and smooth transition into the new SSP framework, SMEs should prioritise the following actions:

1. **System configuration:** Immediately ensure payroll software providers are aware of the changes and confirm the system can handle the new variable rate calculation (80% of normal weekly earnings) for all low-earning staff. Verify that the system is configured to automatically initiate SSP payments from day 1 of absence.
2. **Policy and document review:** Formally update all employee handbooks, contracts, and internal sickness absence policies to reflect the removal of the three-day waiting period and new entitlement for low earners.
3. **Financial planning:** Adjust budgets to account for the estimated £15 per employee annual cost associated with the structural reforms, plus the 3.8% statutory rate increase for 2026-27 (changing from £118.75 per week to £123.25 per week).
4. **Staff training:** Train HR, payroll teams and line managers on the revised eligibility criteria and the new method for calculating SSP for low earners, ensuring consistent application across the workforce.
5. **Monitor official rates:** While the 3.8% increase for the 2026-27 tax year is proposed, employers should await the publication of the full list of proposed State Pension and benefit rates on gov.uk to finalise payroll figures.

Preparation is key, as managing this complex structural reform and statutory uprating will be crucial for maintaining compliant and efficient HR operations in the coming year.

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