



Reward and Retirement Provision

Mock Examination Notes

(Recommended Time: 3 hours)

1. Briefly outline some of the typical contract of employment implications of a flexible benefit arrangement.

5 marks

Main points to include are:

- Under a collection of salary sacrifice arrangements, provided contractual benefits retained as default, each employee when making their flex election is requesting a variation of contract.
- Employers may change contracts of employment to embed the flex scheme – need to ensure changes to existing contracts comply with employment law.
- Areas to consider include equal pay legislation; trade unions; need for employee consent for deductions from pay and documentation.

(The relevant section of the manual is part 3, chapter 2.9.)

2. As the company's benefit consultant, prepare a paper for the HR Director explaining how an income protection policy operates.

Your paper should also cover:

- **The design features of an insured policy**
- **The cost to the employer**
- **The taxation of benefits and contributions**

35 marks

Answer should be in the format of a paper.

Main points to include are:

- Group IP benefit arrangements are operated by many employers, and usually without cost to the employee. The purpose is to cater for the income needs of employees who suffer long term disability.
- There should be a link to the employee's contract of employment so that the employer continues to pay salary at the full or a reduced rate for an initial period before the group IP benefit commences.
- As IP arrangements are for the purpose of covering long term disability it is usual for there to be a waiting period before the benefit is payable in the event of a claim.
- Generally, the benefit payable will link with long term State provision whilst maintaining at least some financial incentive to return to work.
- The level of benefit is specified as a percentage of gross or net pre-incapacity earnings.
- Under what circumstances the benefit under an IP arrangement for an employee normally ends.
- Each insurer will set a maximum benefit formula on the policy and this is determined at the beginning of the policy.
- Exclusions



- Design features of IP arrangements
- Costing
- Taxation of income benefit
- Taxation of premiums
- Tax relief

(Relevant sections of the manual are part 2, chapters 1.3 and 1.4.)

3. **Your company operates a successful share option scheme for all employees. As Pay and Compensation Manager, prepare a report for consideration by the company's Board of Directors to introduce an approved executive share option scheme.**

Your report should cover the reasons for introducing such a plan, its main features and how it would operate.

20 marks

Answer should be in the format of a report.

Main points to include are:

- Legislative background.
- Key features
- Similarities to and differences from a SAYE
- Who may participate
- How they work in practice (students should include an example)
- Tax advantages and restrictions
- Vesting periods
- Performance targets
- Leavers

(The relevant section of the manual is part 3, chapter 1.3.)

4. **Your company is considering the closure of one of its offices. This may mean that all staff in that office would be made redundant. As the benefits manager, draft an email to the finance director giving a brief explanation of the requirement to make redundancy payments and pay during the notice period.**

20 marks

Answers should be in the format of an email.

Main points to include are:

Redundancy Pay

- Employees who have not completed two years' continuous employment have no entitlement to a redundancy payment.
- Employers are required to make a lump sum compensation payment, called a "redundancy payment" to employees who have completed at least two years' continuous employment dismissed because of redundancy.
- The statutory minimum amount of the payment is related to the employee's age, length of continuous service with the employer and weekly pay up to a maximum. The maximum length of service used in calculating statutory redundancy payments is 20 years and weekly pay is capped at £487. The maximum amount of statutory redundancy pay is £14,670. All figures are for 2017/18.
- The employer must also give the employee a written statement showing how the payment has been calculated, at or before the time the redundancy payment is made.



Pay during the Notice Period

The Employment Rights Act 1996 (ERA96) (Sections 87-91) sets out the entitlement of employees to be paid during their notice period in certain circumstances.

- The provisions below apply if the employer uses the statutory minimum periods. If notice periods are given that exceed the statutory minimum periods by a week or more, the provisions do not apply.
- Employees must be paid their normal rate of pay during the notice period if they are:
 - available for work but the employer does not provide anything to do
 - unable to work due to sickness or injury
 - absent due to pregnancy or childbirth
 - absent under contractual holiday provisions
 - absent due to taking parental leave.

In any of the above situations, the amount that must be paid is a week's pay for each week of statutory notice. Any contractual payments, including SSP, SMP, SPP and SAP made by the employer for the absence go toward meeting the liability.

The employer is not liable for any day of leave requested by the employee, or for any day for which payments are due under the paid or unpaid time-off provisions of the ERA96.

Therefore, if the employee is sent home and paid in lieu of notice, the payment must be at least the amount of a week's pay for that employee for each week of statutory notice entitlement.

The relevant sections of the manual are part 1, chapters 1.2.9 and 1.2.10.

5. Outline the key stages of a communication strategy for flexible benefits.

10 marks

Main points to include are:

Communication should take place at every stage of the lifecycle of a flex project. A communication strategy for flexible benefits should address four key stages:

- Stage 1 - Initial Research
- Stage 2 - Pre Launch
- Stage 3 - The Launch
- Stage 4 – Review

(The relevant section of the manual is part 3, chapter 2.7.)



6. Explain the tax considerations of a flexible benefit arrangement.

10 marks

Main points to include are:

- No separate area within HMRC dedicated to flexible benefit arrangements
- Clearance local tax inspector
- Treatment for Benefit in Kind purposes including benefits that do not give rise to a Benefit in Kind liability
- Income tax and National Insurance contributions – who pays
- Benefits that have a partial tax advantage e.g. car schemes through flex

(The relevant section of the manual is part 3, chapter 2.8.)