

Glossary of reward terms

Actively at work

It is increasingly common for insurers to provide group life assurance benefits subject to their “actively at work” criteria being fulfilled.

Insurers generally consider an employee to be actively at work, if they are undertaking their normal occupation, for the contractually agreed number of hours on the understanding that if medical evidence were obtained, it would confirm that the individual is fit to perform their usual occupation. This can be defined as being both physically and mentally capable of undertaking the normal duties for which they are contractually employed.

Annual Management Charge (AMC)

Fee the fund manager/pension company charges annually to manage the fund.

Annuity

A financial contract to provide a fixed amount of money to a person or persons until a certain event (for example death). It is a common way to pay a pension to someone who was a member of a defined contribution pension scheme.

Auto-enrolment

Employees are automatically enrolled into their employer’s qualifying pension scheme without any active decision on their part.

Base Pay

The basic level of pay awarded to an employee.

Benchmarking

The collection and analysis of comparative data on the reward practices of other organisations. This is commonly used by reward professionals to ensure their reward structure is competitive in the market, and to identify areas for change and improvement.

Bonus

An additional payment of money given to an employee as a premium, to reward certain behaviours (for example loyalty, individual, team or business performance). See also financial rewards.

Cafeteria benefits

See flexible benefits.

Childcare Vouchers

A UK government backed scheme which provides a way of paying for certain types of childcare. Currently the first £55 spent on the cost of providing the childcare vouchers to employees is free from both income tax and National Insurance provided the qualifying conditions are met.

Commission

A special form of incentive, primarily for sales personnel, which pays them a percentage of the sales value they create.

Core benefits

A term used in relation to flexible benefits schemes. It denotes benefits which employees must purchase a minimum level of.

Critical Illness Insurance

An insurance policy which pays out a tax free lump sum on the event of death or diagnosis with a critical illness specified in the policy.

Cycle to Work Scheme

A UK government backed scheme, which allows employers to loan cycles and cyclists' safety equipment to employees as a tax-free benefit.

Death benefit

See Life Assurance.

Default fund

The option that defined contribution pension scheme members can take if they do not want to actively select their investment strategy.

Defined Benefit Pension Scheme

A pension scheme where the benefit is determined by a set formula. This typically incorporates the employee's pay, years of employment, and age at retirement.

Defined Contribution Pension Scheme

A pension scheme where contributions are paid into an individual account for each member. The contributions are invested and the returns on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, often through the purchase of an annuity, which then provides a regular income.

Disability Insurance

An insurance policy which pays an insured person an income when they are unable to work because of an accident or illness.

Employee Assistance Programmes (EAPs)

Employee assistance programmes (EAPs) are designed to provide employees and their families with access to qualified counselling professionals who can help resolve personal and work-related issues such as stress and debt.

Employee benefits

These are various non-wage compensations provided to employees in addition to their normal salary. Such arrangements usually provide for an individual's financial planning, health and wellbeing and other personal or lifestyle needs such as annual holidays. Also known as benefits in kind, fringe benefits, perquisites, perks and indirect pay.

Employee engagement

An engaged employee is generally deemed to be a person who is fully involved in, and enthusiastic about, his or her work and employer, and will act in a way that furthers the organisation's interests.

Equal pay

The Equal Pay Act 1970 is a UK Act of Parliament, which prohibits any less favourable treatment between men and women in terms of pay and conditions of employment. The term pay, is interpreted in its broadest sense to include, on top of salary, employee benefits like holidays and pension rights. See also pay audit.

Event Limits

Following the terrorist atrocities in New York, Spain and London, insurance companies have become increasingly concerned with the distribution of their liabilities. They are aware that in many cities they are providing cover for a vast number of people within a very confined space.

In an effort to limit their exposure and to ensure that they are not writing liabilities that they cannot meet, many insurers have imposed event, or catastrophe limits. This basically means that they set an upper limit on the amount of any claim that is submitted and subsequently paid.

Final salary pension scheme

See defined benefit pension scheme.

Financial rewards

Schemes which provide financial recognition to employees for their achievements in meeting or exceeding their performance targets or attaining certain levels of competence or skill. An achievement bonus or a team-based bonus are examples of financial rewards.

Flexible benefits

An employee benefits programme which gives employees choice over the benefits they receive, to enable them to select the package that best suits their individual lifestyle. Employees are typically able to trade benefits for cash or to purchase other benefits from a set menu of options on an annual basis or at a lifestyle window. See also core benefits and lifestyle window.

Free Cover Limit

The combined amount of lump sum (and capitalised spouse's benefit) the insurer will normally allow without the need to provide evidence of health.

It is the amount of benefit that will be provided without due regard to the individual's state of health, as long as the individual has satisfied any actively at work criteria that may apply.

Grade

An area in a hierarchical graded pay structure in which jobs of similar size, or value are placed, usually by some means of job evaluation.

Group Personal Pension (GPP)

When an employer makes an arrangement with one pension provider or financial adviser to offer personal pensions to a group of employees. A GPP is a contract-based defined contribution pension scheme, where each employee has a separate contract with the pension provider or adviser, but the contributions are collected by the employer through payroll. The employee makes their own investment selection from the choice of funds offered by the pension provider or adviser.

