report

employee benefits

benefits research

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Benefits in the digital age

Jim Aitken | Head of marketing
Staffcare

Employee expectations and engagement. Multi-generational workforces. Advancements in technology. Being an employer of choice. Aligning benefits with business strategy. Salary sacrifice changes.

These are all key challenges for HR according to the *Employee Benefits/Staffcare Benefits research 2017*. Some are old, some are new but they still keep many awake at night.

Today, we are all bombarded with information through many channels. Different people want information in different ways. Are you a digital-only, a non-digital or a mix? When your bank asks you to go paperless do you accept or decline?

Today's multi-generational workforces are likely to feature all of these types and communications need to address this. We believe it is important to ask how they would like to be communicated with, rather than how you would prefer to communicate with them.

With only 18% of employees very engaged in their organisation, making communications personal and relevant is important. This is consistent with feedback from our own clients who appreciate the value of effective communications.

In the survey, 73% of respondents said better or more targeted communication of benefits was key to meeting future challenges, with 68% planning to use digital communications, 60% face to face, and 49% printed materials to improve engagement.

Segmenting the target audience, using multi-channel distribution and delivering a range of communications to suit different situations, has enabled our clients to achieve real engagement.

After all the customer, in this case the employee, is king and technology is the key.

But just like a Ferrari in an inexperienced driver's hands, when its full potential will not be maximised, so technology needs to be geared to each employer's situation and workforce, and be deployed to best effect.

It was interesting to see that 88% of respondents rated ease of use as their top priority for benefits technology, followed by functionality at 80%, which is in line with regular feedback from our own clients. Their experience shows that systems that are easy to use by employees have brought significant improvements in engagement and, for the HR team, delivered time and cost savings.

The research underlines the value of reward portals. With today's portals offering instant access to benefit programmes 24/7/365 from anywhere on any device, including the powerful option to view and print total reward statements, it is no surprise that they have become so widespread. By integrating with other HR systems such as payroll, and with single sign-on for employees, they offer a one-stop resource.

Use of portals is higher at younger ages reflecting their tech-savvy nature and expectation of instant information but they are also popular with older workforces. Powerful data-analysis tools can enable an HR team to measure engagement, identify the impact of communications and popularity of benefits, empowering them to take appropriate action on an informed basis.

With the continuous advances in technology, it is surprising that only 37% of respondents have reviewed their technology in the last year so they may be missing out on the latest developments. Also when doing so, the results reflect our own experience that 52% go direct to the provider and 40% use a broker or adviser.

These are exciting times in the benefits world with suppliers keen to work with HR teams to help them achieve their goals. This includes designing schemes using market insight and research such as this and helping to construct a business case followed by implementation, communication and administration. Aligning benefits with business strategy and demonstrating return on investment is key ■

"EASY-TO-USE SYSTEMS HAVE BROUGHT SIGNIFICANT IMPROVEMENTS IN EMPLOYEE ENGAGEMENT"

Editor's comment

Debbie Lovewell-Tuck | Editor
Employee Benefits

The world has changed immeasurably in the 12 months since we published the *Benefits research 2016*.

As the UK moves further towards its exit from the European Union and, at the time of writing, towards a snap general election, much uncertainty exists as to the potential impact of such events on the economy, business and employee benefits.

Over the past year, however, some uncertainties have already been removed, such as that which surrounded salary sacrifice arrangements prior to the government's confirmation in November 2016's Autumn Budget that it would limit the range of benefits attracting tax and national insurance (NI) advantages when offered on this basis.

While this may not have been the result many in the industry were hoping for, confirmation of the government's decision did mean that employers could begin to make plans about how their organisation would deal with the change and adapt their benefits strategy accordingly. The impact of the change appears to have been wide-reaching; just a third of respondents said it would not have an impact on their benefits strategy because the benefits they offer via salary sacrifice are exempt from the changes. Of those that are affected, approximately a fifth respectively say that they will have to change the mechanism by which they offer impacted benefits, they will communicate the changes to staff or they will review their benefits strategy in light of the change.

But even against a backdrop of such significant change, some of the issues shaping respondents' benefits and reward strategies remain constant, as they have done for the past 13 years. Just as in 2004, when *Employee Benefits* published the inaugural *Benefits research*, this year the effectiveness of reward and benefits in supporting recruitment and retention are the top two reasons behind respondents' decisions to offer such schemes. This is hardly surprising; after all, whatever the challenges facing organisations, they will always require top talent in order to succeed in business.

As we move towards another potentially turbulent 12 months, it will be interesting to see the impact of political and economic shifts on reward and benefits.

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Key findings

The survey, which was conducted in February-March 2017 among users of ***www.employeebenefits.co.uk***, received 271 responses.

82%
of respondents offer benefits because they are an effective retention tool

23%
of respondents believe employers will share the cost of benefits with employees more often in the future

20%
of respondents have or will change the mechanism by which they offer benefits affected by the changes to salary sacrifice arrangements

76%
of respondents identify budget as a barrier to offering new benefits

52%
of respondents source benefits directly from a provider

73%
of respondents will use more targeted communications to adapt to future benefits challenges

88%
of respondents look for ease of use from their benefits technology

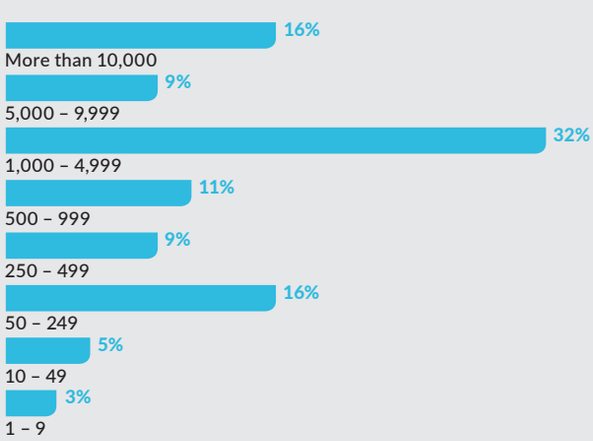
36%
of respondents' organisations offer enhanced parental leave

66%
of respondents' organisations measure employee engagement through an annual employee survey

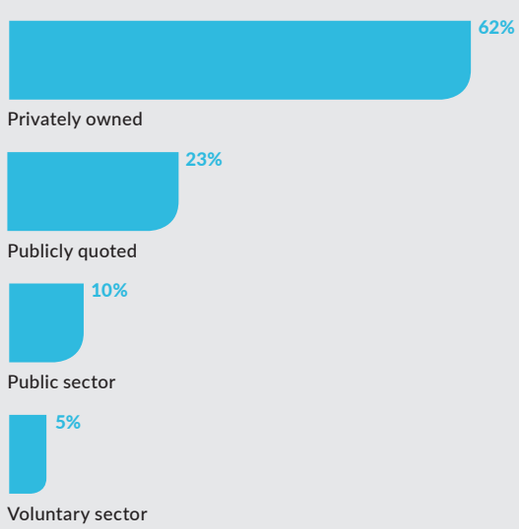
36%
of respondents provide personalised total reward statements for staff

Due to rounding, percentages may not add up to 100.

Number of employees in respondents' organisations
Sample: All respondents (271)



Respondents' organisation type
Sample: All respondents (269)



Fair share

Support for mental wellbeing grows while life assurance is also gaining ground

Louise Fordham | Deputy editor
Employee Benefits

Share scheme numbers remain steady

Just under a third (29%) of respondents offer share schemes or share options to their employees, and a further 17% offer shares or share options to staff at senior or executive level only.

This leaves more than half (54%) of respondents' organisations that do not offer shares or share options to employees.

These figures have changed little year on year, when 29% offered share schemes to staff, 16% to senior employees, and 55% did not offer shares or share options at all.

The types of share schemes that respondents provide to staff also remain in line with 2016; long-term incentive plans (48%), all-employee sharesave schemes (29%), and company share option plans (25%) continue to be the three most common scheme types.

Not being listed as a public company (cited by 63%) is the main reason why respondents' organisations do not offer shares to employees, as in 2016 (63%). However, the proportion of respondents that do not offer share or share options to staff because it is considered inappropriate has increased. More than a fifth (21%) of respondents cite this as their reason for not doing so in 2017, up from 13% in 2016.

The type of share schemes that respondents' organisations offer
Sample: All respondents that offer shares or share options (85)

Long-term incentive plan (L-tip)	48%
All-employee sharesave/save as you earn (SAYE) scheme	29%
Company share option plan (Csop)	25%
All-employee share incentive plan (Sip) offering matching shares	20%
Phantom share scheme (Cash bonus plans)	11%
Other	11%
An all-employee share incentive plan (Sip) offering partnership shares	9%
An all-employee share incentive plan (Sip) offering free shares	4%
Enterprise management incentive (EMI)	4%
None of the above	6%

The reasons why respondents' organisations do not offer shares or share options Sample: All respondents that do not offer shares or share options (102)

Not a listed company	63%
Not considered appropriate	21%
Other	10%
Rather use cash incentive scheme	4%
Share dilution	3%
Too many past offerings under water	1%
None of the above	11%

Mental wellbeing support rises

Just 16% of respondents' organisations do not offer any form of mental wellbeing education or support for employees, and a fifth (20%) do not provide any such support around physical wellbeing. Encouragingly, this represents an improvement on 2016, when 25% and 27% of respondents did not offer any education or support around mental or physical wellbeing, respectively. There has also been an increase in the proportion of respondents providing digital content on these topics to staff; 55% of respondents now offer mental wellbeing support through digital channels compared to 49% in 2016, and the proportion of respondents that provide physical wellbeing support digitally has risen from 42% to 50%.

