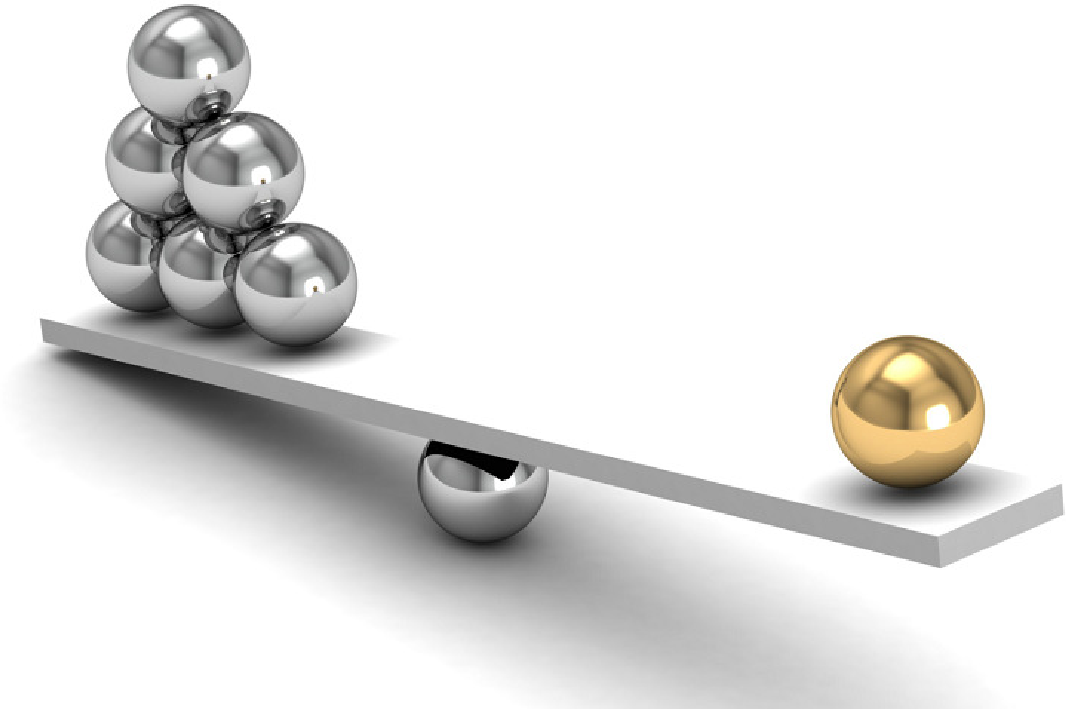
Tipping The Scales

July 2017 Newsletter



As a young twenty-something female starting out in share plans some 15 years ago, I found that the best way to get people to listen to me and to take me seriously was to know my stuff, inside out. Working at one of the largest registrars and plan administrators, my focus was on the product - thoroughly understanding the technical details, the tax implications, the legal and governance framework, and of course, how to administer it. It's fair to say that I revelled in the complexity of the technical and governance aspects of every type of plan, and became a bit of a share plans geek.

It didn't dawn on me until later in my career that share plans had a role to play in helping to address some of life's injustices, specifically financial inequality. My experience of share plans management in-house taught me to see those two familiar friends, SAYE and SIP, from a different perspective.

The penny really dropped for me when I was working in-house at a FTSE 100 retailer, where we ran an employee telephone helpline for share plans. Our small team used to take hundreds of calls every day from our colleagues up and down the country, on every aspect of share plans. We would get to hear first-hand just how much share ownership mattered and the difference that their financial gains would make to employees' personal lives. Sometimes people would ring us with no appreciation of just how much their shares and share options were worth.

It always surprised me just how much people would share with you on the phone – a total stranger, after all – but a trusted colleague. The team and I heard a great deal about people's personal circumstances – debt, divorces, errant spouses, serious illness, bereavements, new babies, weddings, mortgages and holidays of a lifetime – the whole gamut of human life as we know it. This was all in the context of the difference that a bit of money from their share plans would make to their personal situations.

This experience is why I feel so passionately about the role that all- employee share plans have in helping to tackle life challenges and financial inequality for employees everywhere.

