Solutions

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MAGAZINE

Your key to reward, retention and recruitment.

ISSUE 1 - 2017

Choice with benefits.

In this issue of Solutions Magazine, we share our individualised approach to employee benefits to motivate staff, enhance engagement and improve wellbeing.

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WELCOME...

One in two businesses plan to review their employee benefits package this year as a direct consequence of anticipated legislative change.

In our experience, the choice of benefits to staff works best when designed around your corporate strategy. Businesses that are competing for talent or supporting a changing culture may have very different requirements to firms that are supporting a wellbeing programme or committing to help employees plan and save for their future.

On pages 6 and 7, we consider the top five employee benefits, and crucially, on page 8, look at ways to effectively communicate these.

Workers who receive clear and engaging information about their benefits from their employer are more likely to value their reward package and, in turn, feel more positive towards their employer which increases productivity and loyalty.

In theory, the launch of the Lifetime individual saving account (LISA) presents a new way to boost savings for a deposit for a first home or to increase pension pots for retirement. It is widely acknowledged that the LISA is not an alternative to a workplace pension, so how might the LISA work alongside the current UK pensions system? Succession Group's Strategic Partner, Royal London, sponsored the Pensions Policy Institute (PPI) to examine how early access savings schemes work in other countries and you can read their insights on page 10.

The pensions landscape is almost unrecognisable in the years since the launch of auto enrolment. Not only has the UK emerged from a recession, but the Government has introduced radical pension freedoms that potentially allow easy and early access to retirement savings in a move that is seemingly at odds with the inertia principles of auto enrolment.

Having committed to a review in 2017, the Department for Work and Pensions has created a task force to consider the effectiveness of auto enrolment: Does auto enrolment cover the right people? Which demographics, if any, are losing out? Are the guiding principles – based on earnings, age, employment status – still appropriate?

The main auto enrolment update is the re-enrolment for firms that completed their first staging almost four years ago. Read more about this on page 11. As with auto enrolment, the re-enrolment process requires significant engagement, consultation and education for your workers to be certain of a good outcome and to avoid punishing fines for non-compliance.

It is widely expected that most employees will fall short on their retirement saving goals, even when contributing to a workplace pension at 8%. Research from the Pensions Policy Institute shows there is a less than even (49 per cent) chance of an average earner with full state pension hitting the target replacement rate of 67 per cent. But the tolerance for higher contributions both for individuals and economy-wide, given the general pay growth, is likely to be limited.

Succession Group's Wealth Planners welcome the opportunity to work with business owners and entrepreneurs to help you achieve your financial goals and build a tax-efficient investment strategy. Please contact your Succession Wealth Planner or Benefit Consultant for more information.

Bernadette Briggenshaw
CEO - Succession Benefit Solutions

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IN THIS ISSUE...

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INTERPRETING A CLIENT'S ETHICS.

Ethical investing is understanding more than the financials, ethics are very personal, and everyone will have their own perception of what ethical investment is. Ethical investing is simply adding a second set of investment criteria to the existing financial criteria.

Those making investment decisions will already have a financial investment criterion. Are they investing for income? Or are they looking to grow their money? Maybe they are looking for both. Then what kind of risk are investors willing to take to achieve their desired financial returns? Regardless of ethical criteria, every investor will have financial and risk tolerance levels.

Imagine then including a second ethical investment criterion in the investment process. This is known as ethical screening and in turn consists of two components known as positive and negative screening. How the financial and ethical criteria then interact with each other will determine the ethical nature of the fund or portfolio.

When investing in ethical funds, investors will be choosing funds with ethics that are close to their own.

As it happens, when it comes to screening individual portfolios it is interesting to observe that most clients' responses are fairly common. There are two or three very divisive areas, namely animal testing for medical research, oil and gas, and high street banks, but on the whole most clients seek to avoid the bad and invest in the good.

All investors are looking for their investments to provide good financial performance; although ethics play a role in determining what is acceptable, the need and their desire for good investment returns remain the same regardless of an investor's ethics.

