

The benefits research 2007

The aim of this study was to find out which benefits UK employers are offering to their staff and how these are delivered. We wanted to find out the impact of the benefits strategies employers use and the issues that shape them. We also wanted to identify the key decision-makers within an organisation when it comes to benefits. The research also looks at what methods are used to communicate benefits to staff and their effectiveness.

The key findings are:

- **62%** of employers say their benefits strategy helps improve staff motivation and productivity. The same proportion believes it engages staff in the organisation.
- **57%** of employers believe their benefits strategies are an effective recruitment tool, and **55%** an effective retention tool.
- **73%** of employers say the biggest issue facing them is improving the perceived value of the benefits package, while **65%** say that they battle to make benefits more cost effective.
- **63%** of employers say they struggle to communicate the benefits package, while **58%** want to improve engagement levels.
- **76%** of employers believe that their own benefits package provides value for money, but only **41%** of employers evaluate the effectiveness of their benefits strategy.
- **54%** of employers believe that workers do not appreciate their benefits package and **41%** believe it is outdated.
- **65%** of employers say managing directors, chief executives or equivalent have primary responsibility for benefits decisions.
- **62%** of employers offer life assurance to all employees, making it is the most widely offered benefit.
- **51%** of employers offer counselling or employee assistance programmes to all staff, which is the second most widely offered benefit.
- **19%** of employers offer a flexible benefits scheme to all staff and **8%** to some.
- **52%** of employers offer a voluntary benefits scheme to all staff, while **6%** do offer them to some.
- **60%** of employers offer benefits through salary sacrifice to all staff, while **12%** offer this to some employees. Where they do offer benefits through salary sacrifice, **42%** of this group pass the tax and national insurance savings back to employees, while **18%** split the savings with them.

About the survey

The research was conducted during January and February 2007.

Questionnaires were sent to the readers of *Employee Benefits* magazine to complete.

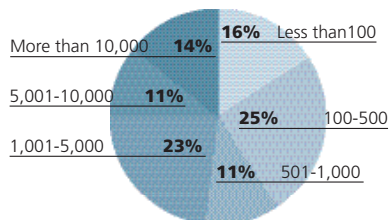
Users of www.employeebenefits.co.uk were also invited to fill in the questionnaire online.

This research is based on 378 complete responses.

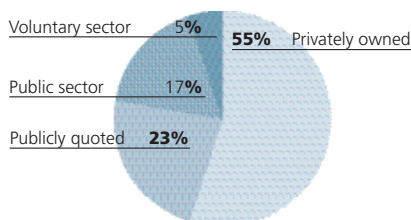
The respondents were drawn from all types of organisations, half of which were privately owned (55%) and 17% were from the public sector.

Three-quarters of the respondents were from organisations with 5,000 employees or fewer.

Number of employees at respondents' organisations



Type of respondents' organisations



PERCEPTIONS of the impact of benefits strategies have moved on in recent years. There was a time when staff retention and recruitment were indisputably at the top of the list of functions that apply to benefits strategies. And, indeed, they were when *Employee Benefits* last conducted a survey into UK employers' benefits strategies three years ago (*The Benefits Research 2004* was published in that year's *Benefits Book*) and employers were asked to indicate how their benefits strategies could be best described. While these two factors are still significant, the concepts of staff engagement and motivation linked to productivity have now both come to the fore.

This perhaps demonstrates that engagement has become a key function of the benefits strategy. It is closely linked to staff motivation and, in turn, productivity. The emergence of these two concepts may be explained by the fact that the world of compensation and benefits has now become much more sophisticated. Benefits experts argue that perks should not be viewed simply as a necessary cost of recruitment and retention, they should instead also be perceived as a means of boosting productivity and service levels through staff engagement and motivation.

A further example of how benefit strategies have evolved is the increase in emphasis placed upon the promotion of work-life balance which, when we last conducted this research, lagged towards the bottom of the table. Interestingly, 66% of publicly-quoted companies claim that their benefits strategies promote work-life balance to some extent, compared with 50% of public sector organisations, while 38% of public sector organisations adopt the function to a significant extent, compared with only 16% of listed firms. While 53% of organisations link their benefits strategy to business strategy to some extent, this is most apparent among publicly-listed companies. But despite the vast amount of money spent on healthcare benefits by employers, just 46% say it helps with sickness absence.

“Benefits experts argue that perks should be perceived as a means of boosting productivity and service levels through staff engagement and motivation”

When it comes to the cost of benefits, little has changed since our survey into the benefits strategies of UK employers back in 2004. Almost two-fifths of employers spend between 11% and 20% of payroll on benefits. Just 8% spend more than 30%, while 18% put a value on the benefits package of between 21% and 30% of payroll. However, just 16% of organisations employing 500 or fewer staff spend more than 21% of payroll on benefits, compared with 33% of employers with a workforce of more than 500. This may indicate that smaller organisations have tighter budgets.

