

Non-pay benefits in low-paying organisations

*A research report by
Incomes Data Services
for the Low Pay Commission*

November 2005



Incomes Data Services Ltd
77 Bastwick Street, London EC1V 3TT
Tel: 020 7250 3434 Fax: 020 7324 2510
www.incomesdata.co.uk

Contents

	Key findings	1
1.	Introduction	3
1.1	Background	3
1.2	Methodology	3
2.	About the respondents	5
2.1	Response rates	5
2.2	Number of employees	5
2.3	Low-paid employees	6
3.	Benefits offered to low-paid employees	7
3.1	Provision of non-pay benefits	7
3.2	Value of non-pay benefits relative to overall reward package	8
4.	Salary sacrifice schemes	11
4.1	Salary sacrifice benefits offered	11
4.2	Reasons for not offering salary sacrifice schemes	12
5.	Provision of accommodation	14
6.	Effect of the National Minimum Wage	15
7.	Other issues	17
7.1	Reasons for offering non-pay benefits	17
7.2	Differences between high and lower-paid employees	17
8.	Salary sacrifice schemes	19
8.1	Employee uptake	19
8.2	Proportion of salary sacrificed	21
8.3	Availability of salary sacrifice schemes	22
8.4	Loans for salary sacrifice schemes	23
8.5	Advice on childcare vouchers	23
8.6	Reasons for offering salary sacrifice	23
9.	Accommodation	25
9.1	Types of accommodation	25
9.2	Pay and accommodation charges	26
9.3	Further issues	26
	Appendix A	28
	Appendix B	30
	Appendix C	31

Key findings

1. Non-pay benefits most commonly offered to low-paid staff (paid £6 an hour or less) were paid holidays and a staff discount, both offered by around six in 10 employers. Sick pay and employer pension contributions were offered by around half of employers. Free or subsidised meals were offered by four in 10 employers, and life assurance by three in 10.
2. There was more widespread provision of non-pay benefits in the retail sector than in the other sectors, retail being most likely to provide paid holidays, employers pension contributions and, as might be expected, a staff discount. The care homes sector had substantially lower provision of non-pay benefits, notably for sick pay, pension contributions and paid holidays. In turn, larger organisations (with more than 500 employees) were much more likely to provide almost every benefit, with the exception of free or subsidised meals and life assurance
3. Our research gives an overall picture of widespread provision of at least some benefits in addition to basic pay. However, there are clear differences by type of employer, with some low-paid employees receiving substantial additional benefits and others receiving few or none.
4. Non-pay benefits were typically worth between 0 and 2 per cent of the overall reward package. However, a substantial proportion of organisations, one in five, said that non-pay benefits were worth 11 per cent or more, and one in 10 said the benefits were worth 16 per cent or more. The median was around 4 per cent.
5. Larger organisations (with 500+ employees) were much more likely to have a higher value benefits package, with three in 10 valuing non-pay benefits at 11 per cent or more, compared to just 6 per cent of small organisations.
6. Findings suggest that significant numbers of low-paid employees are receiving valuable additional benefits on top of basic pay, although the range in provision is very wide, with some employees receiving negligible additional benefits.
7. Around three in 10 of the respondents offered at least one kind of salary sacrifice scheme. This ranged from four in 10 retailers, to three in 10 leisure companies, and just one in 10 care homes. There was also substantial variation by organisation size, with nearly half of large organisations (with 500+ employees) offering a scheme, compared to just under two in 10 small organisations (with less than 100 employees).
8. The most popular types of salary sacrifice schemes were childcare vouchers (offered by 15 per cent of respondents) and pension contributions (offered by 13 per cent of respondents). Around 6 per cent of respondents offered home computer loans under a salary sacrifice scheme, while just 1 per cent (three organisations in each case) offered mobile phones or a bicycle loan under a salary sacrifice scheme.
9. Of those organisations that did not offer any benefits through a salary sacrifice scheme, three in 10 reported that these schemes were not relevant to their staff and/or that staff did not earn enough to make such schemes worthwhile. Around a

quarter said that staff turnover was too high to make such a scheme worthwhile. Around two in 10 respondents said that salary sacrifice schemes involved too much administration or were too complex, and around one in eight said they either did not know about the schemes, or that they were at the planning stage.

10. Overall, 12 per cent of respondents offered accommodation. This varied by sector, although not so much by the size of organisation. In total, 42 per cent of hotels/hospitality companies offered accommodation, 21 per cent of other leisure companies, 13 per cent of care homes, and just 3 per cent of retailers.
11. Respondents were asked what the influence of the minimum wage had been on the provision of non-pay benefits in their organisation. An overwhelming nine out of 10 employers said that the NMW had not caused them to make any changes to the provision of non-pay benefits in their organisation. Just 6 per cent said it had led to a decrease in the level of benefits provision, while 7 per cent said it had led to an increase.
12. Respondents were asked why they thought employers offered non-pay benefits. A substantial majority, five out of six organisations, said that non-pay benefits were offered to help recruitment and retention. One in six said benefits were offered because staff expected them, and a further one in six said it was to improve the value of the paybill.
13. Three in 10 organisations reported differences between the non-pay benefits received by lower-paid and higher-paid employees, rising to a half within larger organisations (with 500+ employees). Health insurance was the most common benefit to be provided only to higher-paid employees, followed by pension contributions, additional paid holidays and company cars.
14. A follow-up telephone survey established that take-up of salary sacrifice schemes in organisations ranged from 0.1 to 49.1 per cent, with a median of just 0.9 per cent.
15. Three quarters of respondents to the follow-up survey said their salary sacrifice scheme was open to all employees. Where access was limited, this was typically to permanent or senior staff.
16. A second follow-up telephone survey established that the proportion of employees provided with accommodation ranged from 1.3 per cent in a care home up to 35.4 per cent in a leisure company.
17. The type of accommodation provided was most typically a shared house, a room with shared facilities or a self-contained flat. Accommodation charges ranged from no charge at all up to £130 a month.
18. Just over half of those surveyed said that the NMW offset did not apply in their organisation. Most of the other respondents had poor knowledge of exactly how the offset was applied in practice.
19. In relation to accommodation provision, all 14 employers said that provision had not been affected by the NMW.

1. Introduction

1.1 Background

IDS was commissioned by the Low Pay Commission (LPC) in July 2005 to conduct research into the provision of non-pay benefits within low-paying sectors. The National Minimum Wage Regulations do not allow any benefits-in-kind to count towards the calculation of pay for minimum wage purposes, with the single exception of accommodation, up to a daily limit. The LPC has said that, on the grounds of simplicity and enforceability, other benefits should be excluded from the calculation of the National Minimum Wage (NMW).

