# New Year Trends

## We ask our experts what they think will be key in **2010**

### Q: Which benefit trend is the one to watch in 2010?

### A: Peter Smith, Managing Director
Benefex Financial Solutions

*"Now that we have had the official announcement of the name and logo for what has been known to date as Personal Accounts, I believe that more companies will be looking to review and modernise their DC pension schemes.*

The launch of the National Employment Savings Trust (NEST) will raise awareness of the forthcoming changes and how they will affect employers as they are phased in from 2012. You can view a short video about the launch of the new brand here: http://www.padeliveryauthority.org.uk/nest-video.asp

Key to the change is not, in fact, the new vehicle, which will be a simplified product, aimed at the lower income earners in the UK, but the move to auto-enrolment with minimum contribution of 8% of which employer contributions must be at least 3%.

Employers are going to have to understand that they will not be able to influence employees in their decision to opt out of the pension provided. They will also have to deal with the additional employment costs that this will generate, as well as the increased administration and reporting requirements. In addition, employers will need to consider how their scheme design will affect their competitiveness in the jobs market. Can employers use this opportunity to show their employees that they are doing more than the minimum?

Time will be needed to organise budgets, benefit design and provider selection and I am sure employers will want to have planned meticulously for the changes. That means putting together the project during 2010.

Might this also start to get Financial Directors looking more closely at all benefit spend, trying to balance the cost of employment?"

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## Q: What impact is the recent budget going to have on employee benefits in 2010?

## A: Martha How, Head of Reward Consulting
Hewitt Associates

*"The Pre Budget Report (PBR) has a couple of specific and one general impact and was silent on one very important benefit;*

### The Specifics

As we have been predicting for some time, the tax exemption for staff canteens has been closed where it fits within a flex or salary sacrifice framework- this will have a big impact on plans which incorporate meals salary sacrifice, which must be removed by April 2011. Traditional in house subsidised workplace canteens operating outside flex and salary sacrifice are unaffected.

Fuel scale charges have been increased for those employees who have private fuel; this is an increasingly rare benefit and so the impact will be zero for most employees, but will have a big impact on a few.

### The General Impact

The 50% tax rate and new pensions taxation rules, together with a 1% NIC increase for employees and employers means that non-pensions salary sacrifice benefits are becoming even more significant and good value to all employees. We expect to see greater interest in all benefits which reduce PAYE income and deliver benefits subject to benefits taxation, where benefits taxation is lower. Benefits such as green cars, holiday buy, health screen and bicycles all deliver greater savings potential. In addition we expect to see alternative pension's savings vehicles such as Employee Benefits Trusts (EBTs) and Employer Financed Retirement Benefit Schemes (EFRBs) receiving greater attention for the higher paid.

### The Silence

Gordon Brown's U-turn in respect of childcare vouchers was not mentioned but we expect to see legislation which restricts the tax relief to basic rate shortly. This U-turn is a positive message for all parents, even where tax relief is restricted."

Read Martha How's latest Market Update in full on page 4

## Q: What are our clients focused on for 2010?

## A: Jason Taylor, Managing Director – Benefex

*"Typically our clients are asking us about three key areas;*

- **Maximum Value**: For many clients, the focus is on getting maximum value from their reward spend and ensuring that it is delivering against the wider business strategy. Many reward schemes have been built on historical entitlements and are often related to grade and length of service. What we are seeing is a desire to enable an employee to reflect their personal lifestyle into their reward requirements.

- **Balancing the books**: As well as gaining maximum value through aligning reward to the wider business plan, we have found many organisations are putting renewed emphasis on the cost savings available through salary sacrifice benefits. Tax and National Insurance savings are offering a life line to those who are juggling their reward budgets between recovering from the downturn and motivating employees.

- **Seeing the whole picture**: Employers are also focused on ensuring that what they do spend is visible and appreciated. The current economic climate has piqued employers' interest in Total Reward, often as a measure to move the focus from base pay (which may not have enjoyed a rise this year) to a better rounded view of the employment package - which is often far more comprehensive than employees realise"