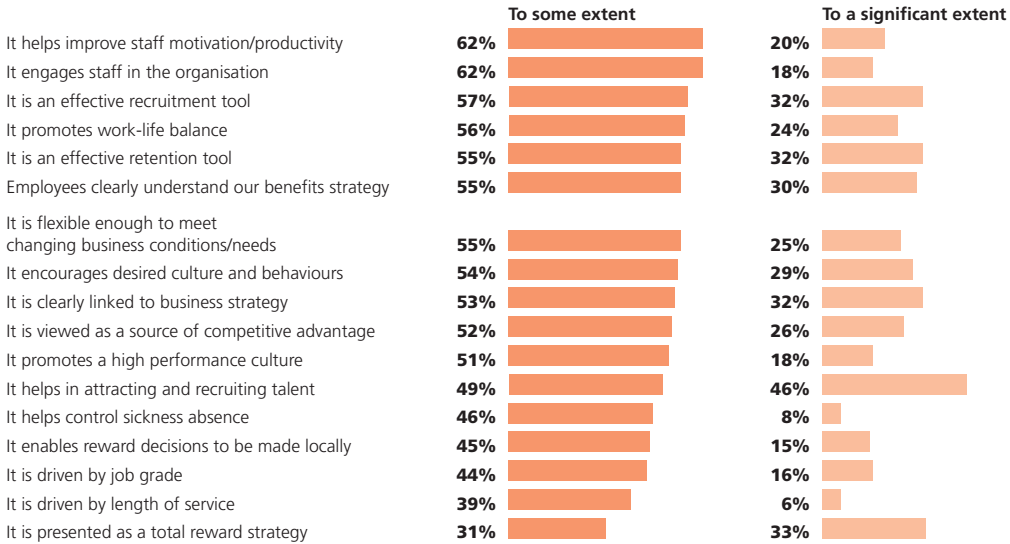
Given the amount of money spent on perks, it is perhaps no surprise that the biggest issue shaping employers' benefits strategies is the need to improve the perceived value of the benefits package (73%), regardless of their size or type of organisation. Only those employers with between 1,000 and 5,000 staff are more concerned with communicating their benefits strategy.

The need to improve the perceived value of the benefits package also topped the list of issues facing employers when we last undertook a survey into benefits strategies in 2004. The solution partly lies in the communication of the benefits package, which is a concern for 63% of employers. Unless employees are told how much their benefits are worth they will not have any appreciation of their actual or potential value. Making benefits more cost-effective remains the second most important issue to shape benefits strategies, with 65% of employers citing it as a problem. However, public sector organisations rank improving staff engagement levels, improving the effectiveness of benefits and communicating perks higher up their agenda.

Employee engagement, total reward and flexibility also all feature highly on the list of issues taxing the minds of employers. It seems more employers have now got to grips with aligning benefits strategy with business strategy compared with three years ago. Then 63% of employers cited it is an issue, now it is 48%. Meanwhile, the proportion citing the alignment of benefits to HR strategy as an issue has shrunk from 42% to 35%.

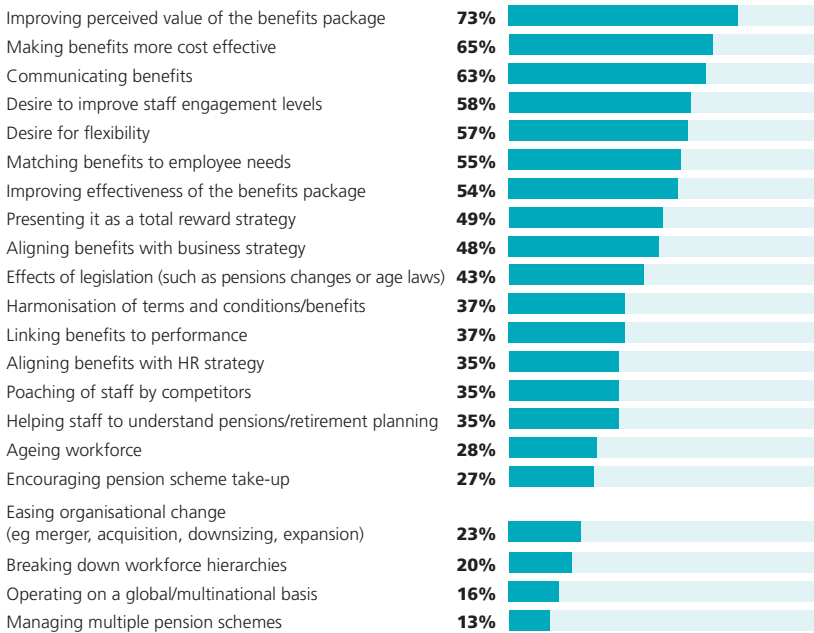
The last year or so has been hectic for employers as they have had to get to grips with reams of new legislation that affects benefits, including pensions simplification and ageism laws. So it is no surprise that 43% said legislation has been an issue shaping benefits strategies.

Impact of benefits strategies



Sample: all respondents

The issues shaping benefits strategies



Sample: all respondents

The approximate percentage of payroll employers spend on benefits

0-10%	34%
11%-20%	38%
21%-30%	18%
31%-40%	6%
More than 40%	2%

Sample: all respondents

THERE IS LITTLE point in devising a comprehensive benefits package and spending large amounts of money providing perks to staff without evaluating the effectiveness of the benefits strategy. But less than half (41%) of employers actually do so. Larger organisations with more than 10,000 staff are the most likely to undertake this task (57%), whereas organisations employing less than 100 are the least likely (30%). Those in the public sector are also among the most likely to evaluate their perks (52%) while bosses in the voluntary sector are the least likely (35%).

Evaluating benefits strategies is not a particularly costly exercise. For those that undertake this task the most popular method is to conduct staff surveys (81%). Unless employers ask what their employees think of the benefits on offer they will not know whether they appreciate them or motivate them in any way. Another way of analysing whether the package is capable of engaging staff is by monitoring the take-up of benefits, which 77% of respondents do. This is something that most employers offering flexible benefits plans will do as a matter of course. But it is an exercise that is also worth carrying out if an employer provides a large range of voluntary benefits or discounts as they could be offering something that, in fact, nobody wants.