Let's start by defining financial or economic inequality, why it matters, and then ask ourselves how share plans can help. I will finish with an actions list– as much as I love an elegantly worked theory, it's not worth anything if it doesn't work in practice, in the real world.

Income, pay and wealth are all aspects of financial or economic inequality.

- Income inequality is the unequal distribution of household or individual income across participants in an economy. It's usually presented as a percentage of income to a percentage of population.
- Pay inequality exists when there is unequal pay between different members or groups in the workforce, the gender pay gap is an example.
- Wealth inequality is the unequal distribution of assets across members or groups in society, such as generations e.g. the Baby Boomers, with their final salary pensions and their paid-off mortgages compared to Millennials, saddled with university debt, hamstrung by high rental prices and property values.

There are many different ways in which to measure inequality, or differences in wealth distribution across individuals and groups. As to the question of whether financial inequality is rising, much depends on your own perspective.

Ask the man or woman in the street whether financial inequality is rising, and they will most likely say yes, and relate it directly to their own experience, because they now have less disposable income. The reason for this right now is a combination of rising inflation (CPI is at 2.9%), outstripping wage growth (2.1%).

But, just because they have less disposable income doesn't on its own mean that they are suffering from financial inequality – what's happening to other people? Inequality is of course relative.

So when all other people aren't suffering the same degradation in their wealth or sense of financial wellbeing - perhaps because they have had the opportunity to acquire or inherit income-generating assets - then yes, financial inequality exists and is having an adverse effect on them.

UK inequality has narrowed slightly overall according to the ONS, but working households are still only £345 a year better off than they were in 2008, pre financial crisis. Pensioner households, by contrast, are £656 per year better off. This is calculated from the 5,000 households who respond to the ONS' survey.

The Office for National Statistics and the Equality Trust found recently that in the UK, 40% of income is received by 20% of households. The bottom fifth of households receives just 8%.
https://www.equalitytrust.org.uk/scale-economic-inequality-uk

It should also be noted that the Joseph Rowntree Foundation found in 2016 that the majority of households in poverty now are working households, 6.8m of them. At the start of the 2000's, this was 5.3m. JRF's definition of poverty is those earning less than their 'Minimum Income Standard', which is set with reference to members of the public's views of an acceptable standard of living and a measurement of those earning 60% or less of the UK's median income between £21k and £23k pa.

Just above those in poverty, are the 'Just About Managings' or 'JAMs', some 4m households in the UK.

People's working arrangements are changing, with a significant shift in certain sectors towards much more uncertain, insecure working patterns.

Over the past ten years, the number of people with zero-hours contracts has grown from 100,000 to more than 810,000. Is this just part and parcel of the gig economy – are these all bright young things busily disrupting complacent monopolies? Or are they insecurely-employed, low-paid people of all ages, with little other choice of work?

According to the TUC only 1 in 5 people on zero-hours contracts are students, the most obvious beneficiaries of flexible work that fits around their study commitments. Their data shows that 3.2m people are in 'insecure' work, i.e. a temporary contract or a zero-hours contract. That's 1 in 10 working people in the UK.

This graphic from the ONS and The Equality Trust shows how wealth is shared amongst UK households. Here, the richest tenth possesses 45% of the wealth in the UK. And by wealth, here we mean assets such as stocks and shares, property, houses, land…
https://www.equalitytrust.org.uk/scale-economic-inequality-uk

Put another way, the richest 1,000 people in the UK possess more wealth between them than the poorest 40% of households.

Of the majority of people who have assets, the most valuable tends be their house. Nationwide reports a 60% increase in house prices over the past 13 years. Wages have not grown in the same way, obviously, and home ownership is down from 71% in 2003 to 64% in 2016.

Those who find themselves 'stuck' in a situation where they have a job but no assets, and perhaps little opportunity to be able to afford to acquire or inherit assets, will face a worsening financial future.

Regardless of whether you think financial inequality is increasing or decreasing, it does exist and does cause financial hardship to many people, many of whom are working, many of whom are on permanent employment contracts and therefore potentially eligible for share schemes where these are offered by their employer.

Why should financial inequality matter to us in our professional context, as share plans, reward and HR professionals?