Private medical insurance (PMI) remains the top healthcare and wellbeing benefit to be offered by respondents' organisations, with 79% offering it to employees and 73% to partners and dependents up from 71% and 62%, respectively, in 2016.

Ten years ago, when asked which benefits they offered as part of their core benefits package for all or some staff, 28% and 38% of all respondents listed PMI for employees, respectively. This year, among the 79% of respondents that offer PMI for employees, 45% do so as a core benefit to all staff and 40% do so for some staff.

Counselling or employee assistance programmes (EAPs) have long been a mainstay of employers' core benefits package, with their popularity growing over the years. In 2004, just 30% of respondents offered an EAP for staff. By 2007, 51% of respondents offered this to all staff and 7% to some employees. Ten years on, 70% of respondents offer counselling or an EAP for employees, of which 89% do so on a core basis for all staff, while 3% do so as core for some of their workforce. This growth may be due to employers' increasing awareness of stress and mental wellbeing issues and their corresponding desire to provide support for staff.

Notably, more than a quarter (26%) of respondents provide mental health first aid or champion training, and 10% plan to introduce this.

The health and wellbeing benefits offered by respondents Sample: All respondents (175)

Private medical insurance for employees	79%
Private medical insurance for partners and dependants	73%
Counselling or employee assistance programmes (EAPs)	70%
Dental insurance	58%
Health screening	55%
Gym membership	50%
Health cash plan for employees	49%
On-site wellbeing events	48%
Optical care or vouchers (above statutory minimum)	43%
Health cash plan for partners and dependents	33%
Mental health champion or first aid training	26%
On-site fitness classes	23%
Nutrition advice or healthy-eating options in staff canteen	23%
Subsidised staff social or fitness clubs	19%
Cognitive behavioural therapy (CBT)	11%
Smoking cessation services	10%
Wearable fitness technology	5%
None of the above	2%

The wellbeing education or support respondents' organisations offer to employees Sample: All respondents (186)

	Face-to-face	Digital content	Printed material	Other	Do not offer
Physical wellbeing	39%	50%	33%	16%	20%
Mental wellbeing	46%	55%	32%	15%	16%
Financial wellbeing	23%	39%	23%	12%	37%
Community or social wellbeing	18%	32%	18%	11%	46%
Job satisfaction or career wellbeing	33%	32%	20%	10%	37%

The top five health and wellbeing benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (175)

	Total	Core – all staff	Core – some staff	Flexible benefit	Voluntary benefit
Private medical insurance (PMI) for employees	79%	45%	40%	12%	15%
Private medical insurance (PMI) for partners and dependants	73%	24%	39%	27%	24%
Counselling or employee assistance programmes (EAPs)	70%	89%	3%	2%	7%
Dental insurance	58%	25%	10%	40%	32%
Health screening	55%	31%	42%	27%	19%

Car allowances remain a core benefit for many employees

More than half (54%) of respondents' organisations offer a car allowance, which is slightly higher than in 2016 when 45% offered this benefit to staff.

Almost all (97%) of those respondents that offer a car allowance do so as a core benefit for some staff. Ten years ago, 65% of all respondents said they included a car allowance within their core benefits package for some staff, and just 2% offered it as part of their core package for all staff.

The car benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (183)

	Total	Core - all staff	Core - some staff	Flexible benefit	Voluntary benefit
Car allowance	54%	3%	97%	1%	1%
A company car through outright purchase, contract hire or leasing	29%	4%	88%	6%	14%
Car parking	26%	48%	44%	0	9%
Fuel for private use	12%	5%	91%	0	5%
A company car through personal contract plan or employee car ownership scheme	9%	21%	50%	14%	14%
Motor breakdown cover	9%	12%	53%	12%	24%
Access to an all-employee car ownership scheme or affinity plan	6%	30%	20%	10%	40%
None of the above	32%				

Travel insurance stays on top

This year, the proportion of respondents that offer personal insurances remains broadly in line with 2016.

Over a third (34%) of respondents' organisations offer travel insurance as an employee benefit. The proportion of respondents offering travel insurance that include it within their voluntary benefits programme has increased, rising from 22% in 2016 to 37% in 2017. When respondents were asked which benefits they included within their voluntary benefits scheme back in 2011, 12% listed travel insurance, rising to 18% in 2014.

Financial education takes the stage

Around a quarter (26%) of respondents' organisations have financial education initiatives in place, and 32% are looking to implement these. While not directly comparable, 14% of respondents to the *Benefits research 2014* included financial education in their core benefits package for all staff, and 6% did so for some staff. Only 2% included financial education in their flexible benefits programme three years ago, and 9% offered it as part of a voluntary benefits scheme.

As in 2016, employer-facilitated financial advice remains in the top five workplace savings benefits provided by respondents' organisations. A fifth (20%) of respondents offer access to financial advice, and 76% of these respondents offer it as a core benefit to all staff.

Respondents continue to help staff with everyday transport costs, with more than half (54%) offering season-ticket travel loans to employees. Over the years, season ticket loans have consistently appeared in the top 10 benefits offered by respondents. Although the data is not directly comparable, 28% of respondents to the *Benefits research 2007* offered these as a core benefit to all staff, while 10% offered these on the same basis to some staff.

The top five workplace savings benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (178)

	Total	Core – all staff	Core – some staff	Flexible benefit	Voluntary benefit
Season-ticket travel loan	54%	67%	11%	2%	21%
Financial education	26%	84%	2%	5%	9%
Long-term incentive plan (L-tip)	26%	5%	95%	0	0
Financial advice	20%	76%	6%	9%	9%
Share incentive plan (Sip)	14%	71%	0	4%	25%

Life assurance/death in service remains top core benefit

Approximately nine in 10 (91%) respondents provide life assurance or death in service, the majority of whom do so as a core benefit for all staff (86%). This was also the main method by which respondents offered these benefits in 2016 (87%), although the overall proportion of respondents that include death in service and life assurance in their benefits offering in some way has risen by seven percentage points over the last year.

Life assurance has consistently been one of the top core benefits offered by respondents since the inaugural *Benefits research* in 2004, topping the list that year as well as in 2007, 2010, 2011 and 2013.

The proportion of respondents offering this benefit has also risen over time. For example, in 2007, 62% offered life assurance as core to all staff and 17% to some staff. By 2013, this had risen so that 76% of all respondents organisations' included life assurance within their core benefits offering for all employees, and 15% did so for some staff.

The group risk benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (179)

	Total	Core – all staff	Core – some staff	Flexible benefit	Voluntary benefit
Life assurance or death in service	91%	86%	13%	8%	3%
Income protection or permanent health insurance	58%	54%	39%	10%	3%
Critical illness insurance	42%	28%	15%	42%	24%
Personal accident insurance	29%	59%	20%	22%	8%
Critical illness for partners and dependents	23%	10%	0	56%	42%
Life assurance for partners and dependents	22%	14%	11%	49%	30%
Personal accident insurance for partners and dependents	11%	25%	5%	55%	20%
Rehabilitation benefits	11%	79%	11%	5%	5%
None of the above	6%				

The personal insurance benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (174)

	Total	Core – all staff	Core – some staff	Flexible benefit	Voluntary benefit
Travel insurance	34%	24%	10%	34%	37%
House insurance	8%	0	0	8%	92%
Motor insurance	6%	0	9%	0	91%
Pet insurance	4%	0	0	0	100%
None of the above	65%				

Flexible-working arrangements pick up momentum

Almost two-thirds (61%) of respondents offer flexible-working initiatives, compared to 54% in 2016. Extra holidays for long service or life events (53%), retail and leisure discounts (49%), enhanced parental leave (36%), and dining cards (34%) also feature in the top five lifestyle benefits provided by respondents.

Over the years, extra holiday for long service has consistently appeared in the list of respondents' most commonly offered core benefits.

While the proportion of respondents offering enhanced parental leave and flexible-working arrangements has increased slightly over the last year, there has been no significant rise in the proportion of respondents providing eldercare and emergency care support. Meanwhile, 15% of respondents offer emergency childcare as a benefit, with the majority of these respondents providing it as a core benefit for all staff (81%).

A higher proportion of those respondents offering dining cards, as well as retail and leisure discounts, are doing so on a voluntary basis. This year, 64% of respondents that offer dining cards do so through their voluntary benefits scheme, compared to 32% in 2016.

Although 52% of respondents that provide retail and leisure discounts now do so as a core benefit to all staff and 46% do so through their voluntary benefits programme, 70% of respondents that offered this benefit in 2016 provided this as a core benefit for their entire workforce and 21% did so on a voluntary basis. While not directly comparable, these were also the key ways in which respondents offered retail and leisure discounts to staff back in 2009 and 2013; 23% of respondents to the *Benefits research 2009* included retail and leisure discounts within their voluntary benefits programme, rising to 32% in 2013, while 16% included these discounts within their core benefits package for all staff in both years.

The top five lifestyle benefits offered by respondents' organisations and the basis on which they are offered
Sample: All respondents (169)

	Total	Core – all staff	Core – some staff	Flexible benefit	Voluntary benefit
Flexible-working initiatives	61%	79%	11%	2%	9%
Extra holidays for long service or life events	53%	86%	8%	1%	5%
Retail or leisure discounts	49%	52%	0	5%	46%
Enhanced parental leave (i.e. paid above the statutory minimum)	36%	86%	5%	0	9%
Dining cards, such as Taste or Gourmet	34%	20%	0	18%	64%

Catering for employees

More than a quarter (27%) of respondents' organisations provide subsidised catering for employees. This was also the most frequently offered on-site service among respondents in 2016 (26%).

