THE POWER

Are flexible benefit schemes a viable alternative to cash rewards in motivating staff in a recession? *Jo Victoria Russell* examines the role of flex in employee engagement.

Preserving employee engagement in the midst of a recession can prove to be a challenge when cash incentives such as pay rises and bonuses are no longer considered options. Cash-strapped employers are finding that flexible benefits, also known as flex, can provide a viable alternative to keeping staff happy and motivated during a time of economic hardship.

The beauty of flex

The days of offering cash incentives to motivate employees are long gone and a growing number of organisations are finding it difficult to provide pay rises and bonuses as a means to recognise and reward staff. Employers still want to incentivise their workforce and increasingly, flexible benefits represent an effective way of doing this in the absence of cash rewards.

Due to their inherent nature, flexible benefits schemes have an important role to play in engagement. The beauty of flex is that it allows employees to vary their pay and benefits package to satisfy their personal requirements and individual circumstances.

In most schemes, employees are either able to retain their existing salary and simply vary the levels of benefits within their allowance, or adjust their salary up or down by taking more or fewer benefits.

Whereas the majority of organisations offer employees a set of core benefits, eg a company pension plan, flex schemes provide a comprehensive selection of choices that are specifically tailored to the individual.

For instance, a working mother may find childcare vouchers and life insurance more applicable to her situation, whereas a younger employee may find a gym membership or travel insurance more appealing.

Evan Davidge, Independent Rewards Consultant, highlights the importance for organisations of being more responsive to the needs of an increasingly diverse and demanding workforce.

"If employers have any hope of engaging employees within current financial constraints, they must provide a differentiated 'shopping basket' or rewards, rather than preserving with the 'one-size-fits-all' approach," he explains.

By providing the freedom of choice when it comes to benefits, employers engage staff by giving them a sense of control and involvement in selecting their reward packages. In a financial climate where cash rewards are not always feasible, flex schemes could help promote loyalty and increased levels of engagement among employees because it shows that the company cares about their individual needs.

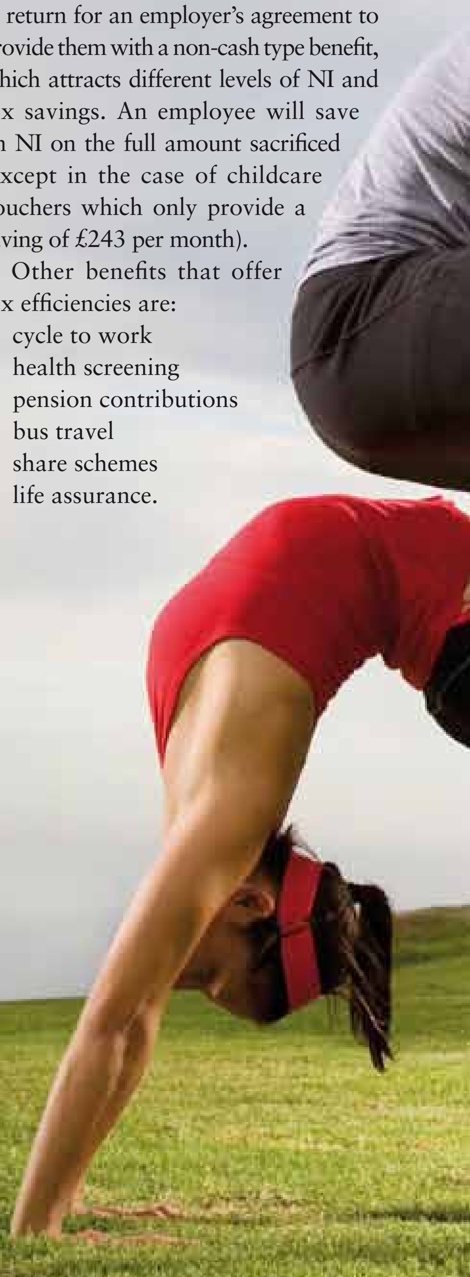
Salary sacrifice and tax-efficient benefits

One of the other key attractions for companies to offer flex schemes is the National Insurance (NI) and tax savings that come along with many of the benefits.

A salary sacrifice scheme allows employees to give a part of their salary in return for an employer's agreement to provide them with a non-cash type benefit, which attracts different levels of NI and tax savings. An employee will save on NI on the full amount sacrificed (except in the case of childcare vouchers which only provide a saving of £243 per month).

