Employee Benefits Review

Summer 2017

For chief executives, HR directors and finance directors

Why wellbeing works for businesses

Smith & Williamson

Foreword

Why wellbeing works for businesses

Great organisations know that wellbeing is key for staff to thrive at work -and that when employees believe they have support from their employer, they're more likely to be engaged, loyal and productive.

But wellbeing strategies go beyond a pat on the back, paid sick leave or a summer party: they encompass all of the resources and 'nudges' an organisation provides employees to encourage wellbeing. This also comes in the form of leadership, manager, team and peer support, social networks, physical work environment, structured wellbeing programmes, and, perhaps most importantly, culture.

The success of recent campaigns (including Heads Together) has also added to the groundswell of recognition of mental health and workplace wellbeing issues in the UK.

Across HR and Finance disciplines, there is already an acceptance of the benefits of actively engaging with the workforce on wellbeing related issues and initiatives. These range from increased productivity and staff retention rates, to the impact on insurance premiums.

The profile of mental and associated health issues, including finance-related stress, may also bring an increased lobbying power for organisations associated with these issues. We expect to see attempts to increase legislation in this area over and above the proactive efforts of employers.

We will keep you up to date with any changes in this arena and how to assess the impact and implement, should they emerge.

Should you have any questions on these or any other subjects, please contact myself or any member of the team listed throughout the issue.

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Financial education

Meeting the changing needs of employees

With the link between debt, money worries and stress, lower productivity and absence increasingly recognised, it's no surprise that financial education is one of the UK's fastest growing employee benefits.

Traditionally, the business model for employer-led financial education was to increase the awareness and understanding of existing employer sponsored benefits. This was sufficient for generations of savers but, in an era of freely available low or no cost credit, and as employers adopt a broader view of duty of care, it is a narrow solution to addressing 'real life' issues and concerns.

The financial needs of employees are changing and benefits provided by employers need to encompass liabilities as well as assets. For example, educating employees on how much they need to save for their future/retirement will not have the effect of engaging them in increasing savings when, often unknown to you, they are struggling to pay their debts and meet outgoings.

Growing financial pressures

There is a vast amount of evidence that demonstrates why UK employees are stressed about their finances:

- Income: Down 10% in real terms in 10 years Source: TUC
- Savings: 17 million work-age Brits have <£100 in savings Source: Money Advice Service
- Wealth: Millennials have 50% the wealth of Gen X at the same age Source: Institute for Fiscal Studies
- Debt: Up 25% since 2014, to £3,900 per UK adult Source: The Money Charity, Money Statistics, April 2017
- Nearly 60% of Britons haven't written a will Source: thisismoney.co.uk
- 75% of employees do not have a good credit score. Source: salaryfinance

Addressing financial stresses

Increasingly the link between debt, money worries and stress, lower productivity and absence are being recognised by employers, who are now investing in wellbeing and educational programmes for their employees.

For the one in four employees* who are suffering some sort of financial distress, personalised and timely financial education can improve their understanding of, confidence with and organisation of their finances. Over time, this means fewer distractions at work and more focus on the job, as well as loyalty to the employer.

Our financial programmes are now our fastest growing business area. These programmes include lunch-and-learn sessions for specific groups, such as retirees, indebted younger generations and school leavers. This is not just limited to larger corporates with the budget to support wide ranging programmes; SMEs and charities are also very interested in providing this kind of support, alongside traditional benefits packages.

Alongside the improvement in financial understanding, confidence and organisation noted above, if these programmes can also engender behavioural change - moving from a debt to 'savings first' mentality - a positive impact on mental wellbeing can also be achieved.

DB transfers have hit the headlines but many remain unsure about what they are, how to evaluate if a transfer is appropriate for them and how to organise a transfer.

If you or your staff would like to know more about these or our other capabilities contact Steve Cave to discuss how a workshop could help.

> One in four employees suffer some sort of financial distress.

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*source CIPD / Close Bros

The role of insured benefits in wellbeing programmes

Wellbeing: the term means different things to different people. It can be difficult to define and harder still to justify a business case. Is it a state of mind, good health, stable finances or overall happiness? There is one consensus - there is no single meaning.

Irrespective of how it may be defined, wellbeing at work has risen up the corporate agenda and is now a key focus for businesses of all sizes across the UK. If your workforce is present, healthy and happy then that must be a good thing for all concerned. While the vast majority of decision makers will agree that staff wellbeing is critical to the overall success of their business, what is not so common is to have a robust wellbeing strategy in place. With establishing return on investment, lack of senior management commitment and lack of time coming out on top as the key barriers to building a wellbeing strategy; it has become clear that there is still much work to do to raise engagement in this space along with strategies and implementations.

By not protecting the health of your employees in the workplace, you may be placing your organisation at undue risk. Poor health at work not only affects the individual's ability to successfully do their job, but will also affect business productivity, performance and effectiveness. But what are the practicalities of delivering a strategy that embraces employee wellbeing and engagement? Implementation can be daunting, particularly for large, multi-site organisations.

