

# United Kingdom Benefits Landscape — April 2021

## Competitive benefit norms for employers in the United Kingdom

### Introduction

Howden Employee Benefits & Wellbeing provides independent employee benefit advice to over 2,000 UK employers and 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:

- UK Benefits Landscape
- Wider Benefit Provision
- Setting up group policies
- Tax Treatment of benefits
- Onboarding and Policy Administration
- Data Analytics
- Adviser Remuneration

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

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# United Kingdom Benefits Landscape

## 1. UK BENEFITS LANDSCAPE

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

- Sector category – Private or Public
- Business sector
- Employee demographics (age, gender, occupation & salary)
- Location



### 1.1 Sector Category (Private or Public)

Workers in the public sector are often members of **trade unions** and typically have a very generous range of employee benefits that usually include:

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

When dealing with employees who are transferring from the public sector to the private sector, there may be a requirement in the UK for the new employer to comply with TUPE (Transfer of Undertakings (Protection of Employment)) legislation.

### 1.2 Business Sector

Benefits vary widely according to business sector. For example, generous benefits are typically offered in the financial services / banking, high-tech and professional services sector. However, in the retail and hospitality sectors benefits may be more limited and less generous. We can provide sector-specific benchmarking services, and advise on appropriate benefit design.

### 1.3 Employee Demographics

The UK has a mixed economy, but increasingly the service industry dominates with manufacturing and agriculture making up less than 20% of GDP. Most employees are therefore involved in the service and support sectors. The current average full-time salary in these sectors is £35,423. However, there is a significant shift away from full-time towards part-time employment, and employment in the GIG economy.

Other than holiday, pension, statutory sick pay, and certain maternity and paternity benefits, other benefits in the UK are not compulsory. With the exception of pension, all of the benefits detailed below are offered at employer's discretion.

The cost of benefits is determined by a number of factors such as the level of benefits provided, but also the demographics of the workforce covered, such as age, gender, occupation and salary.

More comprehensive benefit packages are often provided to all employees in sectors such as banking insurance and finance, as well as industries such as technology and pharmaceuticals. In other industries such as retail, the care sector, agriculture and manufacturing, certain benefits tend to be provided to senior employees only, with either none or very limited benefits being offered to other employees (other than mandatory benefits). While certain benefits are provided in the public sector, because the funding model is quite different to the private sector, these benefits are often provided without the need for insurance products.



## 1.4 Location

The location of employees can influence benefit provision and salaries. For instance, costs for healthcare will be higher in London and the South East; some benefits can be cheaper in the South East such as Income Protection and Life Assurance due to better morbidity / mortality. It should be noted that knowledge hubs such as Bristol (tech) or Aberdeen (oil & gas) may see higher salary and benefit costs.

The range of mandatory benefits provided to employees in the UK are shown below:

BENEFIT	COMMENTS
<p><b>Pension</b></p>	<p>A mandatory benefit in the UK subject to legislation. Employers must comply with legislation and <b>auto enroll</b> eligible employees into an appropriate pension.</p> <p>Pensions Auto-Enrollment means employers are required to provide a minimum level of pension provision for employees. The minimum contribution rate for workplace pension schemes is currently 8% of 'qualifying earnings' (as defined in legislation). At least 3% of this must be paid by the employer. However, pensions are considered a key benefit in the UK and many employers contribute significantly above the minimum level.</p> <p>Employees are able to contribute more, but in the UK there are maximum annual allowances which must be considered.</p> <p>When designing a UK pension scheme care needs to be taken in five main areas:</p> <ol style="list-style-type: none"> <li><b>Contributions</b> – what level of contributions will be competitive and attract the right talent?</li> <li><b>Contribution method</b> – the most tax efficient method of deducting contributions is Salary Exchange (also known as Salary Sacrifice) as it gives maximum reliefs in terms of tax and national insurance, to the employee and employer.</li> <li><b>Carrier selection</b> – selecting the best supplier based on proposition delivery, terms, employee engagement support and financial strength.</li> <li><b>Default fund</b> – The pension provider will offer a specific default fund for enrollment which is run under strict governance criteria. However, some employers may prefer to select an alternative default fund for enrollment, based on their own considerations and requirements relating to performance, environmental and social governance.</li> <li><b>Employee support</b> – how is the scheme communicated and what specialist support are they provided with?</li> </ol>
<p><b>Holiday Pay</b></p>	<p>All workers who work a 5-day week are legally entitled to receive at least 28 days' paid annual leave a year. This is the equivalent of 5.6 weeks of holiday (known as statutory leave entitlement or annual leave). An employer can include public holidays as part of statutory annual leave.</p> <p>It is common for UK employers to provide greater paid holidays than the statutory minimum. In addition, many employers will offer employees the option of increasing their holiday entitlement by 'buying' extra days as part of a flexible benefits arrangement.</p>
<p><b>Maternity / Paternity Pay</b></p>	<p>Full rules can be found at <a href="http://www.hmrc.gov.uk">www.hmrc.gov.uk</a>.</p>
<p><b>Sick Pay</b></p>	<p>The government requires employers to provide a minimum level of Statutory Sick Pay – 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>



