UK trends in employee benefits
The perfect storm

1. Faces behind the voices
2. Workplace pensions and retirement
3. Health and wellbeing
4. Personalisation, socialisation, mobilisation
5. Executive compensation
6. And finally…
Faces behind the voices

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Compensation and Benefits Director
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Workplace pensions and retirement
Background to pensions reform
The need for auto-enrolment

Decline in workplace pensions

State pension will not be enough for most

“DC – a ticking time bomb?”

Source: Office for National Statistics (ONS), Annual Survey of Hours and Earnings: Summary of Pension Results (13 March 2014)
Auto-enrolment
So far, so good

9%
Opt out levels reported in 2013
Far better than the 30% estimated

10,817
Employers staged (end of March 2014)

Employer staging forecast for auto-enrolment

Sources: The Pensions Regulator (end of March 2014) and Professional Pensions, DWP confirms opt out rate of 9% (8 Aug 2013)
Flexibility in retirement
The impact of Budget 2014

- 60% of people do not shop around at retirement
- 80% were worse off as a result of this inaction
- 75% of retirees purchase an annuity at retirement

- Removal of requirement to purchase an annuity
- Retirees *may* look to take their DC pension pot as a lump sum
- Beware the human impact!

Workplace pensions governance
Raising the bar in DC

0.75%
Charges cap

Removal
Commission on workplace pension scheme

Focus
On improving DC governance

The new pensions landscape
2014 and beyond

- Distressed employers
- "Retirement" is dead
- People working longer

- Scheme costs set to rise
- More innovative scheme design
- Greater engagement and personalisation
Health and wellbeing
Macro forces

Changing world of work

- Multi-generational
- Portfolio career
- Chronic disease

Systemic health challenges

- Ageing workforce
- Medical inflation
- Socialised medicine
- Innovation

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Market realities

Sustainability

Affordability

Relevance

CAPITA
Catalysts for change

Whole of workforce

Engagement

Competition & Markets Authority

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Personalisation, socialisation, mobilisation
Different strokes for different folks

Pre-Boomers
Born before 1945

Baby Boomers
Born 1945 to 1964

Generation X
Born 1965 to 1979

Generation Y
Born 1980 to 1995

Generation Z
Born 1996 onwards

CAPITA
Online, connected, changing

35.7 million adults access the internet on a daily basis in 2013

51% of adults have a smartphone

24% of adults have a tablet

49% of adults use their mobile to access the internet (in Q1 2013)

80% of households have access to the internet

Increasing for every age group

This was up from 16.2 million in 2006

80% of households have access to the internet

Source: Ofcom, Adults media use and literacy (2013)
Communications need to be targeted

Employees prefer communications that are focused on their particular circumstances.

Despite shift towards online and social media, many would be better served through other channels.

Benefits platforms need to help make the journey a much better, richer, more relevant experience.
Executive compensation
Issues affecting compensation in the UK
Issues affecting compensation in the UK

Gender Balance
• Proposals to increase the number of women on boards of listed companies to 40% by 2018

European Commission
• Proposals for shareholders of listed companies to be given a binding vote on director remuneration
• Proposals on how policy has been implemented

Clawback
• Proposals to claw back vested bonus awards in specific situations for up to six years
Issues affecting compensation in the UK

**Tying comp with performance**
- Current proposal that 50% of all variable pay should be deferred for a minimum of five years.

**Holding Companies into Account**
- The AGMs of 19 companies reporting under the new regime have now been held.
- The median level of support is high with 96.5% for the Remuneration Policy Report and 97.0% for the Annual Report on Remuneration.
And finally…
### Call to action

#### Auto-enrolment
- If already AE’d – check on how the middleware solution is performing. If not focus on the solution to be used. They are not all the same
- If budgeted for higher than 9% opt-out – reconsider the budgeting to avoid nasty profit & loss surprises
- It’s not just about AE – there are wider employer duties to be followed to fully comply and avoid fines

#### Health and wellbeing
- Sustainability; for many the current healthcare programme design is not future proofed
- Affordability; rising costs are impacting affordability of healthcare benefits for an employee's lifetime
- Relevance; healthcare and associated benefits are not relevant and valued by employee

