Jelf Group plc

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Advice paper

Adjusting benefits to suit a changing economy

By Tobin Coles, head of flexible benefits for the Jelf Group

Cutting benefits might make short-term economies, but it can cost you later on. It's best to explore alternatives before going ahead.

I bet there are lots of us thinking, right now, of ways to cut costs in the tightening economy. And if you are, it wouldn't surprise me if you were thinking of cutting benefits. Believe me, it's been one of the softer options in the past and we'll see organisations doing it in this economy too.

Some words of caution. Look at all of your reward options before you make any decisions. It might be the right thing to do – just make sure you know for sure.

There are well-publicised examples where companies have reduced spend on benefits in an economic downturn, only to find themselves in a lot of bother later. Lawsuits, demotivated employees, increased Permanent Health Insurance or Private Medical Insurance claims and costs, not to mention a potential PR calamity, all spring to mind.

But there are things you <u>can</u> do to make the best benefit choices for your organisation – and save costs. Here are our recommendations:

1. Analyse what you've got, where you've been and where you're heading. A good benefits consultant can do this on your behalf, advising you so you can make the best decisions based on thorough information about your particular circumstances.
2. Look, too, at making positive financial moves, without adjusting expenditure at all.
   The biggest likely benefit issue will be around pensions. Your organisation will be either making contributions into a pension fund on the employees' behalf already, or with new legislation in 2012, starting to make contributions soon. Either way, any pressure in the economic cycle will impact costs and make payments increasingly difficult.
   What can you consider to help ease financial pressure?
   Consider a 'salary sacrifice', or 'salary exchange', scheme. Salary exchange creates National Insurance savings for the employer and the employee; so you could use employer NI savings to pay into the pension fund.
   From experience, there are only two reasons why organisations haven't already switched to salary exchange. One, they are worried they are going to lose out in some way. This simply isn't the case, as employees take home more pay and employers save considerably. Or they may be worried about administration. Frankly, we too would have worried a few years ago, but technology is so slick these days that there's no extra work involved.
   Salary exchange can be used on other employee benefits too. Purchasing a car through the process, for example, frees up costs to pay for other things. There are plenty of case studies on the Internet to show how this can work for you.
3. Check to see if you are over-insured. We generally find that employers and employees are over-insured because there is crossover. The PMI contract may have an element of physiotherapy, for example, while it may also be in Permanent Health Insurance or Occupational Health.
   If you're paying premiums for all of these, then your full benefits audit will look at the benefits make-up, so that you can see where you are over-insured.
4. In any tightening economy, focus on contractual obligations, so you understand what you are obligated to provide for employees and what you are not. A great example is that a company may be providing an employee with PHI, covering long term sickness on a legacy basis where they are entitled to 75% of salary until retirement. In reality, the contract may not state what size of PHI is necessary. You could change it to a 5 year limited term and then a lump sum payment at the end. It's certainly a lot cheaper to provide it this way.
   This is true for PHI, PMI and many other things – all the way to absence. For example, how much sick pay do your employees get?

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5. It is essential, on the flip side, to weigh up the risk of any decisions you make. If, for example, a company stops PHI, it is culturally obliged to give sick pay. It's no good just crashing benefits without checking the risk.
6. What not to do? Don't slash covers on death in service, PHI, PMI, etc. Yes, this would save you money right now, but the ramifications deter people from getting treatment, so you may well have increasing absence problems – along with their associated costs.
7. The best advice is to offer benefits in one lump sum. Understand which benefits give the most Return on Investment in a risk profile basis – in other words, if you increase your spend on PMI and increase cover, you may have more people made well faster, so less time off, so less pressure on PHI. And if there is less claims on this, then by definition it will be a smaller premium.
8. A good audit will show restructuring outcomes and it is the only way to analyse the best steps forward. In an economic downturn, increasing spend on benefits might just decrease costs in the long term.
Right now, it's about focusing your mind, analysing your organisational trends, comparing those with others in the same industry and drawing out the fact from the fiction.

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About the Jelf Group
The Jelf Group is an independent, full-service consultancy specialising in managing the employment life cycle and business risks. Expertise, from 800 members of staff, includes employee benefits, commercial insurance, commercial finance and wealth management solutions.

For employers and HR/benefit teams:
It satisfies a market demand -- providing in-house consultative experts to uphold organisational HR needs whilst supporting employees. The Jelf group works with clients' staff to help them understand the best individual options available.

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Jelf Group snapshot:

- Founded in 1989 by Christopher Jelf and floated on AIM in October 2004
- In the past 2 years, it has made 16 acquisitions, extending its geographical base.
- Over 20,000 corporate clients and 17,500 individual clients
- Annualised turnover in excess of £50m (est)
- Over 20 locations in the UK
- Total insurance premium that is placed with insurers exceeds £275m (general insurance and healthcare).