

## Employee Benefits Survey 2009

# BENEFITS

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## Executive summary

### The value of employee benefits

Encouragingly, within the creative business sector it would appear that generally employers view the provision of an employee benefit programme as a useful and tax efficient way of recruiting, retaining and motivating staff. Current trends show that employers are looking for flexibility within the programme and are aiming to keep costs down. The use of more creative systems, such as salary sacrifice, is becoming more commonplace. A minority however remain wedded to the view that the provision of benefits is costly and simply use additional salary as a motivational tool.

Turning to the issue of what employers and employees view as important when it comes to the issues of retention and motivation; there is a degree of common ground. However, there are a number of 'conflicts' which suggests that communication between staff and the employer is vital to ensure that differing views are taken in to account and that any benefits being provided are actually valued and in keeping with the company culture.

### Typical Benefits

Both the large and smaller employers appear to provide a broad range of both insured and non-insured benefit programme components. Not unsurprisingly, smaller employers (those with less than 50 staff) tend to provide a narrower range.

On the non-insured front, cycle to work schemes, season ticket loans and performance related bonuses feature heavily. Focusing on insured benefits; healthcare plans, pension arrangements are two of the most common benefits provided.

Historically, the provision of healthcare benefits has been seen as a benefit for senior staff. However, this view has changed dramatically over the past few years with many employers seeing this particular benefit as vital for the well being of their team and reducing absenteeism.

Focusing on pension provision, employer sponsored pension arrangements have long been seen as a core benefit in any UK benefit programme and they remain a valuable (and efficient) staff retention tool. This is particularly true within larger organisations. Within smaller businesses the view is slightly different with pensions seen as an expensive benefit programme component. Forthcoming changes in legislation which will introduce compulsory pension scheme membership, together with compulsory levels of employer and employee

contributions will affect all employers (regardless of size) and we believe it is vital that businesses address this issue sooner rather than later.

### **Reviewing Existing Benefit Programmes**

Surprisingly of the companies surveyed only 38% regularly undertake a review of their existing benefit programme. With changes in market conditions, as well as changes in legislation, it is important that any form of benefit programme is regularly reviewed. This will ensure that it provides value for money and is 'in step' with the company culture and with what the employer is trying to achieve.

## **Introduction**

In a creative business, retaining and motivating key talent in the right way is vital. Getting it right can lead to higher levels of staff motivation and retention. Conversely, an unplanned and reactive strategy can easily lead to inconsistency, low staff morale and an increased risk in the form of higher costs and non-compliance with legislation.

Start-up and relatively new companies may be able to recruit and employ staff without having to provide too much in the way of structured employee benefits. There is often an excitement and enthusiasm in being an employee of a new company and an understanding that the company needs to keep its costs as low as possible in the “early days”. However, this is also usually underpinned by an expectation of future ‘good rewards’ and employers who take too much advantage of their initial honeymoon period can all too quickly find it difficult to retain good quality personnel.

More established businesses may already be providing a structured package of employee benefits but costs for some benefits can fluctuate wildly from year to year. Employee expectations change over a period of time, as will legislation.

Our 2009 Employee Benefit survey is geared toward providing our clients in the marketing services sector with a valuable insight in to how the sector currently approaches the issue of benefits and sets out points for consideration.

## The results

- Of the employers surveyed, over 90% of respondents offer benefits to staff over and above basic salary and holiday entitlement.
- Of this number 73% provide a fixed suite of benefits. With 27% providing some form of flexible benefit package. The results show that those offering flexible benefits tend to larger businesses, with more than 50 employees.
- The views expressed in the survey show that employers value the provision of an employee benefit programme as it enables them to attract quality employees. In terms of structure the main themes of flexibility and value for money (keeping costs down) also came through.
- Turning to the main criteria for allocating benefits; though not exhaustive, the following were seen as the main ‘triggers’ for offering benefits to employees:

- Length of service\*
- Seniority
- Successful completion of a probation period
- Position within the company

\* When linking an entitlement to benefits with an employee’s length of service, employers need to be aware of the Age Discrimination legislation introduced in 2006. The legislation contains clear rules relating to such links. Though details are not contained within this report, employers need to ensure that any existing or new terms and conditions comply with the legislation.

