Employee Benefits: 2035

A design for the future: what tomorrow holds and the role financial education will play in it.
Introduction
By Russell Davidson,
CEO of Davidson Asset Management (DAM)

Employers provide benefits to staff for a variety of reasons. Some do it because they have concerns about attracting or retaining the best staff; some are driven by the needs of their industry or location; and many just hope to cover off their legislative requirements within the timescales set by Government.

Overlaying all of these reasons, most employers also feel a sense of paternalism towards staff and want to look after them in whatever way they think is right.

The key word in that final, nobler, reason is “think”. Whether employers are drawn or compelled to provide benefits for staff, they should always seek to gain the maximum value out of their investment. That means understanding which particular new benefit is going to float their employees’ boats. It makes sense to check which perks people see the most value in and that’s the reason why Davidson Asset Management set out to find out the benefits employees really need and want… and those they don’t.

This report will reveal confusion around the future of pensions; disagreement over the security of investing in a pensions pot for the future versus investing in the bricks and mortar of the housing market right now; a desire for more choice when deciding what benefits to take up at different life stages; and, perhaps most prominently a need for more financial education in helping employees use benefits to navigate the increasingly complex world in which we all live.

Our study shows that age and location are important factors in defining employees’ preferences and opinions but, while confidence in the future of pensions varies, this is a benefit that has risen in importance in the minds of most of our respondents. And our study provides evidence that the employers who empower staff with financial education are those that enjoy higher benefit take up rates and improved staff retention.

Education is the red thread that runs through our findings. The future of corporate benefits and pensions can be secured without the need for complex strategies. It’s not rocket science. Knowledge is power; and the survey shows clearly that through positive communications for employees, staff can be enabled to make smarter decisions for themselves and their families.

And as the retirement - and arguably health - benefits from the state look set to wane, savvy employers of choice have an opportunity and a duty to recognise this need and reward their people with not just what they want now, but what they need for a lifetime.

Methodology

The survey was conducted in three parts comprising a qualitative study, a quantitative survey and a focus group in partnership with Hult International Business School.

The qualitative study was conducted in the form of telephone interviews with six business leaders. These comprised, Robert Allan, director of HR at Apex Hotels, Jane Sunley, CEO of HR consultancy Purple Cubed, Zuleika Fennell, chief operating officer at Corbin & King, Marianne Barlow, HR director at Jumeriah, Sean Wheeler, regional HR director at The Dorchester Collection [subsequently Sean has become HR director at Starwood Capital] and Esther O’Halloran, Chair of HR in Hospitality and founder of EOH Solutions. Excerpts from these interviews can be found in this report.

The quantitative study was conducted using an online survey between May and August 2015. A total of 439 respondents from the UK took part in the quantitative study. Of these, 73% are full time employees, 35% are entry level employees, 35% are managers and 20% are directors, CEOs or owners.

From the sample, 42% have an annual income of less than £25,000 and 23% earn more than £50,000. Just under a third (29%) are the parent or guardian of a child under 16. A fifth (20%) live in London.

The focus group was held at Hult International Business School’s Aldwych campus in London in July 2015. Ten undergraduate business, finance and entrepreneurship students took part and were asked a series of questions to discuss and debate. An account of this is included within this report.
Overview

This study clearly shows that employee benefits are an important part of the employee value proposition and employees would rather have perks than a higher salary, despite the ongoing economic uncertainty.

A significant 71% of respondents to the quantitative survey say they value employee benefits highly when deciding where to work and a whopping 82% think their employee benefits package should change as their personal circumstances alter - jumping to 90% for people earning salaries higher than £35,000.

When asked to design their own employee benefits package for 2015, the majority of respondents (86%) chose pensions as a valued benefit, however, over two-fifths (41%) of the total sample are more concerned with buying a house than saving for the future (shooting up to 58% of respondents living in London), while just under a quarter (24%) are unsure which is their priority. Of those under 30, one third are more concerned with housing than saving for retirement, in comparison to 22% of those over 50 who see buying a house as more important than saving for a pension. Overall, just under half of all respondents (48%) believe that mortgage advice is a useful benefit, with which they would like to see their employer provide them.