In its 2005 report, the LPC noted that employees who are on, or near, the minimum wage are unable to participate in salary sacrifice schemes (that offer tax and national insurance advantages if benefits are received instead of pay) because their pay would drop below the minimum wage and the employer would be acting unlawfully. Benefits that are commonly offered under a salary sacrifice arrangement include childcare vouchers, home computers and bicycles for work.

While the LPC has previously concluded that non-pay benefits received by low-paid workers are limited, it now wishes to review this issue. The aim of this project, therefore, was to examine the extent to which non-pay benefits are a feature of remuneration packages for workers in low-paying sectors and the extent to which this has changed since the introduction of the minimum wage.

The purpose of this study was to:

1. Find out what non-cash benefits low-paid employees receive in addition to basic pay.
2. Look at the issues surrounding salary sacrifice and low pay.
3. Examine the interaction between non-pay benefits and the National Minimum Wage.

1.2 Methodology

The research for this project was carried out in two stages. The first stage involved a postal questionnaire (see appendix A) that identified:

- Whether the organisations had low-paid employees
- What non-pay benefits these employees received, and their approximate value
- The use of salary sacrifice schemes
- The provision of accommodation
- The influence of the NMW on the provision of non-pay benefits.

The survey was targeted at sectors that previous research had identified as being most likely to be low-paying (see Low Pay Commission report, February 2005) and where non-pay benefits and accommodation were thought most likely to be offered. The survey went to 3,000 employers in retail, leisure (including hotels and hospitality) and the care industry.¹ Low-paying sectors were targeted to maximise the number of respondents that had employees who were low paid (defined for this survey as earning £6 an hour or less).

The second stage of the research was a follow-up telephone survey of those organisations that were identified as offering a salary sacrifice scheme or accommodation (see appendices B and C). The survey asked, in the case of salary sacrifice:

- The take up of schemes
- How much salary was sacrificed
- Access to the schemes
- The time period for paying back loans
- Advice given to employees in relation to tax credits and childcare vouchers
- Why schemes are offered
- The impact of the NMW.

The accommodation telephone survey asked:

- How many employees are provided with accommodation
- The type of accommodation provided
- How much these employees are paid
- Charges made for accommodation
- Use of the minimum wage offset
- Whether provision has been affected by the NMW
- The impact of the NMW.

¹ The address data was taken from the Personnel Managers' Yearbook, 1 Stop Data, and the A-Z Care Homes Guide. The split between sectors was approximately 40 per cent retail, 40 per cent leisure and 20 per cent care homes.

2. About the respondents

2.1 Response rates

The postal survey received 341 responses, a response rate of 11 per cent (see table 1). The response rate was higher among care homes and retailers than in the leisure sector, although this may have been partly due to poor classification of the leisure sector in the original database (given the high number of respondents in ‘other’ sectors).

The responses for the leisure sector are given as a whole, and have been divided into hotels and hospitality and other areas, to see if there is a different pattern of responses (employees in the hotels sector, for example, are more likely to have accommodation, and be provided with meals).

Table 1: Responses by sector

N=341	Number of responses	% of responses
Care homes	81	23.8
Leisure & hospitality	68	19.9
Hotels & hospitality	29	8.5
Leisure	39	11.4
Retail	144	42.2
Other	48	14.1
Total	341	100

2.2 Number of employees

The average number of employees in each organisation was 2,190, and the median was 200 – a number of very large employers in the survey meant that the mean number of employees was substantially higher than the median. Care homes were considerably smaller than the other organisations in the survey.

Table 2: Number of employees

N=341	Median number of employees	Average number of employees
Care homes	70	90
Leisure & hospitality	277	1,366
Hotels & hospitality	219	1,429
Leisure	368	1,320
Retail	350	3,353
Other	178	3,453
Total	200	2,190

2.3 Low-paid employees

The survey was designed to target organisations with low-paid employees, paid £6 an hour or less. Around 90 per cent of respondents (306 in total) fitted this category, confirming that the survey effectively targeted low-paying employers.

Table 3: Proportion of respondents with employees paid £6 an hour or less

N=341	Number of respondents	Proportion %
Care homes	75	92.6
Leisure & hospitality	60	88.2
Hotels & hospitality	27	93.1
Leisure	33	84.6
Retail	133	94.2
Other	38	79.2
Total	306	89.7

Respondents were asked what proportion of their employees were paid £6 an hour or less. The responses ranged from 0.2 to 100 per cent. The median proportion was 60 per cent, with an interquartile range from 30 to 75 per cent. Again, this confirms that the survey was successful in targeting low-paid employees. In total, the survey covered around 750,000 employees. Of these, 98 per cent (733,000) were in organisations that paid some employees £6 an hour or less, and of these, 55 per cent (402,000) were paid £6 an hour or less. The rest of the quantitative analysis focuses just on those organisations that paid £6 an hour or less to some employees.

Table 4: Proportion of employees in each organisation paid £6 an hour or less

N=306	Median proportion of employees paid £6 an hour or less
Care homes	65
Leisure & hospitality	50
Hotels & hospitality	56
Leisure	35
Retail	65
Other	40
Total	60

Table 5: Employees in the survey

N=339	Number of employees*
Total in the survey	746,949
Total in organisations with employees at £6 an hour or below	733,164
Total paid £6 an hour or below	401,918

*excluding two organisations that did not specify the number of employees

3. Benefits offered to low-paid employees

3.1 Provision of non-pay benefits

Respondents were asked which of a number of benefits were offered to employees earning £6 an hour or less. The most commonly offered non-pay benefits were paid holidays and a staff discount, both offered by around six in 10 employers. Sick pay and employer pension contributions were offered by around half of employers. Free or subsidised meals were offered by four in 10 employers, and life assurance by three in 10. Less common benefits were a company share scheme, childcare assistance (typically employer-subsidised nurseries or vouchers) and medical insurance.

Other benefits, provided by a handful of organisations, included a free uniform or discounted work clothes, and permanent health insurance or critical illness insurance. One company gave employees one case of beer a month.

Table 6: Provision of non-pay benefits

N=304	% of low-paying employers offering each benefit			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
Paid holidays (above 20 days minimum)	32	69	73	59
Staff discount	23	66	84	58
Sick pay over statutory minimum	21	68	68	54
Employer pension contributions	21	59	65	49
Free or subsidised meals	42	45	32	41
Life assurance	5	35	48	30
Company share scheme	3	8	28	12
Childcare assistance	4	8	11	8
Medical insurance	2	11	4	6

There was more widespread provision of non-pay benefits in the retail sector than in the other sectors, being most likely to provide paid holidays, employers pension contributions and, as might be expected, a staff discount. The hotels and hospitality sector was by far the most likely to provide free or subsidised meals, again, as would be expected.

