Gallagher

Insurance | Risk Management | Consulting

# Time to make better use of what you've got

*How to do more with less to ensure you can face your future with confidence. It's a perennial challenge. Organisations throughout time immemorial have had to find and keep the best people, mitigate risk, create efficiencies and improve output.*

Seemingly, nothing has really changed. Yet at the same time, it feels like everything has changed.

Why? Because employee expectations have undergone a huge shift, driven primarily by millennials and Generation Z, who together are predicted to dominate the UK workforce by 2020.

A job for life, followed by retirement at state retirement age on a comfortable Defined Benefit pension is now so far removed from reality, it's rendered pretty much obsolete.

Employees want more from their workplace than the daily commute, the 9–5 and the monthly pay cheque. They want work-life balance, flexibility, an employer that cares about individual physical, emotional, financial and career needs, and an organisation that lives and breathes its brand promise, that not only supports its people but also the local communities in which it operates. In short, an organisation that is authentic.

Leaders need to get to grips with all of this and more. They also need to pay heed to the push for fairness and distributive justice: a trend not only in the workplace, but also in society.

In this edition of Your People | In Focus, we delve deeper into the subject of fairness, focusing on some immediate priorities facing organisations:

- What you need to be doing now prior to CEO pay ratio reporting next year.
- How and why you need to focus on financial education in the workplace: it doesn't have to be big, shiny and expensive to be effective.
- Why the shift from defined benefit to defined contribution, for all the cost savings associated, still leaves the door open for big, future ill health early retirement liabilities. We investigate an innovative new way that has the potential to fully mitigate the risk while maximising organisational wellbeing.

The latter represents a sneak preview into a fuller article on this topic appearing in our latest Organisational Wellbeing & Talent Insights report, due to be published this August. Packed with practical takeaways, this report looks at all of today's organisational wellbeing challenges from a CEO, CFO and HR perspective.

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At Gallagher, we're always looking for ways to make much better use of what you've got. It's why we developed Gallagher Better Works℠, addressing the interconnected nature of health, engagement and culture. It helps you assess the effects of this relationship on productivity and turnover, with a view to finding opportunities for improvement.

Gallagher Better Works provides the foundation for all our independent consultancy – from analysis and diagnostics to benefits audits and communications. It also informs our calendar of free events, benchmarking and thought leadership material.

On that note, if you missed our recent breakfast seminar, "The Path to Better Organisational Culture," contact us to receive a copy of the post-event write-up – including case studies.

In the meantime, let us inspire you into thinking what your organisation can do to bring out its better.

# Knowledge = health and wealth

*Financial Education in the workplace: Employees needs it. Employers want it. It needn't cost a jot. So, what are you waiting for, asks Steve Threader, Managing Director, Employee Benefits, Gallagher.*

We are often told not to let money rule our lives. But that's not easy if you're struggling to make ends meet or worrying about having enough to live on. Plus, the need to plan for the future you want is as relevant for your senior executives as it is for the rest of your workforce. Helping your employees take better control of their finances should therefore give rise to a happier, more productive workforce – and better business all round.

If you've ever been faced with a big, unexpected bill or sudden loss of income, you know worrying about money can have a major impact on your health and wellbeing.

In fact, money worries are the biggest source of stress for UK employees, according to 2016 research[1] by the Chartered Institute of Personnel and Development (CIPD).

Yet financial wellbeing continues to take a back seat to physical and emotional wellbeing in most organisations. The results of our 2019 Benefits Strategy & Benchmarking Survey indicate that only about two in five employers provide financial advice to employees, while just one in six offer non-retirement savings plans.

At the same time, research suggests employers are perfectly placed to plug the financial education gap. CIPD figures[2] show that 57% of workers would be keen to receive financial guidance from their employer, with 33% prepared to pay to see an in-house adviser.

## What you can do to help your employees

Offering access to expert advice is just one way you can boost your employees' financial wellbeing.

### What you need to know

- Over the past 10 years, the percentage of struggling employees has risen by 50%[3].
- Estimates suggest up to 20% of UK employees have experienced in-work poverty[3].
- Almost 50% of employees think they will face financial difficulties in retirement, and one in three loses sleep as a result[4].
- Nine in 10 employers agree financial concerns have an impact on workplace performance[5].
- Both employers and employees agree that if employees knew where to get help, they would have better control over their money[5].