More than two fifths (41%) of UK employees are more concerned with buying a house than saving for the future while just under a quarter (24%) are unsure which is their priority.

Of the total sample, 71% would like their employer to give them a pot of money for their employee benefits, which they can use to ‘buy’ the perks they would most value, however this drops to 65% for employees earning salaries less than £25,000.

The vast majority of employees would like to see more benefits communication in the workplace - regardless of age, most believe it is the employer’s responsibility to explain how they can get the most from their employee benefits package (87%).

Looking to the future, employees are optimistic about the benefits and pensions landscape of tomorrow. Almost two-thirds (64%) disagree or strongly disagree that employee benefits will be extinct in 20 years, in lieu of augmented salaries and a similar proportion (66%) disagree pensions will be extinct in 20 years.

Respondents were asked to create a benefits package for a workplace in 2035 - pensions contributions were rated third with a baby bonus placing first and retirement planning advice a close second.

When asked to design their own employee benefits package for 2015, pensions was placed first by an overwhelming majority: 86% of employees want pensions to be on their employee benefits plan.
More than a third (36%) would like to be given retirement planning advice as well as the ability to reduce hours and access full pension from 55

The vast majority of employees (87%) believe it is the employer’s responsibility to explain how they can get the most from their employee benefits package.

The majority of UK employees believe benefits packages should change as their personal priorities do (82%).

Employees would like to see employers offering benefits such as pet insurance, marriage bonuses, financial support for further education and 20% entrepreneur time.

A quarter (24%) would like to be reimbursed for their degrees.

Just under three quarters of UK employees would prefer to be given a pot of money each year and empowered to purchase their own benefits from providers they know and trust.

Over the next 20 years, (Graph 2) the benefit most millennials would like to see is enhanced maternity and paternity benefit, while those 30 and over still place their faith in pension contributions as the most valued perk. In fact, for millennials pensions contributions came 10th on the list with only 22% saying they would like to see increased pension contributions in the future, compared with 45% of the older respondents. Those under 29 value mortgage advice, family planning, reimbursement for degrees, retirement planning and unlimited holiday allowance highly, while those over 30 think differently, putting the ability to access pensions from 55, retirement planning and legal advice higher up their future wish list.

Both groups listed mandatory sabbaticals, concierge services and emergency assistance as the perks they would least like to see in the future.

Both now and in the future, employees value financial benefits – they would like help with investment in pensions, housing and paying back student loans; but they also want to be empowered to make their own decisions – through benefits and pensions communication, mortgage advice and legal advice. This desire for more information looks set to increase as generation Y work their way into more senior and higher earning roles in the future.

The graphs on page four demonstrate the benefits employees value most (Graph 1), compared to what they would like to see in the future (Graph 2).

Regarding the benefits they most value now (Graph 1), employees agreed that pensions are one of their top four most valued benefits (90% of 30s and over compared with 79% of under 30s), however the younger respondents were more likely to want benefits in the form of information, than their older colleagues, with 37% valuing mortgage advice (17% for 30s and over) and 42% valuing financial advice (17% for 30s and over). Millennials (under 30) also value company cars and childcare benefits more than generation X and baby boomers, while older employees value flexible benefits and private medical insurance more.

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Case Study: Dorchester Collection

The UK regional HR team at luxury hotel management company, Dorchester Collection, believe it is important that employees have a demonstration of what they’re getting in their benefits package, compared to the competition.

There is a strong belief at Dorchester Collection that if people don’t know about benefits and don’t claim them, they should be encouraged to do so - education on benefits should be more than a brochure. Over the past two years, the company realised while its employees had a benefits scheme, they didn’t know how to optimise the offering as they went through life changes. As a result the company began to offer one-to-one benefits reviews to help people understand, linked to lifestyle.