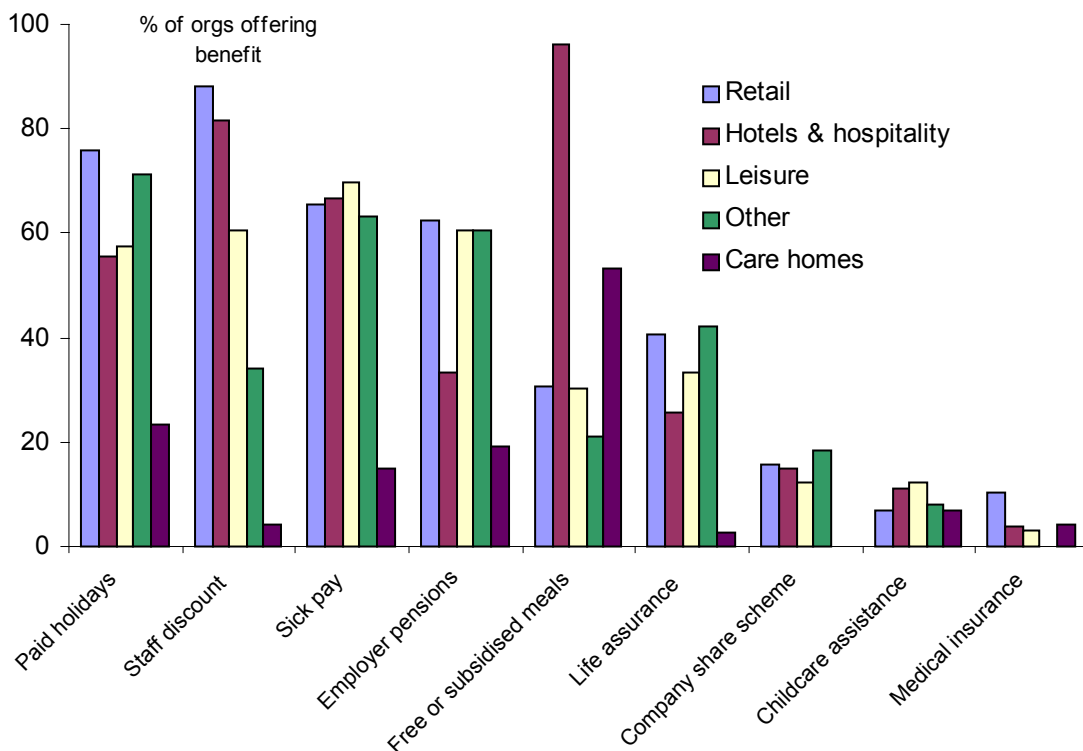
The care homes sector had substantially lower provision of non-pay benefits, notably for sick pay, pension contributions and paid holidays. The only exception was above-average provision of free or subsidised meals.

Linked to this sectoral pattern, larger organisations (with more than 500 employees) were the most likely to provide every benefit, with the exception of free or subsidised meals and life assurance. Small organisations (less than 100 employees) were the least

likely to provide every benefit, except free or subsidised meals (care homes were typically smaller organisations).

This gives an overall picture of widespread provision of at least some benefits in addition to basic pay. However, there are clear differences by type of employer, with some low-paid employees receiving substantial additional benefits and others receiving few or none.

Chart 1: Proportion of low-paying employers offering benefits



3.2 Value of non-pay benefits relative to overall reward package

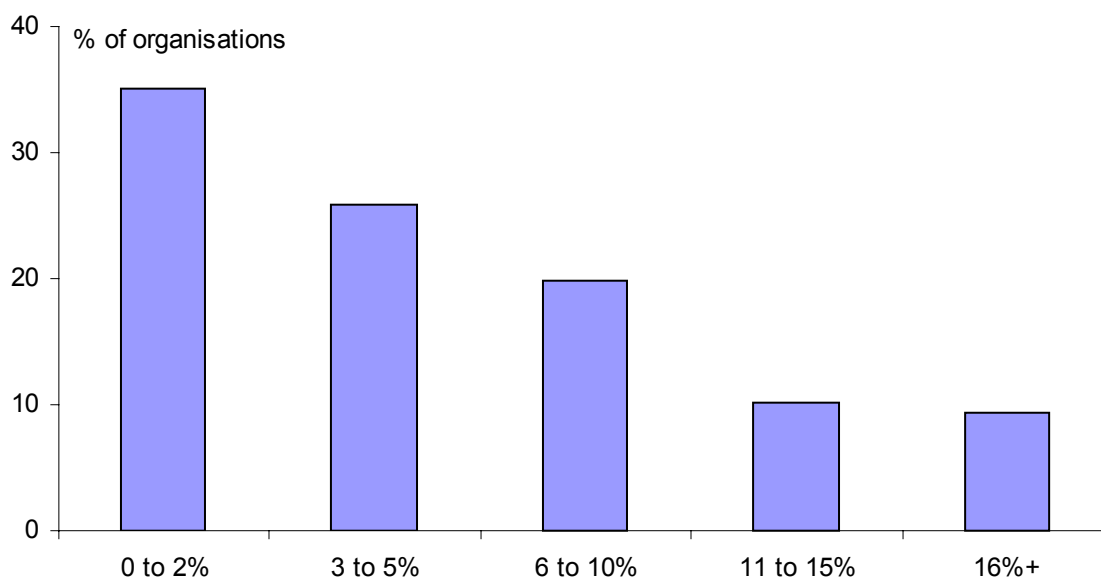
Respondents were asked what they considered to be the approximate value of the non-pay benefits offered to low-paid staff relative to the overall reward package. Many organisations do not hold this kind of information, or find it difficult to give an accurate figure, but over four-fifths of organisations were able to provide an indication.

Respondents were most likely to say that non-pay benefits were worth between 0 and 2 per cent of the overall reward package. However, a substantial proportion, one in five, said that non-pay benefits were worth 11 per cent or more, and one in ten said the benefits were worth 16 per cent or more. The median was around 4 per cent.