The proportion of respondents providing on-site services for employees, however, remains relatively low. This may be due to the space that is required to do so or employers' priorities when it comes to the ways in which they choose to invest in their workforces' health and wellbeing.

The on-site services offered by respondents' organisations
Sample: All respondents (168)

Subsidised catering	27%
Physiotherapist	14%
Other	11%
Beauty therapy	7%
Doctor	6%
Bike servicing and repairs	4%
Hairdresser	2%
Dentist	2%
None of the above	58%

Pension predominance

Salary sacrifice arrangements are a key means of contributing to a defined contribution pension

Louise Fordham | Deputy editor
Employee Benefits

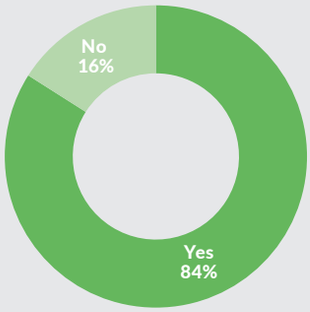
Salary sacrifice rises in popularity

More than three-quarters (84%) of respondents allow staff to contribute to their defined contribution (DC) pension through a salary sacrifice arrangement. This is 10 percentage points higher than in 2016, when 74% of respondents enabled employees to contribute to their workplace pension via salary sacrifice.

Contributing to a pension via salary sacrifice appears to have grown in popularity since the introduction of auto-enrolment in October 2012. Prior to this, 44% of respondents offered this benefit in 2009, while 61% did so in 2011. Post-October 2012, 91% did so in 2013 and 87% in 2014.

Pensions are one of a handful of benefits that are exempt from the April 2017 changes to salary sacrifice.

The proportion of respondents' organisations that enable staff to contribute to their defined contribution (DC) pension via a salary sacrifice arrangement
Sample: All respondents (185)



Group mentality prevails among pension plans

Group personal pension plans (GPPs) remain the most common type of primary pension scheme offered by respondents' organisations; 67% of respondents' organisations use a GPP as their primary scheme for auto-enrolment purposes in 2017, compared to 66% in 2016. However, whereas an open defined benefit (DB) scheme was the second most popular primary scheme in 2016 (28%), this has now dropped to third place (19%). In 2017, more than a quarter (28%) of respondents' organisations offer a stakeholder pension as their primary scheme, compared to 20% in 2016.

This corresponds with trends we have seen since the first *Benefits research* in 2004. Over the years, as many DB plans have closed to new entrants, there has been a corresponding rise in the proportion of respondents offering GPPs or stakeholder plans as core schemes for employees.

The proportion of respondents introducing a GPP increased significantly following the introduction of auto-enrolment. According to the *Benefits research 2014*, 13% of respondents had introduced a GPP in the preceding year, compared with 5% the year before.

The type of pension scheme respondents' organisations offer
Sample: All respondents (158)

	Primary scheme for auto-enrolment purposes	Secondary pension scheme	Do not offer
Group personal pension plan	67%	11%	27%
Stakeholder pension	28%	3%	69%
Open defined benefit (DB) scheme	19%	2%	80%
Trust-based money purchase plan	10%	4%	88%
DB scheme, closed to new members but open to future accrual	7%	23%	70%
Group self-invested personal pension	7%	8%	88%
Master trust	6%	2%	93%
DB scheme only for accrued benefits, closed to future accrual	3%	21%	77%

A new vehicle for long-term saving

Former Chancellor George Osborne first announced the Lifetime individual savings account (Lisa) in the March 2016 Budget. The Lisa has been designed to encourage long-term saving, enabling individuals between the ages of 18 and 40 to open an account and save up to £4,000 a year until the age of 50. Account holders will receive a government bonus of 25% when the savings are put towards a new home or taken as retirement income from the age of 60. After the first year of launch, withdrawing savings for other purposes will attract a penalty charge.

The Lisa passed into law in January 2017. The Lisa officially launched in April 2017, although it is not yet offered by all providers. This might partially explain why the proportion of respondents that expect their organisation to contribute to the Lisa has changed little over the last year. Just over a fifth (21%) of respondents to the *Benefits research 2016* thought their organisation would contribute to the Lisa, compared to 23% in 2017, meaning 77% thought their employer would not contribute.

Sense of sacrifice

Employers look to adapt to changes impacting salary sacrifice

Louise Fordham | Deputy editor
Employee Benefits

An established route for benefits offerings

Just 9% of respondents' organisations do not offer any benefits through a salary sacrifice arrangement. This compares to 15% of respondents that said the same in 2016.

More than three-quarters (80%) of respondents offer benefits through a salary sacrifice arrangement to all staff, which has changed little since 2010, when 78% of respondents did so. Ten years ago, however, less than two-thirds (60%) offered benefits through a salary sacrifice arrangement to all employees.

The top three benefits offered through a salary sacrifice arrangement at April 2017 are childcare vouchers (95%), bikes-for-work schemes (79%), and pension contributions (75%). These three benefits have consistently been the top three to be offered through a salary sacrifice arrangement since 2009.

However, the sands are shifting for childcare vouchers. The government's tax-free childcare scheme is being rolled out gradually from April 2017, with all eligible parents expected to be brought into the scheme by the end of this year. The existing childcare voucher scheme is set to close to new entrants from April 2018.

The tax-efficient benefits respondents' organisations offer through a salary sacrifice arrangement at April 2017

Sample: All respondents that offer benefits through a salary sacrifice arrangement (169)

Childcare vouchers	95%
Bikes-for-work scheme	79%
Pension contributions	75%
Holiday trading	42%
Give-as-you-earn/payroll giving	37%
Health screening	25%
Gym membership	21%
Cars	20%
Group income protection	15%
Mobile phones	8%
Subscriptions (professional bodies)	5%
Car parking	4%
Training courses	2%
Subscriptions (publications)	1%
Other	5%

Autumn Statement changes come into force

These results come against a backdrop of change. In the Autumn Statement 2016, Chancellor Philip Hammond confirmed the government's intention to limit the range of benefits that provide tax and national insurance contribution (NIC) advantages when offered through a salary sacrifice arrangement.

Benefits in kind (BIKs) with a cash allowance option and flexible benefits schemes with a cash option fall within the scope of the changes, which came into effect on 6 April 2017. Some benefits are exempt, including pensions, ultra-low emission vehicles (ULEVs), childcare, and bikes-for-work schemes.

Arrangements entered into before 6 April for company car schemes, accommodation, and school fees will be protected until April 2021, and all other benefits will be protected until April 2018 unless the arrangement is subject to variation.

The impact that the changes to salary sacrifice arrangements will have on respondents' benefits strategy

Sample: All respondents that offer benefits through a salary sacrifice arrangement (168)

None, the benefits they offer through a salary sacrifice arrangement are exempt from the changes	32%
They have or will change the mechanism by which they offer benefits affected by the changes	20%
They have or will communicate the changes to salary sacrifice arrangements to staff	17%
They have or will review their benefits strategy in light of the changes to salary sacrifice	17%
They will no longer offer benefits that will cease to provide tax and national insurance advantages	7%
They have or will take additional measures to combat any potential dip in engagement that results from the changes to salary sacrifice	5%
They have or will offer additional benefits in place of those benefits affected by the changes to salary sacrifice	1%

Main attraction

Benefits are still seen as a highly effective tool for the recruitment and retention of employees

Debbie Lovewell-Tuck | Editor
Employee Benefits

Rationale remains unchanged

Since the inaugural *Benefits research* was published in 2004, the political and economic landscape has undergone considerable change. Yet, while this has inevitably impacted businesses in myriad ways, employers' rationale for offering benefits has changed little over the years. In 2017, just as in 2004, the effectiveness of benefits as a recruitment and retention tool are the top reasons respondents offer benefits for staff.

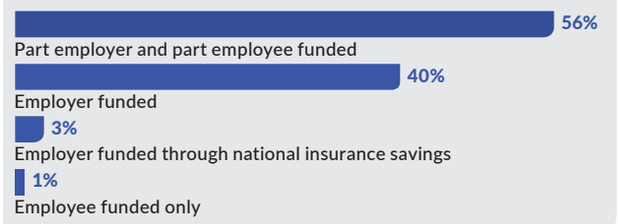
The role of benefits in supporting employee health and wellbeing, the part they can play in supporting the employer brand, and keeping up with either industry or regional competitors have also consistently remained towards the top of the list of reasons why respondents offer benefits over the past 13 years.

However, some factors impacting this decision are no longer as popular as they once were. For example, this year just over a quarter (27%) of respondents say they offer benefits because they are good value for money. Although this is in line with the 26% that said the same in both 2016 and 2014, it has dropped considerably from 64% in 2009 and 50% in 2011.