The team realised people needed to have discussions regarding mortgages. This includes discussing with employees what they can afford as well as explaining mortgage terminology.

The company believes it is safer for employees to get this information in the workplace, rather than on the high street.

These sessions are always full and through financial education and benefits communication, Dorchester Collection has measured an improved measures not just on pensions uptake, but also employee retention.

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**Graph 1:** If you could design your own benefits package what FOUR benefits would be in it?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>UNDER 29</th>
<th>30 AND OVER</th>
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<tbody>
<tr>
<td>Workplace Pension</td>
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<td>Medical Insurance</td>
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<td>Life Insurance</td>
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<td>Discount Vouchers</td>
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<td>Mortgage Advice</td>
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<td>Financial Education</td>
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<td>Company Cars</td>
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<td>Childcare</td>
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<td>Flexible Benefits</td>
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**Employee Benefits In 2035 Davidson Asset Management**

**Graph 2:** Thinking to the workplace of the future, which of the following would you like to see as an employee benefit, that’s not widely offered currently?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>UNDER 29</th>
<th>30 AND OVER</th>
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<tbody>
<tr>
<td>Enhanced paternity and maternity benefits (baby bonus)</td>
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<td>Mortgage advice</td>
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<td>Supporting family planning</td>
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<td>Reimbursement for degrees</td>
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<td>Advice on retirement planning</td>
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<td>Unlimited holiday allowance</td>
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<td>Employer bought devices for staff e.g. Tablets, laptops, phones, smartwatches</td>
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<td>Ability to reduce hours and access full pension from age 55</td>
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<tr>
<td>Air miles</td>
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<tr>
<td>Increased pensions contributions</td>
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<tr>
<td>Travel Insurance</td>
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<td>Legal advice</td>
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<tr>
<td>Mandatory sabbaticals</td>
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<td>Emergency assistance</td>
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<td>Concierge service</td>
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Employee Benefits In 2035 Davidson Asset Management
Focus group on the future of employee benefits - in partnership with Hult International Business School

University students and aspirational entrepreneurs represent the future of business leadership and, by 2035, will be making the decisions on benefits, pensions and financial education. The focus group with Hult International Business School, created the following points of discussion:

- All participants agreed that when considering saving for retirement, "now is always better than in the future". One said: "We need homes and food to eat, that’s why people are worried about buying a home more so than pensions..."
- The group believed the safest asset in which to invest is property; with pensions second. There was the view that property will provide more income than a pension could (for example via buy to let) so money can be accessed sooner.
- The group agreed financial education is one of the most important lessons people can learn. They expect future employers to explain benefits to them as part of the interview process.
- The group did not think pensions will become extinct. Instead they expect that employers will pay more, giving staff the opportunity to invest into a personal pension.
- Employees need to ask more questions around how their pension funds are being managed - whether employers like it or not, they have to take more responsibility for the pensions they offer their people.
- The top three benefits participants would want comprise healthcare (PMI), future development (funding degrees) and gym membership.

The focus group was asked to sum up their thoughts on the future of employee benefits in one sentence.

"The mindset is shifting and millennials don’t really think about pensions. Benefits should be considered that will appeal more to [millennials]."

"Employers should encourage open feedback from staff. This would allow them to tailor benefits."

"More discussion around pensions and their alternatives is needed. Employees should have as much control as possible over making these decisions; but it’s also critical to take into consideration employees’ levels of financial literacy and desired level of involvement."

"Property investment is more interesting to me compared with saving to a pension fund. I think the property value yield is better... Pensions are uncertain."

Sean Wheeler, director of HR at Starwood Capital and former UK regional director of human resources at Dorchester Collection

Property is booming right now and so I can see why interest in property is growing faster than pensions. This is why people want to invest; it’s immediate and people can make a return quickly.

