

## ..Are you getting most benefit from your benefits?



With the primary focus of many organisations on cost containment, it's unsurprising we are still seeing ongoing short-term actions such as pay cuts in the headlines as organisations look for ways to stretch available resources further and hang onto key people. However as organisations look deeper for potential cost efficiencies we predict a greater cost rigour around non-cash benefits which have traditionally held a lower profile.



Whilst salaries and bonuses are typically reviewed on an annual basis, benefits offerings tend to be more static. Reasons for this vary. The task of a benefits review may be seen as large and unwieldy; benefits on offer may have been established in the mists of time; ownership may circulate between HR, Finance and Procurement, and no-one really owns the tangled knots. There can also be fear around non-cash benefits, stemming from a lack of understanding - they are often perceived as complicated, tend to have tax implications and may involve work with actuaries. While all of the above may be true, the lure of potential cost savings now means it's time to be brave. Take the non-cash benefits box down from the top shelf, blow the dust off it and open it up.

A comprehensive review of benefits can be good news for employees and employers alike.

Whilst accountants can be pleased by significant savings being made, an assessment of the offering can also often simultaneously work in the favour of employees. Benefit strategies that have been long established may no longer reflect the needs of the current workforce demographic. It is conceivable that a rare 'win-win' situation is possible. Organisations with flexible benefit arrangements in place may have gone part of the way of addressing this, but unless the elements that employees actually value are regularly reviewed, it's likely there will still be room for improvement.

No discussion of benefit arrangements can avoid the weighty topic of pensions. For those organisations who continue to have 'defined benefit' (final salary) schemes, whether remaining open or being closed/amended now for existing

employees, the urgent requirement to consider the pension deficit will have probably meant the non-cash benefits box was opened a while ago. The Hewitt Pension Administration Survey 2009 shows that 89% of respondents cited reducing costs as their number one priority over the next few years (Hewitt, 2009). Furthermore, recent research by PricewaterhouseCoopers shows a trend to deal with a big pension scheme as with any other major subsidiary, ensuring appropriate management of cash, risks, cost and value (PWC, 2009).

For the majority of organisations who have defined contribution schemes, there are still important issues to be considered. The Pensions Act 2008, which is due to come into effect in 2012, will, for the first time, place a legal duty on employers to enrol most employees into a pension scheme and contribute towards their

## ..Are you getting most benefit from your benefits?

retirement. The joint contribution expected from employer and employee is 8%. While most defined benefit schemes already exceed this, not all defined contribution schemes do. In addition, the auto enrolment requirement is aimed at getting a greater take up. Balance these together and organisations could see their financial responsibility increase. An increase in costs is the last thing most firms can accommodate right now, so we predict a wave of businesses looking for ways of making savings, while continuing to meet legal and contractual obligations. The substantial spend by organisations on non-cash benefits is one of the final bastions to be challenged.

Continuing with the theme of pensions, one option to manage costs is using the salary sacrifice arrangements, also known as SMART pensions. Essentially this involves employees waiving part

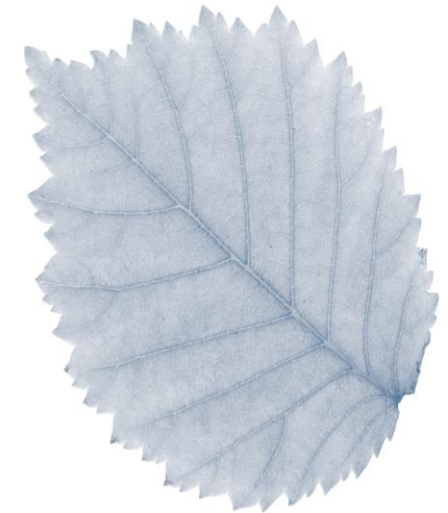
of their salary into the scheme in exchange for their employer contributing more. If properly constructed, this arrangement can offer substantial savings to organisations, which can in turn be passed on to enhance or maintain existing employee benefit levels. This is already practiced by a number of leading organisations including GE Money, BUPA and Nationwide Building Society.

Savings are generated due to the way employees and employers NIC are calculated on contributions to pension schemes. Caution should prevail though - careful consideration needs to be given to existing bonus and salary related incentive schemes, as well as ensuring national minimum wage considerations are met.

Employees may also have concerns about impact on Working Families Tax Credit

(WFTC) and other state benefits which need investigation.

In terms of broader risk benefits, e.g. life assurance, private medical insurance, critical illness cover and permanent health insurance, it is worthwhile to critically assess these options to ensure they continue to be fit for purpose. Savvy practitioners are starting to question whether similar levels of cover can actually be provided in a more cost-effective way. Alternatively, consider if the cover originally put in place is still appropriate for today's market and employee demographic.



