

# PAY AND BENEFITS

## Introduction

It is important to establish a clear strategy in relation to pay and benefits which supports the business strategy. Pay and benefits can play an important part in establishing the company's reputation as an employer of choice which can help in attracting and retaining the right people to deliver the business strategy - people who are intrinsically motivated rather than those who require external incentives to motivate them. The importance of non-financial elements to your overall strategy, e.g. management style, working environment, flexible working, hybrid working etc, should not be underestimated.

Any pay strategy should also reward effective employee behaviour and business focused results. On the other hand, an unfair or inequitable reward package can be very de-motivating, so decisions about pay and benefits need to be thought through carefully.

## The Basics

Before considering rates of pay and possible benefits, employers need to ensure that they are complying with statutory requirements. Further information on the following is available on the HMRC website: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Registering as an employer with Her Majesty's Revenue and Customs (HMRC).

All employers need to be registered for tax purposes and deduct income tax and National Insurance Contributions (NICs) from employees whose earnings meet certain thresholds.

## Keeping records

Employers must keep adequate records showing how NICs were calculated and what payments have been made for each employee.

## Deduct tax and National Insurance

Employers have a responsibility to deduct Pay As You Earn (PAYE) tax and National Insurance Contributions (NICs) from employees' pay. The employee's tax code and National Insurance category can be used to work out how much Income Tax and National Insurance to deduct from their pay.

Employers also pay NICs on the earnings paid to employees who earn above a certain threshold.

Earnings include not only cash amounts but also other benefits such as company cars.

This information must be reported to HMRC each time an employee is paid.

## Issue pay statements

Each employee must receive a written itemised pay statement or pay slip at or before the time they are paid. This can be in paper or electronic format but it must show certain items, including the employee's gross pay before deductions, all deductions and the purpose for which they are made, and the net amount payable after the deductions.

At the end of the tax year employees whose earnings reached the National Insurance Lower Earnings Limit during the tax year must receive a summary of their pay and deductions on form P60. This must be in paper format and must be given to the employee before 1 June following the end of the tax year.

Further information is available on the HMRC website: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

All of the above information relating to tax and National Insurance payments should be checked with HMRC.

## Pay Strategy

### 1. Have a plan and a structure

If you are operating in a market where there is a high **demand** and a short **supply** of the **skills** you need, you may need to pay more to attract and retain the most suitable staff.

If you are based in a remote **location** you may need to provide an incentive for employees to travel to your premises or offer remote working. Your **market sector** or the type of job may influence staff expectations about what additional benefits should supplement basic pay.

You will also need to consider what you can afford and where you want to position yourself in the market. The plan should ensure value for money. There may be other factors that make your organisation an attractive place to work, such as the location of your business, your reputation, flexibility in hours of work, the facilities which are available, the range of opportunities for learning and development and the opportunity of becoming involved in interesting work. Resist the temptation to copy pay systems from other organisations that may have very different goals and structure to your business.

Also, think about the kind of culture you want to create in your company. Paying higher rates of pay will not guarantee better performance but paying inadequately could lead to difficulties with recruitment, retention and motivation of staff. Your strategy may need to evolve in line with the labour market's expectations and requirements so it's important to keep it under review.

## SECTION 5

### 2. Determine pay levels

In determining pay levels for each role it is important to consider **external market rates** but also **internal comparisons** to ensure that any internal variations can be justified.

Pay levels will also be affected by the company's **ability to pay**. You need to be conscious that it is very difficult to reduce an employee's pay in the absence of their consent so paying something which your business can afford from one year to the next is of the utmost importance.

Define the roles within your organisation clearly and then gather market data on what other employers in your industry and region are paying. Market data can be gathered from:

- recruitment adverts, including online adverts, recruitment websites etc;
- agencies;
- personal contacts;
- job applicants;
- specialist surveys.

This data will help to establish starting salaries. When comparing jobs in your organisation with the market, bear in mind matters including levels of responsibility, qualifications required, size of company and any particular difficulties associated with the role.