When considering each individual asset, the investment can be given an ethical classification. The categories the professional institution uses are listed below:

- **Acceptable companies.**
- **Best-of-sector companies that demonstrate environmental or social leadership in their industry.**
- **Solutions-based companies whose products or services are of direct social or environmental benefit;**
- **Socially directed companies that fulfil a particularly important social or environmental function.**

Anyone looking at this sector needs to start by understanding his or her own ethics and then finding the appropriate investment product.

KING&SHAXSON
ethical investing
Rewarding your Values

AN INDIVIDUALISED APPROACH TO REWARD.

Flexible and voluntary benefits have gained popularity in recent years, in line with the trend for an individualised approach to reward. Succession Benefit Solutions' CEO Bernadette Briggenshaw explains how you can address the needs of your workforce with a cost-effective approach to benefits provision.

Flexible Benefits refers to any employee benefit programme which enables employees to have some choice in the type or coverage of benefits they receive in the workplace. Once the preserve of the multi-national, a dedicated, flexible benefits platform is now within reach of the majority of employers and would cover a wide spectrum of options to help employers reward employees more appropriately.

A Flexible Benefits programme provides relevant and compelling reward packages to meet the different needs of the various demographics of your workforce, instead of the traditional "one size fits all" approach. Even though some of the tax advantages will shortly disappear (until April 2017, both employer and employee could maximise National Insurance savings through salary sacrifice initiatives), Flexible Benefits still have an important role to play in employee reward and recognition.

The choice of benefits to staff works best when designed around your corporate strategy, whether that is to compete for talent, harmonise different benefit entitlements arising from mergers and acquisitions, support a changing culture or as part of a wellbeing programme to help employees plan and save for their future. From April 2017, employers and employees will have to pay "the same taxes as everyone else" if they chose to use flexible benefits schemes that allow an employee to receive part of their salary in benefits such as healthcare or gym membership. Arrangements relating to pensions (including advice), childcare and Cycle-to-Work are currently excluded from the changes.

Technological advances mean Flexible Benefit platforms will become far more commonplace in the next few years. The size of a business is no longer a barrier to a well-managed and professionally-branded site. This is primarily due to improvements in technology reducing the cost of the platform structure and management. It means employees can easily make benefit choices online and automatically generate relevant reports for payroll or the various benefit providers. Technology also makes it easier to integrate pensions - one of the top five benefits – as part of the system.

Introducing (or relaunching) a well-delivered Flexible Benefits scheme does not have to be a major drawn-out project. In our experience, employees respond favourably to just five benefits to flex, together with a selection of discount schemes. The professional packaging and targeting of the scheme counts for more than a never-ending list of offers.

Choosing the right combination of benefits is key, and our specialist team meets with you to determine the right mix for your organisation.

- **Employees will respond favourably to just five flexible benefits.**
- **Business size is no longer a barrier to a flexible benefits platform.**
- **Picking the right benefits to suit the demographics of your business is key.**

Bernadette Briggenshaw
CEO - Succession Benefit Solutions

The five most coveted employee benefits (aside from financial reward) respondents would like to receive by 2025 are:

1. Flexi-time/work-life balance 49%
2. 46% Team building experience
3. Work from home scheme 43%
4. 42% Pension
5. Holiday pay 38%

Source: Grassroot's Future of employee benefits report.

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COMMUNICATION IS KEY TO EMPLOYEE ENGAGEMENT.

We've all heard the saying that communication is key, but why is it so important when it comes to employee benefits? Succession Benefit Solutions' CEO Bernadette Briggenshaw suggests how to bring your benefit communications to life. Why communicate?

Communication is vital to ensure that employees actively engage in their workplace benefits, understand them, and recognise the value of them.

Workers who receive clear and engaging information about their benefits from their employer are more likely to value their reward package and, in turn, feel more positive towards their employer which increases productivity and loyalty.

So – how can employers encourage their employees to take advantage of their workplace benefits?

Building awareness and engagement is the best way of encouraging your employees to take action.

Communicating with a diverse range of people, with individual requirements can be a challenge. Different preferences based on gender, age, salary and existing benefit scheme participation will complicate matters. Financial education targeting specific demographics is one solution.

And technology can allow businesses to tailor communications to employees' individual needs.

