Tempus fugit

NEWSLETTER JANUARY 2018

We're barely into 2018 and birthday party season is upon me, for my son is one of the apparently many children in his school class with a January birthday. Whilst discharging my parental duty by helping out at the most recent party, I noticed that there were two distinct cliques of parents. The dividing factor seemed to be age – on one side of the room were the 'youngsters', twenty-somethings who'd had children whilst still in their energetic youth, and on the other side the 'oldsters' (including myself), forty-somethings who'd got round to procreating rather later in life, perhaps in the pursuit of greater early career progression. I use the term 'dividing' quite deliberately as I observed precious little interaction between the two groups. In the schooling context, grouping by age and relative ability makes sense of course, but I found it surprising to see adults willingly segregating themselves by age, too.

This segregation by age is echoed across other areas of life. There seems to be an expectation that the older generations are to have accumulated significant assets (house, pension pot, investments etc). Worryingly, in some sections of the media younger generations increasingly seem to be explicitly excused from striving to achieve the same financial security. It's too difficult, you don't earn enough, borrowing is normal…etc. This is dangerous ground, especially as we are all living longer than earlier generations, and the State continues to shrink its provision for the elderly and vulnerable. We cannot spend so many early years of our careers foregoing opportunities to acquire assets, capital, that will start us on the road to a financially-secure future, simply on grounds of age or arbitrary membership of one generation over another. The later you start the less time you have to save and invest, time that by definition you cannot claw back. (I would strongly recommend reading 'The 100 Year Life' by Lynda Gratton, as it expands most eloquently – and slightly terrifyingly - on this theme, and more.)

The current state of affairs presents a golden opportunity for tax-advantaged share plans to reassert their usefulness and fairness to a new generation of employees. All-employee share plans were originally conceived as a means of democratizing share ownership, and this sentiment ought still to resonate today. Sharesave in particular gets people into a regular and committed pattern of saving:

- made **accessible** by a low minimum monthly saving of £5;
- made **easy** by salary deductions at source; and
- made **safe**,

with considerable protections up until the point that those accumulated savings are used to invest in discounted shares. With a cooperatively performing share price, Sharesave participants could make more than their average annual salary from just one profitable maturity. That's the start of a decent deposit for a home.

The Share Incentive Plan too, has a role to play, with partnership shares mimicking the ease of salary deductions as per Sharesave, matching shares supercharging employees' incentive to save and invest and cushioning their investment from share price volatility.

Yet this opportunity is undermined by some key factors, which are innate to the current design of these two plans. Anyone familiar with ProShare's policy change agenda of recent years will be well-versed in the detail here. The length of time that an employee is required to commit to a share plan in order to fully benefit from it (5 years minimum for SIP, 3 or 5 years for Sharesave, and the penalties in the form of 'bad' leaver treatment if she or he doesn't stay with their employer for this length of time) simply does not match up to the current average tenure for Millennial employees of 2.2 years, compared to 4.4 years average overall).

There are many forces at work which impel employees to leave companies, forces with which Sharesave and SIP cannot realistically compete – better pay elsewhere, promotion opportunities, flexible working, perhaps escaping an unappreciative boss or working culture. At best, in terms of retention these plans may make an employee think twice and then maybe stay with the company a few more months for say a profitable SAYE maturity or a SIP Free share award reaching its 5 year tax-free point. From the employer's viewpoint, is that why you'd want your employees to stay with your company?

Let's not kid ourselves that retention is still an effective part of employee share plans – the workplace has changed significantly since Sharesave was created in 1980 and SIP in 2000, and a large section of the workforce is increasingly more confident and prepared to move on in order to progress more quickly, rather than stay put. The evidence suggests strongly that the very features that were originally designed to encourage retention are now discouraging increasing numbers of employees from joining these plans in the first place. 24% of all non-joiner employees (in our 'Attitudes to Employee Share Ownership' research launching 23 January) said that they didn't join their company's SIP because they wouldn't be there long enough to benefit from it. This figure leaps to 48% amongst Millennials and 50% amongst employees with less than 1 year's service. It's still at 37% amongst employees with between 1 and 3 years' service.

The issue of holding periods and punitive leaver treatments, plus the inflexibility of Sharesave and the complexity of SIP all conspire to put many people off from joining all-employee plans, people who may otherwise be happy to save and invest in this way, and with a disproportionately higher number of younger employees in this non-joiner cohort. This is a missed opportunity not just for the share plans industry but for the companies who offer these plans to their workforces, especially those with a workforce demographic skewed towards Millennials or Generations Y and Z (and by 2020, 57% of the average workforce in the UK will be people belonging to the Millennial Generation). There is a long-established link between employee share ownership, employee engagement and increased productivity. The UK lags behind all but Japan in the G7 group of countries in terms of productivity.

Why settle for having a smaller number of (older) employees engaged over 5 years, when you could have a much larger number of employees (across all age groups) better engaged over 3 years?

Throughout this piece I have referenced some of the key statistics from the findings of our research study, 'Attitudes to Employee Share Ownership', which we're launching via webinar on 23 January 2018. We surveyed 1699 employees of 11 UK companies to find out what they thought of employee share ownership, especially SAYE and SIP, and we analysed their responses according to gender, age, seniority, length of service, and working hours.

To join our webinar on 23 January and access a copy of the report, please register here: https://proshare.libf.ac.uk/events?EventID=11873

We are off to a flying start in 2018 with a new Gold member – Solium! We're delighted to welcome Iain, Martin, June, Sam and the team to Gold membership and we're looking forward to working collaboratively with them and all our Gold members over the course of this year. To find out more about Solium visit [LINK]

A warm welcome to our newest standard members, Mourant Ozannes! To find out more about them visit https://proshare.libf.ac.uk/news-and-media-releases

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