

Advice paper

Building the business case for employee benefits: Part 1 – defining the proposition

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What do we mean by ‘employee benefits’?

The business case for employee benefits can be made more easily if every member of the audience understands the terminology and can visualise the argument. This requires two things:

- a real shift in language, away from the current terms which are confused and confusing; and
- the distillation of the components of the benefits offering into an accessible format.

Then the value of a benefits proposition to the employing organisation can be set out for informed decision-making.

It’s time the benefits industry got the terminology right

The term ‘voluntary benefits’ is used in different ways by industry specialists and sometimes differently again by HR professionals and employers. It is easy to see therefore why many employees don’t identify with or understand the term and don’t find it useful in considering the benefits which come to them, in addition to their salary, as part of their employment contract. It’s in the interests of employers that their workforce understands the full value of their remuneration, and therefore voluntary benefits providers need to make the elements unambiguous to end-users, as well as getting clarity across the HR community as to what is what. This starts with the language. The terminology needs to be clarified for all parties - employees, employers and providers – so that the business case for benefits can be laid out clearly.

Drawing the picture

If a picture speaks a thousand words, then a model helps a complex set of variables make sense. The “Fat Diamond” model for benefit evaluation maps the key variables of:

- cost
- hassle
- value to employer; and
- value to employee

resulting in a structured view of employee benefits, divided into two groups.

The first group – depicted visually as “fat diamonds” in the model – are those that really are ‘givens’ for an organisation regardless of size, industry or culture that aspires to offer an

employment package as distinct from a straight wage. These benefits are low cost, low hassle, and offer high value to employers and employees. In this context, fat diamonds are cheap, easy to implement and make people cheerful.

The second group are those that employers need to consider carefully because at least one of the variables means a decision will be organisation-specific: right for some companies and not for others. Part 2 of ‘Building the business case for employee benefits’ is a detailed look at the Fat Diamond model (published September 2007: email benefits@asperity.co.uk to request your copy when it is published).

For the Diamond model to work as a decision-making tool, the language of **B**enefits which are **A**dditional **T**o **S**alary (BATS) needs an overhaul.

Glossary

The following umbrella terms are in common currency at the moment:

- voluntary benefits
- flexible benefits
- core benefits
- salary sacrifice schemes
- total reward
- flexible working

It’s a reasonable bet that to lots of employees these terms won’t mean much. To managers outside HR, there will be confusion in defining the difference and even amongst HR professionals and reward specialists there might not be total commonality of understanding. A look at the responses in Employee Rewards Watch 2007¹ quantifies the scale of confusion around terminology, with a substantial number of respondents unclear of which benefits are flexible, voluntary and/or core.

As a start point for change – sharpening up a commonality of understanding - here’s a few working definitions of the terms in current use:

¹ thomsons online benefits: Employee Rewards Watch Report March 2007

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Voluntary Benefits

The term 'voluntary benefits' is used to describe a benefit for which an employee *chooses* to pay – a benefit for which s/he has 'volunteered'. In the industry, 'voluntary benefits' also includes 'salary sacrifice' arrangements, a sub-sector descriptor with which most employees will not be immediately familiar and won't instantly understand. The CIPD gives the definition of 'voluntary benefits' as "where employers arrange bulk discounts with external providers". Many people, however, would refer to discounts arranged by employers for employees as 'employee discounts' and that is an improvement, the meaning being immediately obvious. In addition most people would accept that Cycle to Work and Childcare Vouches are voluntary benefits, but they are not necessarily discounted – instead the benefit to staff comes from government tax legislation, demonstrating that the CIPD's definition is either far from comprehensive or just plain wrong, depending on how polite you're feeling at the time.

Then there are benefits which an employer funds but an employee chooses whether or not to take, and may choose not to because of the tax implications, alternative arrangements or on principle; for example a company car which is not required for the job role or private medical insurance. Logically, shouldn't these be included as 'voluntary benefits'? But regardless of who pays, in all cases these are **Benefits Additional To Salary**.

