Smith & Williamson

Employee Benefits Review

INSIGHTS FOR HR AND FINANCE DIRECTORS

2018: ISSUE 2

In this issue

Foreword

Welcome to the second issue of the 2018 Employee Benefits Review, which provides insights for HR professionals and finance directors.

In a year of events that have significantly impacted many businesses across the UK, such as Gender Pay Gap reporting, the General Data Protection Regulation and Brexit negotiations, we outline the key issues likely to affect you and your organisation.

We explore five trends you should be thinking about, including business continuity planning. While all businesses have insurance in place for factors such as business premises and important machinery, we find that a company's most important asset – its key people – is often not protected.

There continues to be a stigma attached to mental health in the workplace and in this issuewe consider what can be done.

Other hot topics include the revamped ISA rules, and the need to separate the fact from the fiction when it comes to to pension freedoms.

Finally, with near zero unemployment in the UK, attracting and retaining talent is vitally important to the growth plans of any business. Our recent research report Dream bigger: The scale-up moment found that 73% of scale-up businesses have increased their headcount in the past year, more than double that of non-scale-ups. We look at the key components a business should consider. ■

Peter Maher
National Head of Financial Services
020 7131 4441
peter.maher@smithandwilliamson.com

Pension freedoms:
Do you know your options?

Defined contribution pension freedoms — the legislation is in place but does your pension contract offer you the freedom you need?

It's been three and a half years since pension freedoms were introduced in April 2015, which meant those entering or planning for retirement no longer needed to buy an annuity. While I imagine we have all read plenty of press coverage on this subject, it's important to separate the anecdotal from the actual.

What do pension freedoms really mean?

Here's a brief recap.

Flexible access to your personal pension from the age of 55 allows you the following options to withdraw funds from your pensions:

1. 25% of your pension fund can be withdrawn as tax-free cash. This can be done in phases or as a one-off lump sum.
2. The remaining 75% of your fund can be accessed as and when you wish through flexible drawdowns, a complete withdrawal, the purchase of an annuity (the guarantee of a set level of income for life) or a combination of withdrawal styles.

It must be noted that this 75% of your fund will be taxed at your marginal rate of income tax when you withdraw it, so taking the full amount could result in a up to a 45% tax charge for additional rate taxpayers before it reaches their account.

If you are fortunate enough to have a pension which you do not need to access during your life, the funds can remain in the pension untouched and will pass to your nominated beneficiary.

For those whom an annuity remains an attractive option, this is still available and you can use your pension fund to purchase an annuity at the prevailing annuity rate. This may be particularly attractive in circumstances where an enhanced annuity rate may be available.

The freedoms also include more flexibility in how pensions can be inherited. For example, the pension fund, typically outside of the estate for inheritance tax purposes, can be passed to a beneficiary and remain within the tax efficient pension for the beneficiary to access as they see fit.

With post 2015 flexi-access contracts, if the pension holder passes away before the age of 75,and the pension is designated to the beneficiary within two years of death, the beneficiary can draw on the pension without incurring an income tax liability. If the pension holder is older than 75 at the time of death, any withdrawals by the beneficiary are liable to income tax at the beneficiary's marginal rate of income tax.

These do, indeed, offer a far greater degree of freedom than previously enjoyed but are you sure you are benefiting from the full freedoms available?

Providers of contracts set up prior to 2015 have not been obliged to update their terms to allow for pension freedoms. Many people approaching retirement age are planning how to access their pension to best suit their lifestyle but are finding their existing pension contracts don't offer them the flexibility expected – their only option is an annuity. In these cases, a transfer to a new pension contract would be required to gain these freedoms and arrange the withdrawal options that suit you. ■

Ellie Price
Consultant, Financial Services
+44 (0)1722 431 855
ellie.price@smithandwilliamson.com

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. ■

Simon Peterman
Senior Consultant, Employee Benefits
+44 (0)20 7131 4025
simon.peterman@smithandwilliamson.com

Mental health in the workplace

Employers can play an important role in managing workplace stress, ensuring that employees cope better with the day-to-day demands and pressures of their job.

Stress is becoming an increasingly significant issue within the UK workplace.

In 2016/17, 526,000 workers suffered from work-related stress, depression or anxiety, according to the Health and Safety Executive - contributing to 12.5 million lost working days.

This is a staggering 29% higher than the 8.9 days million lost due to musculoskeletal disorders (muscles, bones & joints).

Unlike physical symptoms, it can be difficult for employers to identify if an employee is suffering from a mental health condition.

Results from a recent survey (carried out by a market-leading group protection provider) stated that although 78% of employers were confident that their employees would discuss concerns with them, in reality fewer than 10% of employees confirmed they would.

Although mental health has had increased media attention since 2016, there continues to be a stigma attached to the issue in the workplace.

For example, technological advances have been identified as a factor that puts pressure on employees' mental health. Customers increasingly expect an instant ('always-on') service, which puts employees under even more pressure. This can also result in the inability to take meaningful time off, away from work.

How to combat workplace stress

Prioritising your employees' mental health not only helps to attract and retain key individuals by demonstrating you value their contribution and performance, it also has a significant impact on your bottom line, reducing sickness absence and recruitment and training costs.

