

Market and Benchmark Insight Report for the United Kingdom – 2020

Competitive benefit norms for mid-market employers in the United Kingdom

Introduction

Howden Employee Benefits & Wellbeing – HEB&W – (previously Punter Southall Health & Protection) provides independent employee benefit advice to over 2,000 UK employers and therefore has substantial benchmarking data to help companies see how their benefits compare in their sector. We are regularly asked by multinational employers to benchmark employee benefits in the UK, and this document provides such guidance.

This document considers:

- The UK Benefits Landscape – UK Benefits Menu Mandatory Requirements and Employment Law
- Typical Benefit Design and Cost
- Adviser Remuneration

We are proud to be an Asinta Partner, and hope this document is of use to you.

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1. UK BENEFITS LANDSCAPE

Employee benefits are important in the UK as they help recruit and retain employees and reflect the employers' brand. They vary substantially, based on four key dynamics:

- Sector – Private or Public
- Industry Type
- Salary Level
- Location



1.1 Public Sector Employees

Workers in the Public Sector are often members of trade unions and have a very generous range of employee benefits that typically include:

- Defined Benefit Pension Plans
- Life Assurance (through the pension plan)
- Income Protection (LTD) – provided as an ill health early retirement (typically inside the pension scheme)
- Sick Pay – possibly six months full salary and six months half pay

If you are dealing with employees who are transferring from the Public Sector, we have a specialist team that looks at TUPE transfers and how you have to comply with TUPE (transfer of undertakings) legislation.

1.2 Industry Type

Benefits vary widely according to industry type. For example, we see generous benefits in the financial services, high-tech, and professional services sector. However, in the retail and hospitality sectors, benefits are far lower. We can provide sector specific benchmarking and advise on appropriate benefit design.

1.3 Salary Levels

Salary levels will impact benefit provision. In lower paid industries, you may find only senior managers are provided with supplemental employee benefits. However, if you have employees with substantial salaries (where base salary is over £180,000) these staff may have limitations applied to pension contributions. Please note in 2017, the average UK salary in the Private Sector was £26,400.

1.4 Location

The location of employees can influence benefit provision and salaries. Costs will be higher in London and the South East. It should be noted that knowledge hubs such as Bristol (tech) or Aberdeen (oil and gas), you will see salary and benefit costs being higher.





2. UK BENEFITS MENU

The ranges of benefits that are typically available to employees in the UK are shown in this table.

2.1 Mandatory Benefits

BENEFIT	COMMENTS
Pension	<p>A mandatory benefit in the UK subject to legislation. Employers must comply with legislation and auto enroll eligible employees into an appropriate pension.</p> <p>The auto enrollment minimum contribution is currently 2% of which at least 1% must be paid by the employer. In April 2018, the minimum contribution increases to 5% of which at least 2% must be paid by the employer. In April 2019, the minimum contribution increases to 8% of which at least 3% must be paid by the employer.</p> <p>The numbers shown above are minimum requirements. Most employers base their contribution strategy on industry norms and benchmarking data provided.</p> <p>When designing your UK pension great care needs to be taken in three areas:</p> <ul style="list-style-type: none"> • Contributions – how do they benchmark in your sector? • Supplier – selecting the best supplier based on service and costs is important • Default Fund – employers should consider the selected default fund and make active choices in this area
Holiday Pay	<p>Mandatory – All workers are legally entitled to 5.6 weeks paid holiday per year (known as statutory leave entitlement or annual leave). An employer can include public holidays as part of statutory annual leave. It is common that employers provide greater holidays than minimum and can offer the option of increasing holidays by 'buying' extra days.</p>
Maternity / Paternity Pay	<p>When an employee is pregnant they may be entitled to various payments from the employer. Full rules can be found at www.hmrc.gov.uk.</p>
Sick Pay	<p>Government provides Statutory Sick Pay benefits – however, most employers voluntarily top up this minimum benefit by offering contractual sick pay benefits. A common approach here is to pay some sick pay (2-4 weeks for example) at full pay and then reduce payments. Some industries are very generous whereas other sectors provide no supplemental sick pay.</p>
Eye Tests	<p>For VDU users, you must:</p> <ul style="list-style-type: none"> • Provide a full eye examination free of charge to you when you commence VDU work and at regular intervals thereafter • Pay for a pair of basic glasses if it is shown that you require these specifically for VDU use, or an equivalent amount of money towards a pair of your choice.