Other benefits that offer tax efficiencies are:

- cycle to work
- health screening
- pension contributions
- bus travel
- share schemes
- life assurance.



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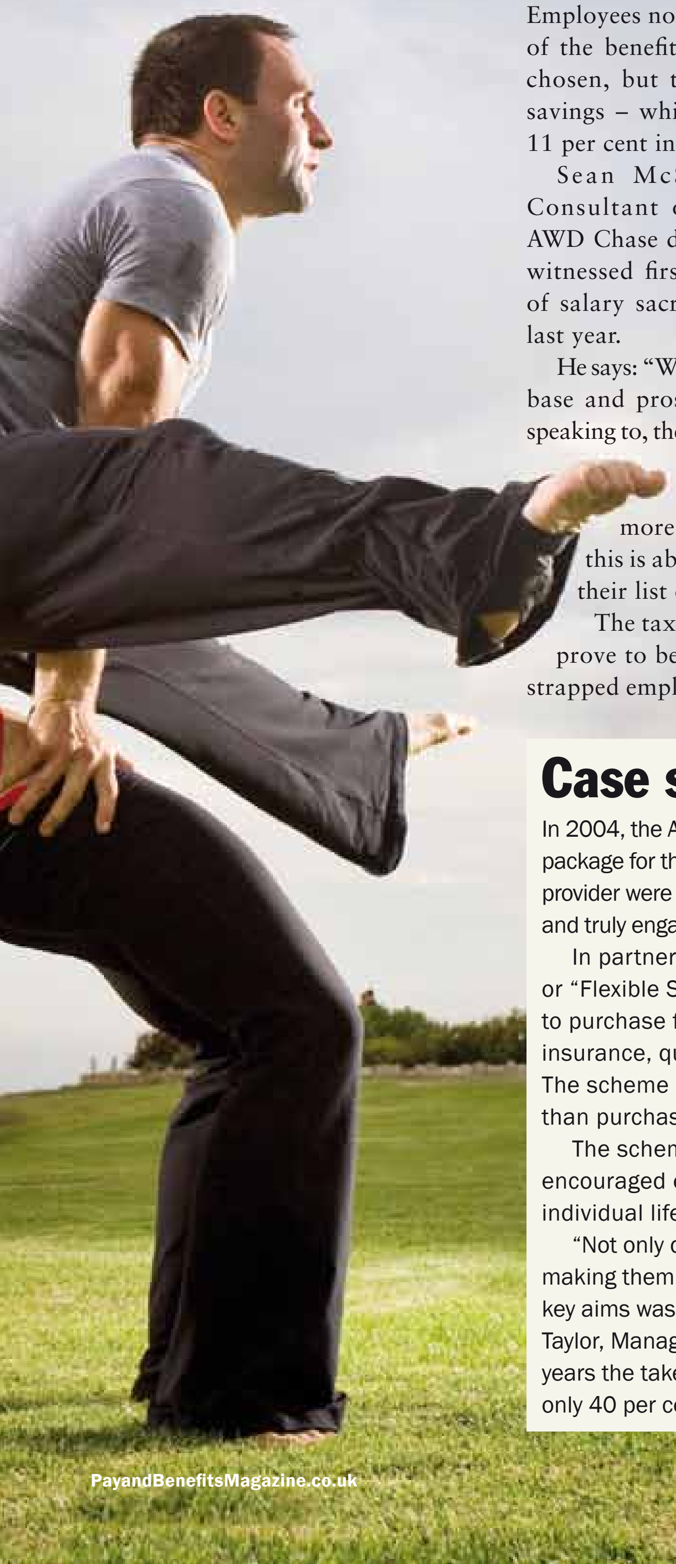

Salary sacrifice has proven to be a popular cost-effective way for funding flex schemes in the eyes of both the organisation and its staff. Employees not only reap the rewards of the benefit they have specifically chosen, but they also gain the tax savings – which can be as much as 11 per cent in NI.

Sean McSweeney, Principal Consultant of Online & Flex at AWD Chase de Vere Consulting, has witnessed first-hand the popularity of salary sacrifice schemes over the last year.

He says: "With our existing customer base and prospective clients we are speaking to, they are very much looking around introducing salary sacrifice to drive more value for employees – this is absolutely number one on their list of priorities."

The tax savings on benefits can prove to be very valuable to cash-strapped employees, who are looking for areas to save in and want to see their salaries go further.