When implementing an effective mental health and wellbeing strategy, employers must consider prevention, intervention and protection.

- **Encourage good working conditions:** Employees may fear that by admitting they are not coping, they will appear incapable of fulfilling the requirements of their role. Creating a positive culture towards mental health is vital.
- **Appoint a mental health champion(s):** Provide access to a stress awareness space, display posters and encourage open conversations about mental health and the support available when employees are struggling. Where practical and appropriate, communicate any upcoming changes within the business.
- **Regular wellbeing communications:** Ensure employees are aware and also reminded of the support services available to them and their families, whether this is a confidential employee assistance programme, bereavement counselling or direct access to a mental health professional via their private medical insurance provider.
- **Training for line managers:** Make sure that your managers are trained to spot early warning signs. It is crucial that employees access the right support at an early stage as this can prevent problems escalating. Complimentary training can be offered by a number of group protection providers and charities.

How can employee benefits support your business?

Although there has been much focus on stress, anxiety and depression, mental health conditions come in many different guises such as anger, eating disorders, low self-esteem and obsessive compulsive disorder (OCD), to name a few.

Having the right employee benefits package can help you and your company tackle the causes of poor mental health and also promote good wellbeing at work.

A suite of complimentary services are often available from the leading insurers, not only assisting you with your health & wellbeing programme but also enabling you to maximise the return on your investment. ■

For more information on mental health & wellbeing services or specialist advice in relation to employee benefits, contact:

Claire Griffin
Principal, Employee Benefits
+44 (0)141 222 3680
claire.griffin@smithandwilliamson.com

Employers in 2018: Five trends you should be thinking about

These days, it seems like we're never too far away from the next crisis. It can be difficult to keep track of all the changes taking place in wider society. We have identified five areas that all businesses should be considering now, and in the future.

1. Agility

Growing businesses should be fast, reactive, agile and forward-thinking. One way of ensuring this is through cloud business.

Costly IT servers, hardware and software solutions are becoming a thing of the past. The cloud and software-as-a-service solutions are revolutionising the way businesses operate, for everything from enhancing individual accounting functions to full IT infrastructure. Cloud computing allows individuals to store and process data in a privately owned cloud server.

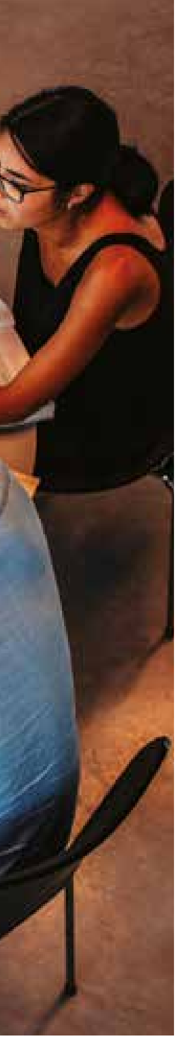
Businesses are waking up to the efficiencies that cloud computing has to offer. We're barely scratching the surface, and yet already the measurable impact it is having on business cost and profit margins is extraordinary.

2. Data and cyber-security

A well-thought-out and developed cyber security plan tends to translate into a business that can identify and react appropriately to the many factors affecting its work. Control of their tech estate is key for any well-managed company.

This is increasingly relevant: the recent implementation of the General Data Protection Regulation (GDPR), which came into force in the UK on 25 May, affects just about any economic entity, regardless of its scale and location. Any company that has its own payroll accounting department or a comprehensive customer administration system is covered, as are all companies that request personal data from customers.

The changes are far-reaching: it is almost unthinkable to consider a company existing without the personal data of customers, suppliers or employees - and the existence of such data should trigger a review to ensure GDPR readiness.



3. Artificial Intelligence (AI)/Robots

At a consumer level, AI can already be seen in products with domestic use (such as Amazon's Alexa personal assistant or the driverless cars currently being developed by Tesla, BMW, Toyota and others).

The potential application to business is equally significant: AI is increasingly automating manual processes and creating efficiencies, while driving down costs and reducing the risk of human error. It also allows businesses to focus their time and effort on the activities which generate the most value.

In future, machines are expected to undertake the cognitive aspects of tasks rather than purely mechanical elements, potentially threatening roles in professional services. Jobs are likely to be lost to technology and artificial intelligence.

The removal of lower to middle skilled jobs will be part of a number of business models. The better businesses will be those that do not lose that workforce, but rather upskill them to support these emerging technologies.

4. Employee benefits

Strategic employee benefits reviews have not been top of recent to-do lists for many human resources or finance directors. Benefits are often assessed on a 'cost' basis, i.e. looking for savings where possible, particularly in times of economic uncertainty.

However, firms also acknowledge the importance of both financial and non-financial rewards in attracting talented people, responding to the aspirations of millennials through a greater focus on training, career development, mentoring and appraisals. Today's workplace has four generations working side-by-side, so it's crucial to establish whether existing benefits are still relevant to your employees.

You should carry out regular reviews of your employee benefits package to determine whether it offers superior benefits compared to your peer group or whether you're lagging behind your competitors, subsequently risking increased staff turnover and failure to attract the highest calibre staff.