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## 2. WIDER BENEFIT PROVISION

In addition to any mandatory benefits, employers will often provide a wider range of benefits to help recruit and retain employees and support workplace wellbeing. The most common benefits are shown below:

BENEFIT	COMMENTS
<b>Company Cars</b>	Some employees are provided with company financed cars and/or fuel, or an allowance in lieu.  Company cars have become less popular in recent years as tax advantages have been removed. However, where employees travel on business you may see either company cars provided or a car allowance paid.
<b>Season Ticket Loan</b>	Common for commuters. The employer loans the employee money to buy a discounted annual season ticket and reclaims the money each month from salary.
<b>Childcare Vouchers</b>	A Government supported tax efficient childcare scheme. Various suppliers are available to administer these schemes on your behalf.
<b>Bike to Work</b>	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.
<b>Voluntary Benefits</b>	Some employers provide employees with a range of 'voluntary benefits' which can be provided at discounted prices through the employer.
<b>Flexible Benefits</b>	It is increasingly popular to provide flexible benefits where employees can select at least some benefits from a menu, although most employers will still look to ensure a 'core' element for certain benefits is always included.
<b>Share Save Plans</b>	Common with employers who want to encourage staff participation in company shared ownership.
<b>Gym Membership</b>	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.
<b>Workplace Canteens</b>	Common with larger employers and can be highly valued. Food is typically provided at a discounted rate.

When providing any benefit in the UK, employers need to comply with the UK 'Equality Act' & Discrimination legislation. This means treating all staff equally irrespective of gender, race, disability etc. and providing equal access to all staff up to State Pension Age (SPA) (anywhere up to age 68).

When designing a benefits strategy, employers should consider the sector, employee demographics, wider business objectives, HR resource and capability, and the employee value proposition. Data analytics are being more widely used in benefit strategy design to ensure the benefits offered best meet the needs of the organisation's individual workforce, and that benefit spend is allocated efficiently.





## 3. SETTING UP GROUP POLICIES

### 3.1 Life Assurance

- A plan can be established from 3 employees upwards.
  - 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. We can help establish an appropriate trust and will explain trust options.
  - Depending upon the type of scheme and trust selected, employers will need to register the scheme with HMRC either at inception, or in the event of a claim.
  - If your policy has fewer than, typically, 10 employees covered, the premiums may need to be set on an age rated basis. Otherwise the cost is on a flat rate basis
  - The insurance level before medical underwriting applies (also known as 'free cover' limit) will depend on group size. Schemes with fewer than 50 employees may have reduced free cover available.
  - All insurers will need information on any current long term absent employee or any employee who is substantially ill. This information will impact on premiums and/or availability of cover.
  - Cover normally ceases at State Pension Age (SPA). Employers can extend cover to 75 if required but premiums may be higher and more onerous employer responsibilities may be incurred.
  - Beware of global policies not set up under trust in the UK as these policies often are not appropriate in the UK for tax reasons and could disadvantage beneficiaries.
  - A UK bank account is required, and premiums will need to be paid in GBP.
- Cover will not apply to any employee not actively at work when the policy commences.
  - Claimants typically remain employed so employer's pension contributions and National Insurance still apply. These elements can be insured, and employers will need to consider whether to include these costs.
  - Typical waiting period before insured benefits commence in the UK ranges between 13 and 26 weeks.
  - Benefits in payment can either be level, or escalating to help keep pace with inflation.
  - Typically benefits are funded by the employer, but in a flex environment may be topped up by the employee. It is not tax efficient to salary sacrifice employee contributions as both premiums and benefits will be taxable.
  - Whilst employees are absent for other reasons such as maternity or paternity leave, Income Protection will usually be maintained.
  - Benefits can also be provided for a limited term period (2-5 years) or up to State Pension Age (SPA).
  - A UK bank account is required, and premiums will need to be paid in GBP.