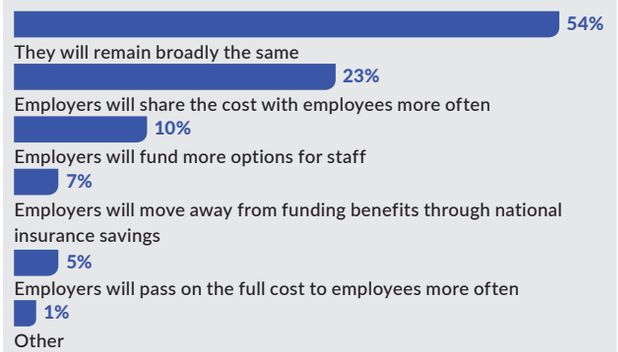
Why respondents' organisations offer benefits
Sample: All respondents (246)

They are an effective retention tool	82%
They are an effective recruitment tool	81%
To support employee health and wellbeing	80%
They support the employer brand	61%
Because their industry or regional competitors do	49%
They promote work-life balance	48%
They are seen as entitlement by staff	39%
They have to by law (for example, to comply with auto-enrolment legislation)	35%
To drive desired employee behaviours	33%
They help to reduce the national insurance (NI) bill	29%
They are good value for money	27%
They help control sickness absence	25%
Perceived moral or ethical responsibilities	24%
They produce a measurable return on investment	16%
They are cheaper to offer than cash salaries of similar perceived value	14%
They feel they have to	13%
To meet Transfer of Undertaking (Protection of Employment (Tupe)) obligations	11%
Other	3%

The main ways in which respondents' organisations fund benefits
Sample: All respondents (231)



How respondents see benefits funding methods changing in the future Sample: All respondents (229)



Employers share the cost

The shift in employers sharing the cost of benefits with employees more often, predicted by 29% of respondents to 2016's research, looks like it is beginning to happen. This year, 56% said their organisation's benefits package is part employer and part employee funded, up from 49% that said the same last year.

Correspondingly, there has been a slight drop of four percentage points in the proportion of organisations that fund benefits for staff, down to 40% this year from 44% in 2016.

In the future, 54% of respondents expect their organisation's benefits funding method to remain broadly the same.

Improving engagement

Employers' desire to improve employee engagement remains the top issue shaping organisations' benefits strategies in 2017, cited by just under three-quarters (72%) of respondents. This has changed little since 2011, when 71% of respondents said the same, remaining consistent in the intervening years.

Perhaps unsurprisingly, respondents' desire to become an employer of choice remains the second-biggest issue shaping benefits strategy, rising by four percentage points year on year. This is now a key objective for organisations competing to recruit and retain the top talent from an increasingly mobile workforce.

Advancements in technology are also continuing to drive employers' benefits strategies. Just three years ago, 15% of respondents said this was a key issue shaping their organisation's benefits strategy; this year, 41% said the same. This trend only looks set to continue as developments in artificial intelligence and augmented reality move these further into the workplace and people management sphere.

Looking to the year ahead, it will be interesting to see how external events impact the issues shaping employers' benefits strategies. Just 3% of this year's respondents cite the vote for Brexit as such an issue. Following the triggering of Article 50 on 29 March, however, it remains to be seen how far this could change as more detail emerges about the impact on business of the UK's decision to exit from the European Union.

Given the number of legislative changes impacting reward, which came into effect in April 2017, this might have been expected to appear higher up the list of issues shaping respondents' benefits strategies. This could well change over the coming 12 months as new measures such as gender pay gap reporting and the limitations on salary sacrifice arrangements take effect.

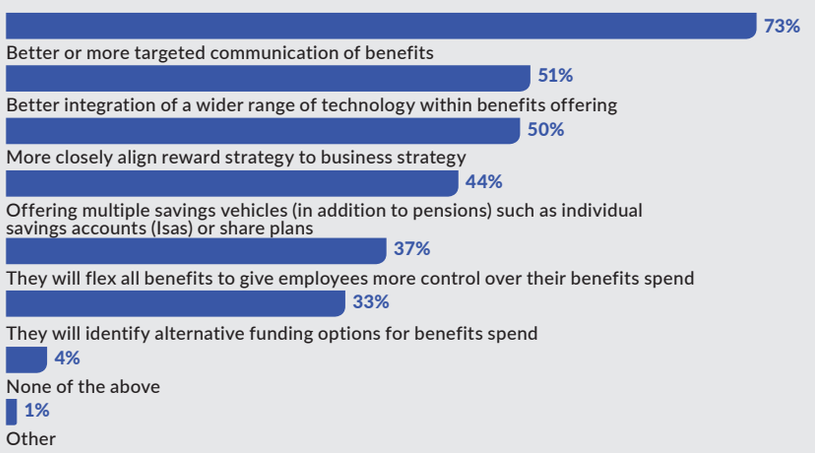
In order to adapt to future challenges within the industry, almost three-quarters (73%) of respondents anticipate they will require better or more targeted communication of benefits.

Around half (51%), meanwhile, say they will need better integration of a wider range of technology within their organisation's benefits offering. A similar proportion (50%) plan to more closely align their reward strategy to business strategy, a rise of seven percentage points year on year.

The issues shaping respondents' benefits strategies
Sample: All respondents (192)

Desire to improve employee engagement	72%
Desire to be seen as an employer of choice	65%
Employee influence or expectations	54%
Desire for flexibility	48%
Multi-generational workforce	46%
Aligning benefits strategy with business strategy	43%
Advancements in technology	41%
Desire to reduce or control costs	38%
Aligning benefits strategy with HR strategy	35%
Corporate reputation	34%
Tax and legislation changes (such as those affecting salary sacrifice)	34%
Driving a high-performance culture	33%
Pensions auto-re-enrolment	31%
Increasing workforce diversity	27%
Ageing workforce	27%
Desire for cultural change	23%
Perceived moral or ethical responsibilities	21%
Organisational change (such as merger, acquisition, downsizing, expansion)	20%
Poaching of staff by competitors	19%
Operating on a global or multi-national basis	17%
Remuneration strategies for high earners	15%
Pay freezes or low pay increases	15%
The economy	9%
Breaking down workforce hierarchies	8%
The vote for Brexit	3%
None of the above	1%
Other	1%

How respondents see their benefits strategy changing to adapt to future challenges within the industry
Sample: All respondents (192)



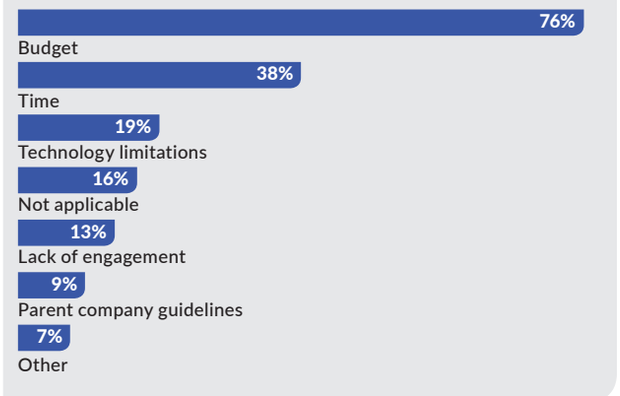
Budget is the biggest barrier

Budget remains, by far, the biggest barrier to respondents introducing benefits they would like to offer, cited by 76%.

This year's research also bears out an issue that we often hear anecdotally from reward professionals: that they are time poor. In 2017, time is cited as a barrier to introducing benefits they would like to offer by 38% of respondents, up from 29% in 2016.

The percentage of respondents citing technology limitations as a barrier has also grown year on year, up to 19% from 13% in 2016.

The barriers to respondents introducing benefits they would like to offer
Sample: All respondents (167)

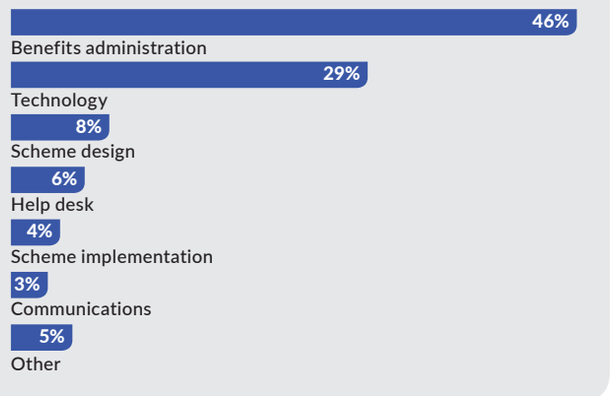


Outsourcing benefits

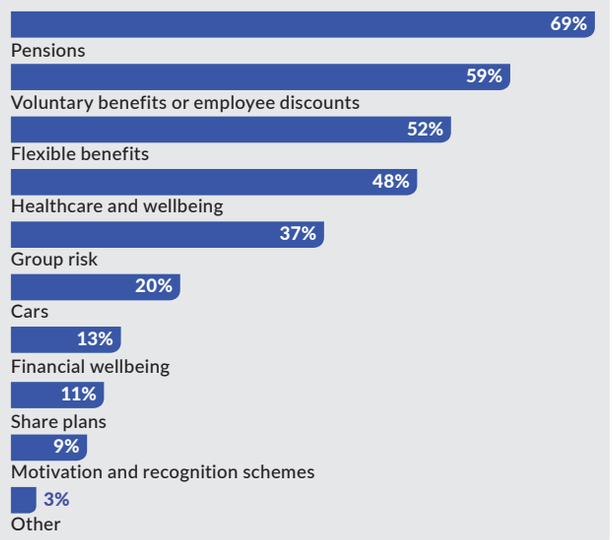
Just under half (47%) of respondents outsource some aspect of their benefits package. Of those that do, 46% outsource benefits administration, while 29% outsource benefits-related technology.

Pensions are the most popular benefit for which respondents outsource services, cited by 69%, followed by voluntary benefits or employee discounts (59%), flexible benefits (52%), and healthcare and wellbeing (48%).