It is perhaps surprising that so few try to evaluate the effectiveness of their benefits strategy in relation to recruitment and retention when these are two key areas where the perks package should make an impact. It is a tricky exercise to undertake, but employers in the public sector manage to do this more than most other types of organisations. Despite the large amount of money spent on healthcare benefits, just over a third of those that measure the effectiveness of their benefits package track it against sickness rates.

Given that so few employers actually evaluate the effectiveness of their benefits strategy it is difficult to understand why 76% believe their benefits package provides them with value for money. This belief is unsurprisingly strongest among organisations with less than 100 staff (83%), and employers in the voluntary sector (82%), indicating perhaps that many of them have limited funds. It may be that a lot of publicly-listed and privately-owned employers also take this view (77% for both) because they believe that they have negotiated good rates with providers. However, in order to understand the full impact of the package on retention, motivation and productivity, further analysis of its effectiveness would be beneficial, especially for those employers that claim their package is not appreciated by staff, of which there are more than half (54%).

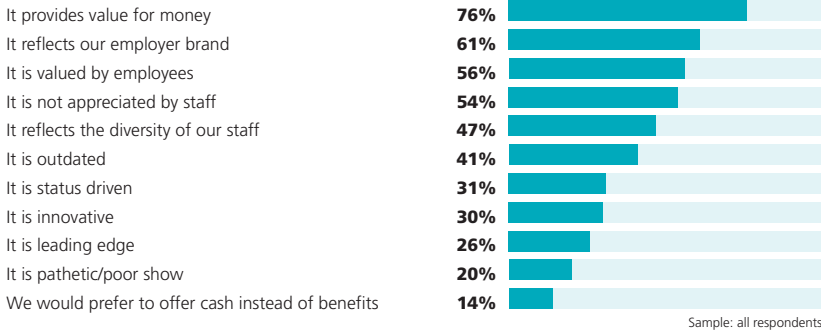
A surprisingly high proportion of employers believe their package reflects the employer brand (61%). This is highest among organisations employing between 5,001-10,000 staff (70%) and publicly-listed companies (67%). Much has been made of this concept in recent years and it goes way beyond simply reflecting the employer brand in communication materials. Good examples include Enviros, the environmental consultancy, which made sure that its green credentials were carried through to its flexible benefits plan with options including a carbon offsetting scheme. In addition, members of its stakeholder pension scheme are able to invest in ethically-sound funds and the choice of company cars has been limited to those with low emissions.

The last time we conducted research into UK employers' benefits strategies in 2004, the strongest attitude to emerge from employers was that their benefits package was outdated. Although the proportion of employers now expressing this view (41%) is similar, it is no longer the top concern. It may be employers are now paying more attention to other issues. Also many may have taken the complicated step of modernising their package since then, perhaps by introducing flex or reviewing their pension scheme. However, it is somewhat disappointing a fifth believe their perks are poor.

When it comes to competitiveness within their own sector, 18% of respondents believe that their organisations' packages fall into the lower quartile, while 25% fall in the upper quartile with the remainder in the middle. In the voluntary sector, however, only 6% of employers believe their packages fall into the lower quartile while 29% consider themselves to be in upper quartile. A staggering 43% of organisations with more than 10,001 staff believe their package falls in the upper quartile for their sector.

“Despite the large amount of money spent on healthcare benefits, just over a third of those that measure the effectiveness of their benefits package track it against [their] sickness rates”

Employers' attitudes to their own benefits packages

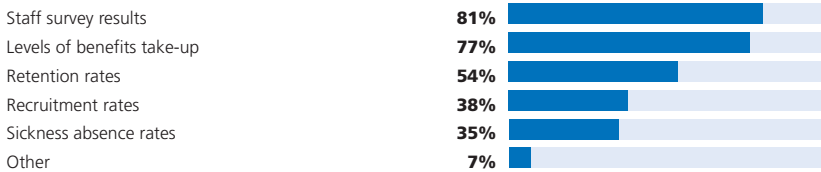


Do employers evaluate the effectiveness of their benefits strategy?

Yes	41%
No	59%

Sample: all respondents

What measures do employers use to evaluate the effectiveness of their benefits strategy?



Sample: Those respondents that evaluate the effectiveness of their benefits strategy (155)

How competitive do employers believe that their benefits packages are within their sector?

Upper quartile	25%
Median	51%
Lower quartile	18%
Don't know	6%

Sample: all respondents

NOT TOO long ago dedicated compensation and benefits roles were few and far between. However, the area has developed into something of an HR specialism in recent years. Our research bears this out with 25% of employers saying that compensation and benefits or reward directors and managers have primary responsibility for benefits decisions, with a similar proportion (28%) stating these roles influence benefits decisions within their organisation. But in most organisations, it is the managing director or chief executive who has the final sign-off on benefits decisions (65%), followed by the HR director (48%). Financial directors also have a benefits decision-making role, but their main input is in influencing decisions. The role with the greatest influence is that of the HR manager (58%), which is far greater than that of their ultimate boss, the managing director. The role of HR officer, or equivalent, also has a sizeable influence (41%) – a factor which should boost morale.

The smaller the organisation, the more likely it is that the managing director, chief executive or equivalent will be a primary decision maker. Three-quarters of privately-owned companies, meanwhile, say this is a key role compared to 55% of publicly-listed companies, and 47% of public sector employers.