The extent to which different companies 'do' employee wellbeing varies dramatically. What is important is that you are thinking about employee health and wellbeing and recognise the role wellness can play among your workforce. The bottom line is that a focus on wellbeing drives staff performance.

While fresh fruit, flexible working and table football may be well received, insured benefit arrangements often form the cornerstone of a holistic wellbeing strategy.

Group income protection is an excellent example. Available for as little as 0.25% of payroll, a well-structured scheme can provide a financial benefit and rehabilitation support if an employee is unable to work because of term illness or injury. It can be used by employers to help manage sickness and associated costs. Rehabilitation support can help employees get back to health and work – reducing the length of sickness absence and the overall impact on your organisation. Provision of this benefit for your employees, can provide them with reassurance and peace of mind.

An Employee Assistance Programme is generally a complimentary 'extra' to Group Income Protection which provides both telephone and face to face counselling.

One of the most highly valued employee benefits is Private Medical Insurance – recent innovations now allow direct access to support and treatment without the need for GP referrals for certain conditions. With ill-health now costing the UK economy £100bn a year, the desire for businesses to extend health and wellbeing benefits across their entire workforce has never been stronger.

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ISA rules revamp aids retirement saving options

The shake up of the ISA regime brings huge opportunities for tax efficient savings. What are the changes and how will they help you?

New Lifetime ISA

On 16 January 2017, legislation creating the new Lifetime ISA (LISA) gained royal assent. Like the Help to Buy ISA scheme, the new LISA, has the dual purpose of assisting first-time buyers to gain a foothold on the property ladder and helping them to save for retirement. The LISA is certainly the more attractive of the two accounts as you can invest far more and it benefits from increased versatility:

	Lifetime ISA	Help to Buy ISA
Maximum bonus	£1,000 per year	£3,000 in total
Maximum property value	£450,000	Up to £250,000 (£450,000 in London)
Maximum annual contribution	£4,000	£2,400 (£200 per month), plus £1,000 on opening account

Who can take advantage?

Since 6 April 2017, anyone aged over 18 and under 40 has been able to open a LISA. An individual can contribute up to £4,000 per year while under 50 and receive an additional 25% Government bonus. This means for every £4 contributed, the Government will add a further £1, worth up to £1,000 a year. In addition, couples can both benefit from their bonuses when they buy their first house for the first time.

LISA contributions count towards an individual's annual ISA contribution limit (£20,000 from April 2017); however any bonus received does not.

The LISA tax-free funds, including the government bonus, can be used to purchase a first home worth up to £450,000 at any time 12 months after opening the account.

How does the Government bonus work?

For the 2017/18 tax year only, the LISA bonus will be added at the end of the tax year, regardless of the frequency of the contributions. From April 2018 onwards, however, the bonus will be paid monthly.

Over their lifetime, savers can make contributions of up to £128,000, matched by the government with a maximum bonus of £32,000, with tax-free investment growth on both.

Can existing ISAs be used to fund a LISA?

Individuals can transfer any existing ISA savings to fund their Lifetime ISAs and this will not have an impact on their annual ISA contribution limits. In addition, any Help to Buy ISA funds that were saved prior to the introduction of the LISA on 6 April 2017 will not count towards their Lifetime ISA annual contribution limits.

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Investment Outlook

Volatile end to the quarter for global equities as markets rattled by mixed central bank messages.

Despite ongoing bouts of politically induced volatility, equity markets have so far broadly shrugged off the political risks in Europe, the US and the UK. Continued speculation over Donald Trump's connections with Russia has raised the possibility of an impeachment, although this looks unlikely in the near-term. And in the UK a hung parliament has further heightened uncertainty going into key Brexit negotiations with the European Union. Political risks are likely to linger but the main focus for markets remains on the prospects for economic growth. After a weak first quarter, will any economic rebound in the US be strong enough to support equity markets at current record high levels?

While Donald Trump is always generating headlines, market sentiment hinges on when he will deliver his much vaunted fiscal stimulus plan. Optimism that Trump can instigate aggressive tax cuts and increased infrastructure spending is starting to evaporate. A more modest set of measures therefore looks likely, although these could well be pushed out into 2018. While US equity markets remain cautiously optimistic, both the US yield curve and the dollar, two indicators sensitive to US growth prospects, have fallen back to pre-US election levels. Analysts have yet to upgrade their more forward-looking earnings forecasts, a concern when US equity valuations remain at elevated levels, and sentiment indicators (a contrarian signal) are perhaps showing heightened levels of investor complacency.

Despite weaker US data, the Federal Reserve (Fed) raised interest rates again in June and remains confident the first quarter weakness is due to transitory factors. Attention has also been on the Fed's initial plans to begin reducing the size of its $4.5tn balance sheet, accumulated after almost 10 years of asset purchases in response to the Great Financial Crisis. Should this begin later in the year, it is likely to be an extremely gradual process and good communication from the Fed should avoid a repeat of 2013's 'Taper Tantrum' which saw 10 year treasury yields (which move inversely with prices) spike to over 3%.

