An increasing number of organisations are offering flexible benefit schemes to their employees as part of their reward strategy. This document looks at current trends and schemes, highlights the advantages of introducing flexible benefits for both your organisation and your employees and looks at how best to overcome the challenges of a new flexible benefit scheme.

**What are flexible benefits?**

Flexible benefit schemes are formalised systems that allow employees to vary their pay and/or benefits package in order to satisfy their personal requirements. They are not the same as voluntary benefit schemes where employees pay for extra benefits.

With flexible benefit schemes, employees have the choice to retain their existing salary and simply vary the levels of benefits within their allowance, or adjust their salary up or down by taking fewer or more benefits respectively, depending on the offer.

Many organisations have always allowed a limited form of flexibility for just one or two benefits, but it is only recently that comprehensive flexible benefit schemes have started to become more common. Flexible benefit schemes may previously have been avoided because of the cost of introducing and administrating them.

**Why flexible benefits?**

A flexible benefit scheme can form an integral part of your reward strategy and should work in conjunction with your organisational goals and strategies. It has been found that introducing a flexible benefit scheme will increase the perceived value of the reward package offered to employees, at no additional cost to the organisation.
Advantages of flexible benefit schemes

<table>
<thead>
<tr>
<th>For Employees</th>
<th>For Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Employees choose benefits to meet their needs which means they value these benefits highly.</td>
<td>– Employers provide benefits at a known cost that is fixed, irrespective of the choices that employees make, allowing employers to cap future costs.</td>
</tr>
<tr>
<td>– Employees have a true idea of the full worth of the benefits package they receive and employers do not provide benefits that are not valued.</td>
<td>– Employers are seen to be more responsive to the needs of an increasingly diverse, demanding and ageing workforce.</td>
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<tr>
<td>– Employees are given a sense of control and involvement by having a choice.</td>
<td>– A competitive benefits package is valuable in attracting and retaining key personnel.</td>
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<td>– Helps to align the organisations reward strategy to both HR and business strategies.</td>
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</tbody>
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It is important to consider that employees have different needs and requirements at different stages of their lives. Offering a flexible benefit scheme gives you the ability to recognise this diversity among your employees and provide a benefits package that is both relevant to and engaging for each employee.

<table>
<thead>
<tr>
<th>Age</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
<th>40</th>
<th>45</th>
<th>50</th>
<th>55</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>Annual leave</td>
<td>Car</td>
<td>Career/training</td>
<td>Life/medical</td>
<td>House</td>
<td>Career progression</td>
<td>Work-life balance</td>
<td>School funding</td>
</tr>
</tbody>
</table>

Employees have different needs and responsibilities at different stages of their lives.
Typical benefits

Although there is no such thing as a typical or standard flexible benefit scheme, there are certain benefits and benefit structures that are most commonly used. Many schemes differentiate between core benefits, some parts of which are financed by the employer, and voluntary benefits, which are paid by the employee.

Some of the most common benefits are those that are eligible for tax and National Insurance breaks. These salary sacrifice benefits can utilise cost savings for both the employee and employer.

As part of the Budget 2013, the Government announced that it will be introducing a new tax-free childcare scheme for working families and a consultation paper has been posted by HM Treasury. Further information can be found on our web pages about proposed changes to tax-free childcare.

<table>
<thead>
<tr>
<th>Benefits with tax/NI breaks offered through flexible benefits</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Childcare vouchers</td>
<td>95%</td>
</tr>
<tr>
<td>Bikes for work scheme</td>
<td>72%</td>
</tr>
<tr>
<td>Pensions</td>
<td>65%</td>
</tr>
<tr>
<td>Groups income protection</td>
<td>18%</td>
</tr>
<tr>
<td>Mobile phones</td>
<td>11%</td>
</tr>
<tr>
<td>Cars</td>
<td>9%</td>
</tr>
<tr>
<td>Discount on food and beverages in on-site restaurants</td>
<td>8%</td>
</tr>
<tr>
<td>Bus travel</td>
<td>7%</td>
</tr>
<tr>
<td>Car parking</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Sample: all respondents that offer tax/NI-efficient benefits within their flexible benefits scheme

Source: Most common tax and NI-efficient benefits: Employee Benefits Magazine Research 2012
Examples of popular benefits offered by employers:

- BIKES/BICYCLE
- Hospital/health cash plan
- Critical illness insurance for employee only
- Life insurance for employee’s partner
- Buy/sell annual leave
- Dining card
- Childcare vouchers
- Mobile phones
- Season ticket loan
- GYM MEMBERSHIP
- Car insurance
- BIKES/BICYCLE
- Hospital/health cash plan
- Critical illness insurance for employee only
- Life insurance for employee’s partner
- Buy/sell annual leave
- Dining card
- Childcare vouchers
- Mobile phones
- Season ticket loan
- GYM MEMBERSHIP
- Car insurance

**Defining the strategy**

Before drawing up a flexible benefit plan, it is important to reflect on your reward strategy to ensure the two are aligned. The NHS Employers reward strategy toolkit provides guidance and practical advice on how to plan, develop and implement your reward strategy.