People want to access information when it is convenient for them, in a way that's easiest for them. Technological advances mean Flexible Benefits platforms will become far more commonplace in the next few years, with the size of the business no longer seen as a barrier to well-managed and professionally-branded sites, offering a range of attractive and compelling benefits.

There also needs to be a regular programme of communication – which could be as simple as linking in with national awareness days, highlighting the need for protection benefits such as life assurance, income protection and mortgage advice. By being topical, your message will be amplified by similar messages in other media.

Using case studies can powerfully highlight the advantages of each benefit, as employees can relate to these real-life stories. The tone and language used must be straightforward and simple. Some benefits, such as pensions, are often seen as complex because of the use of jargon. Using simple and easy to understand language will encourage employees to read the communication and take any necessary action.

- **Make it possible to access Flex information easily, and at a time that suits your workers.**
- **Communicate regularly. Being topical means YOUR message will be reinforced by other media.**
- **Use case studies to highlight the advantages of each benefit you offer.**
- **Business size is no longer a barrier to a flexible benefits platform.**
- **Picking the right benefits to suit the demographics of your business is key.**

Awareness days to breathe life into your benefit communications.

World Cancer Day	2017 4 Feb
Walk To Work Day	2017 7 April
Pension Awareness Day	2017 15 Sept
Make a Will Month	2017 March
Mental Health Awareness Week	2017 8 May
National Stress Awareness Day	2017 1 Nov
National Happiness Day	2017 20 March
Dementia Awareness Week	2017 14 May
Financial Capability Week	2017 13 Nov
Stress Awareness Month	2017 1 April
Diabetes Awareness Week	2017 12 June
Financial Planning Week	2017 19 Nov

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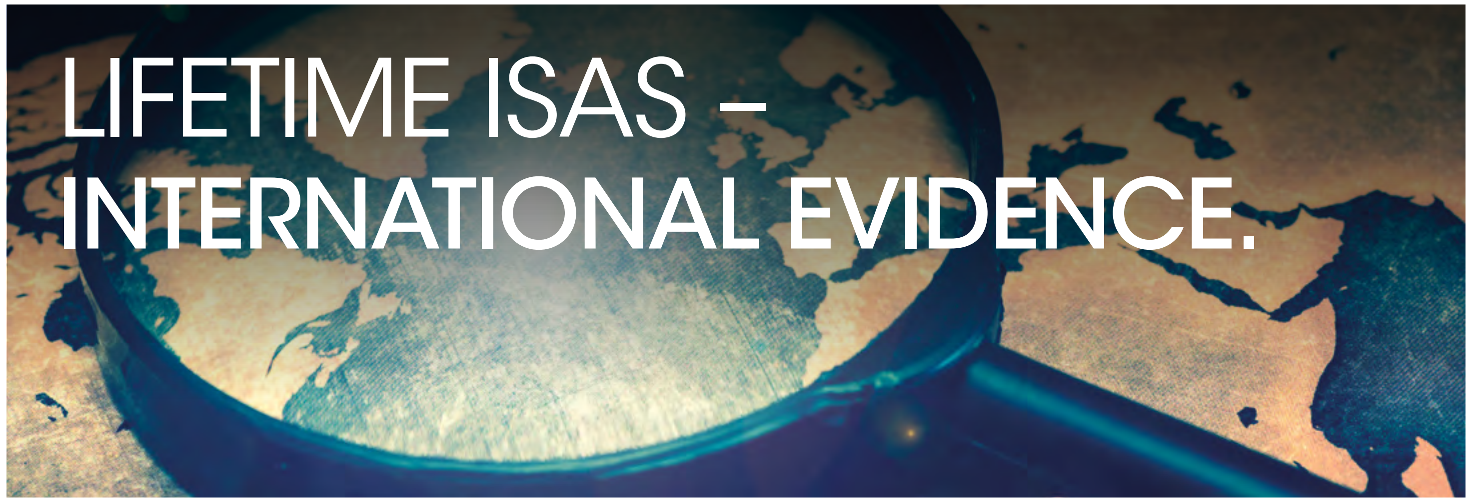
LIFETIME ISAS – INTERNATIONAL EVIDENCE.



