

INTRODUCING FLEXIBLE BENEFITS.

Checklist 238

» INTRODUCTION

Flexible benefits schemes are structured systems that allow employees to choose the benefits that suit their particular circumstances from a selection provided by their employer. Organisations have introduced such systems as part of a wider move to more flexible working and in recognition that employees have differing wishes and needs at different stages of their life.

Many employees do not fully recognise the total worth of the benefits their employer provides and the move to a flexible benefits scheme is one way to highlight the totality of the remuneration package. This may have benefits to the employer through increased employee engagement and productivity as well as employee retention and reduced recruitment costs. Flexible schemes can be complex and costly to manage but technology has helped to alleviate some of the costs.

Some of the reported advantages of introducing flexible benefits include:

- › giving staff a sense of control
- › enabling working couples to choose complementary benefits and avoid duplication
- › employers are seen as recognising the different life-stages and needs of their employees
- › the provision of benefits becomes less contentious
- › employees may better appreciate the true worth of the benefits package
- › improving staff retention and helping to attracting new talent.

This checklist explains the key steps in defining a strategy and implementing a flexible benefits scheme. In addition, you are advised to seek professional advice on the tax implications for both the organisation and the individual.

» DEFINITION

A flexible benefits scheme (also sometimes referred to as cafeteria benefits) is a structured arrangement of cash and benefits that offers employees choices, enabling them to meet their personal requirements. Schemes typically include a core package of pay, annual leave and pension arrangements, with additional flexible options to a value designated by the scheme. More comprehensive schemes may also include optional benefits, which are purchased and paid for by employees. Flexible benefits are usually funded by the organisation, so any organisation wishing to introduce them will need to think carefully about the financial viability of introducing them.

1. Define the strategy

Before starting to develop your strategy for flexible benefits it is important to ask yourself whether your organisation really needs such an approach. Planning and implementing a flexible benefits scheme requires considerable time, effort and money, so it is important to be clear on your reasons for going down this route.

Consider the following:

- › What is the market offering for the industry you work in?
- › Do you have a full understanding of the organisational context? Does a flexible benefits scheme provide a good fit with your existing reward strategy?
- › What is the motivational and financial value of your existing reward package?
- › What do you hope to gain by implementing a flexible scheme?
- › Have you asked your employees what they like and dislike about your existing approach?
- › Could you use a focus group or staff survey to investigate employee needs and wishes?

You may come to the conclusion that your objectives can be met through simple changes to your existing package of benefits. For example, would allowing employees to buy and sell holidays, make additional payments into their pension scheme, or use salary sacrifice to buy childcare vouchers be a simpler route to improving staff perceptions of your benefits package? Would the provision of an annual total rewards statement raise staff awareness of the value of existing benefits to them?

If you decide that a flexible scheme provides a good strategic fit, make sure you allow plenty of time to research, plan and implement the scheme and communicate it to employees.

2. Decide on the form your benefits package will take

A number of key issues must be addressed. You need to determine:

- › whether you will design the scheme in-house, engage a consultant or use an off-the-shelf package
- › your policy for providing core benefits
- › the mix of core and flexible benefits
- › how the scheme will be administered
- › how employees will select or purchase benefits
- › the benefits that will be on the menu
- › the enrolment process
- › the enrolment period for existing employees and for new recruits
- › how you will promote the scheme to employees
- › how you will evaluate the success of the scheme.

3. Designing and administering the scheme

You can either design and administer the scheme in-house or outsource the process to a specialist company. You may decide on a hybrid approach by using a consultant to help design the scheme, but administer it in-house.

The in-house approach requires the allocation of staff time and budget. Also, as most organisations now adopt web-based solutions, you need to consider whether you have the technical ability to develop your own scheme or will use an existing programme. Realistically, the latter may only be viable for very small and simple schemes. Many of the systems used for administering such schemes include an option that allows employees to model their own choices and this can simplify the process.

You may decide to use a consultant to identify appropriate suppliers. The advantages of this are that a consultant should already have a good knowledge of what is available, have existing contacts with suppliers and may be better placed to negotiate discounts.

There are a number of consulting organisations that will take on the whole process of design, implementation and administration. Many have their own software package or work closely with the producer of one of the many administration packages. You may be able to benefit from their ability to negotiate good rates for insurance and pensions and they may also add value through their existing relationships with retailers.

Consultants may also be willing to distribute and analyse employee opinion surveys, handle focus groups, design and implement the scheme and handle the communication process. They will have a wealth of experience from projects with other clients and should be able to save you time in gaining an understanding the marketplace and in creating solutions to satisfy the diverse requirements of your employees.

It is vital to fully understand the cost implications of going down each of these routes before making a decision.

4. Organise the structure of the scheme

Most schemes stipulate that employees must retain certain core or mandatory benefits. These should take account of tax and employment law requirements, such as minimum holiday allowances and the provision of workplace pensions. In the UK employees may not opt for flexible benefits, e.g. via salary sacrifice, which take them below the National Minimum Wage. You may decide that certain benefits, such as private medical insurance, make particularly good business sense and should form part of the core package. Typically, however, organisations try to keep the core elements of a scheme to a minimum to give employees as much choice as possible.

