

Keeping life flexible

Saving in the workplace is no longer just about pensions, says Jonathan Watts-Lay, Director, WEALTH at work

Thinking is changing fast about how to get employees engaged, and we are finding that workplace savings are moving in the same direction as benefits. Today, many companies offer employees flexibility on which benefits to utilise based on their personal circumstances, allowing them to choose between life assurance, medical care and many other options. Now this is happening, employers are keen to offer various saving schemes such as ISAs, share schemes, pensions and other long term incentive plans, also on a flexible basis.

What organisations are starting to see is that on the savings side, just offering pensions is not hitting the mark. For example, many workers in their 20s have a high level of student debt and are keen to save to buy a car or to save towards a deposit for a house. Therefore, pensions are not necessarily attractive to them.

One way of offering more flexibility can be by splitting up savings options into the short term (up to five years), the medium term (five to 15 years) and longer term (15 years plus).

For example, a 25 year old employee who would otherwise get a 5% pension contribution, with a matching option may prefer to prioritise accessing cash and focus on short term savings vehicles such as save-as-you-earn (SAYE) schemes that you pay into for three or five years. As a SAYE scheme is a cash investment with the potential to buy shares in the future – with the benefit of hindsight they have potential upside and no real downside risk. As priorities change through life then those at a different life stage may want to spread contributions between the short and medium term so they can have access to cash but also can save. An older employee may prefer to prioritise pensions and other benefits; that is the whole idea. ISAs – whether cash or stock market can be

attractive especially with an annual limit of £10,200 which is tax free.

But key to the whole process of offering savings options is financial education. Of course, the decisions an employee makes this year may not be appropriate next year as life or financial circumstances change but, again, education is key to understanding how this process evolves.

Another attractive feature of flexible savings is the ability to make in-specie transfers from one to another, rather than cashing in one investment in order to buy another. This allows the mitigation of capital gains tax which benefits the employee but also the employer as they can drive more value for their employees by utilising the benefits of the current tax system but at no cost to themselves.

Education is also vital around diversification. Recently, we have seen several occurrences where employees held a large quantity of stock in their company which lost significant value overnight due to market pressures. Share schemes are important as they align performance of the business with individual rewards, but employees should take care not to hold all their eggs in one basket. Therefore, employees should be incentivised to diversify to safeguard their savings and minimise their investment risk.