Since the announcement in March 2016, the Lifetime ISA (LISA) has attracted controversy. Heralded as a saviour for the self-employed and the young wanting to get on the housing ladder, the new LISA risks adding confusion for savers trying to fully understand the benefits of new workplace pension savings through auto enrolment.

To better understand how the LISA could potentially work with the current UK pensions system, Royal London sponsored independent research by the Pensions Policy Institute (PPI) to examine the international evidence of how early access savings schemes worked in other countries.

The PPI research examined evidence from five countries, the United States, Canada, Australia, New Zealand and Singapore and compared similar propositions in those countries to the proposed LISA available in the UK from April 2017.

Royal London fed into the research, through a panel debate which included representatives from the Treasury, DWP, ABI and Personal Finance Society, among others.

The findings raised a number of key issues about the impact of the LISA on long-term savings in the UK which will need to be addressed before they are launched.

- Firstly, in all of the countries surveyed, early access schemes were integrated into the wider pensions system. Without the need to select a separate product for early access saving, this means that savers don't miss out on valuable employer contributions, the loss of which PPI calculated could reduce LISA savers' pot sizes by up to a third at retirement. This integration extends to being able to secure an income in retirement, the mechanics of which for prospective LISA savers is still not clear.

- Early access has affected the investment attitudes of long-term international savers. Evidence from the US and New Zealand shows that savers are more conservative, investing in lower-risk, lower-return assets that are highly liquid. Given that over 80% of ISAs, are currently held in cash, a trend particularly pronounced among young savers, it is likely that LISA savers will follow a similarly risk averse strategy. This is potentially not the best investment strategy for long-term pension saving.

- One of the stark differences between a LISA and international early access long-term savings regimes is the treatment of first home purchase. Just 1.8% of the 2.5 million New Zealanders using the 'KiwiSaver' scheme had withdrawn money for a first home. In Singapore, funds withdrawn to purchase a home must be repaid with interest, when the property is sold to mitigate loss of funds.

- There are also tax restrictions in other countries to encourage phased withdrawals. There is no proposal yet on whether the funds accessed from LISA will require repayment or restrictions on withdrawals to ensure savings are not depleted too early.

- One of the arguments in favour of LISAs is that they will allow savers to withdraw their money free of any tax charges, if they meet the terms outlined. In Australia, where withdrawals are currently tax-free on Superannuation policies, the most recent Australian budget proposed a retrospective tax of 15% on withdrawals of above AS$1.6 million. This is a high amount but PPI flag that this is a way for Government's to limit the tax free savings available and increase revenue. This questions whether LISA will always be TEE in the long-term.

- LISAs are not framed as workplace pensions and so will not be regulated by The Pensions Regulator. This means that LISA savers are unlikely to benefit from a charge cap, which is currently set at 0.75% or the provision of free guidance. This could have a significant impact for long-term savings. PPI estimated that if Lifetime ISA funds were charged at 1-1.5%, they could erode the value of a savings pot by 13% by retirement.

- In addition, in other countries, early access is monitored by a combination of providers, employers and government. If LISA providers are responsible for managing early access this will increase the administrative burden resulting in higher charges for LISA savers.

ROYAL LONDON

WHAT'S NEXT FOR AUTO ENROLMENT?

As more than 10,000 early adopters of the workplace pension scheme gear up for the first major review since implementation, Succession Benefit Solutions' CEO Bernadette Briggenshaw considers the effectiveness of auto enrolment in advance of the DWP review, and next steps for those ready to re-enrol.

With nearly seven million employees automatically enrolled into a workplace pension*, the policy designed to get more people saving for their retirement is clearly a success.

We are now more than halfway through the six-year rollout to implement workplace pensions within all businesses across the UK. For those businesses already auto enrolled, the third anniversary heralds re-enrolment - a review process to ensure the right people are participating in the scheme.

Coinciding with the opportunity for employers to review the process, the Department for Work and Pensions has created a task force to consider the effectiveness of auto enrolment: Have the right people been included? Which groups, if any, are losing out? Are the guiding principles – based on earnings, age, employment status – still appropriate?

Re-enrolment.