Ensure that there is a sound rationale for any differences in starting pay and that people are treated fairly. All pay rates must also comply with the **National Minimum Wage /National Living Wage** legislation. See section 1. Current rates are available on the NI Business Info website: [www.nibusinessinfo.co.uk](http://www.nibusinessinfo.co.uk)

The market should also be checked regularly to ensure that pay for existing roles is still competitive.

### 3. Decide how and when pay will be reviewed

Decide how often pay will be reviewed and how increases will be determined e.g. **across the board annual increases** in line with inflation or increases based on **individual performance, skills or the value the employee brings**.

Generally it is easier to manage pay increases if they all happen at the same time, rather than on the anniversary of start date, by way of example. Increases can also be linked to **market rates or company profitability**. If increases are to be related to either company or individual performance, it helps to establish objectives against which performance can be measured. Some organisations include an element based on individual performance and a separate element based on company performance.

Whichever system is chosen, it is important to ensure that people are treated consistently and fairly and that pay systems do not disadvantage any category of employee.

It is probably best to keep the wording in employment contracts flexible in relation to pay so that the organisation can respond effectively to changing circumstances. However, this does not mean that the employer can unilaterally reduce the rate of pay.

### 4. Consider carefully the purpose of bonus and commission arrangements

Some employers operate a system where all or part of an employee's pay is based on performance, skills, results or profits. The employer still has an obligation with this type of system to ensure that the employee is paid at least the appropriate National Minimum /Living Wage rate.

The advantage of bonus and commission schemes is that they provide a flexible element of the reward "package" and they provide payments which are not pensionable. Individual incentive schemes can motivate employees but may also encourage individualistic behaviour. Furthermore, they tend to narrow focus and this may not always be beneficial, particularly in work that requires creative thinking and the ability to see the "big picture". Group incentive schemes can encourage team working but could result in unequal performances. It can be helpful to base bonuses on company performance. If the company does well everyone is rewarded. People then have an interest in the company's success. If this approach is taken it is important to show people how they impact on the success of the business.

The advantages and disadvantages of any potential scheme should be considered carefully as poorly thought through schemes can lead to unintended consequences. Financial information is easy to measure but an over-focus on financial metrics may drive inappropriate behaviour. Non-financial measures such as customer satisfaction and retention, brand recognition and employee engagement and retention may require more judgement to assess but may be equally important for the sustainability and growth of the business.

Bonus or commission arrangements should therefore avoid a focus on any one goal and should only reward behaviour which contributes to the purpose and the long term success of the organisation. In order for this to work effectively, it is important to have a clear organisation strategy in place.

## SECTION 5

Care should be taken to ensure that variable pay does not come to be taken for granted or seen as an entitlement since this will not improve motivation and in fact may negatively impact motivation if circumstances change and it is no longer possible to pay it. Measures and targets should be reviewed regularly to ensure they remain relevant.

It is also important to ensure that part-time employees, disabled employees and employees on maternity leave do not miss out on the opportunity to earn a bonus due to the nature of targets. This can be a complex area so employers should consider taking legal advice on this.

It is important to provide clear and written guidelines on the operation of any planned bonus system.

In particular, employers should be clear on whether any bonus and/or commission scheme is to be purely discretionary/non-contractual and/or contractual i.e. part of an employee's terms and conditions of employment. This is important, particularly in terms of potential litigation, and employers should consider taking legal advice.

General background information on different pay systems including bonus and incentive plans can be found on the [nibusinessinfo.co.uk](http://nibusinessinfo.co.uk), ACAS ([www.acas.org.uk](http://www.acas.org.uk)) and the CIPD websites ([www.cipd.co.uk](http://www.cipd.co.uk)). Employers should ensure that any relevant legislation is adhered to.

### **5. Ensure that all pay arrangements are transparent and fair and that they do not discriminate**

Any system should be as transparent as possible. Everyone should know how their pay is calculated and how they might get a bonus or other type of pay enhancement. All managers and employees should understand the rationale for the system.