I think that there are at least three good reasons why:

1 – it has an impact on some of your employees, colleagues, especially at the lower paid end of the spectrum;

2 – it has a greater impact on companies within certain sectors with a greater proportion of lower-paid employees, for example hospitality, social care, manufacturing, services etc; and

3 – regardless of sector or pay profile, your employees' financial worries do have an impact on their productivity, safety, absenteeism - Barclays and PA Consulting quantified the financial cost of this in their report 'Financial wellbeng: the last taboo in the workplace' in May 2014, estimating it at 4% of the value of your company payroll every year.

My question is this: if you could do something to help these employees, and help the company's P&L at the same time, why wouldn't you? Call it enlightened self-interest, if you will.

When companies are listed on the Stock Exchange, their shares are freely tradeable, and in theory anyone can buy and sell shares. But it's not that simple if you haven't traded shares before and especially not if you don't deal with shares or investments for a living.

Is it enough simply to pay people for a day's work? Or, should they be offered the opportunity to convert some of that pay into an asset, i.e. a share, which may grow in value and generate income? And shouldn't that opportunity come with some in-built protections from share price volatility, such as option price discounts, free or matching shares, and tax advantages? And shouldn't enlightened employers be able to partially offset the costs of offering their employees equity by way of a limited corporation tax deduction?

Enter, employee share plans.

With 91% of the FTSE 100 and 75% of the FTSE 250 offering employee share ownership plans of one description or another, one might be tempted to say 'job done'. But with SAYE participation levelling off at 35% and SIP participation at 29% (as found by our SAYE & SIP Report for 2016), there are still millions of people in the UK who could benefit greatly but who for one reason or another are not taking the opportunity to join their companies' plans.

It is well worth examining the reasons why people don't participate, and busting a few myths along the way.

Myth #1 - I don't have time to find out about this.

It's incumbent upon us as reward, HR, benefits or share plans professionals to ensure that share plans communication isn't just succinct, but that it is delivered via a channel that's convenient to the employee, accessible via their chosen device and at a time of <u>their</u> choosing, not ours. Taking a 'boilerplate' approach to written communications is not good enough. Companies that achieve better than average take-up almost always use an 'omni-channel' strategy, with face-to-face involvement where possible. We are seeing companies now using Augmented Reality to truly engage multi-generational, diverse, widely-dispersed workforces on share plans, with impressive results.

Myth #2 – I can't afford it.

Do you ever buy a coffee on your way in to work? If you do, then you can afford to put a minimum contribution into SAYE or SIP. Sacrifice a few coffees a month and that's your £5 or £10 contribution sorted – that's the classic challenge. That said, there may well be significant numbers of employees in your workforce who are struggling financially and who are worrying about how to pay the bills at the end of the month, never mind joining SAYE or SIP. Are you offering a financial wellbeing program alongside your share plans and other employment-related financial benefits, such as pensions, life or medical insurance? Everyone can benefit from it, low paid or otherwise. Nobody suffers from occasionally scrutinising their own spending habits. In the words of Warren Buffett: "do not save what is left after spending, but spend what is left after saving".

Myth #3 – I won't be with the company long enough to benefit.

Nobody can foresee the future and it is indeed a truism that 'life is what happens when you're making other plans'. Before you know it, you've been with a company 3 years and whoops, you've missed out on a Sharesave maturity in that time because you chose not to join the plan. With SIP Free Shares, there is nothing to lose by accepting the award anyway – one company that I worked for analysed their eligibility data over a few years and found a significant number of employees who'd repeatedly not accepted their awards, yet were still employed by the company years later.

All of your all-employee share plans practices should be reviewed through the lens of financial inequality – who in our workforce is the least likely to be benefitting from our current approach? What steps can we take to address this? Here's a short actions list:

1. Audit your share plans take up – who's NOT joining? Why?
2. Benchmark your plan design choices – are they still achieving your objectives?
3. Look at how, where, when and what you're communicating.

Our SAYE & SIP report can help you with this – just drop us a line at team@proshare.org stating your preference for a digital or hard copy.

Share plans aren't the panacea or the cure for all our ills, but properly prescribed they can do a great deal to help alleviate the pain of financial inequality.

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