Those businesses facing their third anniversary of auto enrolment will now be gearing up for re-enrolment. With staff already enrolled in your pension scheme, or opting-out for personal reasons, this three-year review is the opportunity for your employees to reassess their retirement planning. It is also a good opportunity for you to review your relationship with your workplace pension scheme provider.

The Pension Regulator has made it clear that businesses should re-enrol certain staff into the workplace pension scheme within a six-month window of the third anniversary of the scheme set up.

As with auto enrolment, the re-enrolment process requires significant engagement, consultation and education for your workers to be certain of a good outcome and avoiding punitive fines for non-compliance.

Those staff qualifying for re-enrolment must be placed into a scheme that is suitable for automatic enrolment, and your business must start paying into it within six weeks of the re-enrolment date.

Even if the re-enrolment process results in no change, you still have to take action and complete a re-declaration of compliance within five months of the third anniversary of your staging date. If you don't, it can lead to a fine.

*Source: http://www.workplacepensions.gov.uk/employee/

Re-enrolment imposes new duties and almost certainly will incur additional costs for your business. Our professional Consultants are available to provide expert advice and work closely with you to implement appropriate solutions. For more information about your enrolment responsibilities go to www.tpr.gov.uk/detailedguidance.

- **There is an established link between an employee's financial well-being and employer's bottom line.**
- **Your Succession Benefit Consultant can help you deliver a financial education package.**
- **The pensions regulator expects businesses to provide pensions education to workers. But why stop there?**

Re-enrolment at-a-glance.

Complete an initial assessment and identify staff who have:

- asked to leave (opted out of) your pension scheme.
- left your pension scheme after the end of the opt-out period .
- stayed in your pension scheme – but chosen to reduce the level of pension contributions to below the minimum level, and who meet the age and earnings criteria to be re-enrolled.

A more in-depth investigation will identify staff you must re-enrol (and those you can allow to opt out). Anyone who left your automatic enrolment pension scheme more than 12 months before your re-enrolment date and:

- is aged between 22 and state pension age.
- and earns over £10,000 a year, or £833 a month, or £192 a week must be put into a pension scheme, and you must both pay into it.

You can also choose to re-enrol any staff who:

- left your automatic enrolment pension scheme in the 12 months leading up to your re-enrolment date.
- were paid a winding-up lump sum in the 12 months before your re-enrolment date, then left your employment and were later re-employed by you.
- have given notice or been given notice of the end of their employment.
- have primary, enhanced or fixed protection from tax charges on their pension savings.
- hold the office of director with the employer.
- is a partner in a Limited Liability Partnership which is the employer, and is not treated for income tax purposes as falling within HMRC's 'salaried member' rules.

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FINANCIAL EDUCATION IN THE WORKPLACE?

IT'S A WIN-WIN FOR ALL.

With pension changes, increasing life expectancy, uncertain economic times, rising inflation and constant changes to the tax system, it should come as no surprise that employees of all ages are confused and uncertain about their financial future. But where can they go to get help? Succession Benefit Solutions' CEO Bernadette Briggenshaw considers the options.

Financial worries in the workplace take many guises: from new recruits struggling with university debts or saving for their first home, to the sandwich generation who are supporting both parents and children, through to people in their late career considering retirement options arising from pension freedoms and no definitive retirement date.

Everyone needs help to make the most of their money so they can live the life they desire without the fear of running out of money. But whose responsibility is it to equip employees to make confident, informed decisions about their finances and deal with their financial challenges?

The answer might be whoever has most to benefit. And with an established link between the impact of financial worries on employee health and productivity and your bottom line, that could be you.

Equipping your colleagues to take control of their finances not only improves their state of mind, it has been proven to boost productivity levels (Source: Institute for Employment Studies)

Succession Benefit Solutions provides a comprehensive suite of financial education services to support employees at key stages of their lives. Presentations, one to one consultations, seminars, telephone support and newsletters are available.

Some employers are already going a step further: providing wealth planning support to help employees establish and clarify financial goals and objectives and to be certain they are making the right level of contributions that are invested appropriately, and to understand what they will do with their money afterwards.

Employers can arrange a one-to-one session for employees with a Succession Benefit Solutions Consultant to answer more personal questions, and it is currently possible for employees to get tax relief on £150, increasing to £500-worth in 2017, of financial advice. This can be worth doing to ensure employees are making the right level of contributions for their financial goals and ambitions, are invested in the right funds and understand what they will do with their money afterwards.