In addition, very few employees understand benefits and for those in their 20s and 30s, retirement is still very far away. Their lifestyles are different, so they need money today, not tomorrow. This is why the Government legislated [by introducing auto enrolment] to make people think about their future earlier. They can invest lower amounts now and then higher amounts later in life.

Employers have to explain how it works though – this is the only way we can get people to understand pensions. They need to have a plan in place, so they can start thinking about their pension pots.

In the future, benefits such as private medical insurance will be more important as the NHS is under strain and pensions will be more important with lower state pensions. I think there will be more of a flexible portfolio of benefits that employees can pick and choose based on the economic landscape. Childcare, maternity and paternity benefits will also change. Ultimately benefits will need to be focused on the areas in which employers want to retain staff.

Esther O’Halloran, Chair of HR in Hospitality

I believe employees generally don’t understand pensions, though in my experience, understanding appears better with older employees or those born in the UK. Employees prefer a good decent base salary that is fair combined with flexible benefits and work-life balance.

The way people work now and in the future will change the way benefits are viewed and offered. If you look back 20 years, benefits were different to what they are now so there are sure to be new things, possibly around pay structures, hours worked, where you work and rewards not being cash but linked to individual lifestyle and tastes, so more personalised.

In the future, Governments will put more pressure on employers as well as individuals to “force” pensions to happen. We can’t force it, however, instead employers and HR professionals are key in communicating about employee benefits and must support and drive awareness.
Robert Allan, HR director, Apex Hotels

When considering how people save, it’s swings and roundabouts. Some would prefer to save into a pension while others would rather put their money into bricks and mortar to buy a house. People should save in some way and in the best way that suits them.

But, I think pensions may disappear within 20 years unless something is done. People should be compelled to save for retirement. This way they would know how much money is going into their pensions and could budget around that. I have to question if there will be a state pension in 20 years as well… I think the Government missed a trick with auto enrolment by allowing people to opt out – they should be encouraged to save.

At Apex we have just 7% or 8% of people who opted out of auto enrolment. We put this down to the workshops which helped ensure that employees understood the value of pension savings.

It’s positive to see that we offer some of the benefits people want in the future, including critical illness and death in service benefits, plus we plan to add mortgage advice shortly. However I think employees will want benefits that help with their work-life balance like holiday trading. Our recent engagement study found 70% of staff think our free food offering is attractive. If we provide staff with meals which could save them £50 per week it makes a huge difference to them.

Overall, I believe that, along with pay, benefits are important for attraction and retention of employees and should be part of an overall strategic HR plan.

Marianne Barlow, director of human resources at Jumeirah Group

I understand why more people are more concerned with buying a house than saving for a pension. People want it now – not in 20 years. However I’m surprised to see so many people wanting mortgage advice as a benefit given the availability of this on the high street.

We carry out a lot of financial education. I think this is a great benefit and we chase people to sign up because they have a mentality around what they have now and not what they will have in the future. People should be educated in schools, not just in the workplace, about the importance of finance and planning. They think the state will provide, but if it gets to the point of only a small – or no – state pension, people will have to give it more thought.

People will choose what benefits are relevant to them. Lots of companies have a flexible benefits approach, although for smaller organisations, it’s too expensive. In hospitality, where people are more transient, I imagine many would opt out of things such as life insurance and then request more holiday time. With rotas and shifts this logistically doesn’t work.

I think it’s unlikely that there will be a rise of weird and wacky benefits because employers won’t commit funds. We offer free meals and dry cleaning and this gets a lot of satisfaction from staff. We continue to explore add-ons to existing benefits, to offer more choice without going down the flexible benefits route. This makes it cost effective and relevant.

Jane Sunley, CEO, Purple Cubed

I don’t think generation Y employees would necessarily think about paying into a pension scheme. They believe they need all the money they can get – right now. When I started work, I would have paid into a pension even if I couldn’t afford to, but nowadays, it seems people don’t think that way. They want to buy houses and furnish them – they don’t seem to want to save for retirement.