The HR director's power base lies in organisations with more than 500 staff where the role is given more responsibility for making benefits decisions. This is also the case in public sector organisations and publicly-quoted companies, where around 60% of employers say the HR director has primary responsibility for benefits decisions, compared with only 39% in privately-owned firms. It is no surprise that the benefits decision-making capacity of senior compensation and benefits roles is greatest in those organisations with more than 5,000 staff and publicly-quoted firms.

“Total reward statements have become more widespread, with 28% of employers using them, compared to 19% in 2004”

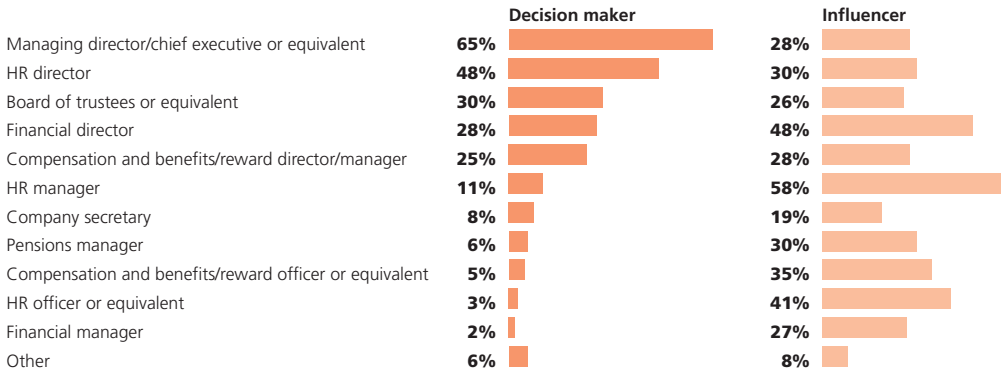
No matter who is responsible for making decisions around benefits, the biggest issue influencing benefits strategies is the need to improve the perceived value of the benefits package: a goal which goes hand in hand with the task of communicating it (see page 11). Communicating benefits does not have to cost a lot of money, it simply requires some imagination to decide what messages need to be conveyed and how. The most popular method of communicating perks is at induction meetings for new joiners (83%).

The communication process needs to be ongoing and should not just be focused on what is on offer but should also explain how much the benefits are worth. Perhaps the best way of conveying these messages is through total reward statements which not only state what the recipient receives, but also what they could be entitled to after a defined period of service or if they were to opt into the pension or share schemes. These statements have become more widespread, with 28% of employers currently using them, compared to 19% in 2004. Their use is greatest among publicly-quoted companies (43%) while the public sector (14%) deploys them least. The greater availability of technology has also led to a rise in the use of the internet and intranet, and benefits modellers, although interestingly the use of emails has declined, perhaps due to a belief that staff are already suffering from email overload.

The most complex benefit to communicate to staff is arguably the pension. Here again, there is a reliance on induction meetings with staff as well as leaflets and brochures – three-quarters of employers say they use these methods. The internet and presentations are also popular. How much an employer communicates their pension schemes depends, of course, on what they want to achieve. Those that take a responsible line and want to drive take up may want to use annual meetings to promote the pension, or if they want to encourage staff to take on responsibility for their future retirement they can offer pensions modellers or review meetings.

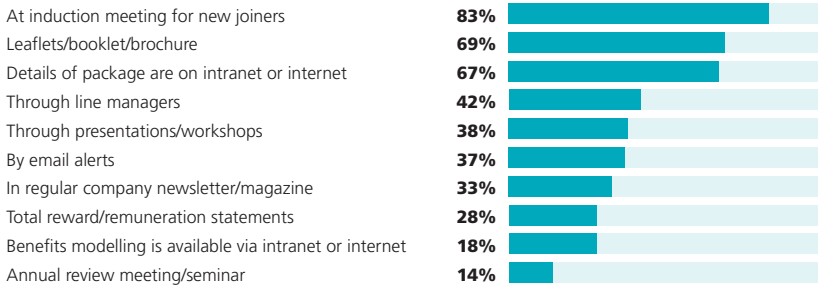
Only 29% of employers measure whether their communication methods are effective. The most popular method among this group is the use of staff surveys, closely followed by an analysis of take-up rates for perks. Other methods include the monitoring of internet/intranet hit rates and the number of calls to helplines.

Types of roles with primary responsibility for benefits decisions, and which influence benefits decisions



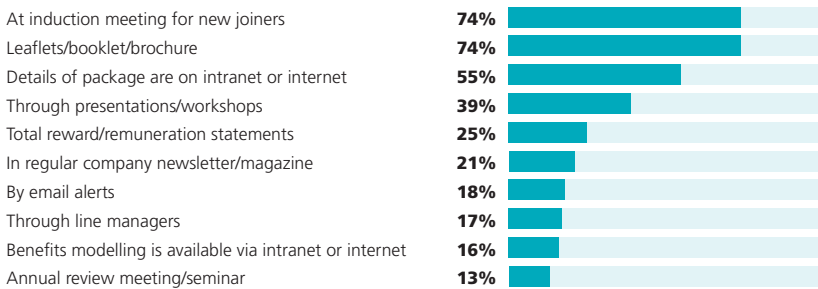
Sample: all respondents

How do employers communicate their benefits to staff?



Sample: all respondents

How do employers communicate their pensions to staff?



Sample: all respondents

Do employers use any formal methods to find out if their communication methods are effective?