#### DC charges and annuity
- Keep an eye out for what guaranteed guidance will actually mean and who will have to deliver it. If ABC members have trust based schemes in UK, they need to be ready. Due to start in under 12 months
- From 2015 no compulsory annuity purchase. This could provide options for phased retirement. Care here, UK age law protects workers of all ages unlike the US. Quality UK employment law advice crucial.
- Governance increases are on their way in DC (whether Trust or Contract). Start preparing for the increased costs
- Check current charging basis to include active member discounts and commission

#### The future of technology
- One size fits all is history! Personalisation is the future, coupled with socialisation (communities) and mobilisation (devices)
- Can benefits be communicated anytime, anywhere and on any device (and be device-responsive)?
- Consider the use of all-encompassing administration and communication portals – fully integrated to encourage community participation, reduce admin and enrich the personalisation experience

#### Executive compensation
- With reduced LTA and max pensions at £40k – pensions less attractive to execs/high earners – consider options
- Review alternative reward mechanisms as bonus deferral becomes more common
- Be prepared for increased shareholder involvement on board/exec pay
Thank you
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>10 May 2013</td>
<td>Consultancy charges banned for all new contracts</td>
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<tr>
<td>28 Nov 2013</td>
<td>Consultation on DC governance closed</td>
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<td>Spring 2014</td>
<td>The Pensions Bill receives Royal Assent and empowers the Government to make the changes</td>
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<tr>
<td>15 May 2014</td>
<td>Consultation on new DC governance requirements closes</td>
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<td>Summer 2014</td>
<td>The Pensions Regulator to issue guidance on DC Governance requirements</td>
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<td>Later this year</td>
<td>FCA to consult on revised rules accommodating IGCs</td>
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<tr>
<td>Later this year</td>
<td>IGCs to be established</td>
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<td>April 2015</td>
<td>New FCA rules for IGCs in place</td>
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<td>April 2015</td>
<td>Charge cap of 0.75% on default funds in qualifying schemes introduced</td>
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<td>April 2015</td>
<td>Member-borne deductions, including any active member discounts and commission, must be within the 0.75% charge cap</td>
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<tr>
<td>April 2015</td>
<td>New trust-based DC Governance rules effective including new requirements for trustees to consider and report against the DC Governance rules</td>
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<td>April 2015</td>
<td>New measures to strengthen the independence of governance in mastertrust arrangements</td>
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<td>April 2015</td>
<td>Trustees, managers and IGCs to report on scheme costs on standard basis tailored for the audience</td>
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<td>April 2015</td>
<td>Consultancy-charging ban extended to pre-10 May 2013 contracts</td>
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<tr>
<td>April 2016</td>
<td>Active member discounts are banned</td>
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<tr>
<td>April 2016</td>
<td>No qualifying scheme can pay commission payments from member funds</td>
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<td>2017</td>
<td>The Government will examine whether some or all transaction costs should be included in the default-fund charge cap, and whether the level of the cap should be lowered</td>
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From 2014 Employee Insight

- **39%** of employees feel worse off than they did 12 months ago, whilst **27%** feel better off
- This has improved from 2013 where **49%** felt worse off and **20%** felt better off
- **71%** of employees are more likely to stay if the employer offers good employee benefits
- **69%** of employees are more likely to take a job if the employer offers good employee benefits
- **56%** say that pensions are complicated and confusing, a barrier to plan effectively for retirement
- **52%** would be more willing to save into a pension if they had a better idea of how it works
- **39%** are worried about retirement as they don’t think they will be able to support themselves
- **58%** of employees say they would welcome incentives that reward healthy behaviours
- The last time they were ill, **67%** of employees went into work anyway
- But **77%** say that sick colleagues should stay home until they’re better and not come into work
- **79%** have felt stressed at work over the last 12 months
- **48%** of employees feel that their employer has a responsibility to help manage their personal health and wellbeing

Videos

- Introduction from Nick Burns
  https://www.youtube.com/watch?v=OSWfW_A2Xw0

- Capita Employee Benefits: This Is Where We Live
  http://www.youtube.com/watch?v=NZYJBAOI2CI

- Auto-Enrolment: The Complete Solution
  http://www.youtube.com/watch?v=HE-3pOV4r1c

- Orbit Portal, Augmented Reality
  http://vimeo.com/89719059
Regulatory Statement

The information contained within this presentation does not constitute financial advice.

The information provided is based on our understanding of current law and taxation as at 28 April 2014.

HMRC policy, practice, and legislation may change in the future.