Having auto enrolment and placing people into pensions is a sign of a “nanny state” but I also believe it’s a good thing. I don’t know what the future of pensions would be if they weren’t enforced like this and if we didn’t have pensions I don’t know what we would do. It’s important for employees to understand their pension is not a savings account but an investment and to give them information about how the value could increase or decrease.

At Purple Cubed we provide our team members with financial education. We gave people the information and the option of having a pension but after the financial education, only two employees decided to contribute to our pension scheme. Therefore financial education must be supported by someone who can champion pensions to colleagues within the workplace.

In the future, employees will see more value in benefits that enhance their work-life balance (flexible working, home working or buying / holiday). In saying that though, I know of some workplaces where team members still have to buy their own tea and coffee…
Zuleika Fennell, chief operating officer at Corbin & King

There is huge confusion around benefits – staff want money, because it’s more tangible to them than a benefit that they may not see the need to use immediately, but they need benefits in terms of looking after their financial future and security, particularly for those with families. Staff live hand to mouth and they need to think more about the future.

As priorities change, benefits need to change to match them and my team see it as our job to educate employees on this journey.

When it comes to pensions, we give staff education sessions and auto enrolment occurs for everyone through the People’s Pension. We have very low opt out levels. We also offer an alternative pension scheme with higher contribution levels targeted at heads of department and managers (5% from the employer) but if employees are interested they can have a one-to-one information session and we allow applications to join.

We want to develop more communication around benefits. I think we provide some of the best benefits in the restaurants sector, as these are often expenses that our industry cuts when profit margins are tight. We offer private medical insurance for heads of department and managers (5% from the employer) but if employees are interested they can have a one-to-one information session and we allow applications to join.

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We provide employees with annual benefits statements so they can see the total value of what we offer with their salary and benefits combined – however some staff still don’t know what their benefits are.

Education is vital because if staff are not interested in benefits, only money, our competitors will try to attract them with more cash. Education demonstrates that our total benefits package exceeds these higher wage offers, but if people don’t know that, we are losing the battle.

Conclusion

We live in a world characterised by volatility, uncertainty, complexity and ambiguity and employees – like business leaders – are struggling to make sense of the financial environment and indeed where their benefits and pensions fit into this. Given the state of the UK housing market at the moment and the rising cost of buying a home, particularly in regions such as London, Bath and Edinburgh, it’s hardly surprising that some employees are opting for bricks and mortar over saving for their retirement.

With so many people struggling to find that first step on the housing ladder, any additional funds are being put towards escalating deposits rather than planning for the longer-term future. This type of financial planning could ultimately backfire as the Government reduces reliance upon the state pension; leaving those who haven’t planned for the future having to make the current average pension pot of £35,000 last throughout retirement – although this could increase as employees are automatically enrolled into pension schemes earlier in their careers.

This muted enthusiasm towards saving for the future doesn’t look set to change; with respondents ranking pension contributions third in a scale of the most important benefits 10 years from now; sitting behind baby bonuses, mortgage advice and, worryingly in joint position with the ability to access their full pension pot from age 55. This is a result of a lack of understanding about pensions and the wider benefits package.

Our focus group wanted to know more about employee benefits, but was undecided on whether a more lucrative benefits package.

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IF YOU READ NOTHING ELSE, READ THIS:
• Employers must listen to needs and wants of their people
• Pensions are a costly yet valuable benefit – employers need to ensure their employees value, understand and take advantage
• Mortgage clinics should become more widely accessible to provide trusted, reliable advice. These solutions are readily available and it is inexpensive to offer mortgage surgeries
• Employers should reconsider how they fund their benefits.

The conversation on Employee Benefits: 2035 has just begun. For more analysis and opinion visit our blog at www.damgoodpensions.com/blog

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