## 1 Value of employee benefits

- The results of the survey show that a number of respondents believe that cost is a barrier to implementing, or improving, the benefits programme offered to employees. Surprisingly, a number are put off from providing benefits due to the perceived high ongoing administration costs. Having said this, over half believe this not to be the case.
- A significant majority (circa 75%) of respondents believe a good quality benefits programme assists their business in the following ways:

Attracts the best people  
 Improves their image  
 Helps retain staff  
 Is motivational  
 Increases loyalty

- From a staff retention perspective the following were identified by employers as key areas:

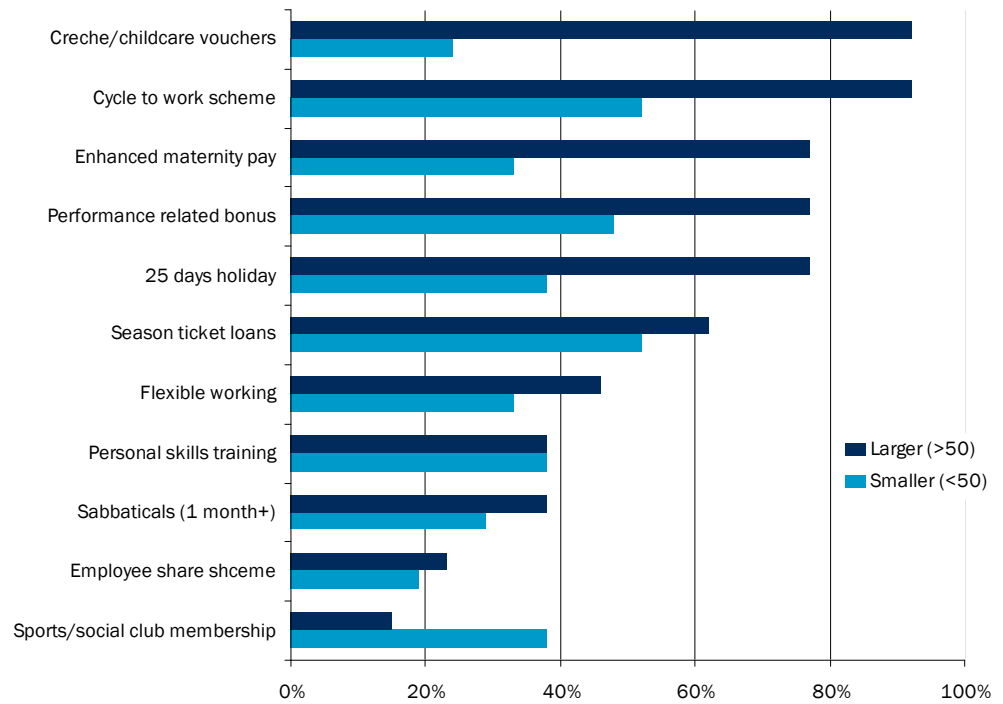
| Highly important | Not so important |
|------------------|------------------|
| Enjoy the work   | Equity           |
| Colleagues       | Flexible working |
| Salary           |                  |

- It would certainly be our view that the opportunity to acquire equity should generally be reserved for a few key individuals.
- Looking at the position from the employee's perspective, the following tables illustrate the most popular aspects relating to increased morale and motivation. As can be seen from the results, there appear to be one or two 'conflicts'.