A mobile phone paid for by the employee out of gross pay under a salary sacrifice arrangement is a voluntary benefit (as well as being a salary sacrifice arrangement), as is employee-paid private medical insurance available at an advantageous rate by virtue of the employment. But unlike a mobile phone bought under a salary sacrifice arrangement, private medical insurance comes out of after tax income if it's employee-funded (and is taxable as a benefit-in-kind if the employer does fully fund the cost of the premium) and so is not a 'salary sacrifice' benefit. Funding apart, these are both **Benefits Additional To Salary**.

It's already becoming clear how the language around benefits disengages employees and contributes to the dismal rates of take up in some government supported schemes such as Cycle to Work and Childcare Vouchers.

Flexible Benefits

The CIPD makes a distinction between 'flexible benefits' and 'benefits which are flexible'. The former is generally

accepted to be the principle whereby employees can trade one benefit for another and thereby choose the benefits portfolio that most closely matches their individual preference. It has the advantage of being a label which is clear to employee participants within an organisation who can understand the concept and make specific choices. Amongst employers, however, the definition may be less clear-cut; recent research puts the number of companies offering a flexible benefits scheme at somewhere between 10% and 65%, and it is quite likely that this wide range is due at least in part to employers identifying different things as 'flexible benefits'.

More large than small employers are likely to state they have flexible benefits but smaller organisations really need to give flexible benefits a whirl because, once the administrative arrangements are understood, employers have a really good platform for employee engagement. The meshing of different benefits, tax and payroll implications strongly points to the need for specialist input, at least at implementation, but maximising employee and therefore employer value from the benefits portfolio makes this a sensible and worthwhile investment for many companies. In some companies, flexibility in this area will be diminished when wriggle-room for selling annual leave is eroded with the increased statutory entitlements coming through legislative change in the next 2 years; specialists will be well-placed to look at maintaining the overall flexible benefits proposition to offset the impact of the incoming legislation. If organisations don't have a good variety of benefits in their portfolio, then flexibility for employees to elect one item instead of another is curtailed and this is a strong argument for broadening the range of available benefits.

In terms of positioning, however, should 'flexible benefits' – the ability to elect from within a range of benefits – be considered as a 'stand-alone' employee benefit, in the same way as life insurance or employee discounts are, or is the flexibility simply an administrative arrangement which facilitates the participation in tangible benefits? Is it a function of payroll and therefore classifying it as a benefit in its own right double-counting? The answer is no, because the ability to elect benefits appeals to many employees, enables wider enfranchisement of the benefits offering and is perceived as a benefit by those that have access to such a benefits scheme is a **Benefit Additional To Salary**. Perception is reality and therefore a flexible

flex between three or more benefits (such as trading down on a company car and trading up on holiday entitlement)".

⁴ CIPD Reward Management Survey February 2007

⁵ www.personneltoday.co.uk 12th Annual Flexible Benefits Survey September 2006

² CIPD Benefits Factsheet April 2007

³ Benefits Overview CIPD February 2007 – "Unlike benefits that are flexible (such as buying or selling holiday entitlement), flexible benefits allow staff to

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Core Benefits

The CIPD writes that: “Many schemes differentiate between core benefits, some parts of which are financed by the employer, and voluntary benefits, which are paid for by the employee. The core benefits are those that a best-practice employer might be expected to provide and which, though the employee might adjust them, may not be entirely removed from the package”.⁶ Thomsons Online defines a core benefit as “a benefit that the company insists all employees must take a minimum level of”.

While differently put, there appears to be agreement here that for a benefit to be ‘core’ an employee cannot opt-out of it altogether – but the confusion amongst employers is well illustrated in Thomson’s survey when, for example, 10.7% of employers describe discounted shopping as a core benefit and 1.8% describe childcare vouchers in this way. Surely employers cannot be prescribing that employees must do some discounted shopping? Or that employees, regardless of whether they care for children or not, must take childcare vouchers? The confusion comes because employers are paying for the service to be offered to all employees, but the engagement with and use of the benefit is clearly *voluntary*.

Salary Sacrifice

Not a pagan ritual but a cumbersome term for (voluntary) benefits which can be taken from an employee’s salary, the best known of which are the ‘big 4’ – some types of pension, mobile phones, childcare vouchers and cycle to work. Most people in the industry equate ‘salary sacrifice’ as being connected with benefits paid for from gross salary, and therefore conferring a tax and NI advantage on the employee and a saving on NI to the employer. Confusingly, however, some employers also use it to describe benefits paid from net salary although the CIPD’s assertion that it refers to gross salary is more widely accepted. This contributes to take up being low, apart perhaps from pensions which, in practice, aren’t always included when discussing ‘salary sacrifice’. The term is not surprisingly poorly understood by employees.