2.2 Wider Benefit Provision

BENEFIT	COMMENTS
Company Cars	Small numbers of employees can be provided with company financed cars and/or fuel, or an allowance in lieu. Company cars are not as popular in recent years as the government taxes this benefit heavily. However, in a work environment where employees travel on business, you may see either company cars provided or a car allowance paid.
Season Ticket Loan	Common for commuters. The employer loans the employee money to buy a discounted annual season ticket and reclaims the money each month from salary.
Childcare Vouchers	A Government supported tax efficient childcare scheme. Various suppliers are available to administer these schemes on your behalf.
Bike to Work	Another tax efficient scheme to encourage commuting by bicycle, it allows employees to purchase a bike tax free (up to a limit). Like childcare vouchers, various suppliers exist.
Voluntary Benefits	Larger employers will often provide employees with a range of 'voluntary benefits' which can be provided at discounted prices through the employer.
Flexible Benefits	It is increasingly popular to provide flexible benefits where employees can select benefits from a menu. Howden can provide flexible benefit portals if required.
Share Save Plans	Common with employers who want to encourage staff participation in company shared ownership.
Gymnasiums	Very large employers can provide 'gym on site' facilities whereas smaller employers may offer gym subsidies or access to a gym with lower corporate rates.
Workplace Canteens	Common with larger employers and can be highly valued. Food is provided at a discounted rate, this could include breakfast, lunch, and dinner.

When providing any benefit in the UK, you have to comply with UK 'Equality Act' legislation. This means treating all staff equally irrespective of gender, disability, etc. Benefit provision also has to comply with age discrimination legislation, which states that all staff up to State Pension Age (currently age 65 rising to age 68 over the coming years) have to be treated equally.

When designing your benefits, you need to consider your sector, employee census data, and objectives – as advisers, we need to help you design your benefits that work for you and are within your budgets.





3. INSURED BENEFITS – DESIGN AND TYPICAL COSTS

Below we have shown the most popular insured employee benefits in the UK and typical levels of cover.

BENEFIT	COMMENT/COST	LOWER QUANTILES APPROACH	MEDIUM QUANTILE APPROACH	UPPER QUANTILE APPROACH
Life Assurance	<p>The most common non-mandatory benefit in the UK Life Assurance is provided through a Life Assurance Trust.</p> <p>Premiums will vary according to ages, occupations, locations - typically are around 0.1 to 0.2% of salary.</p>	2 x basic salary – an approach often taken by US owned companies.	4 x basic salary (most common benefit level in UK).	6 x basic salary or more is provided in some sectors.
Income Protection (Long Term Disability)	<p>Is often provided to selected professions and higher-grade employees.</p> <p>Legacy older plans typically operate to a benefit basis of 75% of salary less State Incapacity Benefit that might be paid by the Government.</p> <p>Deferred period is normally 26 weeks.</p> <p>Newer plans tend to operate to a lower level (50% of salary) with no State offset.</p> <p>Premium costs are typically around 0.5% of payroll.</p>	Unusual except in the leadership team.	More likely. Employees covered for between 75% and 50% of salary payable to State Pension Age.	All employees covered – on a generous plan of 75% of salary to State pension age.
Medical Insurance	<p>Costs will vary based on census data and benefit design. Typical annual premiums range for a single employee between £600 to £1,000.</p> <p>Medical insurance is a taxable benefit in the UK – premiums paid by the employer are classed as income.</p> <p>The typical excess (deductible) is £100 per person per annum.</p>	Senior staff only covered – providing cover for just the employee.	Many employees covered, with senior employees allowed to cover their dependents at the employer's expense.	All staff and dependents covered at employer's expense.
Dental	<p>Rarely provided in the UK. Some US employers do provide as this links to legacy US provision. Premiums on average are £240 per annum for a single employee.</p> <p>Dental insurance is a taxable benefit in the UK – premiums paid by the employer are classed as income.</p>	Not provided.	Not provided.	Provided to all employees (normally US owned businesses).