Table 7: Value of non-pay benefits relative to overall reward package

N=248	% of organisations			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
0 to 2%	60	28	24	35
3 to 5%	19	28	28	26
6 to 10%	14	24	18	20
11 to 15%	3	10	16	10
16%+	3	10	13	9

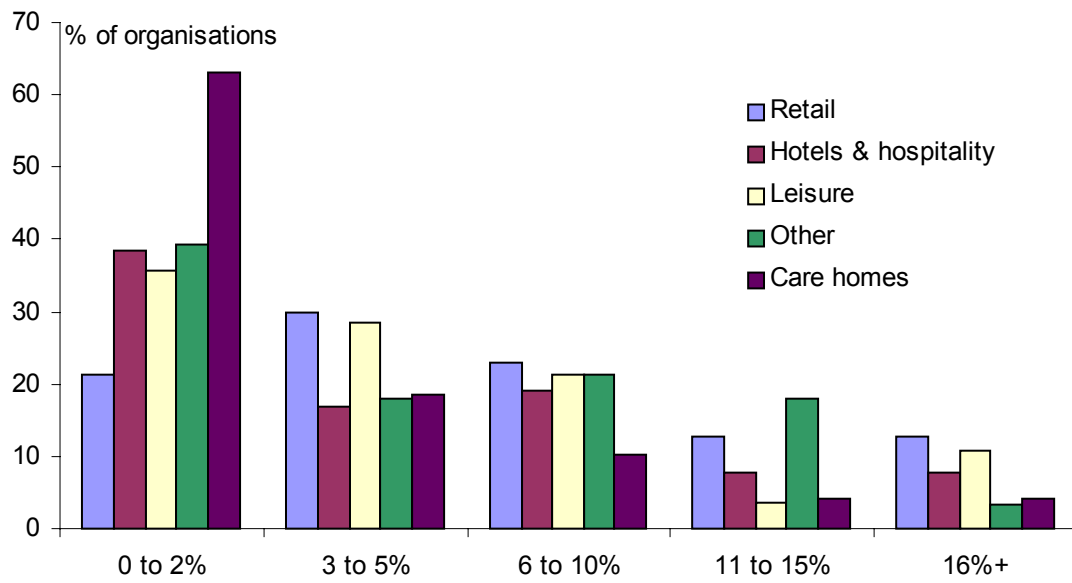
Chart 2: Value of non-pay benefits relative to overall reward package



Larger organisations (with 500+ employees) were much more likely to have a higher value benefits package, with three in 10 valuing non-pay benefits at 11 per cent or more, compared to just 6 per cent of small organisations. The value of non-pay benefits was typically lowest in the care homes sector, with the median at 0 to 2 per cent, compared to 3 to 5 per cent for the other sectors.

Again this evidence suggests that significant numbers of low-paid employees are receiving valuable additional benefits on top of basic pay, although the range in provision is very wide, with some employees receiving negligible additional benefits.

Chart 3: Value of non-pay benefits relative to overall reward package by sector



4. Salary sacrifice schemes

4.1 Salary sacrifice benefits offered

A major part of this survey was to establish the extent to which salary sacrifice schemes were an issue for low-paid employees. The questionnaire asked which of a number of specified benefits were offered though a salary sacrifice or salary exchange scheme (with the definition that ‘a salary sacrifice (or salary exchange) normally involves an employee giving up part of the pay due to them under their employment contract in return for another benefit. Usually the benefit is worth more than cash because of tax or NIC advantages.’)

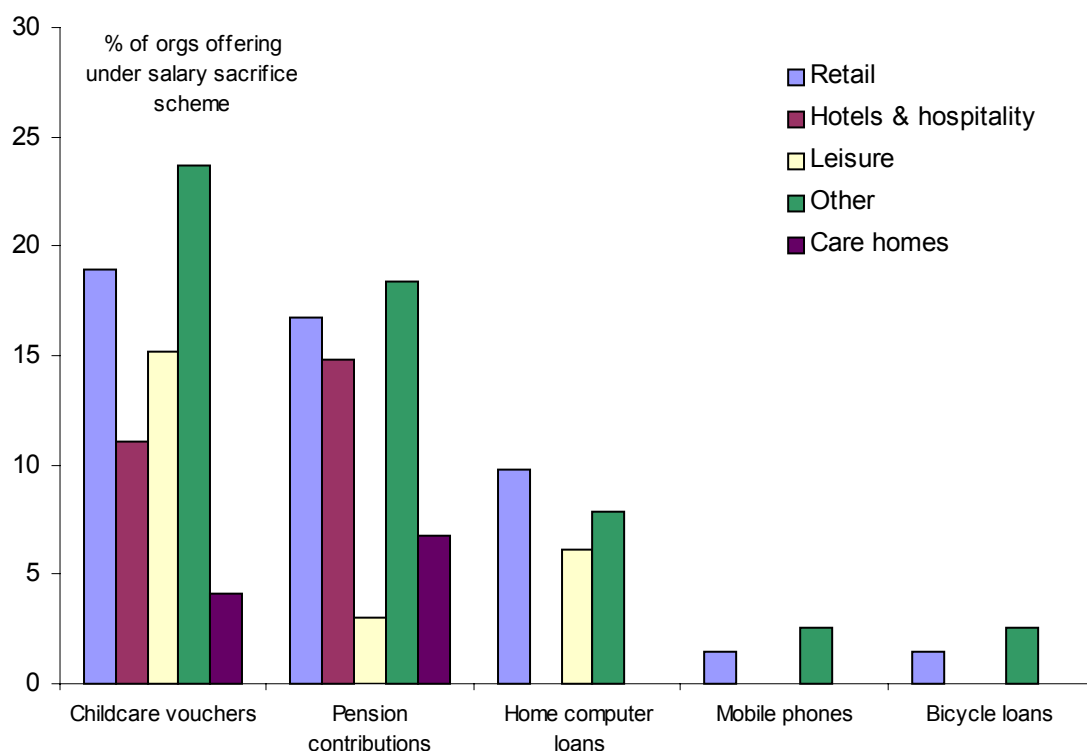
Table 8: Provision of salary sacrifice schemes

N=303	% of low-paying employers offering scheme			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
Childcare vouchers	9	9	32	15
Pension contributions	10	12	18	13
Home computer loans	2	3	15	6
Mobile phones	2	1	0	1
Bicycle loans	0	0	4	1
None	83	70	51	69

Around three in 10 of the respondents offered at least one kind of salary sacrifice scheme. This ranged from four in ten retailers, to three in 10 leisure companies, and just one in 10 care homes. There was also substantial variation by organisation size, with nearly half of large organisations (with 500+ employees) offering a scheme, compared to just under two in 10 small organisations (with less than 100 employees).

The most popular types of salary sacrifice schemes were childcare vouchers (offered by 15 per cent of respondents) and pension contributions (offered by 13 per cent of respondents). Around 6 per cent of respondents offered home computer loans under a salary sacrifice scheme, while just 1 per cent of respondents (three organisations in each case) offered mobile phones or a bicycle loan under a salary sacrifice scheme. More information about those offering these schemes is given in section 8.