This crucial exercise can reveal liabilities and uncover cost savings, along with simple but effective strategies to increase employee engagement. A clear benefits and communications strategy supports organisational goals including staff attraction, retention, productivity, well-being and corporate profitability.

5. Business Continuity Planning

A successful business relies on key people to drive it forward. So what happens when one falls seriously ill or dies? Would the business survive the financial impact of such a loss? What strategy is in place to protect the business should such an event take place?

While all businesses have insurance in place for business premises or key machinery, often the most important asset of the company is not covered – its people.

So, what is a key person?

Anyone whose absence would have a significant impact on the future profits of the business. Normally you would think of the owner(s) or partners as key but there are others whose loss could have a financial impact to the company. A salesperson, technical expert or R&D specialist may be central to the operation of the business too.

How do you quantify the risk?

To be able to manage the risks associated with the key person, there must be an understanding of the financial impact the loss any one individual might have. There are different ways to calculate this; basic multiples of salary, a proportion of payroll or an actual impact analysis are all methods of assessment.

What can a company do to protect itself?

Once the risk has been quantified, appropriate strategies and insurance should be used to mitigate this risk.

A business can use insurance products to protect itself. Sometimes it can be complicated, the structure and taxation can often cause confusion. Broadly, the products can be split into continuity or succession planning. ■

Steve Cave
Associate Director, Financial Services
+44 (0) 20 7131 8194
steve.cave@smithandwilliamson.com

Dream bigger: building a company that grows?

Companies in a period of rapid expansion must consider how to prepare for growth. This can range from getting the right people in (and keeping them), to making sure that your company has the requisite structures in place.

We recently published our *Dream bigger: The scale-up* moment report, a survey of growth companies and entrepreneurs to determine the mindset of the scale-up community. A scale-up is a company that has seen either 20% growth per annum in employees or turnover over three years.

Dream bigger spoke with 500 scale-ups and 500 entrepreneurs to get a sense of what makes them tick, and what they should be looking to do to grow. Two areas that growth companies need to consider are: how to attract and retain the talent needed; and when and how to professionalise their business.

Aim higher: turning good ideas into great business

The most critical asset in any business is its people. Therefore, the ability to attract the very best talent available and then cultivate, motivate and harness its potential is the most vital ingredient of business success. When it comes to hiring, high-growth companies do so more frequently and tend to be better at fulfilling organisational needs. Three quarters (73%) of scale-ups have increased their headcount in the past year, more than double that (32%) of non-scale-ups.

While both high-growth and slower-growth companies are struggling to find the right talent in certain areas, particularly in leadership and business development, scale-ups tend to be happier with their staff. Two in five (41%) say they are satisfied they have all the skills they need, yet this falls to 24% among slower-growth businesses.

One of the major differences between scale-ups and non-scale-ups is the number of employees found in high-growth businesses who display clear leadership qualities and independent thinking. Businesses sometimes find it challenging to retain their valuable talent. A fulfilling job and a purposeful and collegiate environment are generally the basic essentials, but these can often be enhanced by attractive employee benefits or an equity stake in the company.

Work smarter: providing structure to your dream

Professionalisation is about laying the foundations for sustainable success – by working with the best available talent, designing and implementing the right processes and building an internal and external dream team that can take the business to the next level. Businesses can achieve this by strengthening their infrastructure, by investing in people as well as facilities and by developing a strategic, forward-looking roadmap.

It's no surprise that more than one in three (34%) scale-ups believe that a clearly defined strategy has been central to their growth. Among non-scale-ups, when asked what challenges they face in the coming year, more than a quarter (27%) put defining their strategy at the top of the list.

Crucially, any strategy requires both flexibility and focus. A high-growth business, under the direction of its leadership and management team, will typically adapt faster to changing circumstances. Significantly, over a third of scale-ups believe that continuously improving their business model will help them grow faster, yet only 18% of businesses who have not scaled identify it as a key problem.

For a business to professionalise, it needs to develop a compelling strategy and build a management team that understands its role in the growth journey. It's vital that this planning process is inclusive, thereby aligning senior management and a range of other stakeholders as well; it involves time out to work on the business rather than in the business. ■

John Morris
Partner
+44 (0)20 7131 4450
john.morris@smithandwilliamson.com

Our expertise

For over a century, we have managed the financial affairs of private clients and their business interests.

With over 1,700 people in 12 offices in the UK, Ireland and Jersey, we are a leading investment management business and one of the UK's ten largest accountancy firms.

Clients, whether individuals or companies, value our ability to provide tailored financial and professional services to enable them to achieve their ambitions.

Business services

- Assurance and accounting
- Business tax
- Corporate finance
- Corporate trustee services
- Forensic accounting and litigation support
- Fund administration
- Pensions and employee benefits
- Restructuring and recovery

Private client services

- International
- Investment management and banking
- Pensions and personal financial planning
- Strategic advice
- Tax and trusts
- Tax investigations
- Trustee and executorship service

Contact us

For more information

Steve Cave
Associate Director, Financial Services
+44 (0) 20 7131 8194
steve.cave@smithandwilliamson.com