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INSURED BENEFITS – DESIGN AND TYPICAL COSTS continued:

BENEFIT	COMMENT/COST	LOWER QUANTILES APPROACH	MEDIUM QUANTILE APPROACH	UPPER QUANTILE APPROACH
Employee Assistance Programs (EAP)	<p>Most UK companies will provide access to an EAP. EAPs can be bought on a stand-alone basis or can be included within an Income Protection (LTD) policy.</p> <p>Higher quality policies will include face to face counseling as well as a telephone helpline. Costs will be less than £20 per employee per annum.</p>	Provided.	Provided.	Provided.
GP Service	<p>Providing a 24-hour GP service is becoming popular as it stops employee waiting to see an NHS GP. This benefit will cost between £12 to £18 per employee per annum.</p>	Not Provided.	Senior Management.	All Staff benefit.

4. SETTING UP POLICIES

Employers often ask us to comment on how policies need to be set up in the UK and possible restrictions that could apply.

4.1 Life Assurance

- Life Assurance needs to be set up under an appropriate Trust in the UK. Setting up the correct Trust is vital otherwise substantial tax charges will apply. Howden can help register your Trust and will explain Trust options.
- If your policy has less than 15 employees covered the premiums may need to be set on an age rated basis.
- The free cover (insurance level before medical underwriting applies) will depend on group size. Schemes with less than 40 employees may have reduced free cover available.
- All insurers will need information on any current long term absent employee or any employee you are aware of who is substantially ill – this information will impact heavily on premiums.

- Cover normally ceases at State Pension Age (SPA) – you can extend cover to 75 if required but rates may be higher.
- Beware of global policies not set up under Trust as these policies often are not appropriate in the UK for tax reasons.

4.2 Income Protection (LTD)

- Easier to set up than Life Assurance as no Trust is required.
- Cover will not apply to any employee not active at work when policy commences.
- Claimants typically remain employed so employer's pension contributions and National Insurance still apply – do you also want to insure these costs?
- Typical deferred period in the UK is 26 weeks – less than this is unusual
- Normally insures basic salary only, not bonuses.



4.3 Medical Insurance

- Care needs to be taken if the policy insures fewer than 100 employees as premiums might be based on individual employee's ages.
- Smaller schemes (fewer than 100 employees) might have a restriction applied in respect of covering pre-existing conditions – this needs to be checked.
- Premiums will be based on factors including:
 - Claims history
 - Eligibility
 - Scheme size
 - Employee contributions (if any)
 - Locations
 - Employee age profile
- Employers with over 500 insured employees may wish to consider self funding the policy – Howden can advise as required.
- A Health Trust might be worthwhile if premiums exceed £500,000 per annum.

4.4 Dental Insurance

- These policies are quite straightforward to set up in the UK. Need a minimum of 10 employees to make policies viable.

4.5 Employee Assistance and GP Services

- These policies are quite simple to arrange irrespective of employee numbers.



5. ONBOARDING AND POLICY ADMINISTRATION

Onboarding

In the US, great attention is given to the onboarding process and the choices employees have to make. In the UK, there is far less emphasis on this process as for most benefits there is little choice and employees are automatically enrolled into policies.

Employee communication: we can support the following approach to meet client needs:

- Staff presentations
- Benefit communication packs – including joiner packs
- Benefit videos
- Bespoke benefit portals allowing employees to have secure access benefit data (need to have in excess of 100 employees)



Policy Administration

As advisers, we provide full policy administration support, this includes any queries raised, and ensuring policies are up to date and of course claims.

We also provide access to a portal for online administration of Life Assurance and Income Protection policies. This platform allows you access to member data and can be accessed through a secure logon facility. The portal allows clients to simply add and delete members knowing cover is automatically processed.

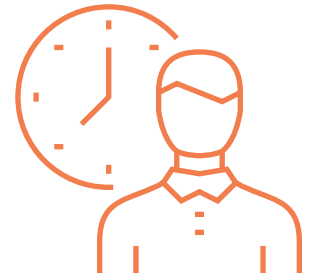


6. ADVISER REMUNERATION

We base our costs on the requirements of the client and the time spent providing that service. Commissions can be payable on insured policies (not pensions) we will be happy to discuss fee or commission options.

When looking at fees, we consider:

- Time required to set up any new policies
- Life Assurance Trusts – are these correct?
- Total number of policies to advise on
- Do you want face-to-face client meetings in UK or a telephone service?
- Do you require member communication services
- Size of policies (expected claims volumes)



We will provide a full-service specification along with Terms of Business. Our contracts are based on three month's notice periods applying.

7. HOWDEN CONTACT

For all inquiries please contact Adam Riley.



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