

Flexible Benefits – The Basics

Introduction

Flexible benefits are now a well established reward strategy in the UK. Our research indicates that the majority of UK employers (58.13 per cent) have either implemented flexible benefits, are in the process of doing so or are considering doing so.

Flexible benefits is a concept that was originally brought over from the USA. It was first implemented in the UK in the 1990s by mainly very large employers, and administered using complex mainframe computer systems, or paper based systems.

Since 2000 the advent of web based technology has reduced the cost of implementing and administering flexible benefits. The ability to mass produce benefit administration has made flexible benefits an affordable option even for small businesses.

So what are Flexible Benefits?

In a “true” flexible benefit (or cafeteria benefit) arrangement, employees are given a benefit allowance and choose for themselves the selection and level of benefits appropriate to them as an individual. Our research indicates that 30.09 percent of UK schemes operate such a true flex scheme.

However, the most popular form of flexible benefits is the concept of “buy benefits”. Rather than giving employees a benefit allowance, employees are allowed to purchase benefits from their salary.

In most cases, the employer selects certain benefits that the employee must buy a minimum level of, which are known as “core benefits”. These are normally for the employees' protection for example, pension, or private medical insurance, or reflect those benefits which must be offered as a legal requirement such as holiday entitlement. Further non-core benefits, are then made available to the employee to purchase with their remaining benefit allowance.

Why introduce them?

There are many reasons why employers seek to introduce flexible benefits. However, there has been a noticeable shift in the market in recent years with many of the companies who were early adopters of flex, now going through the “second generation” of the flex scheme, in an effort to simplify their administration and get employees re-engaged in the scheme.

1. It enables employees to choose the mixture and level of benefits that is most appropriate to their lifestyle, age and personal circumstances

For example, an employee who is nearing retirement is more likely to want increased contributions into their pension scheme, whereas as an employee aged 21 may prefer to take an increased holiday entitlement or cash.

2. Increased levels of employee motivation and employee retention/turnover

As flexible benefits are typically valued more highly than standard benefits, many employers find that empowering their employees to choose the mixture and level of their benefits has a motivational effect, and means that employees do not need to leave the organisation in order to find the benefits package they want. In addition, as more and more employees have had prior experience of flexible benefit arrangements, they are lobbying their employers to implement such an arrangement.

3. Valuable tool for employee recruitment which enhances the employer brand

As potential employees tend to value flexible benefits over standard benefits, employers often find they both receive more applications for vacancies and can reduce the length of their typical recruitment cycle. This is particularly the case where employees are given access to modelling their potential package prior to joining.

4. Shifting imbalance between pay and benefits

Since the advent of the current global recession, we have seen an increase in employers seeking to use flexible benefits as a way to reduce the imbalance, and shift focus away from pay (and bonuses in particular) towards benefits.

5. Improved cost control

The flexible benefits process requires the total remuneration costs for each employee to be used as the basis for benefit calculation. This means that your business will have easy access to this key, employee specific data. Feedback from our clients has shown that this new control is a significant help in the ongoing budgetary process that all businesses undertake. Some employers choose to use flex to protect themselves against rises in risk premiums.

6. Demonstrates the value of benefits and total remuneration clearly to employees

With a traditional benefits package, employees typically do not know how much it costs the Company to provide them with these benefits and consequently do not appreciate the full value of their employer's spend. With flexible benefits, many employees will, for the first time, realise the full financial worth of their benefits package, a significant step to ensuring that your employees take ownership of their benefits.

7. Reinforce Company culture/assist culture change

Many employers seek to implement flexible benefits to either reinforce the culture they hope to promote or to assist in changing the culture to one where self-service and flexibility are paramount.

8. Enable the consolidation of different benefits packages following a merger / acquisition

For employees who enter the organisation as a result of TUPE, by introducing flexible benefits, employers can aim to consolidate different benefit arrangements which can be under one framework.

9. Encourages self-service

Often flexible benefits are introduced as part of a wider HR strategy to shift all employee led transactions (for example, the booking of absence) on to a self-service basis.

