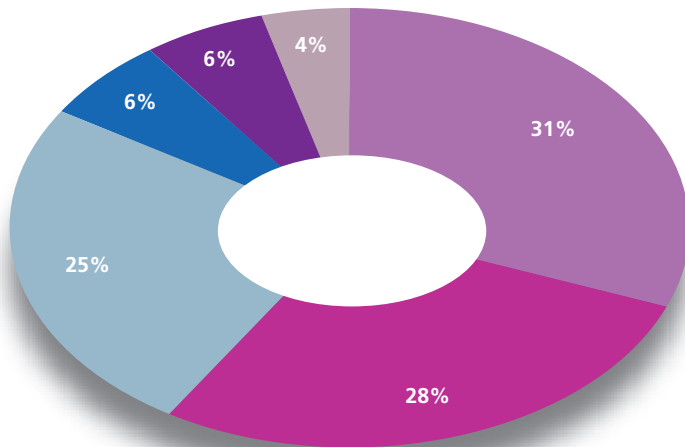




Structure

There is a growing trend for employers to enable staff to trade their existing benefits up or down rather than provide a flex pot to spend, says **Debbie Lovewell**

■ How flexible benefits plans are structured



- Employees do not get a flex budget to spend but can trade up or down from their current package
- Employees can opt to take tax-efficient benefits through salary sacrifice
- Employees are given a flex budget to spend with the option of taking some, or all, as cash
- Employees receive flexible pay, which includes the value of benefits, that they can spend subject to purchasing certain minimum benefits
- Employees are given a flex budget to spend which they can only spend on perks through the scheme
- Other

Sample: All respondents that offer a flexible benefits plan (146)

Since flexible benefits schemes arrived in the UK from the US in the 1980s, the industry's view of what exactly constitutes such a scheme has changed somewhat. Until several years ago, the widely accepted definition of a flexible benefits plan was a formal scheme, run for a set contract period, through which employees could opt into and out of employer-paid benefits, select employee-paid benefits, or take cash.

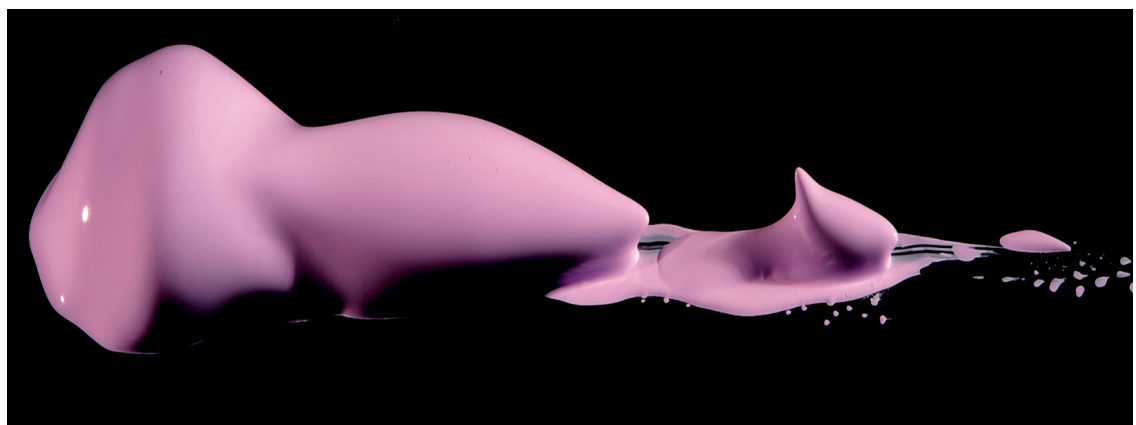
But this definition has now become much looser, and is often used to cover schemes that operate with a degree of flexibility for staff.

These days, the most popular way of structuring a flexible benefits scheme is to enable employees to trade their existing benefits up or down rather than providing them with a flex budget to spend on perks. Just under one-third (31%) of respondents now offer a scheme on this basis, up from a quarter last year.

In the current economic climate, this is perhaps not surprising because it enables employers to offer their workforce flexibility around their benefits package at no, or little, extra cost to the organisation.

Cost-conscious employers are also taking advantage of the national insurance savings that can be gained by offering tax-efficient benefits, such as childcare vouchers and bikes-for-work schemes, through salary sacrifice arrangements. Structuring a flex scheme around such benefits is now the second most popular way of operating flexible benefits, offered by 28% of respondents.