The benefits-related services outsourced by respondents
Sample: All respondents that outsource any aspect of their benefits package (79)



The benefits for which respondents outsource these services
Sample: All respondents that outsource any aspect of their benefits package (75)



industry insight supplied by

Looking forward

Will employee benefits of the future have the same issues as today or new ones?

Marcus Underhill | Director of engagement and insights
Staffcare

I have been privileged to have had the opportunity to work outside the UK for the last four years with my last role in Asia running global benefits for a multinational bank. Each year though, I read *Employee Benefits' Benefits research* in detail because it gave me a good independent view of what was happening within the UK benefits market. So if I was away for four years again, what do I expect to have influenced the benefits agenda by 2020, or about 1,000 days away from now? Following are three themes for employers to reflect upon or challenge.

Benefits design

Most organisations now seem to have reached some stability on benefits design and offering their employees choice. With the demographic differences in the workforce this will not diminish. But employers are starting to understand that it is not what they offer but how that is more important. Segmentation, personalisation, data analytics and marketing techniques will continue to be a skillset needed by the benefits professional. What makes an employer's benefits unique is how it engages its workforce. Regular targeted communication using technology will continue to replace once-a-year mass-market generic communication methods; and simplification of offerings rather than complexity will be the flavour for the next 18 months.

Also, total reward communication has never been optimised; it needs to properly highlight the intangible aspects of work and what makes a business unique, such as flexible working.

Longevity of the workforce still needs to be understood and plans adapted. Keeping older employees in the workforce at high grades causes challenges for talent management, as well as cost base management. But losing such employees still causes knowledge drain. Benefits plans need to be able to support staff moving laterally and downward within the organisation.

Legislation

Rightly or wrongly, UK benefits have always been strongly driven by legislation. With the changes to salary sacrifice, which came into effect on 6 April, it now feels we have a more stable and fair taxation basis that can be sustained by the government.

I would expect some further simplification around pensions to help employees truly understand the options available to them, especially compared now to alternative vehicles such as the Lifetime individual savings account (Lisa).

More importantly, we have Brexit around the corner. This will see us picking the most appropriate aspects of employment and data protection laws, then overlaying them with aspects that will drive the UK economy growth. I expect data protection to be a strong focus of differentiation but employment laws to remain flexible to enable rapid expansion and contraction of the workforce on economic grounds. Threats around movement of resource within the EU will be negotiated well to enable the UK and businesses to keep talent that we need from overseas.

> "IT IS NOT WHAT THEY OFFER BUT HOW THAT IS MORE IMPORTANT"

Probably the biggest area with the potential for change is consumer protection within the workplace. The playing field between buying a product through work versus individually is unbalanced and greater protection is needed in the workplace.

Benefits technology

The market seems to be splitting into two, with global solutions that can provide a consistent brand and user experience across multiple markets, and local UK best-of-breed solutions that often use multiple sites from multiple vendors to create a unique employee experience. Both these markets will continue to grow and some of the innovative vendors around wellness and financial guidance are currently quite exciting and refreshing to the UK market. These niche players are expected to continue to grow in the next few years as technology enables data to be transferred in real time efficiently between vendors. But the vendors will need to work together better to ensure data protection and consumer rights are at the forefront of their offerings. Expect, and demand, systems to be built more quickly and reliably, including mobile as a primary communication channel.

In summary, roll on 2020. It is still an exciting time to be in employee benefits in the UK ■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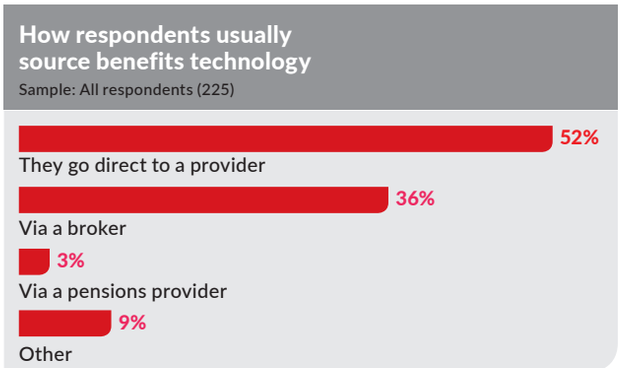
Keep up the pace

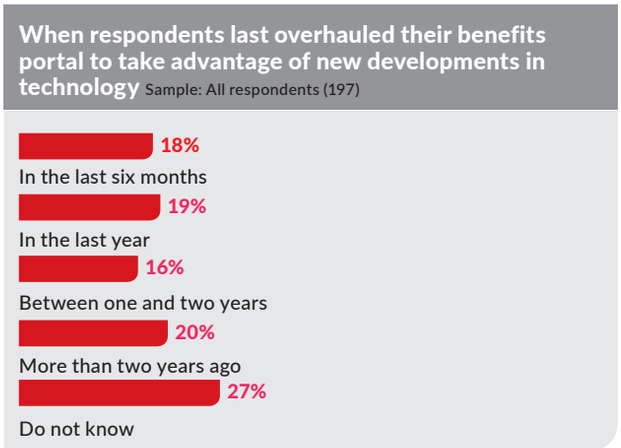
Benefits technology is being overhauled to stay in line with new developments

Debbie Lovewell-Tuck | Editor
Employee Benefits

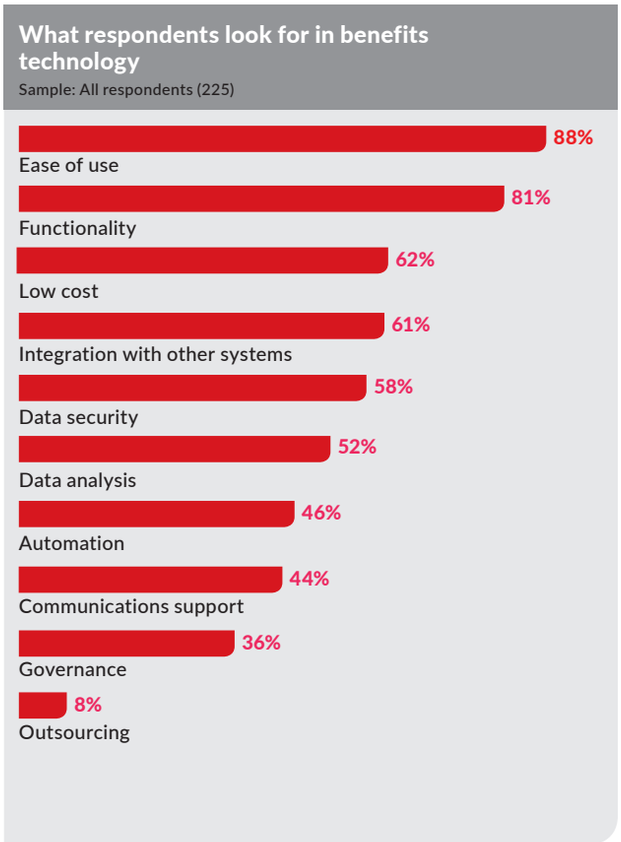
How respondents usually source benefits technology
Sample: All respondents (225)



When respondents last overhauled their benefits portal to take advantage of new developments in technology Sample: All respondents (197)



What respondents look for in benefits technology
Sample: All respondents (225)



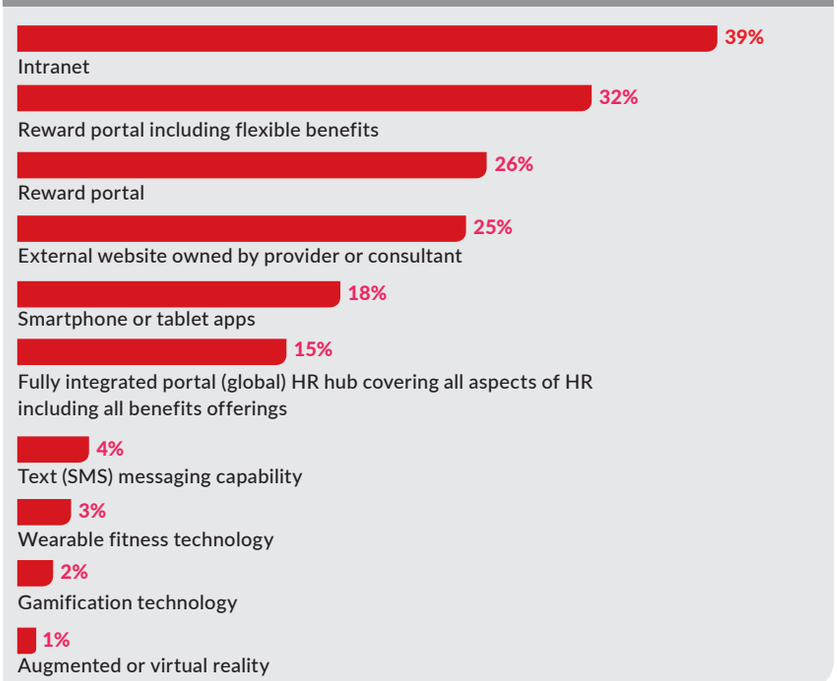
Mapping a shift towards upgrades

As technology continues to develop at a rapid pace, respondents appear to be overhauling their benefits technology to take advantage of this on a regular basis. Just under a fifth (18%) have done so in the last six months, while 19% have done so in the last year, and 16% between one and two years ago.