By prioritising financial education, you could therefore also help to reverse the current trend for increasing personal debt and low savings levels, and the resulting presenteeism and absenteeism it causes. Others include:

- Organising workshops and webinars on subjects such as mortgages and savings.
- Communicating what "better" looks like – paint a picture of financial wellbeing using real-life stories associated with life stages.
- Providing an Employee Assistance Programme (EAP) that includes one-on-one counselling services.
- Making sure workers are aware of the need to make pension contributions above and beyond the minimum levels set by the government.
- Considering offering other forms of workplace savings – such as ISAs, a Share Save Scheme or a Share Incentive Plan.
- Cutting employees' commuting costs by offering a bike-to-work scheme or helping them spread the cost of expensive season tickets.

- Partnering with local businesses such as gyms and restaurants that offer employee discount schemes.
- Protecting them and their loved ones by providing group health, life and income protection insurance.
- Offering guidance on the tax implications of pension allowances such as the £40,000 Annual Allowance (AA) and – for higher earners – the £1,055 million Lifetime Allowance (LTA)(2019/20 tax year).

The good news is that many of these services come with linked tax benefits. You can, for example, receive tax and national insurance contribution relief on provision of up to £500 worth of pension advice per employee, per year.

However, while most financial education and support measures are optional, there are also some steps you must take to conform to current employment regulations. Typically, these include a requirement to automatically enrol all employees in a workplace pension scheme.

### 5 ways to improve financial wellbeing

1. Offer employees access to independent financial advice and/or help them source independent trusted advisers using reputable review platforms such as VouchedFor.co.uk
2. Ensure employees understand the value of pension saving and know how much they need to be saving to avoid hardship in retirement.
3. Consider launching new workplace savings schemes.
4. Boost engagement by highlighting your existing benefits programme.
5. Take advantage of tax breaks and partnerships by providing benefits and discounts to help employees with everyday costs.

[1] Financial well-being needs to become part of well-being at work strategy, CIPD, 2016

[2] Employee financial well-being: why it's important, CIPD, 2017

[3] What's coming in 2016? CIPD, 2015

[4] Employee financial wellbeing – Time to do more, The Bank Workers Charity, 2017

[5] Financial Well-being in the Workplace: A Way Forward, FCA, 2017

# Too good to be true?

*Graham Yearsley, Head of Risk & Healthcare at Gallagher, reveals a way to completely remove significant ill-health early retirement liabilities from your balance sheet while, at the same time, improving your organisational wellbeing. It's not as pie in the sky as you might think!*

### Read this if you want to find out:

- How to eliminate the need to fund a defined benefit scheme ill health liability: completely removing the liability as opposed to capping it via insurance.
- Ways to protect against potential future increases in your contribution rate.
- How to ensure your responsibilities towards your employees at their time of greatest need will be met, while also supporting an ongoing culture of organisational wellbeing.

The big shift from defined benefit (DB) to defined contribution (DC) schemes has helped many companies make considerable savings. But it can come with a trade-off. If your DB scheme allowed for ill-health early retirement pensions, you could face potentially big liabilities in the future. Meeting the liability via insurance can help ease this pressure, but it doesn't completely remove the burden. Alternatively, there is a way to completely transfer the risk while, at the same time, providing a platform for organisational wellbeing. Better business thinking? You be the judge.

Funding your liability through a DB scheme or insuring your potential future IHER liabilities has always represented the traditional route. Alternatively, where the DB scheme is paid up for future accrual – and where the majority of employees previously in the DB scheme remain current employees – you could discuss with your consultant the potential for transferring the risk.

Some group risk insurers will now consider transferring the risk from the DB scheme by buying out the IHER liability, effectively removing it from your balance sheet. The catch? The deal will probably include an agreement to put in place their group income protection (GIP) scheme. But is that really a catch when you consider the wellness structure that is now associated with such arrangements?

## A case in point

In 2018, a Gallagher client, a large retail organisation, switched from a DB scheme to a DC scheme, creating substantial cost savings for the company by reducing employer contribution rates from 16% to 10%.

However, it also highlighted two key issues. Firstly, that closing the scheme was detrimental to anyone whose health meant they were unable to work in the future. And secondly, a number of employees were being paid a self-insured benefit – the main driver of a £5 million liability on the company's balance sheet.

It wanted to find an answer to both these issues – one that met the needs of employees as well as the business's own desire to ensure individuals were looked after.

The solution came in the shape of a tailored GIP scheme to help fulfil the organisation's overriding financial priorities with regards to 3-year income replacement that dovetailed nicely with the company's sick pay scheme, plus access to a vast array of early intervention and rehabilitation services. Anyone unable to work after this period would be paid a final lump sum of 100% of salary. In addition, in return for a one-off premium payment, the insurer took over responsibility for paying those receiving an ill-health early retirement paid a self-insured – releasing the obligation from the company's balance sheet.