31% of respondents do not give staff a flex budget to spend but enable them to trade their current benefits package up or down





Although employers might implement a flexible benefits scheme to offer their staff a greater degree of choice and enable them to tailor their benefits package to suit their individual lifestyle and circumstances, they may still feel a duty to ensure employees are covered by some key perks.

In these instances, employers may specify that employees must purchase a core minimum level of cover.

The most popular benefits around which employers make this stipulation are those that provide for employees and their families in worst-case situations – namely, life assurance and group income protection. These two benefits also topped this list last year, but the percentage of employers that specify a minimum

level of cover for staff has risen year on year. This year, 53% do so for life assurance and 36% for group income protection – up from 46% and 27%, respectively, in 2009.

A greater proportion of employers also appear to have made a head start on the pensions reforms due to come into effect from 2012, which, among other measures, will introduce compulsory contributions. More than a quarter (27%) now stipulate staff must make minimum pension contributions, compared with 21% last year.

Where employers do not require employees to take a minimum level of cover, it may be that they provide these benefits outside of flex, as core for all staff to a certain degree.

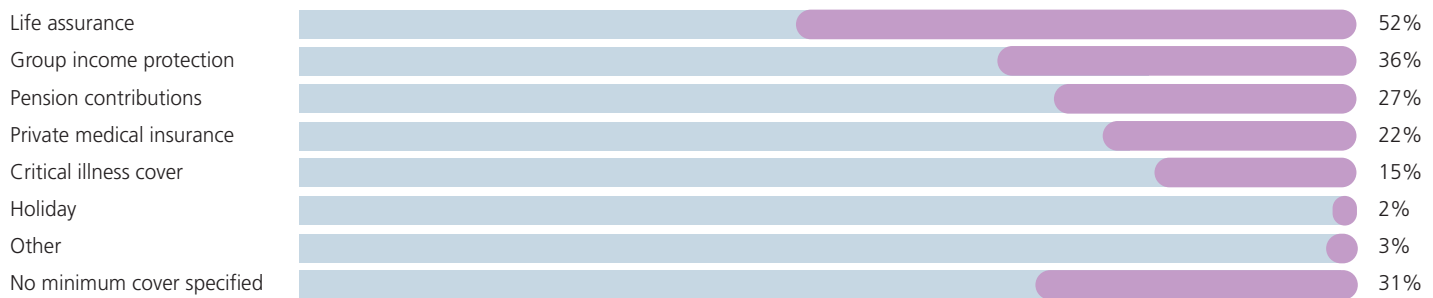
On the flipside, some employers prefer to

offer staff greater flexibility by enabling them to trade down cover on particular perks and take cash instead. This can be a selling point for some groups of employees, such as younger staff with fewer commitments outside work who do not feel they need protection benefits, or for employees whose partners receive similar perks from their employer, so do not require duplicate cover.

Holiday, private medical insurance and life assurance remain the most popular benefits employers permit staff to flex down for cash.

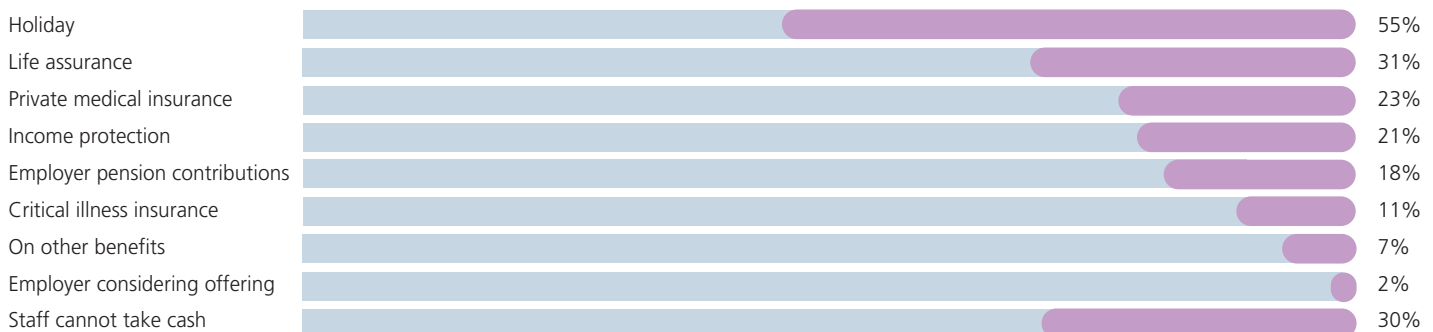
Just under one-fifth (18%) of respondents currently permit staff to flex down employer pension contributions for cash. However, under the 2012 pension reforms, they may have to revise this practice.