Making the financial arrangements for the disparate items which enjoy the tax advantages of a government sanctioned ‘salary sacrifice’ arrangement easier would require legislative intervention. In the meantime, employers can demystify as much as possible, grasp the implementation and communications nettles and hopefully see take-up rise – good news all round, given that (gross) salary sacrifice schemes offer financial savings to employers via employer’s NI as well as to employees. Enlightened employers use the NI savings to fund a fuller range of BATS, for example a

discounts scheme, than would otherwise be possible. There are few win-win situations in payroll and tax, but this seems to be one of them!

Some employers are expanding from the ‘big 4’ salary sacrifice schemes and it is probably this widening of scope that has given rise to the net v gross confusion. Cadbury Schweppes “has added a wine club to its flexible benefits scheme after employee survey feedback showed staff would value more lifestyle benefits. Through the scheme, which is offered via salary sacrifice, staff can order up to 12 cases of wine a year at a 25% discount.”

Net or gross, all salary sacrifice arrangements are **BATS**

Total Reward, Total Remuneration and Total Reward Statements (TRS)

Total Remuneration comprises all pay (basic, bonuses, overtime, commission and other monetary variables) and all benefits (shares, discounts, cars, pensions and the rest). *Total Reward* takes the concept of an employer quantifying and setting out the total value of the employment relationship to the employee a big step further by including harder to measure things such as working environment, training and development opportunities, equipment, culture and other important but nebulous facets of the working environment.

Few organisations have got to grips with *Total Reward* yet, although as techniques and technology develop we are likely to see some industry specialists pioneering work in this area, but an increasing number of employers are flirting with or actually engaged with *Total Remuneration*. It’s a great concept: why wouldn’t employers tell an employee, clearly and on a regular basis, exactly what his/her total remuneration amounts to? ‘Total Remuneration’ as a phrase means a lot more to those in the know than your person-on-the-street employee, but it is employees that need to be captured and motivated by the real value of their earnings and to do that they have to know what that is. It’s another area where specialists come into their own, particularly when first making the leap from ‘pay’ to Total Remuneration and then perhaps subsequently to Total Reward.

Total Remuneration or Reward, therefore, is not a benefit additional to salary, it’s a communication tool, a branding and PR mechanism, can play a useful role in delivering HR strategy and a very good idea. But that doesn’t somehow make it a ‘benefit’ in its own right and the terminology means it does get confused as such.

⁶ CIPD Factsheet February 2007

⁷ www.employeebenefits.co.uk February 2007

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Flexible Working

Here's an interesting one: being able to work flexibly is a huge benefit to many employees and their employing organisations. But to include it in 'Pay and Reward', which is where 'employee benefits' usually sit and definitely where **BATS** belong, is misleading on several counts:

- a. flexible working is often conditional on both an employee's domestic status and the operational needs of the business, can't automatically be 'reversed' and shouldn't be connected with pay except where pro-rating is a factor;
- b. although it has been going on for years on an informal basis, it is now statute-led and as

such is no more of a 'pay and reward' issue than, say, time off for emergencies or maternity pay;

- c. it is more aligned with working conditions and culture than 'pay and reward' – is the office nice, the parking or transport convenient, the shifts conducive, hours per week suitable; it might, but even then probably not, fit into *Total Reward* but not *Total Remuneration*.

So flexible working doesn't belong in the 'reward' section of HR. It sits much more in employee relations, diversity and equality or operations and might be a factor in a Total Reward statement but not a Total Remuneration statement.