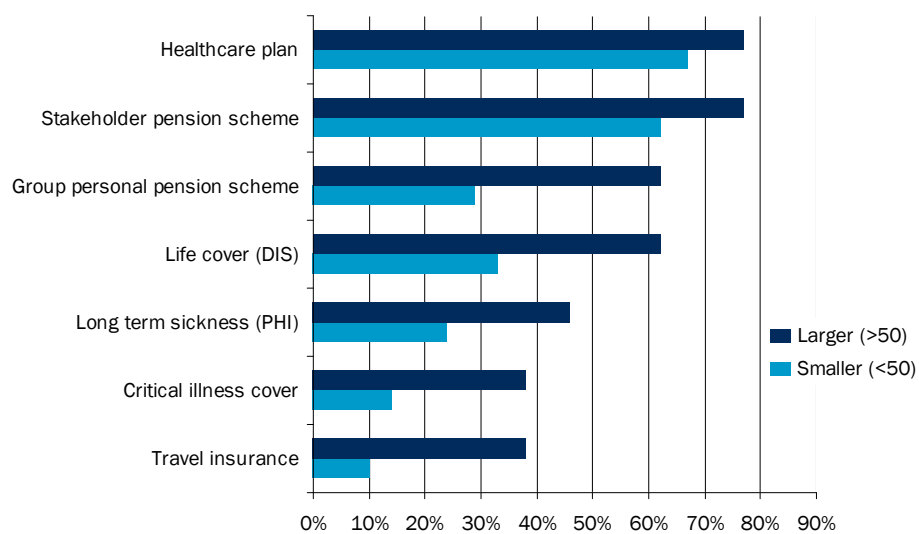
| Highly important                | Not so important            |
|---------------------------------|-----------------------------|
| Bonuses                         | Retail vouchers             |
| Flexible working                | Personal accident insurance |
| Holiday entitlement             | Product discounts           |
| Healthcare                      | Travel insurance            |
| Recognition from the management | Greater choice of benefits  |
| Belonging to a successful team  | Help with childcare         |
| Increased salary                | Equity                      |

## 2 Overview of benefits being offered in the marketing service sector

- Non-insured benefits:



- Insured benefits:



### 3 Tax position of benefits

- The following table sets out the tax position for a number of benefits covered in the survey:

| Benefit                              | Income tax | Employer NI | Employee NI |
|--------------------------------------|------------|-------------|-------------|
| Pension (Stakeholder/Group Personal) | x          | x           | x           |
| Group life cover                     | x          | x           | x           |
| Group private medical cover          | ✓          | ✓           | x           |
| Group dental insurance               | ✓          | ✓           | x           |
| Health screening                     | x          | x           | x           |
| Buy extra days of holiday            | x          | x           | x           |
| Childcare vouchers                   | x          | x           | x           |
| Retail/leisure vouchers              | ✓          | ✓           | ✓           |
| Payroll giving                       | x          | ✓           | ✓           |
| Mobile phones                        | x          | x           | x           |
| Travel insurance                     | ✓          | ✓           | x           |

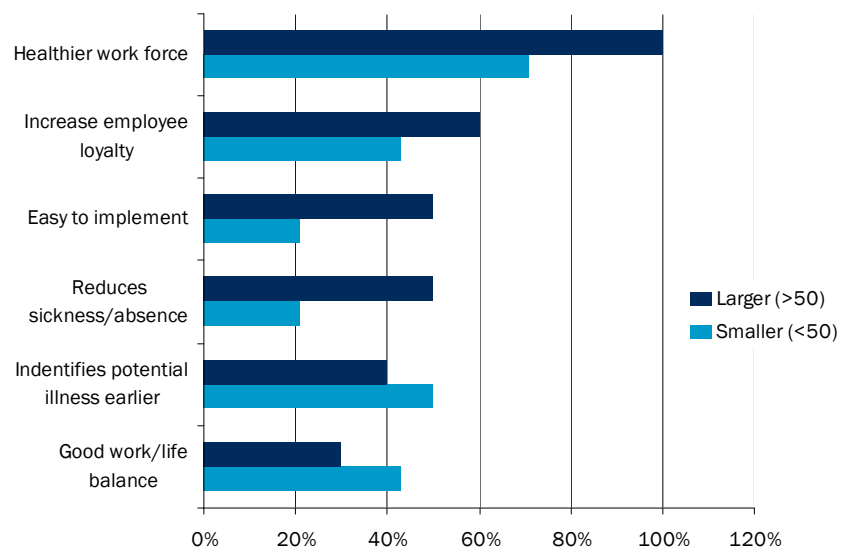
Tax position of benefits: ✓ = Tax/National Insurance liability  
 x = No liability