■ Proportion of employers that specify employees must take a minimum level of cover for particular benefits within flexible benefits



Sample: All respondents that offer a flexible benefits plan (132)

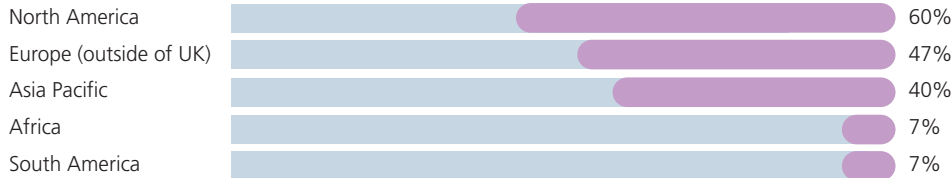
■ Proportion of employers that allow staff to flex down cover on particular benefits and take cash



Sample: All respondents that offer a flexible benefits plan (131)

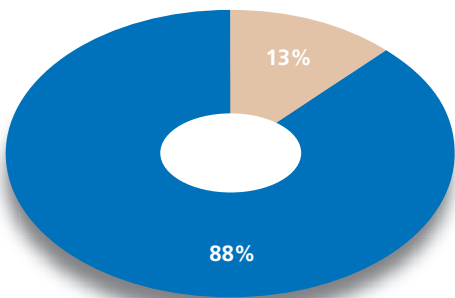


■ Regions where UK-based employers offer flexible benefits



Sample: All respondents that offer a flex plan outside of the UK (15)

■ Do respondents offer a flexible benefits plan outside of the UK?



No ■ Yes

Sample: All respondents that offer a flexible benefits plan (120)

Implementing a flex scheme for workforces outside of the UK can be complex because of varying tax and legislative rules, state benefits provision, and cultural differences and expectations in each country.

However, a number of multinational organisations now operate on a global basis as much as possible, including offering similar reward packages in each location.

Although flex cannot always be replicated exactly outside of the UK, 13% of respondents now operate a scheme internationally.

The most popular location to do so is North America, where 60% offer a flex plan. This is perhaps not surprising, considering flexible benefits schemes originated in the US.



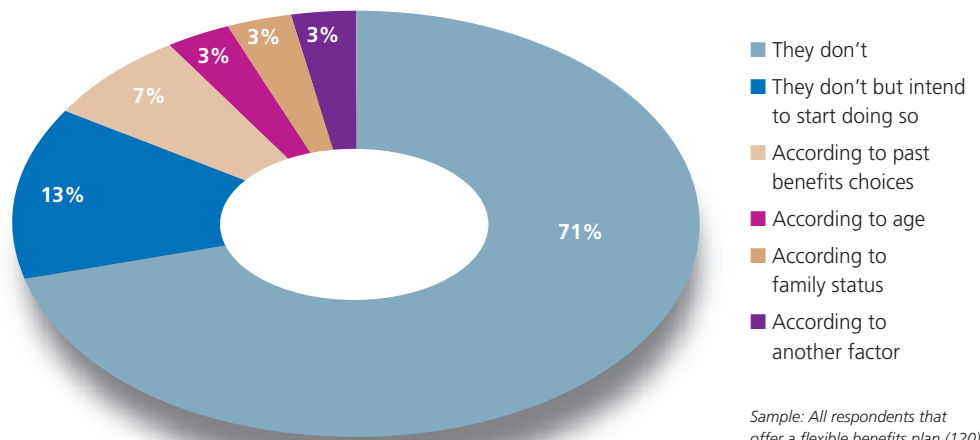
Although flex cannot always be replicated exactly outside of the UK, 13% of respondents now operate a scheme internationally

Following trends used by retailers to target consumers, some employers are beginning to target communications around flex to appeal to particular employee groups. However, this segmenting practice is still in its infancy and 71% of respondents do not currently use it. A further 13% say they intend to start.

Given that these percentages remain the same as last year, it may be that employers have had other priorities during the past 12 months.

Where employers do target their communications, the most popular way of segmenting the workforce is by past benefits choices.

■ How employers target communications to suit particular employee groups



Sample: All respondents that offer a flexible benefits plan (120)