Chart 4: Provision of salary sacrifice schemes by sector



4.2 Reasons for not offering salary sacrifice schemes

Those respondents that did not offer any benefits though a salary sacrifice scheme were asked why this was. All of the reasons offered were considered to be important. Nearly three in 10 organisations reported that salary sacrifice schemes were not relevant to their staff and/or that staff did not earn enough to make such schemes worthwhile. Around a quarter said that staff turnover was too high to make such a scheme worthwhile.

Table 9: Reasons for not offering salary sacrifice schemes

N=240	% of low-paying employers offering benefit			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
Not relevant to our staff	41	23	20	29
Staff don't earn enough to make it worthwhile	22	23	41	27
Staff turnover too high to make it worthwhile	17	25	43	26
Too much administration/ too complex	7	22	25	18
Don't know about schemes	28	8	0	13
Schemes currently at planning stage	1	18	18	12

Around two in 10 respondents said that salary sacrifice schemes involved too much administration or were too complex, and around one in eight said they either did not know about the schemes, or that they were at the planning stage.

Smaller organisations were more likely to say that salary sacrifice schemes were not relevant to their staff or that they did not know about them. No large organisations reported that they did not know about the schemes. Instead, levels of staff pay or high staff turnover were the most important reasons for not offering a scheme.

Retailers were more likely than average to point to low staff pay or the high administrative burden as their reasons for not offering the schemes. Hotels and hospitality companies were the most likely to point to high staff turnover or the fact that the schemes were at a planning stage, while care homes were most likely to say that the schemes were not relevant to their staff or that they did not know about them.

5. Provision of accommodation

Respondents were asked whether accommodation was provided to low-paid employees (earning £6 an hour or less). Accommodation is currently the only benefit that can be offset against the NMW, up to a maximum of £3.90 a day or £27.30 a week.

Table 10: Provision of accommodation

N=303	% of organisations providing accommodation
Up to 100 employees	12
100 to 499 employees	9
500+ employees	14
All organisations	12
Care homes	13
Leisure & hospitality	31
Hotels & hospitality	42
Leisure	21
Retail	3
Other	11

Overall, 12 per cent of respondents offered accommodation. This varied by sector, although not so much by the size of organisation. In total, 42 per cent of hotels/hospitality companies offered accommodation, 21 per cent of other leisure companies, 13 per cent of care homes, and just 3 per cent of retailers.

A follow-up telephone survey was conducted among several of these organisations offering accommodation, and the results are discussed in section 9.

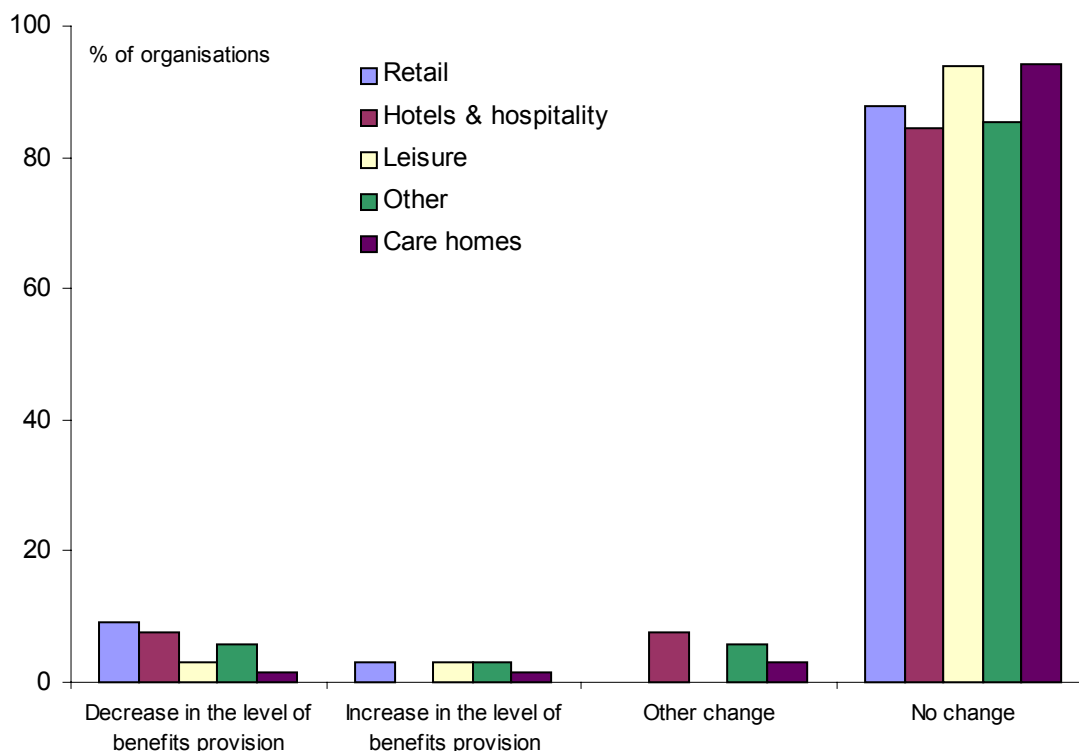
6. Effect of the National Minimum Wage

Respondents were asked what the influence of the minimum wage had been on the provision of non-pay benefits in their organisation. An overwhelming nine out of ten employers said that the NMW had not caused them to make any changes to the provision of non-pay benefits in their organisation. Just 6 per cent said it had led to a decrease in the level of benefits provision, while 7 per cent said it had led to an increase.

Table 11: Influence of the NMW on the provision of non-pay benefits

N=294	% of organisations where NMW has led to			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
Decrease in the level of benefits provision	3	5	10	6
Increase in the level of benefits provision	1	1	6	7
Other change	3	2	1	2
No change	92	92	82	89

Chart 5: Influence of the NMW on the provision of non-pay benefits



IDS – Non-pay benefits

The results varied slightly by sector and organisation size, with 10 per cent of large organisations saying that the NMW had led them to decrease the level of benefits provision, while 6 per cent said it had led to an increase in provision.

There was no variation in the responses to this question by the number of non-pay benefits provided. Using the information in section 3, nine out of 10 of those organisations offering few (two or less) additional benefits, and of those offering a high number (six or more) of additional benefits, said that the NMW had had no change on the level of benefits provision.

These findings are backed up by evidence from the telephone survey, where 86 per cent of respondents said that the NMW had had no impact on the benefits package in general.

7. Other issues

7.1 Reasons for offering non-pay benefits

Respondents were asked why they thought that employers offered non-pay benefits. A substantial majority, five out of six organisations, said that non-pay benefits were offered to help recruitment and retention. One in six said benefits were offered because staff expected them, and a further one in six said it was to improve the value of the paybill.