- From the above table it can be seen that benefit components are treated differently for tax purposes. Accordingly, employers can elect to introduce a suite of benefits which are both tax efficient for the company and employees. Furthermore by utilising initiatives, such as salary sacrifice (see page 12), employers can potentially enhance existing programmes or increase the range of components available to staff.

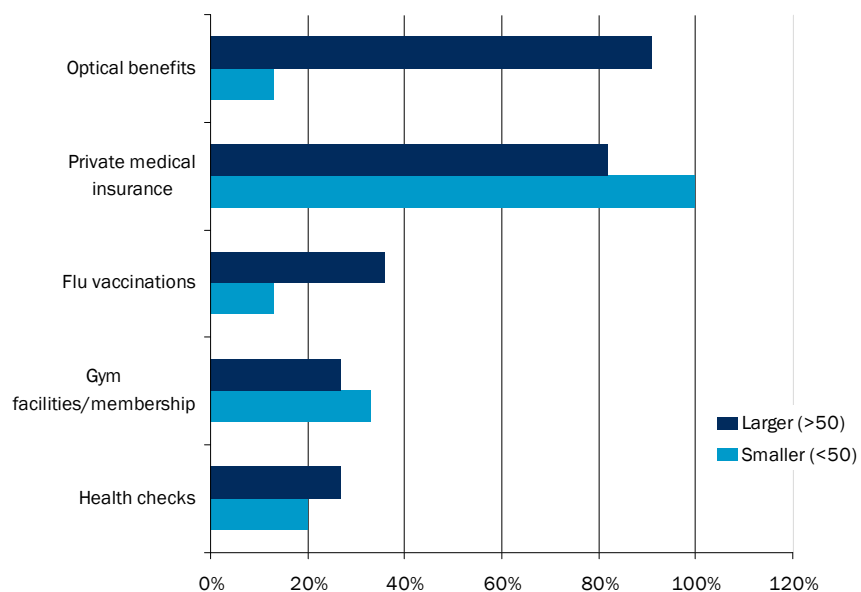
Information relating to the levels, bases of and reliefs from taxation reflect our current understanding of UK tax legislation and regulations which are amended from time to time.

#### 4 Healthcare benefits

- The provision of healthcare benefits has, historically, been seen as a benefit for senior staff. However, this view has changed dramatically over the past few years with many more employers seeing this particular benefit component as being vital, ensuring the well-being of their team in preventing absenteeism. The following table illustrates the main reasons for introducing healthcare benefits, together with the type of ‘products’ provided.