Yes	29%
No	70%

Sample: all respondents

Which methods do employers use to find out whether their communication methods are effective?



Sample: respondents who use formal methods to find out whether their communications methods are effective (110).

THE INCREASING complexity of benefits packages means that employers tend to offer perks through many methods, sometimes combining a core package with voluntary benefits or incorporating core benefits into a flexible benefits system and allowing staff to flex them up or down. Then there is the added complexity of tax-efficient benefits, such as childcare vouchers and bicycle loans, which tend to be offered through salary sacrifice as a voluntary benefit or as part of flex. As a result, there is significant confusion over the definitions of different types of packages. We have used specific definitions for the purposes of this survey (see below).

Core benefits are those that form part of the traditional package where the employer pays for all of the benefits, and not employees. Some 57% of employers claim to offer a core package to all their employees, while 21% do so to some staff. The last time we conducted research into UK employers' benefits strategies, in 2004, 37% of employers said they offered a core package with a further 31% combining it with voluntary benefits.

As to what benefits they offer, the list is endless. We asked employers to specify whether the benefits they offer are provided to all staff or just a few so that status benefits such as company cars (and car allowances) and private medical insurance could be identified.

Among employers, the most popular core benefit offered to all staff is life assurance, the same as three years ago. Other benefits such as income protection, extra holidays for long service, and private medical insurance remain popular.

Car parking is one benefit that appears to have increased in popularity among employers. This is perhaps because employers now consider free car parking on site to be a benefit.

Employee assistance programmes (EAPs), which employers often regard as a means of safeguarding themselves against stress claims, have significantly increased in popularity. In 2004, 30% of employers offered the benefit to all staff, while 51% now do so. This rise could in part be due to more attractive prices being offered by providers as they face increased competition. EAPs are most popular among employers with between 501 and 5,000 staff (more than 60% offer them to all) and in the public sector where 61% of employers offer them to all.

While defined benefit (DB) pension plans remain as popular as they were back in 2004, they have now been overtaken by group personal pensions (GPPs) offered by 24% of employers to all staff. It is no great surprise that 66% of employers in the public sector offer a DB pension to all staff, while only 10% of publicly-quoted companies, 7% of private firms, and 24% of voluntary sector employers do the same. Less than 10% of employers with 500 or fewer staff offer DB pensions, compared with over 20% for larger organisations. On the other hand, GPPs are offered to all staff mainly by organisations with fewer than 500 staff and in privately-owned firms.

Smaller employers with fewer than 100 staff are the most likely to offer critical illness cover (25%) and private medical insurance to all staff (50%). Many directors of small companies have cover and their advisers will often recommend group deals.

Types of benefit package on offer

The complexity of benefits packages has led to a myriad of definitions. Our research is based on the following:

Core package: the traditional package of employer-paid benefits that may allow some flexibility within individual benefits, but staff can't opt out of or switch between perks.

Flexible benefits package: flexible package of employer-paid benefits which allows employees to trade between two or more benefits, or between employer-paid benefits and cash.

Voluntary benefits: products and services on which the employer has negotiated a discount with suppliers, but the employee pays for the benefit out of net pay.

Salary sacrifice: tax-efficient benefits that employees select and for which they sacrifice some pay in order for their employer to buy the benefits on their behalf.

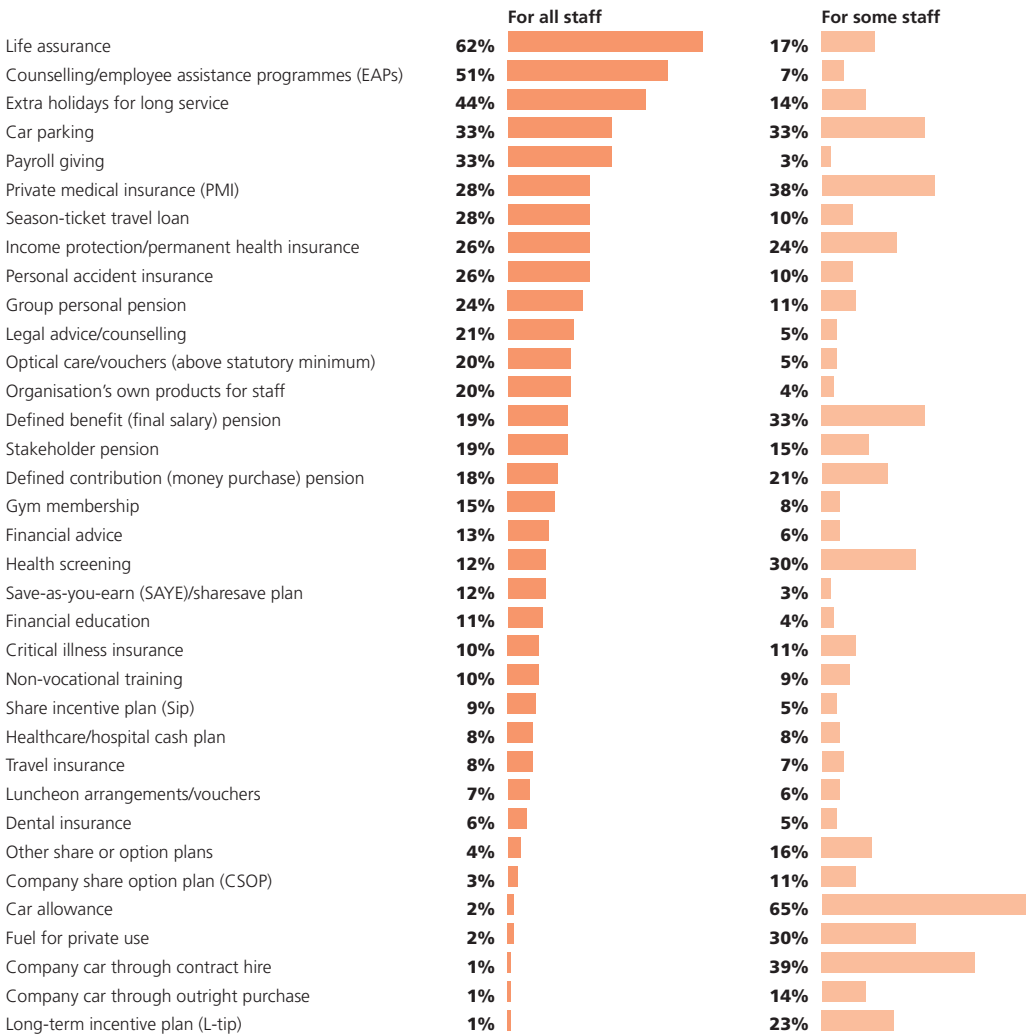
"In 2004, 30% of employers offered an employee assistance programme to all staff, while 51% now do so"