**Working with a provider**

There are a range of flexible benefit providers in the marketplace offering a variety of packages that can be adapted to meet organisational needs. Many offer online solutions that can be adapted to reflect local branding and to incorporate local benefits, such as discounted gym membership or car servicing. It is important to consider the cost of working with a provider, which is likely to include both an implementation fee and annual cost per employee.
Deciding on the amount of flexibility

When schemes are being introduced, it is important to estimate the likely uptake of specific benefits. This will enable you to obtain the most accurate quotations possible for the provision of each benefit. All benefits within flexible benefit schemes are priced on the basis of a predicted number of selections. Where employees make significantly different choices, these are regarded as ‘adverse selections’. For the success of the scheme, the relative values of the benefits should be set to avoid too many adverse selections. They should also be arranged so that the employees are not encouraged to make selections that will jeopardise their own financial and physical security. The inclusion of core benefits guarantees a minimum level of protection.

There must be a compromise between flexibility that encourages inappropriate choices, and too narrow a choice that does not meet the employee’s expectations. Before implementing a flexible benefit scheme you may find it worthwhile to survey your employees to determine the type of benefits they favour and value. This will also help to maximise the value of the package for both you and your employees.

What are the issues to consider when changing or implementing a flexible benefit scheme?

Any change to, or implementation of, new employee benefits needs to be carefully considered. A new flexible benefit scheme can mean changes to employees employment contracts and salaries. HM Revenue & Customs (HMRC) will look closely at all benefit arrangements, as income tax and National Insurance levels may be reduced.

The interaction of income tax, National Insurance and benefits for employees can create a complex situation and the ability to communicate, administer and simplify a flexible benefit scheme are key to the success of a plan.

On top of financial and legal considerations, any new flexible benefit scheme will need to consider the requirements and available resources of HR, IT, payroll, finance and legal departments.

The NHS Employers reward strategy toolkit highlights the benefits of having a project team involved from the planning stage.
Choosing and changing benefits

Once the scheme has been agreed, the choice of benefits is presented to the employees. To ensure a positive reception, it is important that the choices are clear. If the options are too complicated or the method of making the choices is perceived as being difficult, then the employees will simply default to their existing benefits package.

Most schemes allow for changes in benefit selection to be made within a fixed time period once a year. This time period is known as ‘enrolment’ and typically lasts for two to three weeks. Prior to this date, employees are sent a personalised document reminding them of their current selection and benefit allowance for the forthcoming year and giving them the opportunity to amend their selection. Some schemes have been set up to incorporate multiple ‘enrolments’ and many benefits can be open all year round.

Schemes may restrict the amount of change between one year and the next. Typically, if there are several levels of benefits, employees might only alter a benefit by one level at each renewal. Although an employee will generally review their benefit selections annually during enrolment, most organisations will allow changes to be made to the selections outside the normal renewal dates in exceptional circumstances. These exceptions are known as ‘lifestyle events’ and typically include marriage or divorce, birth or adoption of a child, death of a dependant, long-term sickness absence or promotion.

Communication and education

The most important elements in ensuring the success of a flexible benefit scheme are effective communication and education. The NHS Employers reward strategy toolkit will look at this in more detail in Phase three: Communication and implementation.

Strategic approach to flexible benefit schemes

The NHS Employers reward strategy toolkit has been designed to guide you through planning, developing and implementing your reward strategy. Introducing or refreshing a flexible benefit scheme should be considered as part of your strategic approach to reward and should align with your overall organisational goals and objectives.

Total reward statements (TRS) are being introduced by NHS Business Services Authority during 2014 and are an excellent way to highlight the local benefits your trust offers employees along with an overview of employees basic pay, allowances and pension benefits. Find out more information on our TRS web page.
Get in touch

For more information on total reward strategy and the NHS Employers reward strategy toolkit, see our reward strategy toolkit web page.

For more information on total reward statements and the NHS Business Services Authority plans to implement them during 2014, see our total reward statement web page.

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