Why it pays.

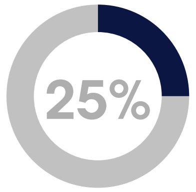
According to the Future of Financial Wellness Report, just 7% of employers said they offered any type of retirement planning support to staff, yet almost all (97%) provided a pension scheme.

Unsurprisingly, the Pensions Regulator has said it expects employers to provide financial education to employees in respect of workplace pensions, but employees need to be aware of the bigger picture when making financial decisions that will affect the rest of their life. For example, an awareness of the state benefit allowance might help workers to agree a higher contribution to the workplace pension than the minimum available.

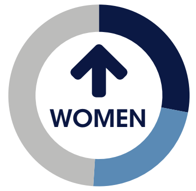
In general, we have found that the benefits to our employer clients of delivering a straightforward financial education programme far outweigh the relatively low cost of implementation. It is an important part of looking after the well-being of staff members, and that has an advantage for both parties.

Money Worries.

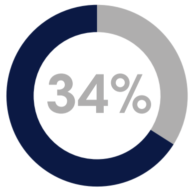
A quarter of employees with money problems feel it affects their ability to do their jobs.



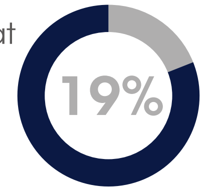
More women (28%) than men (23%) feel that money worries affect their work



This figure rises to more than a third for younger employees.



Almost one in five report that losing sleep over financial worries has impacted their ability to do their jobs.



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Source: UK Employee benefits trends study 2017; Financial Wellbeing: the employee view report.

NICS INCREASE AVERTED BUT DIVIDEND ALLOWANCE CUTS PROVE **FINANCIAL PLANNING IS AN ONGOING PROCESS.**

It was a measure designed to reduce the difference in taxes paid by employed and self-employed people with a proposed increase in Class 4 National Insurance contributions (NICs) for self-employed workers from 9% to 10% in April 2018, and increasing by a further 1% in 2019. But there was a dramatic change of heart a week later, saving self-employed taxpayers £325m in 2018-19.

Dividend cuts.

Described by The Federation of Small Businesses as "a further disincentive for businesses to invest and grow", the reduction in dividend is the biggest tax raiser in Chancellor Philip Hammond's Budget, netting an increasing amount for the Treasury, bringing in £930m in 2021-22, according to the Government's website.

The dividend allowance of £5,000 was announced by the previous chancellor, George Osborne, in 2015. This cut to £2,000 is designed to "address the unfairness" around the dividend allowance, which the Chancellor described as "an extremely generous tax break for investors with substantial share portfolios".

Changes to business rates.

The Chancellor announced three changes designed to mitigate the impact of the recent rate revaluation of business rates, which has seen rates increase significantly in some parts of the country:

- Businesses exiting small business rate relief will receive an additional cap, meaning their rates will not increase by more than £50 per month.
- Pub owners will receive a £1,000 discount on business rates, as long as they have a rateable value of less than £100,000 (it is reported this will benefit approximately 90% of all pubs).
- A £300m fund will be made available which will give councils the flexibility to provide discretionary relief to struggling businesses.
- The Chancellor says these measures amount to a further £435m cut in business rates, but critics slammed the changes to NICS as "tax hikes" and said they put businesses at risk.

Investment in infrastructure.

The Midlands and the North will benefit from a major investment in roads and rail and the Government's "Midlands Engine" strategy - designed to increase growth outside of London - is set to be launched imminently, with a focus on technical skills, infrastructure and productivity.

New changes take effect.

Businesses were already expecting to be affected by changes to benefits and taxes.

As previously confirmed, from 6 April 2017 the Income Tax personal allowance increases to £11,500: the higher rate tax threshold will rise to £45,000. The Chancellor reaffirmed the Government's commitment to raising the personal allowance to £12,500, and the higher rate tax threshold to £50,000, by the end of this Parliament.

The Chancellor did announce that he will delay the change for those under the VAT threshold by a year but Making Tax Digital may not be so well received.