This is a clear shift since we carried out the inaugural *Benefits research* in 2004. Thirteen years ago, 30% of respondents said they had implemented or upgraded the technology they used to administer benefits in the previous few years, although a further quarter that had not done so said they intended to over the next two to three years.

More than half of respondents (52%) prefer to source their benefits technology directly from a provider, rather than going via a broker (36%). Functionality and ease of use top respondents' list of criteria they look for in benefits technology, cited by 81% and 88%, respectively. Low cost and the ability to integrate with other systems are also both fairly high priorities, for 62% and 61%, respectively.

The benefits technology used by respondents that they would rank as very valuable
Sample: All respondents (203)



The segments of respondents' employee base that are most likely to use each type of benefits technology provided by their organisation
Sample: All respondents (179)

	Aged under 35	35-44	45-55	55+	Do not offer
Intranet	70%	70%	57%	46%	14%
External website owned by provider or consultant	49%	49%	44%	33%	35%
Reward portal	38%	37%	28%	21%	52%
Reward portal including flexible benefits	34%	38%	29%	21%	55%
Fully integrated portal (global) HR hub covering all aspects of HR including all benefits offerings	22%	20%	15%	11%	71%
Text (SMS) messaging capability	22%	17%	13%	9%	72%
Smartphone or tablet apps	40%	31%	16%	11%	55%
Wearable fitness technology	17%	12%	7%	3%	79%
Gamification technology	15%	6%	2%	2%	84%
Augmented or virtual reality	13%	5%	1%	0	86%

Tradition still has a role to play in technology

Overall, respondents perceive more traditional, established forms of technology to hold much greater value for their organisation than some of the newer technological developments to enter the market.

On a rating scale of one to five, with five being very valuable and one not being at all valuable, respondents primarily score intranet sites, reward portals, both with and without flexible benefits, and external websites owned by a provider or consultancy at the higher end of the rating scale.

Of the newer forms of technology, smartphone or tablet apps are continuing to gradually rise in perceived value.

When it comes to the segments of respondents' employee base that are most likely to use each type of benefits technology, intranet sites are the most commonly used across all age groups.

Annual measure

Surveys retain popularity as a means of measuring engagement

Debbie Lovewell-Tuck | Editor
Employee Benefits

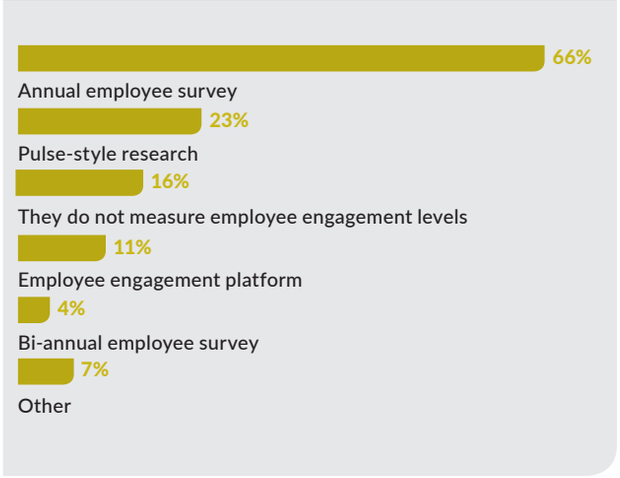
Two-thirds of respondents measuring engagement use surveys

The proportion of respondents that do not measure employee engagement levels has remained relatively static year on year. Some 16% of this year's respondents said this is the case, compared to 18% in 2016.

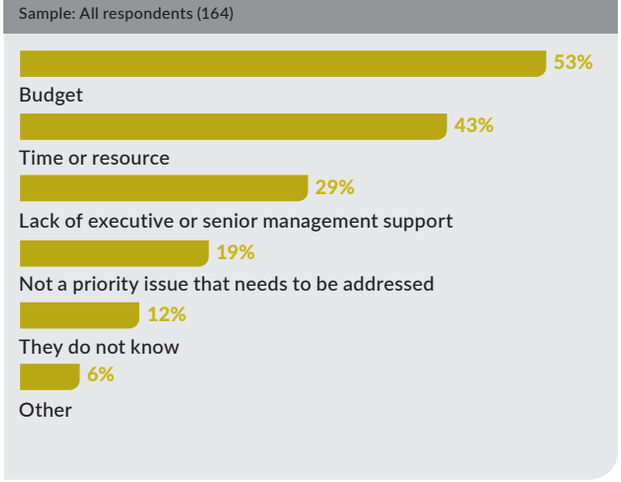
Among those respondents that do measure staff engagement, annual employee surveys are by far the most popular method of doing so, used by two-thirds (66%) of respondents. This is followed by pulse-style research, used by just under a quarter (23%).

Respondents' main barriers to improving engagement in their organisations also remain consistent year on year. Perhaps unsurprisingly budget remains the top impediment in 2017, cited by more than half (53%) of respondents, followed by time or resource (43%). This compares to 47% and 44%, respectively, in 2016.

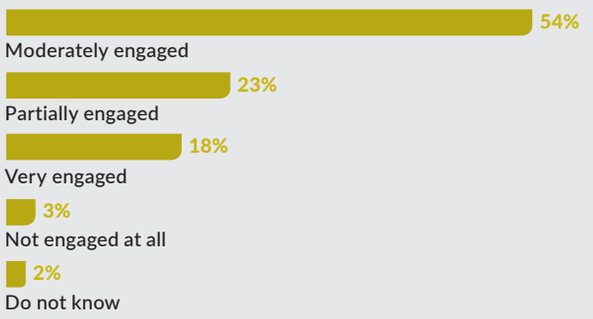
How respondents measure employee engagement
Sample: All respondents (169)



What respondents see as the main barriers to improving employee engagement in their organisation
Sample: All respondents (164)



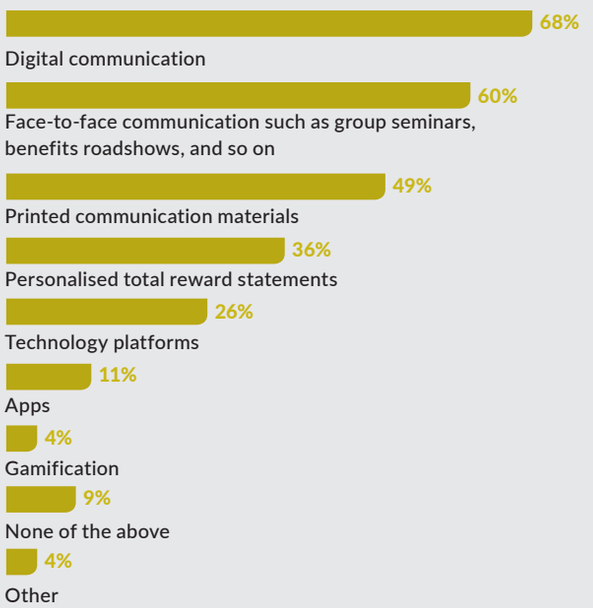
How engaged employees are with benefits in respondents' organisations
Sample: All respondents (169)



Variety of engagement levels

Engagement levels continue to vary greatly across respondents' organisations. More than half (54%) believe that staff are moderately engaged with benefits within their organisation, while just under a fifth (18%) say that staff are very engaged with benefits. However, the research also shows that nearly a quarter (23%) of staff are only partially engaged with their organisation's benefits, and 3% believe their staff are not engaged at all.

The measures respondents are taking to improve employee engagement with benefits
Sample: All respondents (169)



Digital comes out on top

Digital communication remains the top channel used by employers to improve employee engagement with benefits. As in 2016, 68% of respondents use this method.

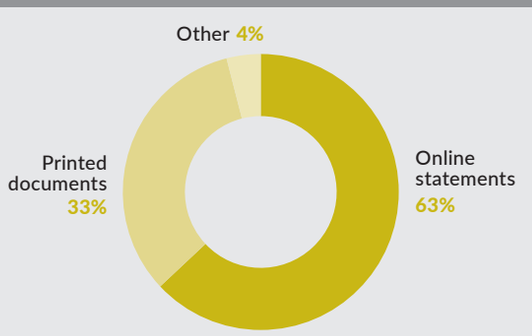
This is followed by face-to-face communication, such as group seminars and benefits roadshows, used by 60% of respondents.

Both digital and face-to-face communications are effective ways of reaching groups of employees, particularly when a workforce may be mobile, geographically dispersed or work varying shift patterns.

Printed communication materials (49%), and technology platforms (26%) also remain popular among respondents.

Where respondents use personalised total reward statements (36%) as a means of improving employee engagement with benefits, 63% use online statements, while a third (33%) issue printed documents.

How respondents provide personalised total reward statements for their employees
Sample: All respondents that provide personalised total reward statements (57)



Sense of fluidity

Total reward needs to evolve in tandem with a changing modern workforce

Tynan Barton | Features editor
Employee Benefits

Need to know

- Total reward strategies must develop in line with the profile of the modern workforce, including part-time and flexible-working employees.
- Employers should offer benefits around career and personal development, wellbeing, and recognition to attract and motivate a wide range of employees.
- Employers need to first assess what is important to employees to then target their total reward packages to the workforce.

Read also

How to engage millennials in the workplace
bit.ly/2pB5Xpg

There can be no doubt that the modern workforce looks and works differently to that of even just 10 years ago; there are more part-time workers and five generations of employees in any one workplace. The Office for National Statistics' (ONS) *Labour force survey*, published in March 2017, found that in the three months to January 2016, there were 8.52 million people working part time, 10,000 more than the previous year.