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BATS or not?

item	benefit additional to salary or not?	note
holiday	no	although amounts vary, it is a statutory entitlement and essentially part of salary
sick pay	probably not	not a statutory entitlement but, if provided, considered as part of base salary
pension	yes	although legally provision must be made for access to a pension, there is no requirement for it to be employer-funded (yet) and even when this comes in, a pension will still be a BATS
flexible working	not in this context	possibly part of total reward but not total remuneration
total reward statement	no	no direct benefit to employee
employee discounts	yes	although the final purchase is paid for by the employee, the employer facilitates the benefit and the employee makes a saving
company car	probably yes	much less commonly provided as a straight 'perk' than used to be the case, on balance the provision of a company car probably gives the employee a BATS in addition to the business requirement – if indeed there is one
car allowance	probably yes	increasingly offered as an alternative to a company car but the BATS argument is the same
childcare vouchers	yes	taken from gross income; saving for employee
cycle to work	yes	taken from gross income; saving for employee
mobile phone	yes	taken from gross income; saving for employee
season ticket loan	yes	saving for employee
work party	probably not	no direct employee saving but would feature on a total reward (not remuneration) statement
independent financial information	yes	can be generic (education) or employee-specific (advice)
private medical insurance	yes	whether employer-funded or employee-funded at a better rate than the employee could obtain as an individual, there is a saving to the employee
life assurance	yes	
permanent health / critical illness insurance	yes	
EAP	probably not	no remunerative element and no direct employee saving
dental / optical insurance	yes	whether employer-funded or employee-funded at a better rate than the employee could obtain as an individual, there is a saving to the employee
share schemes	yes	

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Where does that take the argument?

Having sorted out the imposters, real **BATS** fall into neat categories:

- pensions
- cars
- shares
- health-related – private medical insurance, permanent health or critical illness insurance, dental / optical insurance
- low-cost – employee discounts, childcare vouchers, cycle-to-work, mobile phone, season ticket loan, independent financial information, life assurance.

It is in the low-cost category that employers will find their 'fat diamonds', of which more in our next white paper "Building the Business Case for Benefits: Part 2 – The Fat Diamond Model".

The key point in demystifying benefits language is to make it accessible to employees. It won't take away the need to first communicate and then explain the implications of, for example, childcare vouchers but it should encourage more employees to give them some consideration. Whereas talking about 'salary sacrifice' may be an accurate description of the government's tax concession arrangements, it's unhelpful to use the same, essentially technical, phrase to market the benefit to employees.

It would help employees, employers, HR professionals, comp and ben specialists and benefits providers if the language was updated and clearer. Describing all non-cash elements of remuneration as **Benefits Additional To Salary**, BATS, is simple way to define these. And having defined the language within the context of a professional approach to reward, the way is clear to build the business case.

About the Jelf Group

The Jelf Group was founded by Chris Jelf in 1989. Today the Group operates from over 20 locations in the South of England and South Wales and offers an extensive range of corporate services; general insurance, healthcare, employee benefits, commercial finance and wealth management services to businesses and individuals. The Jelf Group advises over 25,000 corporate clients and 20,000 individual clients across a range of disciplines.

Currently, the Jelf Group is working closely with Asperity to bring a high quality range of Employee benefits to our clients. To find out more about the services we offer or more on the work Asperity do for us please visit

www.jelfgroup.com

or contact Chris Dodge on 0845 602 1858

About Asperity Employee Benefits

Asperity is the UK market leader in voluntary employee benefits with its Reward Gateway product - the UK's first fully integrated voluntary benefits scheme and the largest employee discount scheme in the UK. Reward Gateway is an exclusive discounted shopping service with discounts and savings for employees at over 1700 retailers and service providers. The scheme has been described as a "who's who of the high street" and includes discounts at retailer such as M&S, Boots, Debenhams and John Lewis.

Asperity is the only voluntary benefits provider to use a pioneering mix of Cashback on top of traditionally negotiated employee discounts meaning that the levels of savings on Reward Gateway are higher than any other scheme in the market.

Since launch, Asperity's Reward Gateway product has taken the market by storm and Asperity provides its scheme to employees at nearly 100 leading companies including Next Retail Ltd and British Airways plc. Reward Gateway now services over 750,000 UK employees with discounts and savings of up to 45% at over 1700 retailers. Offers are accessed online, locally, on the phone and in the high street. www.asperity.co.uk

Most recently, Asperity has worked in partnership with the Jelf Group to launch an exciting new employee discount scheme myshopping, along with a version tailored for SMEs called myshopping:2go. For further information please visit www.jelfgroup.com/myreward

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