### 3.2 Income Protection (Long Term Disability) (GIP)

- A plan can be established from 3 employees upwards.
- Easier to set up than Life Assurance as no trust is required.

### 3.3 Critical Illness Insurance (CIC)

- Provides a lump sum payment on diagnosis of a specific condition, such as cancer, heart attack or stroke.
- Policies typically cover anything up to 30 or 40 conditions.
- The member must survive for a finite period after diagnosis and not had the condition before cover was implemented.
- Small groups will be age related (fewer than 20 employees) and a plan can be established from 3 employees upwards.
- A UK bank account is required, and premiums will need to be paid in GBP.



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## 3.4 Private Medical Insurance (PMI)

- Smaller schemes might have a restriction applied in respect of covering pre-existing conditions. Generally insurers will quote on a Medical History Disregarded (MHD) basis for a minimum of 20 employees. However, Howden has access to some specialist arrangements and it is possible that schemes can be set up on this basis from 1 employee upwards.
- Premiums will be based on factors including:
  - Claims history
  - Eligibility
  - Scheme size
  - Locations
  - Employee age profile
- Company paid premiums are subject to Benefit in Kind ('P11D') taxation.
- Most corporate schemes are "fully insured" with premiums set annually.
- A Health Trust might be worthwhile if premiums exceed £500,000 per annum, however a full feasibility report is recommended before this option is considered.
- A UK bank account is required, and premiums will need to be paid in GBP.

## 3.5 Dental Insurance

- These policies are quite straightforward to set up in the UK. Minimum criteria is normally two employees.
- Policies can be set up on a company paid or employee paid basis.
- Monthly costs can typically range from £10 to £50 per member dependent on the level of cover required.
- Members are not underwritten and pre-existing conditions are covered.
- Company paid premiums are subject to Benefit in Kind ('P11D') taxation.
- A UK bank account is required, and premiums will need to be paid in GBP.

## 3.6 Health Cash Plan

- A corporate policy to help cover or contribute to every day healthcare costs that aren't always covered by Private Medical Insurance. The employee pays for the cost initially, and then claims back the cost subject to policy cover and limits.
- The minimum number of lives for a corporate policy is three employees.
- The most popular benefits are coverage for dental and optical costs and therapies such as physio and osteopathy.
- Policies can be set up on a company paid or employee paid basis.
- Monthly costs can range from £5 to £50 per member dependant on the level of cover required.
- For employer funded schemes, members are not underwritten and pre-existing conditions are usually covered.
- Company paid premiums are subject to Benefit in Kind (P11D) taxation.
- A UK bank account is required, and premiums will need to be paid in GBP.

## 3.7 Employee Assistance Programmes (EAPs) and Virtual GP Services

- Most employers offer an EAP as a standalone benefit or included in the Income Protection benefit.
- Online virtual GP services have become increasingly popular as a convenient way for employees to access healthcare advice and support.
- These policies are quite simple to arrange, irrespective of employee numbers.





## 3.8 Pension

- A project plan is suggested including the employer, payroll, provider, and adviser.
- Implementation period typically takes between 1 and 3 months.
- Scheme must be available to employees from 'day one' of employment, so it must be ready and, for start-ups, in place ahead of the first employee joining date.
- UK bank account is mandatory for the processing of contributions.
- Auto-enrollment process needs to be efficient and seamless between payroll and the scheme supplier.
- Employee communications should contain specific reference to the scheme and must comply with auto-enrollment regulations.
- The method of deducting employee contributions should be agreed and included in employee contracts.
- Employee documentation regarding the scheme needs to be comprehensive and compliant.
- It is best practice to put an ongoing governance framework in place with the adviser to maintain oversight of the scheme and supplier. Governance provides valuable reporting on themes including scheme administration, default fund performance (is this within acceptable bench-mark parameters?), ensuring contributions and scheme structure remain compliant with auto-enrollment legislation, and ensuring any necessary legislation changes are adopted appropriately.
- The level of employee support and access to guidance should be agreed with the adviser. Typical support includes access to a pension consultant and regular presentations on retirement planning.
- A UK bank account is necessary to make monthly payments into the pension scheme