And as the way an organisation calculates liability is very different to the way an insurer calculates it, that meant the business was able to transfer its £5 million liability for an outlay of just £1.5 million – making a massive difference to its balance sheet.

Whilst the buy-out premium is often very similar to the value of all claims paid to expiry and is a capital-heavy transaction, removing a capital-intensive, long-term liability from a former DB arrangement can yield some very positive results for the trustees and sponsoring employer.

### What you need to know

- Insurance that covers your potential future ill-health early retirement liabilities might not be the only avenue open to you.
- Ill-health early retirement risk transfer is worth exploring too, where your scheme meets certain strict criteria.
- There aren't any regulatory issues with transferring your pension scheme ill-health early retirement liabilities to an insurer.
- But not all schemes are suitable for transfer. Plus, there may be situations where transferring makes no material difference.
- It's a very complex area, so only to be considered with the help of expert consultancy. It takes a lot of work to identify whether or not a liability is viable for transfer.
- Only a very limited number of insurers offer this option. And, where they do, along with applying strict criteria, they will probably require you to take a tailored GIP scheme.
- GIP schemes come with a vast array of free, added-value wellbeing services, helping you to create or improve your organisational wellbeing.

# Act now or pay later

*With new legislation for CEO pay reporting having come into force this year, it's imperative for companies to begin preparing ahead of their compliance deadline, says Mark Childs, managing director at Total Reward Group, a Gallagher Company.*

**You need to read this if you're:**

- Behind on preparing your company's CEO pay ratio report
- Worried that a high ratio will result in negative publicity and/or employee relations issues
- Wondering how to develop a compelling narrative to communicate internally and externally

Listed companies with more than 250 employees will have to publish the ratio of CEO total pay relative to lower quartile, median and upper quartile total pay levels of the their employees by the end of the financial year. This means the first executive pay ratios will be appearing in remuneration committee reports from the start of 2020.

While 2020 may seem a long way off, it's vital that companies start preparing now, both in terms of the parameters for reporting and – even more crucially – how the ratio will be perceived by employees, investors, customers and the general public.

Executive pay ratio reporting falls under the Companies Act 2006, so both HR and payroll professionals will need to work together to prepare the numbers. While it's important to keep these findings confidential, it's a good idea to also socialise them with the remuneration committee and the company's non-executives at an early stage. These are the people who will need to defend and justify the results, as well as reflect and discuss internally why the ratio is what it is.

## Play the movie forward and back

It's worth looking at what the future may hold, as well as looking at where the company is today. Imagine a year where there's a profit warning and consequently no bonus for the CEO, but the next year they receive one. How might that be perceived? Test some "what-if" scenarios and role play the justification for the potential differences year on year.

## Speak to other organisations

Offer to network informally with peers in similar organisations to find out how their pay ratios compare. There will likely be big differences between business sectors but less difference within a sector. Some of the highest CEO pay ratios will probably show up in lower paid sectors like hospitality, security, cleaning and retail, and lower ratios will be seen in higher paid industries such as professional services, pharmaceuticals and financial services.

The truth is that CEO pay ratios represent a very crude means of measuring fairness. They will tell us as much about the pay market for various industries and occupations as they will about whether a CEO's pay is high, medium or low.

## Reputational fallout

The public mood has shifted against high executive pay, especially since the financial crisis. This means companies with high ratios could be hit with a double whammy of employee resentment and negative publicity.

It's therefore important to get internal communications, PR and investor relations involved in discussions as soon as possible. They can help develop a story that provides some context around the ratio, particularly if it's high and likely to elicit questions from employees and be scrutinised by the press and industry analysts.

In parallel, have initiatives in place to improve the situation for lower paid employees, and be prepared to communicate these both internally and externally.

A medium or high CEO pay ratio isn't necessarily bad so long as it's perceived as fair and justifiable. This means it's essential to develop and communicate a robust accompanying narrative when reporting next year. Start now to make sure the story you tell is a good one.

If you'd like to find out more, or learn how we can help your business bring out its better, please schedule a meeting with your Gallagher consultant or email sayhello@ajg.com.

## **The Gallagher Way**. Since 1927.

Gallagher has been designing solutions to meet our clients' unique needs for more than 90 years. We pioneered many of the innovations in risk management used by businesses in all industries today. We believe that the best environment for learning and growing is one that remembers the past and invents the future.

Gallagher has divisions specialising in benefits and HR consulting, retail insurance brokerage and claims processing. As one of the largest insurance brokers in the world, Gallagher has more than 700 offices in 34 countries and provides client-service capabilities in more than 150 countries around the world through our network of partners. Wherever you are—we're nearby.

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