Political risks in the eurozone have eased after the election of Emmanuel Macron in France and focus has rotated to the improving economic prospects for the region. More forward-looking indicators point to stronger growth in the second quarter and consensus GDP forecasts (currently at 1.7%) have moved higher. The improving sentiment has seen continued inflows into the region's equity markets. We remain relatively positive but with heightened expectation comes greater scope for disappointment. Financial conditions have tightened. The euro's 7.5% appreciation against the dollar since the start of the year could act as a headwind for the region's internationally exposed companies. A key risk for the eurozone is that the improved sentiment and better data causes a premature tightening of policy by European Central Bank (ECB), a move that could hamper the economic recovery in the region. Inflationary pressures remain weak but focus will be on the ECB's meeting in June for hints that a change in policy could be on the cards later this year.

Theresa May's ill-fated election campaign and its inconclusive outcome now leaves the UK economy in an even more precarious position, as the official Brexit talks begin with the EU. We can expect the zero public sector deficit target to be pushed further out and some shift back towards fiscal stimulus. For the Bank of England, a shift towards a more expansionary UK fiscal policy would reduce the onus on monetary policy to prevent a recession during Brexit uncertainty. However, raising base rates prematurely, when inflation is likely to peak in Q3, risks the worst of all worlds; tipping the UK economy into recession by deepening the squeeze on household incomes and importer's margins. We believe Mark Carney's dovish influence will prevail, despite the closer vote for unchanged policy at the June MPC meeting (5-3). It seems the UK is set for an extended period of stagflation, which is never easy for the central bank.

For markets, sterling is likely to remain the barometer of political and economic concern. The adoption of a more moderate, business-friendly and pragmatic stance towards Brexit negotiations could well be sterling positive in the medium term. But the weaker economy and political uncertainty are likely to keep the downward pressure on the pound in the near-term. This favours the international earners of the FTSE 100 over the more domestically-focused UK small caps which have outperformed in the year to date.

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Over 55's could be handed surprise tax bill

Reduction in Money Purchase Annual Allowance captures more salaried pensioners

As workplace flexibility increases and people earn a salary even after they start to draw their pension(s), changes to contribution allowances, tax legislation and the advent of auto-enrolment need to be understood to avoid an unwelcome tax bill.

The majority of people who have accessed his or her pension while continuing to work are likely to have no concept of the Money Purchase Annual Allowance (MPAA), let alone any changes to it.

The MPAA was introduced in April 2015 at the same time as pension freedoms, imposing a £10,000 annual pension contribution limit on individuals who are drawing down their taxable pension.

The new flexibility means many may access their pension before retiring and HMRC wanted to prevent them from:

- diverting a significant proportion of their salary into their pension then immediately withdrawing large sums (up to 25% of their pension pot) tax-free; and/or
- recycling tax-free cash lump sums.

The £10,000 threshold was unlikely to catch many unawares. However, we expect that the MPAA will reduce to £4,000 this year*, now the general election has been held and a Conservative government, albeit a minority one, has been returned. This limit is more likely to affect those drawing pension benefits and contributing simultaneously.

MPAA and auto-enrolment increases

One area often overlooked is the interaction of this limit with the increase in automatic enrolment contributions that will be phased in April 2018 and April 2019. Here, employees of a qualifying workplace scheme will automatically have their contributions increased according to a mandated scale.

Assuming the £4,000 contribution limit is introduced and an employee contributes the minimum to a workplace pension, it would be breached by an £80,000 earner in 2018 and £50,000 earner from 2019 under the relevant minimum contributions rates.

If a pension scheme member exceeds the £4,000 threshold, there is no automatic mechanism to alert the member to the danger of a tax charge - if the member independently withdraws some of their pension pot (many now have more than one) while the employer and the member contribute to the current scheme.

The increase in flexible working potentially compounds this issue, as more Britons continue to work over the age of 55 and may supplement salaries through ad hoc withdrawals assuming they can rebuild their capital penalty- and tax- free. However, they will be subject to the MPAA and their membership of the employer's pension scheme may result in contributions that result in a tax charge.

Employers who take an active role the financial education of their workforce may want to be proactive and make their staff aware of this issue, its implementation date, and of ways staff can monitor their contributions and withdrawals.

* At the time of writing it was not clear whether this clause will have retrospective powers back to 6 April 2017 or if it will take effect from 6 April 2018.

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Pensions advice allowance

As part of the newly-introduced pension freedoms, the Pensions Advice Allowance was created to enable scheme members to access financial advice.

What will your staff want to know?

- You can spend up to £500 in any one tax year
- The payment is:
  - made direct from the pension scheme to the financial adviser
  - available at any age
  - not taxable.
- The advice could be with an adviser face to face or online
- Individuals can access up to £500 from their pot up to three times during their lifetime
- The allowance is not available to those in defined benefit schemes
- Does the employer provide access to a panel of advisers?

How will staff benefit?

Younger scheme members have the opportunity to understand better what level of income their pension might produce in later life and make informed decisions about how to adjust their investments or contributions to ensure this is addressed as required.

Taking advice closer to retirement may help the member protect themselves from the downside of market volatility in the lead up to drawing on their pension benefits.

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