Table 12: Reasons for offering non-pay benefits

N=299	% of organisations citing reason			
	Up to 100 employees	100 to 499 employees	500+ employees	All organisations
To help recruitment and retention	71	84	94	83
Staff expect it	7	16	31	17
Improve the value of the paybill	13	15	22	16

7.2 Differences between high and lower-paid employees

Employers were also asked if there were any differences between the non-pay benefits received by lower-paid employees (paid £6 an hour or less) and higher-paid employees. Overall three in 10 said there were differences, although this rose to a half within larger organisations.

Table 13: Differences between lower and higher-paid employees

N=289	% of organisations where there are differences between the non-pay benefits received by lower-paid employees and higher-paid employees
Up to 100 employees	12
100 to 499 employees	25
500+ employees	51
All organisations	28
Care homes	7
Leisure & hospitality	38
Hotels & hospitality	38
Leisure	38
Retail	33
Other	32

IDS – Non-pay benefits

Health insurance was the most common benefit to be provided only to higher-paid employees, followed by pension contributions, additional paid holidays and company cars. A higher staff discount and enhanced sick pay were also mentioned several times.

8. Salary sacrifice schemes

From the main survey, 31 per cent of employers offered a salary sacrifice scheme of some sort. Childcare vouchers and pension contributions were the most popular, offered by 14 per cent and 13 per cent of employers respectively. Less popular salary sacrifice benefits included home computer loans, offered by 6 per cent of employers, while mobile phones and bicycle loans were each offered by 1 per cent.

As a follow-up to the main postal survey, IDS carried out a telephone survey of those employers providing salary sacrifice benefits. In total we obtained responses from 29 employers representing five sectors – care, hotels, leisure, other and retail. Retail was the most heavily represented sector, with 14 out of 29 responses (48 per cent). Next was the leisure sector with seven responses (24 per cent), while employers falling into the ‘other’ category were represented with four responses (14 per cent). Finally, there were two responses each (7 per cent) for the hotel and care sectors. A copy of the telephone survey is given in appendix B.

Table 14: Respondents to the salary sacrifice telephone survey

Sector	Number of respondents (%)
Care homes	2 (7%)
Hotels & hospitality	2 (7%)
Leisure	7 (24%)
Retail	14 (48%)
Other	4 (14%)
Total	29

8.1 Employee uptake

For the first part of the telephone survey we asked respondents to give details of employee uptake for each benefit offered through a salary sacrifice scheme. In a number of cases, such schemes had only recently been launched, and so uptake was currently very low. Other reasons given for low take-up included a lack of knowledge about what was being offered, plus a general lack of interest among employees. The highest take-up rates, at 49.1 per cent and 16.3 per cent, were for pension schemes in the retail sector, followed by 14.4 per cent for a home computer loan scheme provided by a leisure sector employer. These were the exception, however; the median take-up rate was just 0.9 per cent. The results are given in table 15, where a response was provided.

Table 15: Employee take-up of salary sacrifice

Employer	Salary sacrifice scheme	Employee take-up	Employee take-up %
Care			
1	Childcare vouchers/ pension/enhanced sickness benefits	12 out of 3,500 employees	0.3
2	Childcare vouchers	4 out of 57 employees have shown interest	7.0
Hotels & hospitality			
3	Childcare vouchers/ pension	1 out of 183 employees	0.5
4	Pension/PHI/critical insurance	Managers tend to take up PHI but no figure was specified	-
Leisure			
5	Childcare vouchers	2 out of 240 employees	0.8
6	Childcare vouchers	6 out of 234 employees	2.6
7	Childcare vouchers	2 out of 818 employees	0.2
8	Home computer loans	53 out of 369 employees	14.4
9	Childcare vouchers	20 out of 354 employees	5.6
10	Childcare vouchers/ pension	2 out of 300 employees	0.7
Other sectors			
11	Childcare vouchers	0 out of 6 employees	-
12	Childcare vouchers	5 out of 271 employees	1.8
13	Home computer loans. Childcare vouchers/ bicycle loans currently under consideration	30 out of 1,496 employees (home computer loans)	2.0
14	Childcare vouchers	6 out of 190 employees	3.2
Retail			
15	Pension	140 out of 858 employees	16.3
16	Childcare vouchers	12 out of 1,200 employees	1.0
17	Home computer loans	1 out of 95 employees	1.1
18	Childcare vouchers	1 out of 450 employees	0.2
19	Pension/childcare vouchers	10 out of 519 employees (childcare vouchers) 255 out of 519 employees (pension)	1.9 (childcare vouchers) 49.1 (pension)
20	Childcare vouchers	4 or 5 (anticipated) out of 820 employees	c.0.6
21	Childcare vouchers/mobile phones	0 out of 6 employees	-

22	Childcare vouchers/home computer loans/ currently looking at HCI	4 out of 1,900 employees (childcare vouchers)	0.2
23	Childcare vouchers	210 out of 55,000 employees	0.4
24	Childcare vouchers	30 out of 22,000 employees (but anticipate c.200 when scheme is fully up and running)	0.1 (but anticipate c. 0.9)
25	Childcare vouchers/pension	115 out of 40,000 employees anticipated (though take-up for individual benefit not specified)	0.3
26	Childcare vouchers/home computer loans	315 out of 63,000 employees (childcare vouchers) 1,827 out of 63,000 employees (home computer loans)	0.5 (childcare vouchers) 2.9 (home computer loans)

Table 16: Employee take-up rates for salary sacrifice

Sector	Minimum %	Lower quartile %	Median %	Upper quartile %	Maximum %	Average %
Care	0.3	2.0	3.7	2.0	7.0	3.7
Hotels			0.5			
Leisure	0.2	0.7	1.7	4.9	14.4	4.1
Other	1.8	1.9	2.0	2.6	3.2	2.3
Retail	0.1	0.3	0.6	1.3	49.1	6.0
All	0.1	0.4	0.9	2.8	49.1	4.6

8.2 Proportion of salary sacrificed

Employers were asked to specify the maximum and typical amounts of salary sacrificed by employees on a weekly and monthly basis. Across the five sectors, four out of 29 (14 per cent) respondents said they did not know what these amounts were, or did not hold the information on record. Of the remaining employers, 12 (41 per cent) were aware of the maximum weekly and monthly salary amounts for childcare vouchers, £50 and £217, although only four (14 per cent) specified that these were the actual amounts being sacrificed by their own employees.

Seven employers (24 per cent) said that the amounts sacrificed by employees varied according to a number of criteria. One employer operated a home computer loan scheme and indicated that the amounts of salary sacrificed ranged from £14 to £60 a week, depending on the model of computer chosen by the employee. Similarly, a retail sector employer said that typical salary amounts for their home computer loan scheme ranged

from £18 to £34 per week, while a second retail employer described how pension contribution amounts varied according to employee grade and length of service.