It is unlawful for employers to discriminate in how they pay salaries and wages and other benefits to their employees. Where two people are doing equal work, they should normally expect to receive the same rate of pay. Any differences will need to be explained and should be based on legitimate factors and not on prohibited discrimination grounds, like sex, religion, race, sexual orientation or disability. (see Section 1).

The law allows for very few exceptions. One example is the National Minimum/Living Wage rate which is based on age bands.

Further information on avoiding discrimination in pay, including how to do equal pay audits which can help to identify potential problems, is available from the Equality Commission at [www.equalityni.org](http://www.equalityni.org)

### **6. Consider the entire reward package**

Financial rewards can easily be bettered by competitors so on their own they are unlikely to create high levels of motivation and commitment. Employees are attracted and motivated by a range of factors in addition to basic pay. Surveys show that in fact most people are not motivated by pay and a large proportion put "interesting work" and "flexible working" high up on the list of desirable reward factors.

While pay needs to be at a certain level, if people are not to become dissatisfied and seek other employment, it will not actually motivate people to perform better. When recruiting, think about the kind of people who will make the best contribution to the business and how they are likely to be motivated.

In addition, think about what **benefits** your company can offer **apart from pay**. Other benefits offered by employers include employer pension contributions, death in service benefits, life assurance, company sick pay scheme, use of a car or car allowance, private healthcare, private health insurance, life insurance, additional annual leave, childcare vouchers, free car parking, hybrid working, flexible working and remote working etc. Employees now value the entire package as opposed to the 'take-home-pay'.

Share options can also be a useful way of attracting, retaining and motivating staff. Some companies allow employees to select benefits from a pre-defined list. Others allow employees to determine their own benefits with the option of salary sacrifice.

Provision of benefits should not be used to discriminate against any particular category of employee. For example, a benefit that is available to an employee's spouse should also be available to a civil partner, as otherwise there would be a risk of a discrimination claim on grounds of sexual orientation.

Some organisations also offer a range of **rewards** to recognise individual employee performance that goes beyond the normal performance of the role. These may include small gifts or meal vouchers as a way of recognising and rewarding an employee's contribution. Team events such as a meal out can be an effective way of saying 'thank you' and maintaining morale amongst your workforce.

It is worth discussing the cost of various options with the company's accountant before any decisions are made. It is also advisable to check with HMRC if these benefits are taxable.

### **7. Ensure compliance with pensions legislation**

All employers have to comply with the legal requirement to **automatically enrol** certain members of their workforce into a qualifying company pension scheme which complies with the minimum automatic enrolment requirements (or the National Employment Savings Trust (NEST) scheme). Employers must also comply with the re-enrolment requirements.

All employers must also make employer pension contributions which comply with the automatic enrolment requirements, where required.

Further information is available on the Pensions Regulator website at: <https://www.thepensionsregulator.gov.uk/en/employers>

### **8. Review the system regularly**

It is important to check, at least annually, that pay rates are competitive and that the reward strategy is meeting its objectives by contributing to the achievement of business goals.

It is also recommended that employers conduct periodic equal pay audits to check that their pay systems are not operating in an unlawfully discriminatory way and that men and women are receiving equal pay for equal work.

## **Conclusion**

An effective reward strategy will use a variety of methods to recognise and reward employees for their contribution to business success. A genuine 'thank you' from a manager can be the most meaningful reward. A pleasant and supportive work environment, opportunities for training and development, flexibility in relation to hours of work or facility to work partly at home can all help to improve recruitment, retention and commitment of employees. However, it is important to offer benefits that your employees actually value. The best way to ensure that this happens is to ask employees either directly through line managers or through employee surveys.

Once the whole reward package has been defined, remember to communicate the value of their total benefits package to employees. If the reward strategy is not working, do not be afraid to change it. However, do take legal advice before changing a reward package where it is, or has become, a contractual entitlement.