

# MoneyMarketing

# corporate adviser

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## Workplace savers

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Corporate Isa has to work for employees, employers, advisers and providers if it is to take off, finds Debbie Lovewell

Last year's launch of the iPhone 4 showed just how much excitement a new product can create. The fact it was a reincarnation of previous models did not seem to deter consumers' enthusiasm. Although not on quite the same scale, new launches in the benefits industry often provoke a similar buzz from advisers keen to sell the latest offering, and employers trying not to fall behind competitors in the benefits that they offer. Corporate individual savings accounts (Isas) are currently one such product, having made the transition over from the retail market.

Most corporate Isas are implemented through a corporate wrap platform, which enable employees to access all their savings and investment vehicles. Martin Palmer, head of corporate pensions marketing at Friends Provident, says: "Where I see the biggest opportunity is where Isas are packaged as part of an overall corporate platform rather than standalone. Part of that flexibility gives employees the ability to go online, look at contributions, look at their statements, use the various tools and modellers, look at what their risk profile is like, and which funds they should go into. They can then potentially adopt similar funds for their Isa compared to their pension, to benefit from having all their investments in a similar place, as well as from the functionality the platform provides."

However, advisers should consider both the pros and cons of giving employees such accessibility. John Taylor, market director (pensions) at Scottish Widows, says: "The attraction for employees is the accessibility. But that is one thing that concerns employers as some want employees to save for retirement."

Before introducing a corporate Isa, therefore, advisers should work with employers to identify which product will best meet the needs of their organisation and workforce.

Nicky Benstead, senior consultant at Towers Watson, explains: "They are all slightly different so it is about going back to the client and understanding what they are trying to offer and why. Do they want a cash or stocks and shares Isa or do they want both? How do they want that process to be managed? Is it through payroll, or is it through setting up direct debits for members?"

Understanding what employees want from an Isa plays a key role in these decisions. Corporate Isas can be used to help staff with a range of issues, from dealing with the new £50,000 annual limit on pension contributions for high earners, to serving as an alternative savings vehicle for lower earners who wish

to be able to access their money, rather than locking it away in a pension.

The other benefits schemes an employer offers can also influence what staff want from an Isa. For example, Isas can be used to mitigate tax on employee share plans if staff transfer in shares after a scheme matures. Jonathan Watts-Lay, director of Wealth At Work, says: "The real advantage is on sharesave schemes where staff can transfer them into the Isa and mitigate capital gains tax on any transfer up to the limit of the Isa value. Those shares can grow tax free once they are in the Isa wrapper. Once shares have been transferred into the Isa, the employee can then diversify and buy funds or other stock."

Considering how employees want to make payments into an Isa is also important. Some schemes enable employers to set up a facility for staff to make monthly deductions from payroll of a pre-determined amount. However, this may limit the amount employees are able to contribute each year and mean they do not take full advantage of the £10,200 annual tax-free limit.

"The problem is employees who save £100 a month into their Isa will save £1,200 [a year], but the annual limit is £10,200 so during that year if they get a bonus or have some extra money and want to put it into their Isa, a lot of benefits and payroll departments do not like that," explains Watts-Lay. "It is really important online platforms allow people to make one-off payments, which can be a one-off direct debit or a direct transfer from a bank account, because otherwise people have to get another Isa if they want to use more of their annual limit."

Some employers are also looking at contributing to corporate Isas for staff, although this is not yet common practice. In part, this may be due to the lack of available tax and national insurance efficiencies on employer contributions.

Making contributions into an Isa instead of a pension may also not fit with an organisation's culture or duty of care towards its workforce. "It is still very much in the formative stages because employers typically want to put their contributions first into a pension," says Palmer. "An Isa has a fairly short-term nature to it, so a paternal employer that was concerned people were not saving for their long term might want to put its money into a pension as opposed to an Isa."

Benstead explains there is also an issue with how employer contributions to an Isa must be structured. "Employers cannot pay contributions to an Isa. They can facilitate it through payroll within a flex package, but an employer cannot technically pay directly to someone else's Isa."

On the plus side, offering a corporate Isa can help to drive employee engagement because staff are more likely to appreciate a savings vehicle they regard as relevant to their personal circumstances. "The danger of just having a pension for everyone is a lot of people in their twenties do not save and do not make any contributions," says Palmer. "So getting them to save something, even if it is a fairly short-term investment, is better than not saving at all."