8.3 Availability of salary sacrifice schemes

Employers were also asked if access to salary sacrifice schemes was limited to particular groups of employees and, in total, 22 out of 29 respondents (75.8 per cent) said that their scheme was open to everyone. For the remaining seven employers, responses were as follows:

- Employees in ‘one-off’ jobs are not eligible for childcare vouchers (leisure sector employer)
- Employees have to be earning a regular amount to be eligible for childcare vouchers – the amount was not specified (leisure sector employer)
- The pension scheme is not open to employees working Saturdays and Sundays only (retail employer)
- Access to home computer loans is limited to senior employees (retail employer)
- Access to the pension scheme is limited to employees above the first two grades (retail employer)
- Childcare vouchers and pension scheme are only available to head office staff (retail employer)
- Childcare vouchers and home computer loan scheme are available to all employees on permanent contracts earning more than £100 per week (retail employer).

Where particular staff groups were excluded, the rationale was generally linked to high staff turnover. One retail sector employer said that their own childcare voucher and home computer loan schemes had only been rolled out to head office staff, as the schemes could impact upon the minimum wage in other parts of the organisation. The employer further added that there was a need to become experienced in the administration of salary sacrifice schemes with a smaller group of employees at the outset, before introducing them for all other staff.

In terms of service eligibility, 17 out of 29 respondents (59 per cent) said that employees were not required to be in post for a certain amount of time before being able to join a salary sacrifice scheme. However, one employer from the retail sector said that, although there was no length of service criteria, employees were required to join the employer’s salary sacrifice scheme for a minimum of one year. In addition, a leisure sector employer said that it issued its salary sacrifice scheme once a year and anyone employed on that date was eligible to join. Of the remaining employers indicating some form of criteria, service eligibility ranged from two months in a leisure company up to 12 months in three retail organisations and one ‘other’ sector organisation. Moreover,

within this range, five organisations, including three retailers, one hotel and one care organisation, specified a length of service criteria of three months, while one further retailer specified six months.

8.4 Loans for salary sacrifice schemes

Information on the time period for employees to pay back loans on computers and bicycles was provided by six of the 29 respondents (21 per cent). Of those employers providing information – four retailers plus one leisure and one ‘other’ sector organisation – five of the six said that the pay-back period was three years. In the remaining organisation – a retailer – the pay-back period for loans was two years.

The survey also found that, in the main, employees were required to finish paying off any outstanding loans if they decided to leave the organisation. Seven of the 29 organisations (24 per cent) contacted said it was the employee’s responsibility to pay off the balance, while one employer from the retail sector said there were no penalties for early leavers.

8.5 Advice on childcare vouchers

Part of the telephone survey focused on advice given to employees in relation to childcare vouchers and, specifically, if they were advised whether they would be better off claiming tax credits than taking vouchers. Typically, respondents said that it was either the individual’s responsibility, that a third party dealt with such matters, or that they did not know. Seven out of 29 employers (24 per cent) said it was the individual’s responsibility, while 13 employers (45 per cent) provided advice help-line telephone numbers, put a ready reckoner on the company intranet, or referred employees to the organisation running the scheme. Two further respondents said they did not know what the situation was, and assumed that the HR department, or the scheme provider, dealt with such matters.

8.6 Reasons for offering salary sacrifice

When asked why salary sacrifice schemes are offered, there was a general consensus among employers that such schemes benefit employees – they have access to family-friendly benefits, such as childcare vouchers, and there are also work-life balance advantages to be derived. On the employers’ side, respondents held the view that salary sacrifice schemes help to increase productivity, reduce absenteeism, aid recruitment and retention, and are largely cost neutral. In addition, seven of the 29 employers (24 per cent) said that an employee from within the company, or the trade union, had requested that salary sacrifice be made available. Two further organisations made reference to being seen as employers of choice and offering a benefit to individuals who are not highly paid.

Additionally, in the main, organisations said that the minimum wage had not impacted upon the benefits package. Overall, 25 of the 29 respondents (86 per cent) said there had been no impact, largely because most of these organisations pay above the NMW. One respondent from the leisure sector said their organisation was currently conducting a review of its compensation and benefits package to make sure the NMW did not impact upon benefits. A further employer, from the retail sector, commented that future increases in the NMW would probably impact upon sickness benefit and added that maternity pay had already been affected. For another retailer, the organisation had seen its pay differentials eroded and said it had no money left in the pot for anything else.

9. Accommodation

In a second telephone survey, we focused on those employers offering accommodation to employees (see appendix C). From the main survey, we found that 12 per cent of low-paying employers provided this benefit and these were concentrated, not surprisingly, in the hotels and hospitality sector. For the telephone survey, we obtained information from 14 organisations – six were in the hotels and hospitality sector (43 per cent), four were in the care sector (29 per cent), three were leisure sector employers (21 per cent) and one was a retail organisation.

Table 17: Employees provided with accommodation

Sector	Number of employees	As a proportion of all employees %
Care	1 out of 75 employees	1.3
Hotels and hospitality	9 out of 304 employees	3.0
Care	4 out of 60 employees	6.7
Retail	308 out of 3,655 employees	8.4
Leisure	30 out of 288 employees	10.4
Care	9 out of 70 employees	12.9
Care	7 out of 53 employees	13.2
Hotels and hospitality	500 out of 2,434 employees	20.5
Hotels and hospitality	30 out of 140 employees	21.4
Hotels and hospitality	110 out of 460 employees	23.9
Hotels and hospitality	130 out of 400 employees	32.5
Leisure	85 out of 240 employees	35.4
Leisure	4,500 out of 12,346 employees	36.4

Table 17 shows that the proportion of employees provided with accommodation ranged from 1.3 per cent in the care sector up to 35.4 per cent in the leisure sector.

9.1 Types of accommodation

In terms of the types of accommodation available, this varied widely, often based on the grade of the employee, and included the following:

- Shared house – provided by seven employers
- Room with shared facilities – provided by seven employers
- Self-contained flats – provided by five employers
- Dormitories – provided by one employer

- Private rented accommodation – provided by one employer
- Caravans – provided by one employer
- Room in hotel wing – provided by one employer

9.2 Pay and accommodation charges

Pay for employees provided with accommodation varied, although nine of the 14 employers (64 per cent) said they paid a proportion of their staff the NMW, or close to it. One leisure sector employer said that pay varied regionally – employees in the north were paid the minimum wage, while those in the south were paid above the minimum. A second employer from the leisure sector said that employees earning over a certain salary were not offered accommodation, but, in turn, were paid higher salaries than ‘live-in’ employees. Within the care sector, respondents said that salaries were above the NMW – qualified nurses earned between £7 and £12 an hour, and care assistants had salaries of around £5.60.