Terry Gostelow , Implementation Consultant at Heath Lambert Consulting Limited states, 'We are seeing organisations of all sizes questioning whether the benefits they have in place are meeting their current requirements – in terms of offering the type of cover their work force needs, whether they are providing the most appropriate level of cover for what can be a rapidly changing workforce and whether it is

## ..Are you getting most benefit from your benefits?

possible to reduce costs whilst maintaining appropriate benefit levels and perceived value. In the past, where we have worked with businesses to review their employee benefits strategy, we have been able to generate significant savings in annual group premiums, in some cases these savings can exceed 50% of original spend!

It is not only the more specialist areas of pension and risk benefits that offer potential savings however. As well as ensuring that the overall offering ties in both with specific company and employee values, those looking for cost efficiencies have a number of other places to start.

Company cars, one of the most emotive non-cash benefits, can provide potential savings. Examples of this include extending contracts for low mileage cars or considering the introduction of PCOP arrangements.

If you already have a salary sacrifice arrangement in place, this could be used for the introduction of childcare vouchers, often cost-neutral as funded by NI savings. Benefit surveys consistently demonstrate childcare vouchers in the top 5 amongst employees, allowing them to make savings of in excess of £2,000 per year.

Flexible benefit schemes continue to be popular with a large number of companies but over time, these can grow into a labyrinth of options which are no longer valued by the employee and do not demonstrate good value for money for the employer.

Voluntary benefits can often offer employees attractive discounts at no or minimal cost to organisations. Some are available just by asking product/service providers for discounts whilst whole ranges of choice can be accessed from a variety of providers for a monthly fee. These schemes allow employees to gain from economies of scale from group arrangements and are a good value way of widening your offer at low cost.

Cost will currently be a key driver for a review. But changes have a ripple effect. Any reward initiative will still be most

effective if 'joined up' with the employee deal. Also, be mindful of longer term view. In the short term people may be most focussed on ensuring they can continue to pay their mortgage and bills, but how they are treated, or perceive they are being treated now by their employer is still crucial. The CIPD's Quarterly Summer Survey suggests that a third of employees are thinking about moving roles once the recession eases (CIPD, Summer 2009), so a cost effective improvement in their circumstances right now might assist in keeping them more engaged and motivated at a time when their whole-hearted participation is still much needed. Alongside cost considerations, continuing to meet employees' needs is still the key to making any benefits strategy stick.

## ..Are you getting most benefit from your benefits?

Not sure where to start? Let Innecto's Benefits Intelligence Audit help you to see the bigger picture. By analysing your organisation's current practice through the completion of a straightforward questionnaire and spreadsheet, the Benefits Intelligence Audit helps you understand what is working and what you could do more cost effectively in the future. Benefits Intelligence is a secure footing when you are looking at how to take your benefits strategy forward

Typical outcomes of the Benefits Intelligence Audit are;

- a report which analyses your workforce demographic and benefits spend, highlighting areas where there are potential cost savings
- raising awareness of legal and best practice issues.
- the top 3 actions that we recommend you take in order to start addressing the issues identified.

For organisations with less than 1,000 employees, the cost of the Benefits Intelligence Audit is £2,500 plus VAT. For organisations of over 1,000 employees please contact us for a price quote.

### References:

Hewitt. (2009). *Pension Administration Survey 2009*. London: Hewitt.

PWC. (2009). *4th Annual PricewaterhouseCoopers Pensions Survey*. London: PWC.

CIPD. (Summer 2009). *Summer Quarterly report - Employee outlook - Job Seeking in a recession*. London: CIPD.

## ..Are you getting most benefit from your benefits?

### About Innecto Reward Consulting

We are Reward specialists who carry out a range of activities, from acting an extra pair of hands on salary benchmarking projects to develop detailed Reward Strategy and building an employee proposition. We focus on building strong client relationships, and involving employees in the design of their new pay structures, performance management systems and recognition schemes.

Our consultants and analysts are highly customer-centric and user friendly, and as most of us have also worked in the 'real world' of line management, we do understand the difficulties faced in an operational setting, and so strive to ensure our solutions actually work in practice.

Finally, a quote from a recent client case-study sums up what we try to deliver;

*“One thing I especially liked about working with Innecto was the level of support we received; their consultants came over to Northern Ireland to meet with us on numerous occasions and their reward analyst worked extensively with us to ensure we had the understanding to interpret market data and manage different scenarios in the future.”*

*“They also did an excellent job supporting me in involving our workforce in the process design and in communicating our goals and plans for this project. I was impressed at the way they were able to reinforce our values and support us develop strong messages around pay and performance that really helped carry the project through to a successful conclusion.”*

Ailsa McNeill – HR Manager – Schrader Electronics Ltd

Contact us;

[www.innectogroup.co.uk](http://www.innectogroup.co.uk) | [wendy@innectogroup.co.uk](mailto:wendy@innectogroup.co.uk) | 0207 268 3664 | 33 Cavendish Square, LONDON W1G 0PW | 1, Whitehall, Whitehall Road, LEEDS LS1 4HR | 0113 2666611

**This article is the personal opinion of the author and does  
not constitute legal advice.**

© Innecto Reward Consulting 2009