Group risk

A blanket term for risk insurance products sold to employers on a group basis such as disability insurance (or income protection/permanent health insurance), critical illness, life assurance (or death-in-service benefit), and personal accident insurance.

Health screening

A health check service provided to screen for potential health problems.

Independent Financial adviser (IFA)

A professional who offers investment advice and financial planning services to individuals and businesses. In the UK, IFAs are authorised and regulated by the Financial Services Authority (FSA).

Job evaluation

A systematic process for establishing the relative worth of jobs within an organisation.

Life Assurance/Life Insurance

An insurance contract where the insurer agrees to pay a sum of money, upon the death of the insured individual, to designated beneficiaries.

Lifestyle event/window

Events which are set out in the rules of a flexible benefit arrangement which give an employee the opportunity to reselect their benefits. Lifestyle events typically include marriage, divorce, promotion, birth of a child, etc.

Money Purchase Pension Scheme

See Defined Contribution Pension Scheme.

Multinational Pooling

When organisations which operate in more than one country leverage their size and buying power by pooling their group risk insurances with one insurance company to achieve economies of scale. See also group risk.

National Minimum Wage

The National Minimum Wage (NMW) is a minimum amount per hour which most workers in the UK are entitled to be paid. With a few exceptions, it applies to all workers over the compulsory school leaving age. The rate is reviewed every year. Any changes take place in October.

There are currently three levels of minimum wage, and the rates from 1 October 2008 are:

- £5.73 per hour for workers aged 22 years and older;
- A development rate of £4.77 per hour for workers aged 18-21 inclusive;
- £3.53 per hour for all workers under the age of 18, who are no longer of compulsory school age.

National Pension Savings Scheme (NPSS)

The National Pensions Saving Scheme (NPSS) comprises a new system of Personal Accounts which the Government is set to introduce in 2012. Under the changes:

- All companies must offer auto-enrolment in the scheme for their employees, unless they offer auto-enrolment into their own occupational pension schemes and such schemes meet certain "minimum standards".
- Companies will have to make compulsory contributions
- Self-employed individuals and also non-workers will be able to join the scheme on their own account.

Occupational pension

This is a scheme organised by an employer to provide pension benefits for their employees.

P11D

P11D forms are annual statements of expenses and benefits provided to certain employees, which are filed with HM Revenue and Customs after the end of each tax year.

Pay audit

A pay audit is carried out to ensure there is equal pay for work of equal value, and that there is no discrimination due to gender, disability or other factors. See also Equal Pay Act.

Pension Protection Fund (PPF)

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a statutory corporation established under the provisions of the Pensions Act 2004.

Its main function is to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation. To fund the PPF, compulsory annual levies are charged on all eligible schemes.

Personal Accounts

See NPSS

Personal Accident Insurance

An insurance policy that pays out a lump sum in the event of an employee suffering an accident covered by the insurer.

Psychological contract

The term expresses the combination of beliefs held by an individual employee and their employer about what they expect of one another. The psychological contract is also dynamic - it changes as an employee becomes more experienced, their employment conditions change and they re-evaluate their expectations.

Private Medical Insurance (PMI)

Insurance cover that allows employees to get private medical treatment and avoid NHS waiting lists.

Permanent Health Insurance (PHI)

See disability insurance.

Reward strategy

A description of what the organisation wants to do about reward over the next two or three years. It defines the intentions of the organisation on how its reward policies and processes should be developed to meet business needs.

Salary Sacrifice

In a salary sacrifice arrangement an employee gives up the right to part of the cash remuneration due under their contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide them with some form of non-cash benefit.

Save As You Earn Sharesave

A tax-favourable share scheme, also known as savings related share options. The Inland Revenue-approved SAYE scheme allows employees to enter into a three- or five-year savings contract to save a fixed monthly sum. Employees receive a tax-free bonus at the end, with an additional bonus if five-year savings are held on deposit for a further two years. Employees may use the proceeds of savings, which includes interest, to buy shares in the company at a discounted option price of up to 20% of the market value.

Save More Tomorrow™

A concept whereby employees agree in advance to allocate a portion of their future salary increases toward pension contributions.

Self-invested Personal Pension (SIPP)

A Self Invested Personal Pension (SIPP) is a type of personal pension plan. It works in the same way with regards contributions, tax relief, eligibility are concerned. However, the main difference is that a SIPP allows the plan holder much greater freedom in what to invest in and for the plan to hold these investments directly.

Temporary Absence

This enables life assurance cover to be provided even if a member is not currently able to attend work. This effectively means that if an individual is away from work for a prolonged period of time, they will still benefit from the life assurance cover provided by their employer. The longer the temporary absence provision the more expensive the cover.

Total remuneration

The value of all cash payments (total earnings) and benefits received by employees.

Total reward

As well as financial rewards, a total reward statement communicates the value of non-financial rewards, which are often valued as highly by employees. For instance, training and career development, culture and work/life balance or sabbaticals.

Voluntary benefits

Discounted products, which are offered to employees by their employer, which the employees can choose to purchase not through payroll.