10. Legislative pressure

The introduction of the Flexible Working Regulations 2003 and the move to further strengthen Equal Opportunities legislation, means that there is pressure from the government on employers to both introduce more flexibility into the workplace, and to be more tolerant and observant of employees differing lifestyles.

Steps in a flex project

When introducing flexible benefits it is imperative that you plan carefully and undertake all the steps necessary to take the drama out of the change and ensure the success of the project. There are several discrete stages involved in implementing flexible benefits, which are outlined below.

1) Feasibility Study

It is essential to assess whether the introduction of flexible benefits is correct for your organisation. This typically involves assessing the:

- Financial implications;
- HR implications - e.g. impact on existing HR policies e.g. holiday, sickness and maternity leave;
- Operational implications - e.g. how do flexible benefits fit with your business strategy and reward strategy? What impact will it have on your culture? Do you need to negotiate with Trade Unions?;
- Benefit implications - e.g. how many different benefit structures are there in place currently?;
- Technological implications - e.g. What are your current HR and payroll systems? What technology is available to individuals within the organisation? How suitable is the IT infrastructure available?;
- Communication issues – e.g. what methods does the business normally use to communicate with employees? Are there any unusual communication issues, for example, employees in remote offices or those based overseas?.
- Employee opinion - e.g. undertaking a survey and setting up focus groups to ensure communication begins at the outset and there is buy-in to the benefit strategy.

At the end of the study a detailed report should be drafted outlining all the findings. This should include a cost-benefit analysis on implementing flexible benefits, a business case for the change and some draft benefit designs.

2) Scoping and design

Following the decision to implement flexible benefits, the detailed work involved in scoping and designing an appropriate scheme begins. There are many aspects to this, including:

- Deciding on the level of spend per employee (an individual's benefit allowance). Determining whether they are able to spend more than this and up to what level. Establishing whether there are different categories of employees with different levels/benefit choices;
- Deciding what the core benefits and the choice of flex benefits will be;
- Determining the level of flexibility for each benefit;
- Designing an appropriate communication strategy, the communications materials, fixing the event launch dates;
- Test the proposed design on a selection of employees, for example your focus groups;
- Financial modelling - costing the implications and impact of different employee choices. e.g. if all employee chose to flex the maximum amount of holiday;
- Investigating the tax and National Insurance implications and present a model of the proposed scheme to the Inland Revenue.

3) Benefit sourcing

Once the final design of the scheme has been agreed, it is time to source the appropriate benefit providers at the best available prices. In our experience, many benefit providers will try to increase premiums when flexible benefits are mentioned. We advise clients not to accept that their rates need to. There is no evidence to support this and our experience points towards the fact that employees take much more care of their selections in a flexible benefit arrangement.

4) Branding and communication

Our research shows that the biggest challenge reported by respondents who had implemented flexible benefits, was communicating the change effectively (46.02 per cent). Therefore, we recommend creating a benefits or reward brand to launch the project, and undertaking a structured drip-feed programme of information in digestible chunks, using a variety of methods. This will ensure that employees know why flexible benefits are being introduced, what the process is, what their options are, what the implications on their take-home pay will be and how to enrol. Most of all, this will make sure they are excited by it!

5) Enrolment

Throughout the enrolment process you should keep an eye on who has flexed their benefits and ensure those that have not, are chased prior to the deadline.

6) Evaluation and ongoing development

Following the introduction of flexible benefits, it is important to evaluate the success of the scheme and to ensure that it continues to be refreshed on a regular basis, so that the benefits' message is kept alive. For example, assessing:

- Whether the stated objectives of flexible benefits have been achieved;
- Calculating the take-up rate amongst employees;
- Analysing which benefits have proved the most and the least popular;
- Determining whether any benefits should be removed or added;
- Undertaking segmented communication campaigns to drive take-up amongst groups of employees who have not participated;
- Assessing the market for new and interesting benefit ideas.