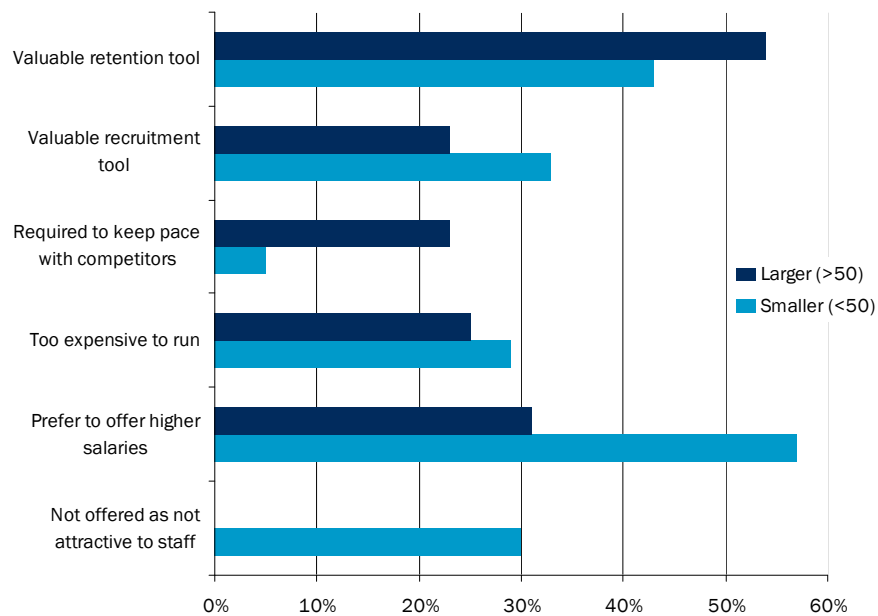


- Most common healthcare benefits provided:

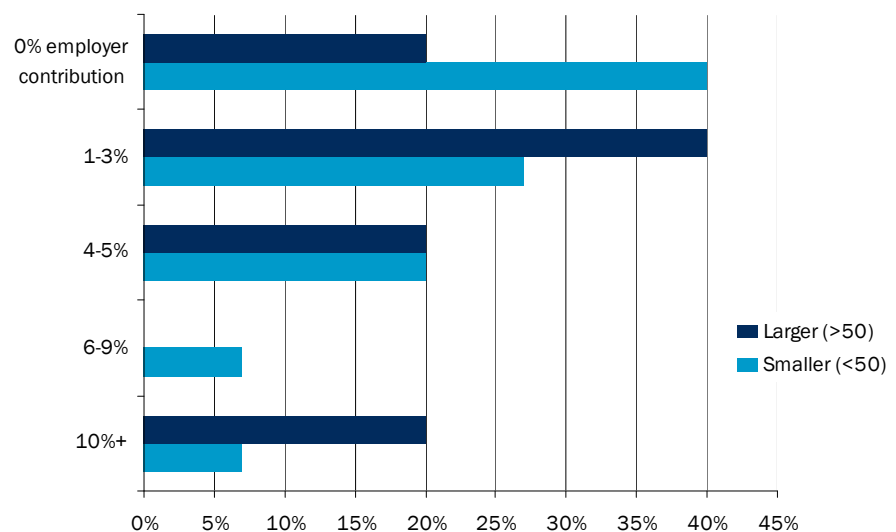


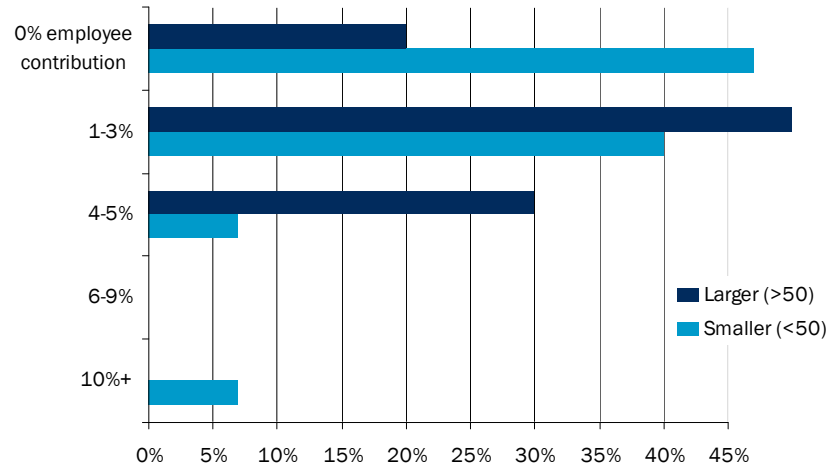
## 5 Pension arrangements

- Historically pension arrangements have been seen as a core benefit of a UK employee benefit programme. The following table sets out the views of our respondents to the inclusion of a pension vehicle within the benefit programme.



- For those employers who provide a pension plan as part of the benefits offering, the following tables summarise the 'typical' levels of both employer and employee contribution. Please note that for more senior members of staff higher contributions than those shown were made.