Such issues are also influencing employers' decisions about whether to match employees' contributions to an Isa. "We have seen some organisations talk about matching, but how that would work would be through a salary package rather than an employer paying a direct contribution to an Isa on someone's behalf," says Benstead.

With a number of corporate Isas having recently launched or currently in development, remaining competitive is a key issue for providers. Cost is a significant differentiator, particularly if employees are familiar with Isas in the retail market and are happy to shop around independently to get the best rate. On stocks and shares Isas advisers and employers should also look for better annual management charges than employees could get outside of the

workplace.

The range of funds on offer and fund governance is also a way for providers to distinguish themselves from one another. "One of the things we see quite a lot, which we think is really missing the point, is a lot of providers saying they can put 2,000 funds on the Isa platform," explains Watts-Lay. "That is all very good and probably says something about their functionality, but most employees in this country end up in default funds in pensions because they cannot decide between 15 funds in a pension, so how are they going to decide between 2,000 funds?"

"One of the key things is being competitive on the right issues. The right issues are having a smaller selection of funds with very keen pricing and making sure there is a good risk profile, so those who want a very cautious investment can have it and those who want something slightly more aggressive can have it."

How providers structure their Isa propositions could also impact on how they are remunerated. If employees are able to take cash out of an Isa at any time, for example, there is very little margin in it. "It is a risk if you are a provider and all you are offering is a corporate Isa," says Scottish Widow's Taylor. "If it is quite short-lived, it could be expensive."

This has prompted some providers to look at how they offer such products. "One of the ways of encouraging people to put money for a longer period is to set it up in such a way that they get a bonus if they keep their money in for a two or three-year period," says Palmer. "Alternatively, they could get a fixed rate if they keep the money for a longer period so there is some incentive for them to continue to save. There is a danger people will just see it as a bank account, which is a concept we are not trying to encourage. What you are looking for is for people to save in the medium term."

Other providers look at the profitability of their platform as a whole, rather than at individual elements. Tony Filbin, managing director, workplace savings and Legal and General, says: "It is true to say there is very little margin in cash Isas, but we are not looking to recoup some of that by locking people in."

Some providers, meanwhile, offer the Isa wrapper for free, but are remunerated through trail commission for any investment funds held within that. Alex Davies, a director at Hargreaves Lansdown, says: "How we remunerate on all our business is we keep a small portion. There is an annual charge on all the funds, which can be anything between 0.25 and 1.5 per cent, and we keep a trail commission of that. On cash, we keep back some of the interest rates, so it is perfectly possible to make money whether a client is holding funds or cash."

Other providers, however, question whether this model is sustainable. "It is going to be very difficult to have trail commission working on cash Isas because that would have a big impact on the rates you are prepared to offer," says Friends Provident's Palmer. "A lot comes down to the advisers concerned and what they have set up for individuals. The difficulty you have got at the moment is interest rates are very low, so taking 0.5 per cent out of those interest rates can have a big impact on the returns the individual can get."

Given it is still early days for the product, only time will tell which business model is likely to prove most beneficial. As Benstead concludes: "I do not think we have enough of a market yet to say which way it is going. Everyone is finding their feet. There are quite a few in the pipeline, but in terms of how and where the preferred style is going to be it will very much depend on the provider. It is a growing market and as more providers come to the table, there will be winners and losers. And we will understand who has got the right business model."

### Corporate Isas at a glance

- There are two main types of corporate Isa. A stocks and shares Isa invests in collective funds, or a cash Isa to which the holder pays either an ongoing or fixed rate.
- Stocks and shares Isas are more commonly offered by providers.
- A number of providers offer corporate Isas as part of a corporate wrap platform.
- Key points of differentiation between Isas include the fund range and governance, price and rates on offer.

### CASE STUDY - Barratt

House builder Barratt launched a stocks and shares corporate Isa for its 4,000 employees in June. Through the Isa, employees can make regular contributions through payroll, with a minimum investment of £50, and can withdraw money at any time.

Staff can also choose from a range of 10 funds and nominate which they wish to invest in. They can access the Isa, which is run alongside the company's pension scheme, through an online account management platform.

Dan Bridgett, head of external affairs at Barratt, says: "We had an existing package of benefits and the Isa was an extension to that. It is a very efficient way for employees to save with direct deductions from payroll."

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