## 4. TAX TREATMENT OF BENEFITS

- The tax treatment in the UK varies from benefit to benefit. Some benefits like life assurance can be provided under trust and premiums do not incur a tax liability on the employee. Usually there is no tax on life assurance benefits (although some modest taxation may apply on certain scheme types).
- Income Protection premiums do not incur a tax liability on the employee but typically benefits are paid as taxable income. With many other benefits such as private Healthcare (PMI and Cash Plan), Dental and Critical Illness, the benefits are effectively paid free of any tax, but there is a taxable value on the cost of the insurance premium paid by the employer known as a Benefit in Kind (P11D) charge.
- Some contracts are also subject to Insurance Premium Tax ('IPT') on the cost of the premium (IPT for these products is 12%).

## 5. ON-BOARDING AND POLICY ADMINISTRATION

### 5.1 On-boarding

- Outside the UK, great attention is given to the on-boarding process and the choices employees have to make. In the UK, there has historically been far less emphasis on this process as for most benefits there is little choice and employees are automatically enrolled into policies. However, more employers are now introducing flexible benefits to provide employees with greater choice.
- Communicating the benefits that are being provided is therefore an important part of the process to ensure that employees understand and value the benefits available to them. Increasing numbers of businesses are now investing in employee communication as part of their wider benefits strategy. Howden can support by creating and delivering multi-channel communications including:
  - Employee presentations
  - Benefit communication packs – including joiner packs
  - Benefit videos and animations



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- Branded email campaigns
- Benefit fairs (both live and virtual)
- For those employers looking to provide benefit choice, we offer a bespoke flexible benefits platform, Engage. This can be employer-branded and gives employees the ability to choose benefits to suit their needs and understand the value of their benefits with a Total Reward Statement

## 5.2 Policy Administration

- As advisers, we can provide administration support. This includes dealing with any queries raised, working with employers to help ensure policies remain up to date, and claims support and analysis.
- We also provide access to a unique portal, Empower, for online administration of Group Protection policies. This platform allows the employer to manage their member data and can be accessed through a secure logon facility. The portal allows employers to easily add and delete members knowing cover is automatically processed, and most importantly that scheme data is secure.

## 6. DATA ANALYTICS

- When designing a benefits strategy, employers should consider the sector, employee demographics, wider HR objectives and the employee value proposition.
- To support this, data analytics is increasingly being utilized during benefit design to model and build insight into the different options, costs and outcomes associated with different benefit packages. This ensures that organizations have the evidence they need to make informed decisions and the benefits offered best meet the needs of employees.
- Steps undertaken include:
  - Combining data received from various HR data sources, employee benefit offerings, and eligibility criteria.
  - Conducting a data validation exercise to ensure the analysis and recommendations are based on sound and accurate data. Feedback is provided on any errors, anomalies, or missing elements.

- Analysis of current benefit provisions to review cost per employee, the distributions of cost by employee groups and the impact of legacy group entitlements.
- Analysis of current employee demographics and what that could imply in terms of characteristics, behaviours and needs.
- Benefit Scenario Modelling to show results for alternative benefit bases including core and company funding for voluntary benefits.

## 7. ADVISER REMUNERATION

- We base our costs on the requirements of the client and the time spent providing that service.
- We will be happy to discuss fee and / or commission options. Commissions, based on a percentage of the scheme premium, can be payable to us by the provider on some insured policies (but not pensions).
- 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)
  - Whether there are any additional themes to consider, e.g., planned acquisitions, group mergers, expansion of business operation
- We will provide a scope of service specification along with our Terms of Business, Privacy Notice and a Letter of Engagement which must be agreed to before we can commence work.





## 8. ABOUT US

Howden Employee Benefits & Wellbeing provides strategic advice to consumers, SMEs, and corporate clients on healthcare, protection, wellbeing, online benefits (flexible benefits) and pensions, both in the UK and internationally.

Our team is multi-award winning and widely recognised for its innovative and creative approach. We employ around 200 people across the UK.

[Find out more here.](#)

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This document is based on our best understanding of current UK tax and relevant legislation, for the 2020/2021 tax year. Howden Employee Benefits & Wellbeing is not able to provide tax or legal advice and reference should be made to specialist advisers where appropriate.



Asinta delivers legislative alerts and updates from across the world, weekly. Follow us to stay current.