Do employers offer a traditional package of core benefits?

Yes, to all staff	57%
Yes, to some staff	21%
No	21%

Sample: all respondents

Proportion of employers offering benefits to some or all staff



Sample: all respondents

FLEXIBLE BENEFITS plans are becoming more widespread with providers now supplying off-the-shelf flex schemes as well as tailor-made technology. As a consequence, the price of implementing such schemes has fallen. Historically, flexible benefits schemes have been the preserve of large employers. However, off-the-shelf packages are now making it easier for smaller organisations with tighter budgets to implement such schemes.

Although flexible benefits plans have been in the UK for over 20 years and their popularity is increasing among employers, only 19% of respondents offer one to all staff, while 8% offer a scheme to some staff. This is an increase on the 15% that offered flexible benefits three years ago when *Employee Benefits* last conducted research into UK employers' benefits strategies.

Flexible benefits schemes for all staff are most prevalent among organisations employing more than 5,001 employees (25%) followed, surprisingly, by those employers with fewer than 100 staff (20%). This indicates that small companies are also embracing flexible benefits and offering choice to their staff. Publicly-listed companies are the most likely type of organisation to offer flexible benefits to all employees (26%) and the voluntary sector the least (6%). A surprisingly large proportion of public sector employers (14%) claim to offer flexible benefits.

Given that one of the key issues shaping benefits strategies is a desire for flexibility (57% of employers say this, see page 11), it is likely that more organisations will, in time, implement flexible benefits schemes. It will certainly be interesting to see whether those organisations that offer flexible benefits to some of their staff will eventually roll out the scheme to everyone in the organisation.

The most popular four benefits to be offered through a flexible benefits scheme remain the same as when *Employee Benefits* last conducted research into the benefit strategies of UK employers in 2004. Buying and selling holiday came out top once again, but is now sharing that position with dental insurance. It has perhaps become a more popular option for employers to offer staff dental insurance, as low-cost dental treatment on the NHS is becoming scarcer.

Similarly, fears over waiting times for medical treatment on the NHS may have prompted more employers to offer private medical insurance and health screening, both of which have become more widespread over the last three years, overtaking healthcare and hospital cash plans. This may be partly connected to some employers deciding to offer private medical insurance (PMI) through a flexible benefits scheme as a way of controlling rising premiums. Furthermore, providers are adapting their PMI products so that they can be offered through flexible benefits schemes, allowing employees to opt for different levels of cover.

