Pensions Management Institute
Moving pensions forward

Reward & Retirement Provision

Assignment 3 Notes

(Part 3 – Flexible Benefits and Salary Sacrifice)

(Chapter 1 Company Share Plans - Chapter 2 Flexible Benefits)

1. Explain why a company may wish to provide a share plan for its employees.

5 marks

Answer should cover:

- Motivational tool for improving employees' commitment and alignment to the company
- Alternative to cash profit sharing
- Individuals who have a stake in the company they work for are, it is hoped, going to have a greater interest in its financial performance and a better understanding of the need for profit
- Company Share Option Plans and Enterprise Management Incentives can be used as a form of long-term bonus incentive for senior employees and executives
- Companies going public for the first time may seek to allay the fears of its employees by awarding free shares or by giving them an opportunity to buy shares on favourable terms at the time of flotation
- Can be used by start-up businesses to attract talented employees as alternative to salary and bonuses

2. Outline the eligibility, savings and duration restrictions that apply to approved save as you earn share option plans.

20 marks

Answer should cover:

Eligibility

- Intended for all or most employees
- Can include employees of subsidiary companies
- Company can set qualifying period of employment – not exceeding five years

Savings restrictions

- Fixed monthly amount (in multiples of £1) between £5 and £500
- Company may set a lower maximum limit
- For a period of three or five years
- Earn interest through terminal bonus at a rate which is fixed by HMRC

Duration restrictions

- Option to buy shares after three or five years
- Company may restrict choice

(Relevant section of the manual is Part 3 Chapter 1.2.)

3. A new employee is looking at joining your company's Share Incentive Plan (SIP) and has asked for information on the shares that can be purchased through the SIP. Prepare an email to the employee confirming the different ways shares are purchased, any restrictions that apply on the values purchased, and the tax implications.

20 marks

Answer should cover:

Types of share:

- Free shares:
    - £3,600 limit in any tax year
    - The company can set a qualifying period of employment but this may not exceed 18 months

- Partnership shares:
    - Limit of lower of £1,800 or 10% of income for the tax year

- Matching shares:
    - Employers can give up to two free matching shares for each partnership share the employee buys
    - The company can set a qualifying period of employment but this may not exceed 18 months

- Dividend shares

Tax:

- Tax free provided that they are held for five years in the SIP trust. Reduced tax is payable if they are withdrawn between three and five years from the award date
- For dividend shares, no tax if held in SIP trust for at least 3 years
- Special provisions apply for retirees and other circumstances such as death and redundancy.

4. As your company's Benefit Consultant, you have been asked to prepare a report for presentation to the Board regarding the introduction of an unapproved share plan. Your report should include:

- **The reasons why a company may operate an unapproved share plan**
- **Who they are designed for**
- **The characteristics of the types of unapproved plans**
- **Typical conditions to be met before employees are entitled to shares**
- **The taxation position when employees become entitled to shares.**

30 marks

Answer should cover:

- Reasons for operating such a plan for executives/ senior employees, including restrictions of unapproved arrangements.
- Characteristics of an unapproved option plan
- Characteristics of a restricted share plan
- Performance targets option
- Taxation of any gains

5. Outline the advantages and disadvantages of a flexible benefits plan.

10 marks

Answer should cover:

Advantages:

- Providing choice to meet individual needs of employees
- Aid recruitment and retention
- Ability to introduce new benefits at relatively low cost
- Sharing costs with employees
- Harmonising benefits if various benefits are provided to different sections of employees through mergers and acquisitions
- Support culture change by moving from employer control to employee choice

Disadvantages:

- Complexity and costs to set up
- Administration
- Inappropriate choices made by employees
- Communication burden
- Risk of higher insurance premiums as a result of member choices
- Potential lack of buying power of smaller companies

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6. **Outline what a Lifetime Individual Saving Account is and how it works.**

5 marks

Answer should cover:

- Introduced in April 2017
- Designed to help young people simultaneously save for a first home and for their retirement
- Age limitations
- Contribution limitations
- 25% Government bonus
- Tax privileges
- Access to funds

7. **Outline the key stages of a communication strategy for rolling out new flexible benefits.**

10 marks

Answer should cover:

- Communication should take place at every stage of the lifecycle of a flex project
- Communication strategy for flexible benefits should address four key stages:

    - Stage 1 - Initial Research
    - Stage 2 - Pre-Launch
    - Stage 3 - The Launch
    - Stage 4 – Review