Accommodation charges similarly varied, from no charge at all up to £130 per month for a shared room in a flat or house, although the higher charge, found in the hotels and hospitality sector, also included staff transport. Two employers, in the hotel and retail sectors, offering a range of accommodation from dormitories to self-contained flats, charged £50 and £55 per month respectively, while two care organisations had accommodation charges of £50 per week for shared rooms. By comparison, another care organisation charged £100 per month for accommodation in a small flat.

9.3 Further issues

For the final part of the telephone survey, employers were asked to indicate: (i) if the NMW accommodation offset came into use in their organisation; (ii) whether the provision of accommodation had been affected by the NMW; and (iii) the extent to which the NMW had impacted upon the benefits package.

Employers that provide accommodation as part of the job are allowed to offset a daily maximum against the NMW calculation. On 1 October 2005, the offset increased to a maximum of £3.90 a day, or £27.30 a week – up from the previous maximums of £3.75 and £26.25. From our telephone survey, eight of the 14 employers (57 per cent) said that the NMW offset did not apply in their organisation. Three further employers (21 per cent), including one from the leisure sector and two from hotels and hospitality, indicated that the accommodation offset did apply, although only the leisure organisation specified the previous £26.25 maximum. For the remaining employers, one in the hotels and hospitality sector did not know whether the offset applied in their organisation and two others in the care and leisure sectors did not respond, which perhaps suggests that these respondents were similarly unsure.

In relation to accommodation provision, all 14 employers said that provision had not been affected by the NMW. One employer from the leisure sector added that their

organisation provided free accommodation and explained that this was historic, while a care sector employer only provided accommodation to one employee, and added that accommodation was not something the organisation usually provided.

Finally, 12 of the 14 employers (86 per cent) said that the NMW had had no effect upon the benefits package. Of the remainder, one retailer said that differentials between supervisors and other staff had been affected, while one further employer in the hotels and hospitality sector said that the situation in their own company had led them to review their benefits package.

Appendix A

Low Pay Commission survey of non-pay benefits

1. How many employees do you have?
2. Do you have any employees paid £6 an hour or less? Yes No
3. Approximately what proportion of the workforce is this? %

Employee benefits

4. Which benefits are offered to employees earning £6 an hour or less? (please tick)
- | | | | | | |
|-------------------------------------|--------------------------|--------------------------------|--------------------------|---------------------------------------|--------------------------|
| Staff discount | <input type="checkbox"/> | Free or subsidised meals | <input type="checkbox"/> | Company share scheme | <input type="checkbox"/> |
| Childcare assistance | <input type="checkbox"/> | Medical insurance | <input type="checkbox"/> | Life insurance | <input type="checkbox"/> |
| Sick pay over the statutory minimum | <input type="checkbox"/> | Employer pension contributions | <input type="checkbox"/> | Paid holidays (above 20 days minimum) | <input type="checkbox"/> |
- Other (please specify)
5. What do you consider to be the approximate value of these non-pay benefits relative to the overall reward package? (please tick)
- | | | | | | |
|---------|--------------------------|-----------|--------------------------|------|--------------------------|
| 0 to 2% | <input type="checkbox"/> | 6 to 10% | <input type="checkbox"/> | 16%+ | <input type="checkbox"/> |
| 3 to 5% | <input type="checkbox"/> | 11 to 15% | <input type="checkbox"/> | | |

Salary sacrifice schemes*

6. Do you offer any benefits through a salary sacrifice/salary exchange scheme to these employees?*
- | | | | | | |
|--------------------|--------------------------|---------------------|--------------------------|-----------------------|--------------------------|
| Childcare vouchers | <input type="checkbox"/> | Bicycle loans | <input type="checkbox"/> | Pension contributions | <input type="checkbox"/> |
| Mobile phones | <input type="checkbox"/> | Home computer loans | <input type="checkbox"/> | None | <input type="checkbox"/> |
- Other (please specify)
7. If you do not offer any benefits through a salary sacrifice scheme, why is this?
- | | | | |
|---|--------------------------|---|--------------------------|
| Too much administration/ too complex | <input type="checkbox"/> | Schemes currently at planning stage | <input type="checkbox"/> |
| Staff don't earn enough to make it worthwhile | <input type="checkbox"/> | Staff turnover too high to make it worthwhile | <input type="checkbox"/> |
| Don't know about schemes | <input type="checkbox"/> | Not relevant to our staff | <input type="checkbox"/> |

*A salary sacrifice (or salary exchange) normally involves an employee giving up part of the pay due to them under their employment contract in return for another benefit. Usually the benefit is worth more than cash, often because of tax or NIC advantages.

Appendix A

Accommodation

8. Is accommodation provided to any of these employees? Yes No

Effect of the National Minimum Wage

9. What has been the influence of the minimum wage on the provision of non-pay benefits in your company?

Decrease in the level of benefits provision Other change

Increase in the level of benefits provision No change

10. As an employer, why do you think that employers offer non-cash benefits? (please tick)

To help recruitment and retention Improve the value of the paybill

Staff expect it

Other (please specify)

11. Are there any differences between the non-pay benefits received by lower-paid employees (paid £6 an hour or less) and higher-paid employees? Yes No

If yes, what are the main differences?

Your details

(the survey will be analysed on an anonymous basis, and your details will not be passed on)

Name

Position

Company

Sector Tel number

Email address

Thank you for completing this survey. Please return this questionnaire by 11 August 2005 in the enclosed reply-paid envelope, or **fax** it to Nicola Allison on 020 7608 0949.

Appendix B

Telephone questionnaire 1 – salary sacrifice

For each benefit:

1. How many employees are involved/what is the uptake?
2. How much salary is sacrificed (maximum/typical)?
3. Is access limited to some groups of employees (eg those with higher earnings)
4. Do staff have to have been in post for a certain amount of time before they can join a scheme?

If loans for computers or bicycles:

5. What is the time period for paying back loans?

If childcare vouchers:

6. Are employees advised on whether they would be better off claiming tax credits rather than taking vouchers?

To everyone:

7. Why are salary sacrifice schemes offered?
8. Has the minimum wage had any effect on the benefits package in general (eg shift towards pay rather than benefits)?

Appendix C

Telephone questionnaire 2 – accommodation

1. How many employees are provided with accommodation?

2. What type of accommodation is it? eg self-contained flat or house, room only with shared facilities

3. How much are these employees paid? (broadly) Are any of them on or near the minimum wage?

4. What charges are made for the accommodation?

5. Does the minimum wage accommodation offset come into use? (should be able to work this out)

6. Has the provision of accommodation been affected by the minimum wage?

7. In general, has the minimum wage had any effect on the benefits package (eg shift towards basic pay rather than benefits)?