5. Decide on the benefits menu

Most flexible schemes are launched by amending the existing benefits package, but you may decide to start from scratch or extend the options to provide a far wider range of benefits for selectron. The challenge is to provide a menu of benefits which is attractive to and satisfies the needs of all eligible staff, but which does not confuse by providing too much choice. Some common benefits offered are:

- › childcare vouchers
- › critical illness insurance
- › dental insurance
- › healthcare cash plans
- › buying and selling holiday time
- › pensions
- › retail vouchers
- › travel insurance
- › cycle to work scheme.

Make sure that your menu is of interest and value to employees at all stages of their career and with varying personal circumstances. Offering equitable benefits across all participants will help drive engagement and uptake of the scheme.

6. Define the enrolment options

You need to set a process for employees to enrol on the scheme and to amend their choices. Online enrolment via an intranet or secure internet connection may be the best option for large schemes, but you need to check that all employees have access to the web during their working day. If not, it may be necessary to make computers available to employees who do not have their own work station.

Paper-based enrolment may be the only option when few employees have regular online access in the workplace. The documentation should include a personalised preference form, which typically contains details of their current benefit entitlement, the value of the available flex fund, and the cost of the different options available. Staff and an administrative process must be in place to handle enrolments.

Whichever approach you adopt, it is common practice to provide confirmation of the selections made by individuals. You may also wish to ask employees to sign a copy of the document listing their choices. You may also need to allow a period of time for reconsideration.

Total reward statements may be distributed annually or at specific times, after the selection process has changed, fore example. This serves to remind employees of the value of the total package and also keeps the flex scheme in peoples' minds. Online systems often produce an indication of total value during the selection process.

Remember also that employees' circumstances may change – for example, a family member may become ill or they may suffer a bereavement – and this may affect their choice of benefits. It is advisable to set out the terms and conditions, including details of when and how employees can amend their choice of benefits.

7. Communicate with employees

Organisations that have adopted flexible benefits have found that effective communication is key to successful employee engagement. Develop a communication strategy that:

- › provides an introduction to the plan for all employees
- › drip-feeds information to staff prior to the launch
- › includes a high-profile launch event
- › provides an explanation of how the scheme works and the range of choices available
- › engages employees by using scenarios
- › educates employees about relevant tax issues, for example in relation to salary sacrifice
- › encourages employees to enrol and select options
- › promotes the scheme on an ongoing basis, to maintain interest and increase participation
- › keeps employees informed of any changes to the scheme.

The communication methods which may be appropriate include:

- › road shows and formal presentations
- › the corporate intranet
- › newsletters, bulletins and posters
- › personal letters to employees
- › emails
- › one-to-one consultations.

Giving the scheme distinctive branding has helped organisations to promote the scheme and increase awareness among employees. The name chosen should reinforce the key message that the scheme is about giving employees more choice and personal control of the benefits they receive.

8. Monitor take-up and develop the scheme

The most successful schemes are likely to be those where the benefits on offer are regularly reviewed. Take-up rate is the measure commonly adopted by organisations to evaluate success. At its most basic level, this records overall levels of engagement and participation. However, it is also helpful to record take-up rates for each benefit on offer as this will provide deeper insights into which benefits are most useful to employees and most highly valued by them.

Relying solely on take-up figures, however, may mean that employers may miss issues of concern to employees and fail to understand fully how the scheme is perceived by employees and why the take-up of particular benefits is low. Consider using focus groups or an employee survey to obtain a more complete understanding.

Finally, it is also vital to keep track of the costs of the scheme to the organisation and ensure that it remains financially viable and cost effective. Periodic reviews of costs and suppliers may enable you to keep costs under control and maximise benefits to employees by negotiating discounts and/or additional services or changing suppliers if necessary.



POTENTIAL PITFALLS

Managers should avoid:

- › making schemes too complex
- › rushing to implement a scheme without adequate strategic thinking and communication
- › failing to take account of legal requirements and changes to those requirements
- › seeing the introduction of flexible benefits as a one-off process. Regular monitoring and refreshing are needed to ensure ongoing success.

BOOKS

The Employer's handbook 2014-15: an essential guide to employment law, personnel policies and procedures, 10th ed, Barry Cushway, (See Flexible benefits p 27)

London: Kogan Page, 2014

This book is also available as an [e-book](#).

Reward management, Michael Rose

London: Kogan Page, 2014

Total reward: study 951,

Incomes Data Services: London, 2011

Rethinking reward, edited by Susan Corby, Steve Palmer and Esmond Lindop

Basingstoke: Palgrave Macmillan, 2009 (See Chapter 11)

Flexible benefits: creating competitive advantage, Philip Hutchinson

London: Chartered Institute of Personnel and Development, 2008

This is a selection of books available for loan to members from CMI's library. More information at:

www.managers.org.uk/library

JOURNAL ARTICLES

Pile on the freebies, Peter Crush,

People Management, November 2014, pp 60-63

Eight ways to reward staff without giving them a pay rise, Robert James,

People Management, November 2012, pp 50-52

Sweetening the deal, Georgina Fuller

Personnel Today, 2 March 2010, pp 14-15

These articles are available for members to download from CMI's library. More information at

www.managers.org.uk/library

INTERNET RESOURCES

Employee Benefits Group

www.employeebenefits.co.uk/benefits/flexible-benefits

Recent trends and research plus employer case studies. Includes an article on choosing a flexible benefit provider at: <https://www.employeebenefits.co.uk/top-tips-for-choosing-a-flexible-benefits-provider/>

This checklist has relevance to the following standards:

Unit DB9 Promote staff wellbeing



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