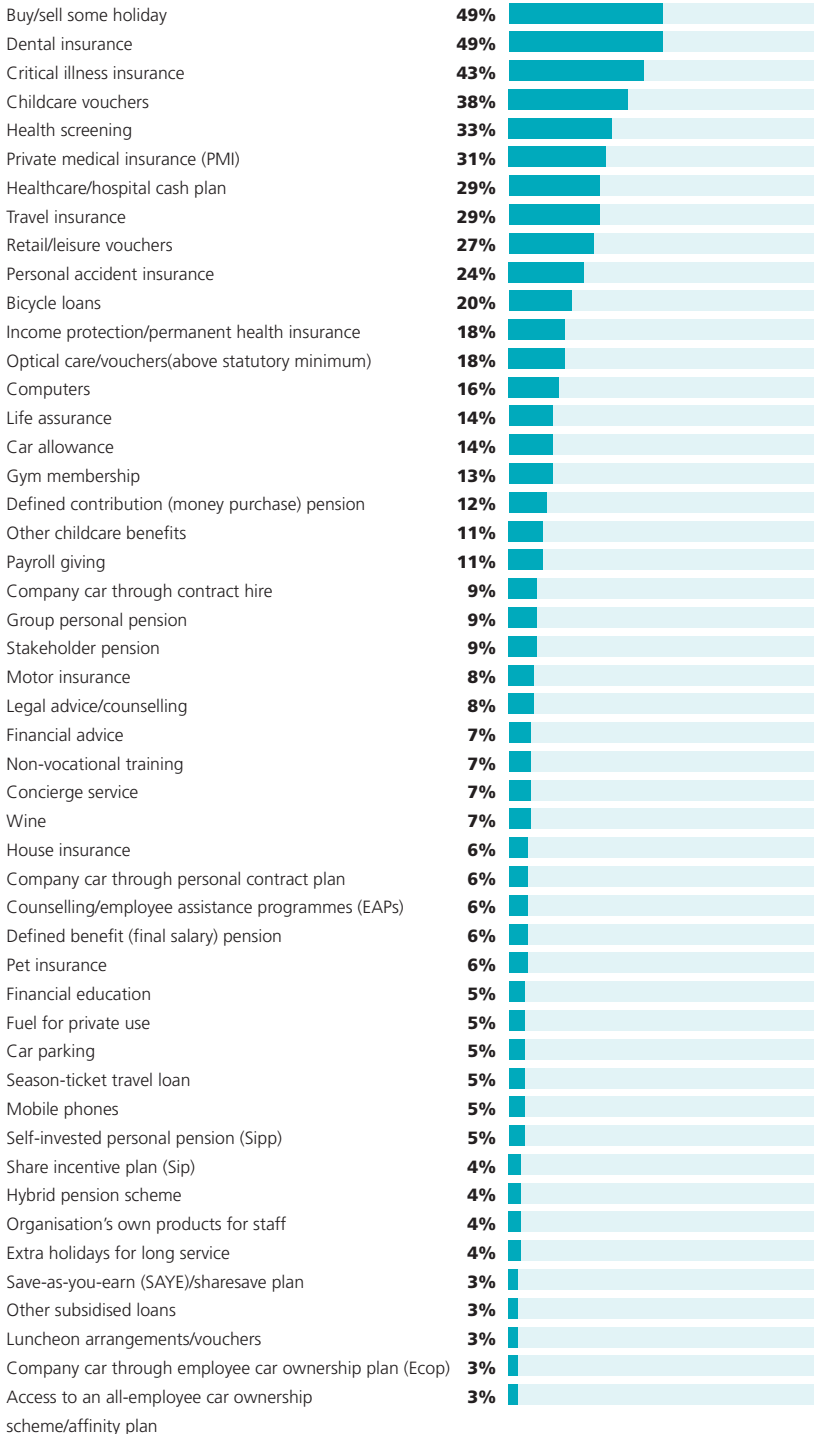
As for tax-efficient benefits, childcare vouchers remain a popular option, offered by 38% of employers. Computers are still offered by 16% of employers, despite Gordon Brown's decision to axe the Home Computing Initiative (HCI) in April last year. It may be that some of these employer schemes managed to sneak under the net before the Chancellor pulled the plug, and the figure is expected to fall once they have come to an end. However, there are still some providers in the market offering employers various deals on computers for their staff. Many employers used the national insurance savings produced by HCI to help fund their flexible benefits schemes, and they are now having to find other funding methods. Although the government's bikes-for-work initiative has proven popular, with 20% of employers offering this option, it is unlikely to generate the same savings that HCI did, as take up is generally lower and the loans smaller. Instead, employers are, we are told, turning to pensions and encouraging staff to salary sacrifice their contributions.

Definition

Flexible benefits: a benefits package where the employer pays for all the benefits, but the employee can choose from a menu of benefits. The employee will have a set budget to use and, depending on the scheme's rules, may be able to switch into or out of benefits, or trade up or down the value of particular benefits.

“Fears over waiting times for medical treatment on the NHS may have prompted more employers to offer private medical insurance and health screening”

What benefits do employers offer through a flexible benefits scheme?



Sample: respondents offering flexible benefits (100)

Do employers offer a flexible benefits scheme?

Yes, to all staff	19%
Yes, to some staff	8%
No	73%

Sample: all respondents

VOLUNTARY benefits continue to be pretty widespread with 58% of employers offering discounts on products and services to some, or all, of their staff. This is a similar proportion to our last survey of the benefits strategies of UK employers, in 2004, when 60% of employers said they offered voluntary benefits. However, the real figure may be larger as many employers now offer a number of the products and services as options through a flexible benefits scheme and may have categorised them as such for the purposes of this survey. Under a traditional voluntary benefits scheme, employees pay for the product or service on which the employer has negotiated a discount with suppliers or agreed a package with a voluntary benefits provider.

Over 70% of employers with more than 5,000 staff offer voluntary benefits, compared with just 33% of organisations employing fewer than 100 staff. However, voluntary benefits give staff something at little cost to their employer, apart from the time spent sourcing the products. Nevertheless, it is easier for larger organisations to negotiate discounts. This is probably reflected in the fact that voluntary benefits are more widely-offered by publicly-quoted companies and public sector organisations (more than 59% of employers for both), compared with the voluntary and privately-owned organisations where around 47% of employers offer them.

As three years ago, the two most commonly-provided voluntary benefits continue to be gym membership and a healthcare or hospital cash plan, with 35% and 27% of employers offering these respectively. All the personal insurances – travel, dental, motor and house insurance – also continue to feature quite prominently among the voluntary benefits offered by employers. Childcare vouchers, however, are a much more widely-offered benefit than three years ago, with 24% of employers now giving staff the chance to buy them. This is due to the explosion of interest following the introduction of tax relief on the vouchers from April 2005. Many employers, however, classify childcare vouchers as a tax-efficient benefit that employees select and for which they must sacrifice some pay in order for the employer to buy the benefit on their behalf. Indeed, some organisations include childcare vouchers as an option under flexible benefits.