## 5.1 Pension reforms

With the back drop of increasing numbers of older people and rising expectations for retirement, pensions have been pushed up the agenda with more and more recognising their importance, creating a fair and just system has therefore been paramount to UK Government. Despite this, it is an uncomfortable fact that, according to government statistics, around 12 million people are not saving enough for their retirement (source: <http://news.bbc.co.uk/1/hi/business/2082800.stm>)

April 2001 saw the introduction of Stakeholder pension legislation and this was hailed as the answer to the problem. The commitment being that employers with 5 or more employees on the payroll who did not offer employees a suitable company pension arrangement had to provide access to one of these straight forward plans with prescribed financial terms. One thing was missing, compulsion for employers and employees to contribute. As a result, the legislation, arguably, missed the mark with many thousands of schemes designated but remaining 'empty shells'. In April 2006, the government introduced Pensions Simplification. New rules came into effect around how pensions are taxed, offering simpler and more flexible retirement arrangements.

## **5.2 So what's next?**

The Pensions Act 2008 marks the way for one of the biggest leaps forward in pension provision since the introduction of state pension benefits some 100 years ago. The current proposal is that from 2012 the process of automatically enrolling employees in to a good-quality workplace pension or a system of Personal Accounts will begin.

## **5.3 Impact on Employers**

Pension reform will impact on all employers and will mean increased pension costs.

The option to do nothing with regard to pension provision will disappear with the requirement to contribute toward an employee's retirement 'fund' – minimum 3% of 'qualifying earnings'\* . Employees will also be required to contribute. Total contributions will need to be at least 8% of 'qualifying earnings'.

Employers will be responsible for providing employees with information regarding automatic enrolment and their rights to opt in/out. This will need to be monitored on a regular basis. Employers will also be obligated to liaise with the Pension Regulator over what action they have taken to auto-enrol eligible employees in to pensions.

There will be a requirement to 'administer' the reconciliation of both employer and employee contributions to Personal Accounts.

Failure to comply will result in harsh penalties – a fine of £50,000 (plus further penalty payments) or a prison sentence.

## **5.4 Taking control**

Additional pieces of the jigsaw have now been put in place which enable employers to 'take control of the situation'. Rather than simply complying with government legislation, employers will have the option to offer staff what will be called a Quality Qualifying Workplace Pension Scheme and it is this route which we would suggest employers consider, as it provides a platform whereby employees are more engaged and see real value in the pension plan provided as part of their remuneration package. It will also allow employers to postpone the auto-enrolment for a period of 90 days which could fit in with many employer probationary periods.

The regulations say that the 'quality mark' can be achieved if the total level of contributions to the plan is 11% of qualifying earnings (with the employer contributing 6%, employee 4% and 1% from the taxman).

To keep things simpler from an administrative perspective, employers could elect to base contributions on gross annual basic salary. The effect of this approach being that for an employee with earnings at the top end of the threshold, the total employer/employee contributions would be 9.25% of actual earnings, with the employer portion looking more like circa 5%.

## **5.5 Action plan**

Employers need to consider whether they want to 'take control' of the way in which retirement benefits are provided or simply comply with legislation. To take control employers should consider an employer sponsored pension plan, with the appropriate contribution structure and automatically enrol employees in to it.

Establishing a 'qualifying pension scheme'\* as part of an employee benefit programme would arguably be seen by employees as being extremely positive and valued by staff. Taking action now could enable employers to phase in the forthcoming costs before 2012.

\* "Qualifying Earnings are currently between £5,715 per annum and £43,875 per annum."

\* 'Qualifying Pension Scheme' – either an occupational pension scheme or a group personal pension.