There are also more fluid job needs. For example, portfolio workers will carry out projects for multiple employers at the same time, while boomerang workers, those that leave an employer and return after a period of working elsewhere, are also present in some organisations. But have employers' total reward strategies changed in line with this new landscape?

Changes to the workforce

There is more change to the make-up of workforces now than ever before, says Martha How, principal at Aon Employee Benefits. "That's partly a response to the shape of the population and all the things that go with that; it is a macro-economic change, which is reflecting itself in changes in the workplace," she says.

One example of this is the considerable number of older workers in the workplace. In the UK in 1992, ONS figures showed that 5.5% of those aged 65 or over were in work. In 2016, that number had risen to 10%. "Older workers do have slightly different demands," says How. "More will be willing to work part time or flexibly, so that brings up a headline for a lot of the changes in the workplace, which is that fewer [employees],

46%

of employer respondents cite a multi-generational workforce as an issue shaping their benefits strategy *(Source: Employee Benefits/Staffcare Benefits research 2017, May 2017)*

27%

of employer respondents see the ageing workforce as an issue impacting their employee benefits strategy *(Source: Employee Benefits/Staffcare Benefits research 2017, May 2017)*

"MORE WILL BE WILLING TO WORK FLEXIBLY SO THAT BRINGS A LOT OF CHANGES IN THE WORKPLACE"

Images: iStock

by proportion, are traditional workers, working nine am to five pm, five days a week."

Individuals are choosing to work in different ways, and employers need to be ready for that. If a person changes jobs more frequently, or potentially has more than one job at a time, there are some elements that immediately come into play, says David D'Souza, head of engagement and London at the Chartered Institute of Personnel and Development (CIPD).

"How flexible are the benefits that [the employee] has access to and how relevant are they?" he says. "For instance, what happens to pension contributions when [a person] works for four or five employers at the same time? Would [the individual] differentiate if [they] are working for an organisation that could simplify the pension enrolment process for [them]?"

Total reward for the new workplace

The new ways of working may bring greater diversity of job types to the workplace, but have approaches to total reward developed to ensure that the benefits on offer are both rewarding and appreciated by employees? Alastair Woods, partner in the reward and performance practice at PricewaterhouseCoopers (PWC), says: "On one level, total reward has not really changed and the reward offering overall has not adjusted to the new world. The core elements of reward: salary, bonus, share plans, pension, medical insurance, still exist and dominate, however, I think we are reaching a tipping point where all those come together plus more technology, greater demand for different things, and having different needs and more openness. This will start to change and we will see a new-look total reward opportunity of the future."

Non-financial reward could become more fashionable, says Woods. This could see items such as access to training programmes that develop skills for life become more prevalent in total reward strategies. "I think it's less about total reward but more about the employee value proposition (EVP), which within it includes things such as recognition, career development, training and flexible working, and overlaying that there will be much more choice," says Woods.

If an employer is keen to offer a total reward proposition to employees that may only be with the organisation for a set period of time, such as portfolio workers, it will have to acknowledge that the time frame changes what the employee might be interested in. An employer can use its total reward strategy to create a sense of employer loyalty, says Nick Throp, co-founder and director at Like Minds. "It is saying: 'what is it about us as an employer that is likely to, not necessarily to keep people beyond the time that they want to leave, but will draw them back again," he adds.

Schemes that are really motivating to those employees might be softer benefits, more about the culture of the organisation and what it is like to work there. "Some of these will be related to career development and personal development," adds Throp.

A benefit of working for one employer for a period of time is the learning and development opportunities it provides to employees. "Intrinsic to it is keeping [an employee's] skills up to date so that [they're] employable, and one of the areas that

Viewpoint

Adam Kingl is executive director of thought leadership, executive education at the London Business School

One thing is for certain: employees are a lot less loyal than they used to be. Generation Y in particular, our youngest employees in their 20s and early 30s, seem to jump from employer to employer with an almost frightening rapidity. Make no mistake either, this is not just a symptom of one's life stage. This generation Y has a very different paradigm of 'what it means to work here'.

A survey of generation Y executive education participants at London Business School between 2009 and 2014 suggests that even our high-potentials, 90% to be precise, have little intention of remaining with a single employer for more than five years. Even more dire, over a third believe they would not stay more than 24 months. Similarly, the US Department of Labour estimates that today's 18-year-olds will have 10-14 jobs by the age of 38.

While these plummeting figures may have little short-term hope of reversing themselves, there are perhaps a few steps that employers can take, which if implemented, can help to recruit top talent, and possibly retain that talent for longer than one's competitors. This same London Business School survey has three clear promises that generation Y considers most important from their employers, in order of importance.

First, work-life balance. This is not working fewer hours, this is admitting that in the digital age, people can work anywhere, anytime.

Second, organisational culture; employees must nurture their cultures as their only inimitable, sustainable source of competitive advantage.

Third, development opportunities. These do not have to be promotions. They can be learning programmes, mentoring, international assignments, secondments, shadowing, projects or coaching, to name a few.

Paying a little more attention to these three benefits enjoys the double advantage of being not only relatively easy to implement, but easier on the budget than purely monetary rewards.

organisations need to look closely at is 'how am I enhancing someone's employability while they are working for me?'" says the CIPD's D'Souza.

This could extend to include outplacement support when an employee leaves an organisation, or CV review services. "[It's about] a far more rounded reward experience that is based around the needs of the individual rather than the more generic benefits that we've seen historically that tend to hit large volumes of people," says D'Souza.

Many workforces now consist of five generations, so total reward strategies that attract and retain individuals will vary greatly. The millennial, or generation Y employees, those born after 1982, can be greatly motivated by appreciation and recognition, says Andy Philpott, sales and marketing director at Edenred.

"Millennials have quite a high demand for being recognised in terms of the importance of their own work-life balance, and their own physical and financial wellbeing," he says. "We see a lot of demand for reward and recognition [schemes] that are very digital and social based. It needs to be instant and it needs to be fast: they need to be able to receive and use it quickly, and see it shared with as many people as possible."

Wellbeing programmes are becoming a key feature in a total reward strategy, even those that do not have a huge financial value attached to them. "That could be sports running groups or healthy eating [options] in the office," says PWC's Woods. "Auxiliary benefits, that aren't necessarily expensive to the [employer] but are quite meaningful and help to create office cohesion, will grow."

Communicating total reward

Promoting non-traditional or non-financial benefits to employees as part of a total reward proposition can be a challenge, and, in some cases, will require employers to change the way they see their role. "There's got to be a change in perception in the relationship between an employer and employee, so that rather than [the employer] being seen as the provider of reward and benefits programmes, it's more of a facilitator role," says Throp.

"That impacts on the style of communications. It's less about 'how do we promote the way this benefit works and its value to the employee', to a more profound idea of saying 'let's start with an understanding of what the employee really is excited about, concerned about, [or] stressed about', shaping messaging around that and matching that up to the reward offering."

> "MILLENNIALS MAKE QUITE A HIGH DEMAND FOR RECOGNISING THEIR WORK-LIFE BALANCE"

Rather than simply looking to offer new benefits as part of a total reward proposition for the modern workforce, employers should reassess the way in which they are presented to employees. For example, because of more older workers, healthcare might be of a particular concern, says How. "Employers that either fund or part-fund healthcare benefits for part-time workers are going to be in a good position," she says. "We might see more of a focus on how those funding models are built on the part of the employer, and some more communication to the growing number of part-time and flexible-hours workers."

There is no doubt that the way in which employees work is changing, and whether it is a slow or rapid evolution, employers must change with it. As D'Souza says: "We're seeing a greater understanding that roles that have traditionally been quite static are now potentially going to be done in a more project-based way, and we would expect the reward and benefits market to meet that." EB

Case study | **Penguin Random House**

Penguin Random House keeps its total reward offering up to date and informative

Penguin Random House keeps employees informed about their total reward package through its benefits portal. It offers its 2,100 employees access to individual total reward statements (TRS), as well as to its flexible benefits and employee discount schemes.

The TRS show the total value of an employee's package including salary, bonus, any benefits that they have bought or sold, or employer-funded benefits.

The reward statement is categorised into finance and protection benefits, lifestyle, and health and wellbeing. It is then broken down further to detail what the employer and the employee contribute towards each benefit, what the individual's flexible benefits fund totals, the total cost of their benefits, and how it affects their salary.

Val Garside, HR director at Penguin Random House, says: "The idea behind it is that they can see all that in one place, as opposed to just 'here's your salary and here's your bonus'. Every year, we're constantly looking to see what other benefits we can add in and how [do they] appeal."

TRS are constantly updated throughout the year and employees are able to view them at any time. During the annual flex enrolment window in March this year, details of employees' pension contributions were added to the TRS for the first time.

"That was new for employees, that pensions was included on their total reward statement," explains Garside. "Equally, [employees] can go in and, for the first time, change [their] pension contributions in the portal instead of filling out a form."

Via its flexible benefits scheme, the publisher enables employees to invest the savings made from flexing down cover on some benefits into others. Employees can reinvest savings, for example from selling holiday, into a personal training allowance to pay for any non-job-related training or education.

Penguin Random House reviews its offering each year. This year, new benefits included an art pass, which provides free or discounted entry to museums, galleries, historic houses and exhibitions, new cancer screenings for bowel, cervical and prostate cancer, and a virtual GP service.