Companies can also take advantage of Employer NI/tax savings as well as demonstrate that they are adding value to an employee's reward package. This in turn can improve levels of employee satisfaction and drive engagement.

Some employers have even taken it a step further and offer greater flexibility by enabling staff to flex down some benefits cover and take cash instead – which may help engage some employees even more.

For instance, research from employee risk and benefits management firm Aon Consulting found that employees are increasingly selling off their holiday allowance to boost their salary.

Compared to last year, the proportion of staff selling holiday has nearly doubled from 20 per cent to 38 per cent, suggesting that employees are looking for more ways to increase their earnings in the recession.

Flexible benefits not only give employees more choices and flexibility, they can also align with corporate objectives and goals. It is therefore a win-win situation – employers are making substantial cost savings as well as boosting morale and fostering engagement among staff.

Case study: Automobile Association

In 2004, the Automobile Association (AA) set out to upgrade their existing benefits package for their workforce. The main objectives for the automotive-services provider were to improve their overall benefits package, raise employee perception and truly engage employees by providing benefits that catered to their needs.

In partnership with Benefex, the AA designed and implemented FlexSA or "Flexible Spending Account". Each employee was given a FlexSA fund to purchase from a range of benefits, including additional holiday, dental insurance, quarterly wine deliveries, experience days and retail vouchers. The scheme also provided staff with the versatility to choose cash rather than purchase benefits from their allowance.

The scheme acknowledged the diverse needs of AA's workforce and encouraged employees to choose a benefits package that best suited their individual lifestyles.

"Not only did AA want to enhance the mix of benefits in their flex scheme by making them more relevant to their increasingly diverse workforce, one of their key aims was to improve employee engagement and motivation," says Jason Taylor, Managing Director of Benefex. "As a result of its success, for the last two years the take-up rate for FlexSA has been around 93 per cent, compared to only 40 per cent before improvements to the flex scheme were made."

Cash is king

In times of economic hardship and widespread insecurity over jobs – cash is king. Ultimately, financial rewards are the most versatile and presenting employees with cash gives them the choice to do what they want with it.

Employees are generally fearful about what is going to happen with their jobs and the wider economy and therefore, prefer cash over flexible benefits if that choice is given to them.

Dorian Hannington, Manager of Flexible Benefits at Enrich Reward, explains: “People want a little more certainty and while there are good reasons why organisations should be looking at their flexible benefits schemes; from the employees’ perspective, they will want to know that if the option is there, they will want to get their hands on the cash.”

Interestingly, there are studies that have shown that using financial compensation to motivate employees is not always effective in encouraging engagement or promoting job satisfaction.

Research from the University of Leuven in Belgium reveals that in some cases, paying employees can have an adverse effect and the type of people who are motivated by cash rewards are more likely to be dissatisfied and are less committed at work.

“The current ethos in many organisations is to reward workers with material benefits, but this research shows [that approach] could be counter-productive for both the organisation and the employee,” says Maarten Vansteenkiste, who conducted the research.

It seems that the ideal situation would be achieving a balance of both financial incentives and benefits.

Jarrod Parker, Employee Benefits Director of Alexander Forbes Financial Services, explains: “I don’t think we will ever get to the point where flexible benefits will be considered a direct replacement for cash rewards. But as part as a balanced product, salary, bonuses and a good employee benefits package that offers flex, is the optimum.”

Unfortunately, the recession has created a climate where pay freezes and job cuts are in abundance. A large number of organisations simply cannot afford to reward their staff with pay rises and bonuses at this time. Employers are now being required to consider other cost-saving options to motivate staff, and flexible benefits are increasingly seen as a viable alternative.

A viable alternative

Although financial rewards take precedence, the reality of the recession is that there are many organisations that do not have the budget to offer cash incentives to their workforce. Therefore, companies need to maximise the value of what they can offer their staff.

Sean McSweeney believes that there is a cost-saving opportunity in the way that organisations can deliver flex to effectively increase an employee’s take-home pay. For example, if a pension is chosen as part of an employee’s flex scheme and is delivered via salary sacrifice – the worker saves money and effectively their “take-home pay goes up”.

He says: “Organisations are looking at more clever ways of delivering their benefits and this includes choosing to switch to a salary sacrifice plan. In effect, this delivers an increase in take-home pay for employees. Therefore, even if people are not getting a salary rise, they are still taking home more pay because of the substantial savings they are incurring from their flexible benefits schemes.”

By using salary sacrifice as the delivery method, companies are giving employees the option to increase their salary by providing the tax savings on their benefits. Although this is not a cash bonus by any means, it does provide employees with extra pay.

