



# Reward and Retirement Provision

## Assignment 3 Notes

*(Part 3 - Flexible Benefits and Salary Sacrifice*

*Chapter 1 – Company Share Plans*

*Chapter 2 – Flexible Benefits)*

*Recommended Time: 3 hours*

**1. Explain why a company might consider operating an approved save as you earn share option plan.**

**15 marks**

Format:

Style: Formal and assuming some level of knowledge of the subject

Answer should cover:

- A motivational tool for improving employees' commitment and alignment to the company
- An alternative to cash profit sharing
- Lead to a greater interest in company's financial performance
- A better understanding of the need for profit
- Promote loyalty

(Relevant section of the manual is Part 3 Chapter 1.1)

**2. Analyse the advantages and disadvantages of a flexible benefits plan.**

**15 marks**

Format:

Style:

Answer should cover:

*Advantages:*

- Providing choice to meet individual needs of employees
- Aid recruitment and retention
- Sharing costs with employees
- Harmonising benefits if various benefits are provided to different sections of employees

*Disadvantages:*

Costs, administration, inappropriate choices, communication burden, higher insurance premiums, buying power.

(Relevant sections of the manual are Part 3 Chapters 2.2 and 2.3)



**3. Explain what an approved share incentive plans are and how they operate.**

**10 marks**

(Relevant section of the manual is Part 3 Chapter 1.4)

**4. As the Benefit Consultant your client has asked you to prepare a report for presentation to the Board regarding the introduction of an unapproved share plan. Your report should include:**

- **The reasons why a company may operate an unapproved share plan**
- **Who they are designed for**
- **The characteristics of the types of unapproved plans**
- **Typical conditions to be met before employees are entitled to shares**
- **The taxation position when employees become entitled to shares.**

**35 marks**

Format: Report with introductory paragraph, analysis of information in clear sections, summary, recommendation.  
Style: Formal and assuming little knowledge of the subject

Answer should cover:

- Reasons for operating such a plan for executives/ senior employees, including restrictions of unapproved arrangements.
- Characteristics of an unapproved option plan
- Characteristics of a restricted share plan
- Performance targets option
- Taxation of any gains

(Relevant section of the manual is Part 3 Chapter 1.5.)

**5. Explain how a DC arrangement could be incorporated into a flexible benefits plan.**

**15 marks**

Format:

Style: Formal and assuming some level of knowledge of the subject

Answer should cover:

*DC scheme:*

- Choice of contribution levels
- Fund selection
- Interaction with automatic enrolment requirements

(Relevant sections of the manual are Part 3 Chapters 2.5.2. and 2.5.3)



**6. Outline the eligibility, savings and duration restrictions that apply to approved save as you earn share option plans.**

**10 marks**

Format:

Style:

Answer should cover:

*Eligibility*

- All or most employees
- Can include employees of subsidiary companies
- Company can set qualifying period of employment – not exceeding five years.

*Savings restrictions*

- Fixed monthly amount (in multiples of £1) between £5 and £500
- Company may set a lower maximum limit
- For a period of three or five years (even if seven year option)
- Earn interest at a rate which is fixed by HMRC

*Duration restrictions*

- Option to buy shares after three, five or seven years
- Company may restrict choice
- Seven year contracts not available for new SAYE participants from 23 July 2013

Students should understand the principles behind the calculation shown in the manual, but they will not be asked to perform the calculation in the examination.

(Relevant section of the manual is Part 3 Chapter 1.2.)