

# 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 is easier to make 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 organization 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.

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', a detailed look at the "Fat Diamond model", will be published in Spring 2008: email [benefits@asperity.co.uk](mailto:benefits@asperity.co.uk) to request your copy.

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 2007 quantifies the scale of confusion around terminology, with a substantial number of respondents apparently unclear as to 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:

## 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 necessarily understand.

The CIPD gives the definition of 'voluntary benefits' as "where employers arrange bulk discounts with external providers".<sup>2</sup> 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'<sup>3</sup>. 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%<sup>4</sup> and 65%<sup>5</sup>, 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; 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 probably not, 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 scheme. Perception is reality and therefore, on balance, a flexible benefits scheme is a **Benefit Additional To Salary**.

## 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."<sup>2</sup> Thomsons Online defines a core benefit as "a benefit that the company insists all employees must take a minimum level of."<sup>1</sup>

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 enabling 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."<sup>2</sup> 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 employment contract.

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, it can play a useful role in delivering HR strategy and a 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.

## Flexible Working(TRS)

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:

- flexible working is often conditional on both an employee's domestic status and the operational needs of the business, it can't automatically be 'reversed' and shouldn't be connected with pay except where pro-rating is a factor;
- 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;
- 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.

## Bats or not? The Top 20

item	benefit additional to salary or not?	note
1. holiday	no	although amounts vary, it is a statutory entitlement and essentially part of salary
2. sick pay	probably not	not a statutory entitlement but, if provided, considered as part of base salary
3. 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 <b>BATS</b>
4. flexible working	not in this context	possibly part of <b>Total Reward</b> but not <b>Total Remuneration</b>
5. total reward statement	no	no direct benefit to employee
6. employee discounts	yes	although the final purchase is paid for by the employee, the employer facilitates the benefit and the employee makes a saving
7. 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 <b>BATS</b> in addition to the business requirement - if indeed there is one
8. car allowance	probably yes	increasingly offered as an alternative to a company car but the <b>BATS</b> argument is the same
9. childcare vouchers	yes	taken from gross income; saving for employee
10. cycle to work	yes	taken from gross income; saving for employee
11. mobile phone	yes	taken from gross income; saving for employee
12. season ticket loan	yes	saving for employee
13. work party	probably not	no direct employee saving but would feature on a total reward (not remuneration) statement
14. independent financial info	yes	can be generic (education) or employee-specific (advice)
15. 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
16. life assurance	yes	
17. permanent health / critical illness insurance	yes	
18. EAP	probably not	no remunerative element and no direct employee saving
19. 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
20. share schemes	yes	

## 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.

The employer's objective in having benefits - put simply, to assist in attracting and keeping good employees - is common to all of these but the rationale for each will be markedly different. So, for example, both a pension scheme and a Cycle to Work scheme will have the objective of aiding recruitment and retention but the rationale for providing a pension scheme (historic, skills shortage, policy-led, premium employer and other reasons) is quite opposite to that for Cycle to Work scheme (low cost 'green' agenda).

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".

## Finally, for part 1, why is it so important to demystify the language?

Jargon - and terms like 'salary sacrifice' and 'voluntary benefits' are definitely jargon - excludes people who aren't in the know from the debate and frequently, in the case of employee benefits, from participation. **BATS** may be a jargonesque term but at least it is just one term instead of a multitude and the meaning of the acronym, once spelled out, is clearly understood.

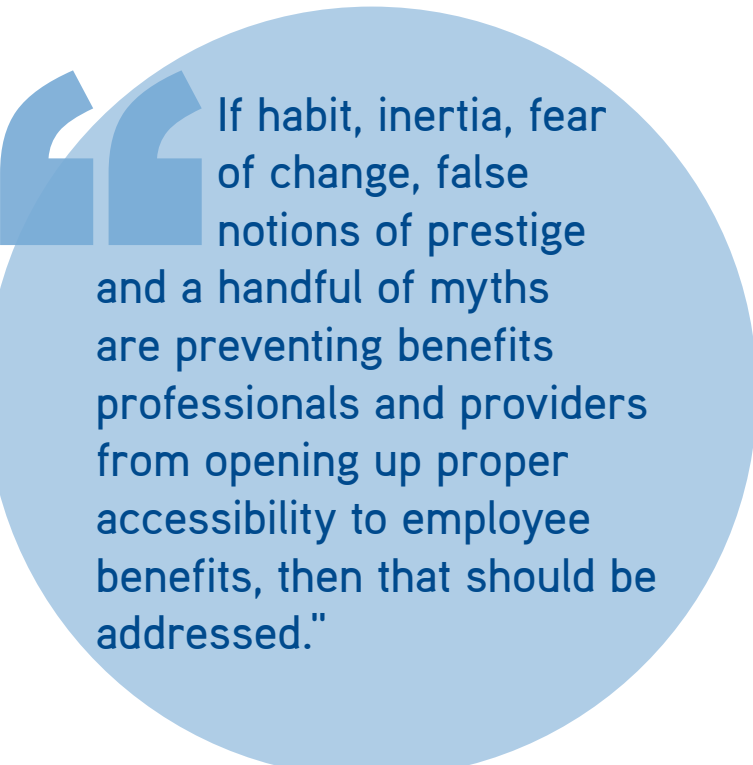
Industry insiders, benefits suppliers and employers have a duty to open up the world of benefits to those outside the jargonsphere - so that's employees then - by making the concepts as straightforward as possible. Joseph Kimble, Professor of Law at Thomas M Cooley Law School suggests that:

"Legalese persists for a lot of bad reasons - habit, inertia, fear of change, the overwhelming influence of poorly written opinions and forms, false notions of prestige, and any number of myths about plain language... There are enormous social costs of poor legal and official writing".<sup>8</sup>

While he was specifically referring to writing by the legal profession, his point applies to any number of situations and certainly here. If habit, inertia, fear of change, false notions of prestige and a handful of myths are preventing benefits professionals and providers from opening up proper accessibility to employee benefits, then that should be addressed.

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 (and there's another term that needs to change, not really getting its message across) 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 the market the benefit to employees.

It would help employees, employers, HR professionals, compensation, benefits and reward 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 a 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.



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## About the Author

Helen Craik has over 20 years experience in HR at some of the UK's biggest companies. With an MBA in Strategic Human Resource Management. Helen has advised many companies on benefits strategies.

## About Asperity

Asperity Employee Benefits provides the UK's biggest and most generous voluntary employee benefit scheme, Reward Gateway - to over 90 of the UK's leading employers.

Reward Gateway is designed to be branded and fully tailored to fit in with an employer's existing benefits package. The scheme can incorporate any existing offers that you have and the fully branded website can even include information on your core benefits, delivering a complete online benefits portal at a low cost.

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