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UK trends in employee benefits

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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
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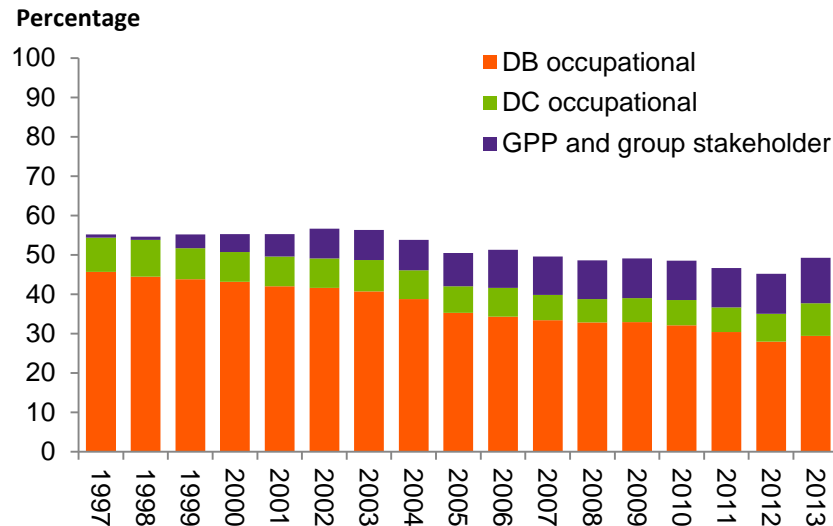
Workplace pensions and retirement



Background to pensions reform

The need for auto-enrolment

Decline in workplace pensions



State pension will not be enough for most



£144 a week

“ 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%

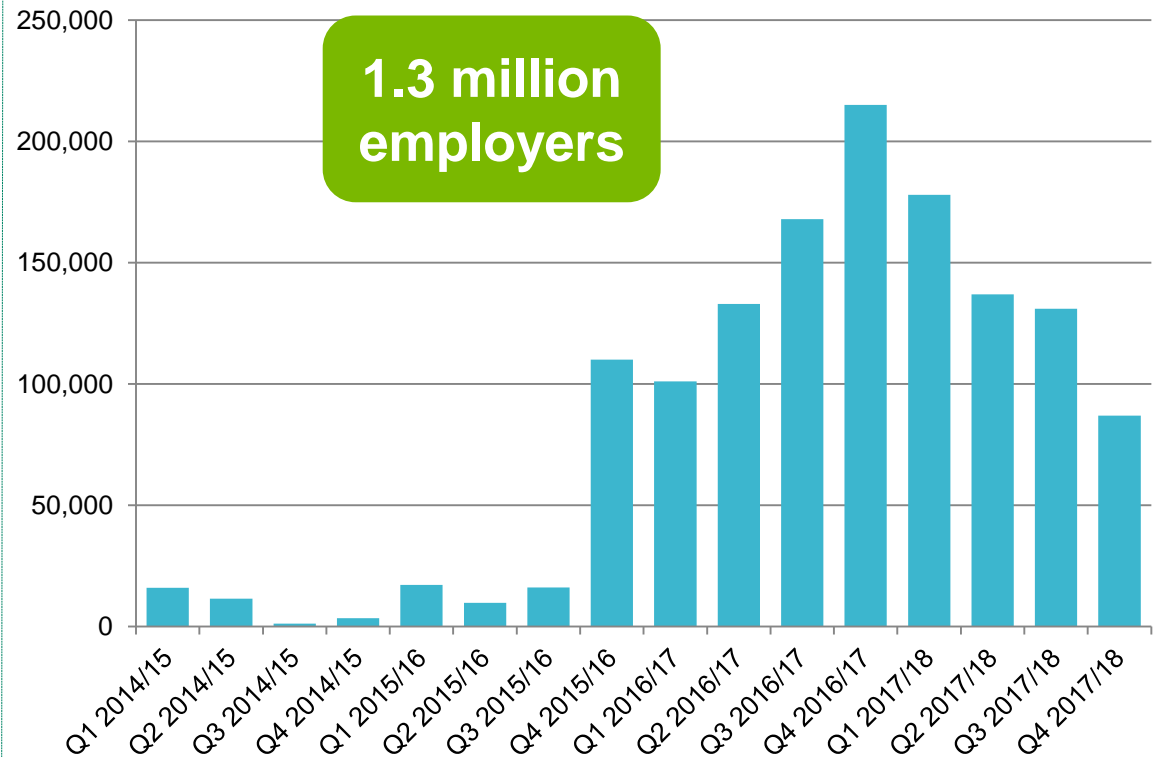
Opt out levels reported in 2013

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!



66%
Approved

Source: Financial Conduct Authority, *Thematic Review of Annuities* (Feb 2014); HM Treasury, *Freedom and choice in pensions consultation* (March 2014) and YouGov, *Budget 2014: 'The fairest since 2010'* (21 March 2014)

Workplace pensions governance

Raising the bar in DC

0.75%

Charges cap

Removal

Commission on workplace
pension scheme

Focus

On improving DC governance



Source: Department for Work and Pensions, *Better workplace pensions: a consultation on charges* (27 March 2014)

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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**

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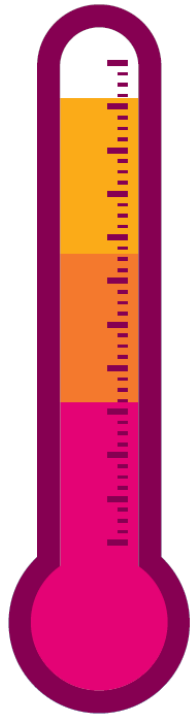


Health and wellbeing



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

???