But going beyond the salary boost, offering flexible benefits also demonstrates to the employee that their organisation cares about their needs outside of work. Evan Davidge identifies a more fundamental relationship of reward between employer and employee and thinks offering flexible benefits is a way of engaging staff on a less superficial level.

He feels that companies have a responsibility to go beyond the economic relationship of cash incentives to a much deeper level. Particularly in the

recession, organisations should feel a wider corporate responsibility towards their employees and provide them with something that is much more meaningful than financial compensation.

He says: “Employers are missing a trick if all they are thinking just about cash rewards; they need to think of the more fundamental relationship between their people and their ability to enhance their reputation as a responsible employer.”

Money, even in a recession, may not be the most effective way to engage staff. Flex schemes, on the other hand, represent cost savings for both the organisation and employees, but also helps demonstrate that the employer cares about the wellbeing and needs of their staff beyond the workplace. Put simply, non-cash rewards can make a more significant impact on the lives of employees.

Tops tips for managing reward

Sylvia Doyle, Director of Reward First People Consulting, provides four top tips on managing reward in the recession while preserving employee engagement.

1. **Communicate issues that drive employee connection**
   Establishing clear lines of employee communication is critical to business success – this becomes even more important during times of economic uncertainty. Make sure there are regular employee updates on how the company is dealing with economic challenges and the employees’ role in this.
2. **Continue development opportunities arising from business challenges**
   While a recession may not seem the obvious development opportunity, fewer resources and tougher market conditions create opportunities for staff to develop their skills. For example, the chance to “step up” to a more challenging role that is not being replaced can produce a win-win outcome when managed effectively.
3. **Don’t neglect work–life balance**
   While it can be easy to overlook work–life balance during a recession, excessive hours over long periods of time contributes to stress and other challenges. If you have got a work–life balance policy in place, lead by example so that employees perceive the policies to be realistic and not career limiting.
4. **Identify and target-critical positions, critical talent and high potential talent**
   Put talent management into practice to ensure that roles and people critical to business success are properly accounted for. While retention needs to be a key priority, remember to factor in succession planning for contingency and future development.

Communication is key

A flex scheme strategy that fosters engagement will only come to life if the value of the benefits is communicated to employees effectively. Research by Accor Services (2008) found that only one in five (21 per cent) employees claim to have a good understanding of the value of the benefits available, while nearly one in 10 (nine per cent) admit to having no clue about the value of these benefits.

Flexible benefits are only as successful as they are communicated – what makes these schemes work is when employees understand the true value of their choices. There are many organisations that offer a comprehensive range of benefits but their employees are unaware of what is being offered. Therefore, they do not fully comprehend the value they can get from a flex package and are not necessarily aware of the kind of choices they can make.

Jason Taylor, Managing Director at Benefex, says: “I think there is a place in these current times for benefits rather than cash but it is also key that the employee understands what they are getting.”

Total reward statements (TRS) are an increasingly popular way for companies to highlight the cash values of their choices, enabling employees to get an idea of what their benefits are truly worth and increase their appreciation of overall rewards package.

In general, TRS lists each employee’s reward items, such as salary, profit-sharing plans, pension, health insurance, etc. It can also include items that have not been assigned a monetary value such as training and development, season ticket loans and flu vaccinations, in order to highlight the less obvious perks.

Steve Joyce, Head of Marketing at Ceridian, believes that “TRS also show the true value of benefits on offer and highlights the investment the company is making. In this climate, the message to employees is that although times are tough, the business is still investing in them and trying to support them in the most relevant way.”

By communicating with staff via TRS, employees can begin to recognise the value in products such as private medical insurance, personal accident cover or childcare vouchers and the impact these schemes can have on their lives.

A key engagement driver

When cash rewards are not an option, flex schemes can be used as a key driver in engaging staff. They represent a viable alternative in two ways.

Flexible benefits, delivered via salary sacrifice, can enhance pay for staff because of the tax savings the schemes incur. As important, an employee’s choices in their flex schemes will be particularly relevant to their personal context and lifestyle requirements and will therefore have a meaningful influence on staff beyond the workplace by enriching their personal lives.

Keeping employees engaged in a recession with limited financial means is one of the biggest challenges that organisations face today. But being creative about delivering benefits – as well as ensuring that the value of employees’ choices in their flex schemes are being communicated effectively – are steps in the right direction.