The "national living wage" increases to £7.50 per hour from April and corporation tax is to be reduced to 19% in 2019 and then to 17% by 2020. Meanwhile, the threshold at which VAT is to be paid rises in April from £83,000 to £85,000.

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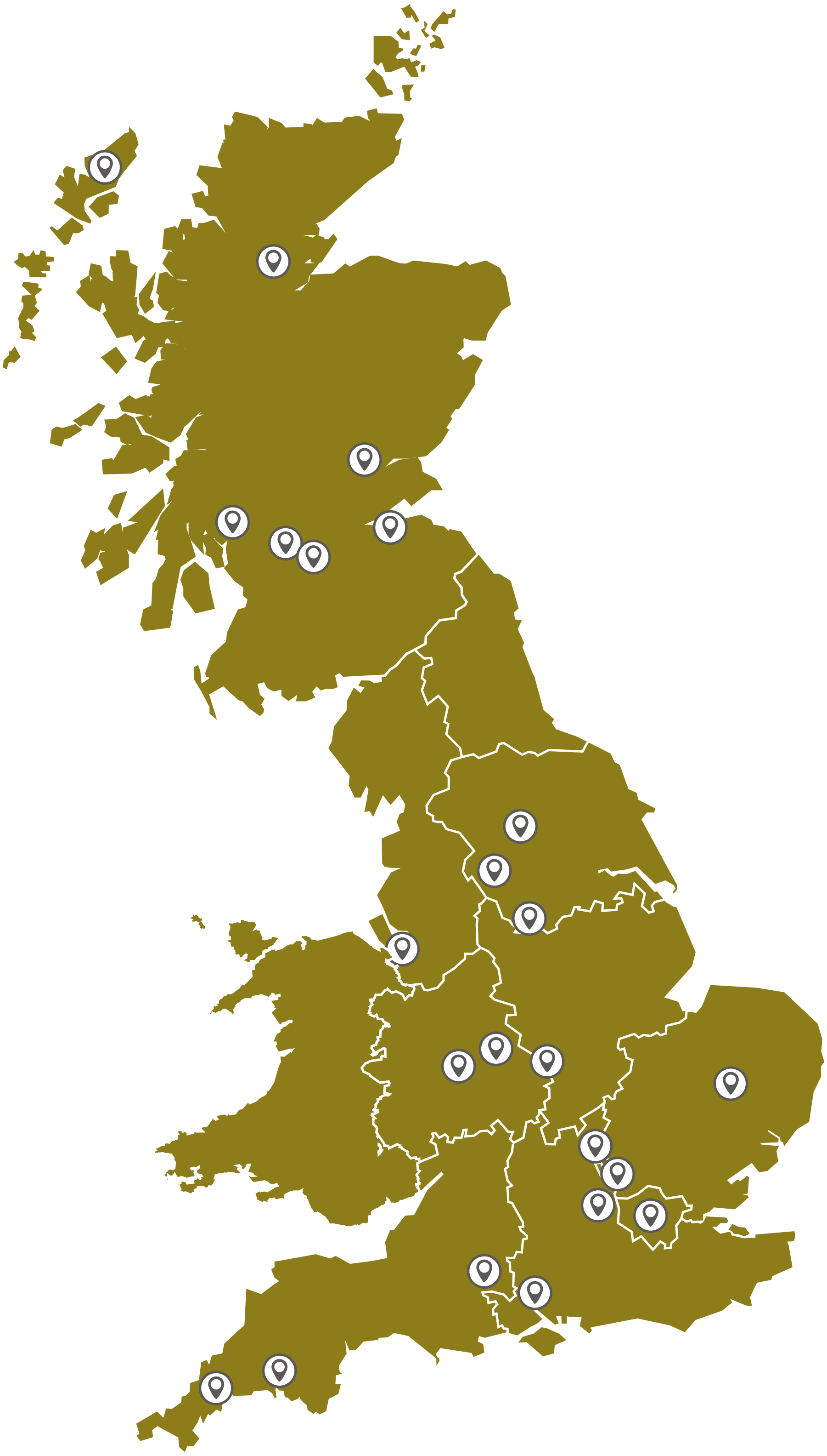

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