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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



Online, connected, changing

35.7 million

adults access the internet on a daily basis in 2013

This was up from 16.2 million in 2006

80%

of households have access to the internet

Increasing for every age group

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)

up from **36%** in Q1 2012

Source: Ofcom, *Adults media use and literacy* (2013)

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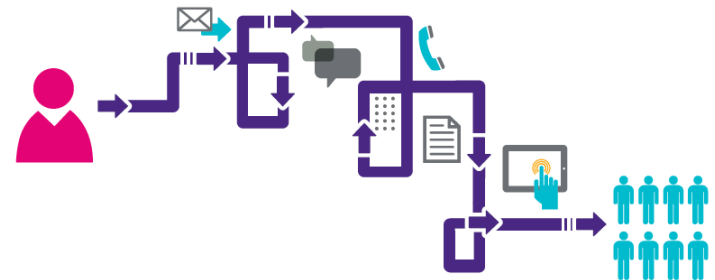
Communications need to be targeted



No, fork handles!

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

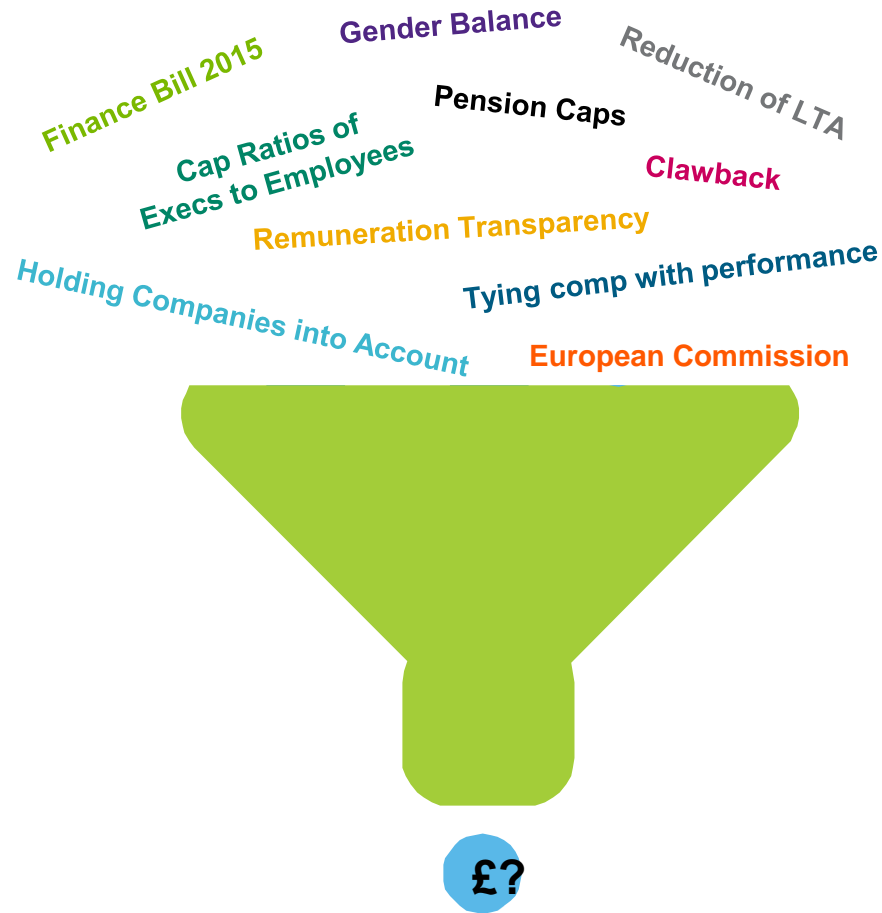
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Executive compensation



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



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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

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

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

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

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Thank you



DC timetable

10 May 2013	Consultancy charges banned for all new contracts
28 Nov 2013	Consultation on DC governance closed
Spring 2014	The Pensions Bill receives Royal Assent and empowers the Government to make the changes
15 May 2014	Consultation on new DC governance requirements closes
Summer 2014	The Pensions Regulator to issue guidance on DC Governance requirements
Later this year	FCA to consult on revised rules accommodating IGCs
Later this year	IGCs to be established
April 2015	New FCA rules for IGCs in place
April 2015	Charge cap of 0.75% on default funds in qualifying schemes introduced
April 2015	Member-borne deductions, including any active member discounts and commission, must be within the 0.75% charge cap
April 2015	New trust-based DC Governance rules effective including new requirements for trustees to consider and report against the DC Governance rules
April 2015	New measures to strengthen the independence of governance in mastertrust arrangements
April 2015	Trustees, managers and IGCs to report on scheme costs on standard basis tailored for the audience
April 2015	Consultancy-charging ban extended to pre-10 May 2013 contracts
April 2016	Active member discounts are banned
April 2016	No qualifying scheme can pay commission payments from member funds
2017	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

Sneak preview: Employee Insight 2014

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

Source: Capita Employee Benefits, *Employee Insight* (2014)

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.

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