## Reviewing existing benefit programmes

- Establishing and maintaining pay and benefits policies which are attractive, fair and affordable can be a major headache for employers. Getting it right can lead to higher levels of motivation and staff retention; conversely an unplanned and reactive strategy can easily lead to high staff turnover, inconsistency and low moral.
- Once a benefit programme has been established, it is always good practice to undertake regular reviews. Such an exercise allows the employer to know that the programme offered to employees provides value for money and is “in step” with the market.
- However, somewhat surprisingly, only 38% of respondents regularly review their existing benefit programmes.
- For those that do undertake regular reviews the following were identified as the main reasons for undertaking the process:

- Current market
- Fairness to employees
- Value in attracting talent
- Statutory requirements
- Cost
- Flexibility
- Feedback from employees
- Industry norm

- Employers can use the review process to add additional elements to the programme, keeping it ‘fresh’ and engaging. Enabling it to be used as a successful tool for the recruitment and retention of staff.
- A review process should provide an objective, independent assessment of existing benefits packages and will identify areas for improvement. Usually, the process needs to focus on the following six key areas:

**1. The suitability of the products currently in place:**

Do the current benefit components fit the employee profile and are they seen as being “valuable”?

Are employees engaged in the benefit process, i.e. are they involved their thoughts considered?

**2. The continued competitiveness of those products:**

Do the components provide value for money and offer the best possible terms available in the market place?

Are there any “value adds” which could be negotiated with providers which would enhance the overall programme?

**3. Compliance with current legislation:**

Are you up to date with requirements?

**4. Administration (including, where appropriate, the use of IT):**

Do the current “systems” provide the best platform?

Are benefits communicated to employees in a way which fits your company culture and ensures the employees see real value in what is provided?

**5. The service provided by advisers and the product providers:**

Do the current arrangements meet your required standards?

**6. The identification of other benefits which may be of interest:**

What other benefits components might be relevant to your organisation?

## Salary sacrifice in return for increased employer pension contributions

These arrangements can be used to save National Insurance Contributions (NICs).

When an employee makes a pension contribution from salary there is no NICs saving. In contrast, when an employer makes a contribution to a pension scheme, there are no NICs payable. So, implementing a sacrifice scheme is an attractive way of making employer and employee NICs savings. This can be structured to leave the cost to the employer, and the employee's net disposable pay, unchanged, whilst increasing the pension scheme funding by up to 31%.

Illustration:

| Based on 2009/10 tax rates and thresholds | Pre Salary Sacrifice | Post Salary Sacrifice |
|---|----------------------|-----------------------|
| Gross annual salary                       | £20,000              | £18,260               |
| Employer's national insurance             | £1,828               | £1,606                |
| <b>total costs of employment</b>          | £21,828              | £21,828               |
| Employee's pension contribution           | £1,200               | -                     |
| Employer's pension contribution           | -                    | £1,962                |
| Government income tax rebate              | £300                 | -                     |
| <b>total pension funding</b>              | £1,500               | £1,962                |
| Net annual salary                         | £15,724              | £14,524               |
| Employee's pension contribution           | £1,200               | -                     |
| <b>net disposable pay</b>                 | £14,524              | £14,524               |

## **2009 Budget**

In the 2009 Budget, it was announced that from April 2011, higher rate tax relief on pension contributions for individuals with taxable income of more than £150,000 will be restricted. Anti-avoidance measures were introduced with effect from 22nd April 2009 to prevent the new restriction being circumvented and more detailed information is available on request.

## Summary

- The results of the survey illustrate that employers within the marketing services sector on the whole value the inclusion of an employee benefit programme as part of an overall remuneration package to attract and retain the best staff.
- Current trends show that employers are looking for flexibility within the programme and are aiming to keep costs down.
- Benefits can be introduced effectively by approaching the issue in a planned and structured way. The following table highlights a number of areas which should be considered:

Talking to employees  
Seeking professional advice  
Agreeing a budget  
Saving tax and NI  
Benchmarking  
Considering salary sacrifice  
Tiering of benefits  
Review regularly

## **Find out more**

We're here to help. If you are an employer, it is almost certain that our employee benefit consultancy can. If you would like to discuss any employee benefit issues and our services please get in touch.

Please contact Roger Cook 020 8336 6350.

Alternatively, please contact your usual Kingston Smith LLP partner.

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