



Reward & Retirement Provision

Mock Examination Notes

- 1. 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 in relation to introducing 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. 25 marks

Answer should cover:

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

- 2. 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. 25 marks**



Answer should cover:

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 and are 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 £538. The maximum amount of statutory redundancy pay is £16,140. All figures are for 2020/2021
- 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.



3. Explain what Employment and Support Allowance (ESA) is and how it works.

10 marks

Answer should cover:

- Replaced incapacity benefits in 2008
- Employees receive Statutory Sick Pay (SSP) for the first 28 weeks of absence
- For those not eligible for SSP (e.g., the self-employed), ESA will commence in place of SSP following four consecutive days of illness
- 13-week assessment period which at the end of the 28-week period of SSP
- Assessment is means tested
- Claimant has to demonstrate the extent to which their illness or disability prevents them from working
- During the assessment phase, an employee will receive a benefit broadly equivalent to jobseekers allowance
- Assessment phase with a personal adviser

4. A company is concerned about the potential impact of the untimely death or disability of the Technical Director who is key to the successful implementation of a 5-year project.

Write a letter to the Financial Director describing how the company might protect itself against such an eventuality.

15 marks

Answer should cover:

- Examples of a “key person”
- A description of sum insured
- The tax position on this type of cover



5. Explain the taxation of Private Medical Insurance plans.

10 marks

Answer should cover:

Individual Plan:

- Premium usually paid from income from which tax and NI contributions have already been deducted

Insurance Premium Tax (IPT):

- IPT levied on medical expenses insurance policies.
- Rate is 12%
- Rate originally 2.5% but increased considerably over time
- The contributions made to a self-insured trust fund are not subjected to IPT where contributions are met by the employer, except in respect of any stop loss insurance.

Value Added Tax (VAT):

- VAT, at 20%, applies only to the administration charges of a Healthcare Trust

Group Plans:

- Employee pays Income Tax on premiums paid by the employer
- Employer receives tax relief on its contributions – they are treated as an allowable business expense

6. With the success of implementing a new flexible benefits plan being dependent on the planning and engagement with external providers, provide details of the different implementation phases a company may use to ensure any such project is successful.

15 marks

Answer should cover:

- Explanation of the five phases that can be used for implementing the launch of flexible benefits:
 - Defining the requirements
 - Building the actual flex system which typically now includes a web front end
 - Internal acceptance testing
 - User acceptance testing
 - Launch