Get the right balance

Engage with ways to control benefits costs

Sam Barrett | Freelance journalist

Need to know

- The cost of benefits is increasing due to changes such as those impacting minimum pensions auto-enrolment contributions, salary sacrifice arrangements and insurance premium tax.
- A risk-based approach taking in everything from financing mechanisms to claims controls can help secure the optimum benefits package for an organisation.
- Communicating benefits pushes up employee engagement, enhancing the value of employer spend.

Read also

How to future proof a reward strategy in light of changing pay regulations
bit.ly/2oNRXsi

Employee benefits have an important role to play in motivating a workforce. But, with a series of financial pressures set to push up the cost of providing benefits, employers must strike a balance between employee engagement and affordability.

Mark Witte, senior healthcare consultant at Aon Employee Benefits, says: "Cost is a massive issue. Employers will need to budget for a higher benefits bill or find ways to mitigate the increases."

Several changes came into effect in April 2017. These include changes to the tax and national insurance (NI) advantages on some salary sacrifice arrangements, and the new rates for the national living and minimum wages, which pushed minimum hourly pay for a 25-year-old to £7.50, up from £7.20 in March.

Further cost pressures are looming. From June, insurance premium tax (IPT) will go up to 12% from its current rate of 10%. But, possibly the most significant increase will come from pensions auto-enrolment, with employer contributions shifting from 1% to 2% in April 2018 and to 3% the following April.

Case study | **Ten Group**

Ten Group offers a range of benefits with a modest budget

Controlling benefits costs is a key challenge for the Ten (Transforming Education in Norfolk) Group, a federation of educational institutions in Norfolk, employing 1,400 permanent members of staff and a further 400 casual staff. Hilary Bright, director of HR services at the Ten Group, explains: "We wanted to offer a range of benefits that would help to improve staff morale and attract prospective employees but, being a public sector organisation, we didn't have a huge budget to spend."

To keep costs low and ensure its spend is relatively stable, the group offers staff benefits such as membership of a discount scheme, various salary sacrifice schemes such as bikes for work, a range of on-site health checks and flu vaccinations, and a health cash plan provided by Simplyhealth. "The cost of these doesn't increase significantly every year, with some the same year after year," says Bright.

This mix of benefits also creates value for the Ten Group, which helps to offset the cost. For example, the variety of health benefits included in the health cash plan has helped the group to address issues with sickness absence, says Bright. "Before, employees would be off for six weeks waiting to see a specialist or for a physiotherapy session," she explains. "Now they can be seen quickly. This helped us achieve a 16% reduction in absence in the first year and one of our academies has even seen its absence fall from 14% at its highest to just 1% at its lowest."

Benefits statements are also used to help to maximise the value of the benefits available.

Many also believe further increases are coming. For example, IPT could rise again, says Rachel Riley, managing director at WPA Protocol. "It's a bit of a soft target," she says. "There have already been three increases since 2015 when it was 6% and speculation suggests it could reach 20% by 2020."

Controlling costs

Faced with rising costs, there is a temptation for employers to slash benefits. But while this will save money, this approach can seriously backfire. Jonathan Wood, corporate pensions director at Jelf Employee Benefits, says: "It will often cost an employer a lot more in lost productivity than the savings that are realised. A risk-based approach is much more effective."

This takes a strategic look at what employers provide and the value it brings. As well as assessing whether an organisation has the most appropriate, or cheapest, provider, it will also look at its financing mechanism. For example, an organisation could self-insure some benefits if it is large enough or consider pooling if it is global.

The design of the benefits package also comes under scrutiny, to ensure it is fit for purpose and in line with an organisation's peers. "We'd also look at whether we could make a risk perform better," says Witte. "For instance, if a business introduces a health and wellbeing programme it can reduce the likelihood of claims on its group risk and health insurance benefits. This creates savings and a much more sustainable proposition."

Securing savings

Given the depth of this approach, it can make financial sense to hire a benefits consultant. "[Employees] need to look beyond the price and analyse how [their] benefits package affects business performance," says Wood. "This can be difficult to do [alone] or with a broker that focuses on price."

It is also sensible to present an organisation as attractively as possible, especially when it comes to group risk benefits. Katharine Moxham, spokesperson at industry body Group Risk Development (Grid), says: "If [an organisation] does anything that could potentially reduce the risk of a claim, tell the insurer because it could improve the premium."

All sorts of health-related products and initiatives could be taken into account, such as employee assistance programmes, private medical insurance (PMI), and mental health first aid training. "I worked with [an organisation] once that was able to secure a discount on group life and group income protection by demonstrating all the hard work it put into health and safety," says Moxham.

Targeted savings

While these strategies can help to mitigate the effects of some of the incoming cost pressures, with some products, it is also possible for an organisation to shield itself from the full force of the increase without having to forfeit any benefit.

Take pensions auto-enrolment as an example. While it is perfectly legal to restrict contributions to qualifying earnings, set between £5,876 and £45,000 in 2017-18, cutting back will not be popular with employees, says Kate Smith, head of pensions at Aegon. "The only way to save money legally is to use salary sacrifice," she adds. "It's not a great solution for lower-paid employees, because it could affect their state benefits if they lose their job, but it can work well for higher-earning employees, especially if [employers] pass back some of [their] national insurance savings."

IPT exemption

Organisations could also shield themselves from the IPT increase by moving from a PMI scheme to a healthcare trust. With this, the employer sets aside a claims fund to cover employees' healthcare needs. As this is not insurance, it is not subject to IPT.

Instead, employers pay VAT on any administration or trustee fee plus IPT on any stop-loss insurance. But, because these are lower-cost items, the overall tax charge is much smaller than if they had taken out PMI (see table below).

While the set-up costs, typically around £10,000, mean employers need at least 500 employees to make a trust cost-effective, smaller groups could consider a master trust or a product such as WPA's Corporate Deductible or Aviva's Corporate Excess. These use a claims fund, so there is no IPT liability on the bulk of the expenditure, but have simpler administration and no set-up fee.

But, whether employers fine tune existing benefits or move to something cheaper, communication is essential to get the most value from their spend. "Tell employees what [is offered to] them when they have life changes such as a promotion or a new home," says Wood. "This really helps with employee engagement, which drives up productivity and reduces absence. It's much more sustainable than shopping around for cheaper benefits." EB

Calculating the cost of private medical insurance versus a healthcare trust (Source:WPA)

	Fully insured	Healthcare trust
Claims fund	£1,000,000	£1,000,000
Administration fee	£100,000	£100,000
Risk	£100,000	£50,000
IPT (12%)	£144,000	£6,000
VAT	-	£20,000
Total spend	£1,344,000	£1,176,000

Coming over the horizon

With substantial changes looming, now is a good time to take stock of benefits strategies

Crowley Woodford | Employment partner
Ashurst

Employee benefit offerings come in all shapes and sizes. At one end of the spectrum, there are the traditional employee benefits such as contributions to an employee's pension scheme, childcare vouchers, and subsidised gym membership and, at the other end, there are wine clubs, unlimited holiday allowances, and free-bacon Thursdays.

With changes looming on the horizon, such as Brexit, new data protection legislation, changes to salary sacrifice arrangements, and the increase in automatic-enrolment pension contributions, now is a good time for employers to take stock of their benefits strategies and consider what impact, if any, these changes will have on the benefits they offer to their staff.

The government triggered the formal Brexit negotiation process by providing the European Union (EU) with the required notification under Article 50 of the EU Treaty on 29 March this year. It is still unclear whether new immigration rules will apply but employers with businesses that are heavily dependent on migrant workers should start preparing for the possibility that restrictions might be imposed on economic migration. For affected employers, now is the time to consider whether their benefits offerings need to be reviewed and possibly enhanced in order to attract a more diverse workforce.

The new General Data Protection Regulation (GDPR) will apply from 25 May 2018 in all member states of the EU, including the UK, without any need for domestic implementing legislation. The GDPR introduces a much tougher regime compared with the existing data protection legislation with potential fines of up to 4% of total worldwide annual turnover for serious breaches, such as unlawful transfers of personal data outside the European Economic Area and criminal liability for individuals who process data in breach of the law.

Many benefits are provided by third-party providers, such as insurers, and involve employers transferring significant amounts of staff personal data outside of their businesses. With just over a year before the GDPR applies in the UK, employers should be looking at where that data is going and asking some questions. Are the service providers based in the EU or in a 'third country'? Are any adjustments required to the benefits provided to adapt to a changed regulatory landscape?

From April 2017, tax and national insurance advantages of salary sacrifice arrangements have been withdrawn other than for those relating to pensions, childcare, bikes-for-work schemes, and ultra-low emission cars. Arrangements in place before April 2017 will be protected until April 2018 and arrangements for cars, accommodation and school fees will be protected until April 2021.

The gradual erosion of the tax-advantageous salary sacrifice wrapper will mean that employers will face higher costs for providing the same benefits package. For employers that cannot afford this additional burden, they will need to re-think their benefits strategies and possibly limit their benefits offering to those that can still be offered through salary sacrifice arrangements.

From next April, the mandatory minimum level of employer pension contributions to automatic-enrolment pension arrangements will increase from 1% to 2% of qualifying earnings, for the tax year 2017-2018 this comprises earnings between £5,876 and £45,000, and from 6 April 2019, this will increase again to 3%. These rises will have cost implications for many employers, which may have to withdraw other benefits to meet the cost of pension contributions EB

"CHANGES TO SALARY SACRIFICE WILL MEAN EMPLOYERS WILL FACE HIGHER COSTS FOR THE SAME BENEFITS PACKAGE"