

Flexible Benefits Schemes

It is rare for organisations participating in this survey to operate a fully flexible benefits scheme whereby employees can make their own selections from a range of available employee benefits.

Twelve per cent of companies participating in our survey currently report offering flexible benefits arrangements to their employees. This has changed little over many years, having been consistently reported as between 10% and 12% over the last 7 years. In each of these schemes, all employees are eligible for flexible benefits, although the range and value of benefits usually vary by level of seniority.

Some years ago, we noted that investment banks and fund/asset management companies were more likely to offer flexible benefits. No one type of organisation now dominates, with commercial banks within our survey participant group as likely to have a flexible benefits scheme. We note that the majority of the organisations with a flexible benefits scheme have over 100 UK based employees with a median of 195 employees.

Typically the flexible benefits schemes operated by participants in this survey, provide a benefits allowance for each employee (having a cash or points value). The employee can ‘buy’ benefits of their choice from a selection offered by their employer. The allowance tends to increase by seniority either as a fixed amount per grade or a percentage of base pay. Hence, each employee may select from a range of benefits, choosing those that best suit their lifestyle and needs.

Most flexible benefit schemes specify a range of core benefits which are compulsory for all employees. Core benefits are those that the employer deems to be a preferred minimum or which they are legally required to provide. These are likely to include the statutory level of employer pension contribution, life and health cover (at a basic level) and minimum level of holiday entitlement.

The employee may use the remainder of their allowance (and perhaps a permissible proportion of base pay) to enhance the level of insured benefits, purchase more holidays or ‘buy’ from a range of additional benefits. Some, but not all, schemes permit unused allowances to be taken as cash. Non-core benefits are also known as flexible or voluntary benefits and may include:

- car leasing
- dental insurance
- critical illness insurance
- home insurance
- car insurance
- travel insurance
- pet insurance
- car breakdown cover
- computers – available to buy or lease from pre-tax salary
- bicycle purchase scheme
- retail vouchers
- reduced theatre/cinema tickets
- health screening
- personal concierge service

Most schemes require that the benefit selection is made on an annual basis or when the individual experiences a 'life-style change' such as marriage, birth of a child, or a job promotion when benefits allowances may be increased.

Often employers offer a wider range of benefits in a flexible benefits scheme than they would in a core package in order to accommodate the diverse needs of staff. They can control costs as increases in the 'price' of any benefit are passed on to the employee. The additional cost does not have to be covered by the employer.

The majority of the participants in the City Pay and Benefits survey do not operate a full flexible benefits scheme. The reasons given for not doing so are typically:

- administrative burden of operating such a scheme
- cost of implementation
- reduced buying power of an organisation with a small number of staff.

Several organisations, however, have introduced some form of flexibility into their benefits schemes, for example, offering additional optional benefits such as child-care vouchers, cash allowances in lieu of company cars or other benefits, or the opportunity to buy and sell holidays. An employer may provide many of the advantages of a flexible scheme in terms of cost reductions, and choice for their employees, without having to offer a full menu of additional benefits.

A flexible benefits scheme can be popular with employees in that it gives them the freedom to decide on the level and type of benefits that suit their lifestyle. Such a scheme can result in a positive reaction from existing staff members and act as a good incentive in attracting new staff. It can also be useful in integrating benefits packages during mergers and acquisitions and at other times of company change.