“Of those that offer perks [through salary sacrifice] 42% pass the savings onto staff [...] and 39% keep them”

Another tax-efficient perk that has proven popular as a voluntary benefit is bikes-for-work schemes, which take advantage of legislation introduced in 2003. Now 10% of employers offer bike loans as a voluntary benefit. These can also be offered on a salary sacrifice basis.

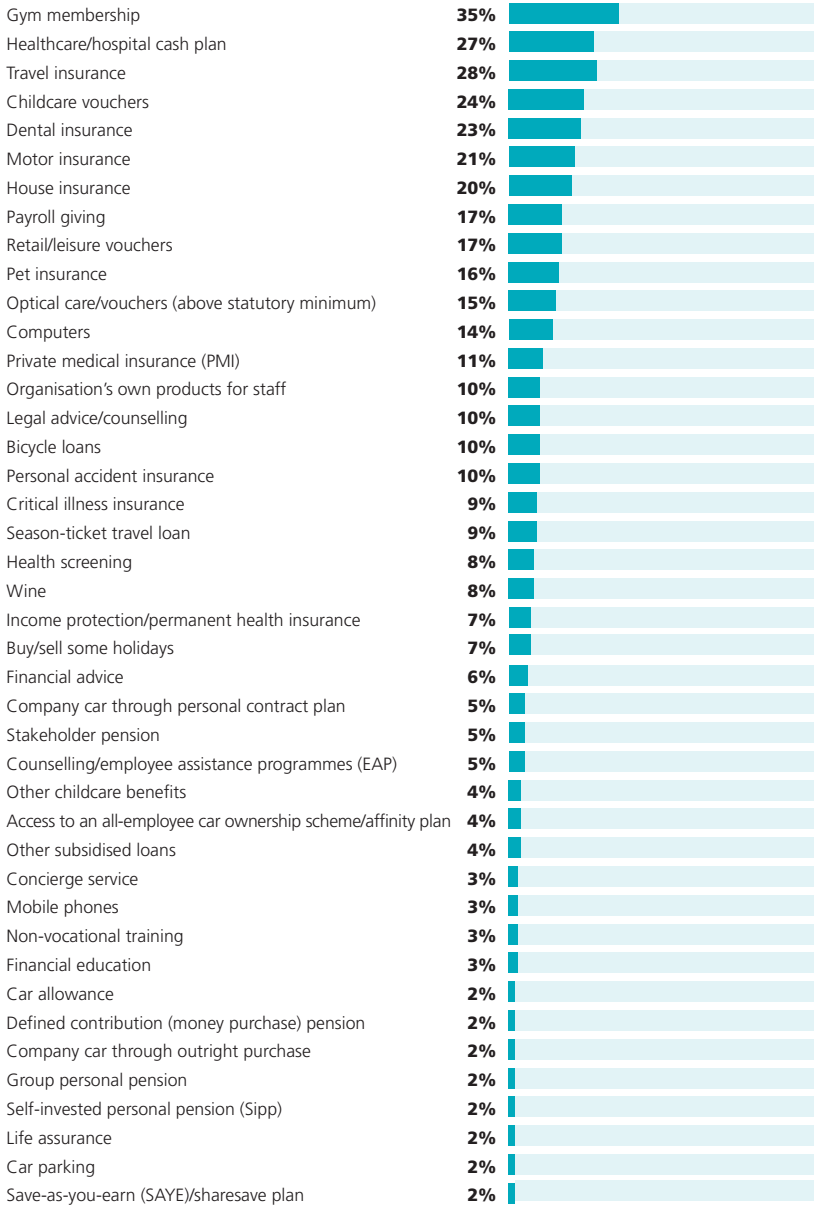
Although the government’s Home Computing Initiative (HCI) was axed last year, 14% of employers still offer computers to staff. This figure is expected to fall once all the HCI schemes expire, although some employers will continue to offer discounts on computer equipment.

More than 70% of employers offer benefits through salary sacrifice to all, or some, of their staff. This is not surprising as there are great tax and national insurance savings to be made not only for staff but also for employers. Of those that offer perks on this basis, 42% pass their savings onto staff while 18% split them with employees and 39% keep them. The more staff an employer has, the more savings are likely to be generated so it comes as no surprise that benefits are more widely offered through salary sacrifice by larger firms. For example, 72% of employers with between 1,001 and 5,000 staff do so compared with 32% of organisations with less than 100 staff.

Voluntary benefits: these are products and services on which the employer has negotiated a discount either directly with suppliers or via a specialist voluntary benefits provider. The employee pays for the benefit, and, in some cases, they can ask for payment to be deducted from payroll. The benefits may be promoted individually or as a complete package. It is becoming more common for voluntary benefits to be wrapped up with flexible benefits or added to a core benefits package.

Salary sacrifice: these are tax-efficient benefits that employees select and for which they sacrifice some pay in order for the employer to buy the benefits on their behalf. These can be wrapped up with flexible benefits or offered alongside voluntary benefits.

What benefits do employers offer on a voluntary basis?



Sample: all respondents who offer benefits on a voluntary basis (220)

Do employers offer a voluntary benefits scheme?

Yes, to all staff	52%
Yes, to some staff	6%
No	41%

Sample: all respondents

Do employers offer benefits through a salary sacrifice arrangement?

Yes, to all staff	60%
Yes, to some staff	12%
No	28%

Sample: all respondents

Do employers pass tax and national insurance savings back to staff?

Yes, we pass it all on	42%
Yes, we split it with them	18%
No	39%

Sample: those respondents that offer benefits through salary sacrifice (273)