



Examiners Report: Reward and Retirement Provision- April 2022

This year's paper comprised six questions, one question requiring the answer to be in report format carrying 35 marks and five remaining questions each carrying 10 or 15 marks.

The 10 and 15-mark questions largely called for factual information and should not have presented any issues for learners, provided sufficient study of the tuition manual had been undertaken.

By allocating proportionately less time in answering questions 2 - 5, learners should have been able to allot more of their time to question 1, which carried the highest marks and required more thought and an appropriate layout in terms of the report format.

The overall standard was very good and many candidates obtained high marks.

One point which is referred to year after year is the importance of reading and re-reading the question paper carefully before attempting to answer any of the questions. This not only applies to the answer required, but also to the layout of the answer. Unfortunately, it is evident that this does not always happen and valuable marks can be easily lost.

Question 1

The Executive Share Option Scheme was introduced in the Finance Act 1984 and is now known as a Company Share Option Plan (CSOP).

In your role as a benefit consultant to XYZ Company, prepare a report for consideration by the Reward Manager, which covers the following aspects of a CSOP:

- **The key features**
 - **Eligibility of employees to participate**
 - **Provisions relating to the grant of options**
 - **Provisions relating to the tax approved value and standard exercise of options**
 - **Restrictions that may be imposed on the exercise of options**
- Your report does not need to make reference to the position of any employee who leaves service, for whatever reason, before their option is exercised.**

This question concerned Company Share Option Plans, carried the highest marks and required a report style answer. It was disappointing that many learners were unable to set out their answers as required, but instead chose various forms of a letter or summary.

Generally, the question was well answered, with most learners providing sufficient details to obtain high marks.

Some points arising included:



- There was some confusion between a SAYE and a CSOP, the latter being the type of Plan on which the question was focussed.
- Many learners included the position of an employee who left service, but it was clearly stated in the question that this was not required.
- A number of learners were able to provide some of the salient points, but did not cover them under the correct headings, as set out in the question paper.

Some further comments on the answers provided:

- **Key features** – this section was well answered
- **Eligibility** – participation being restricted for employees with substantial shareholdings - mainly impacting on family controlled private companies, was often omitted
- **Grant details** – this section was well answered
- **Value and Exercise** – in general this was a poorly answered section and some of the points omitted or not clearly covered included:
 - £30,000 limit applies to all outstanding options, equivalent to £10,000 a year over a 3-year period, ignoring share price changes
 - A CSOP offers a higher maximum limit than a SAYE, but the limit has been unchanged since 1996
 - Most companies operating a CSOP also operate an unapproved share option plan, permitting larger options
 - Under unapproved plans, the first £30,000 is tax favoured, but the balance is not tax favoured
 - Employee can exercise their options, then sell the shares for a profit, assuming the market value of the shares has increased
- **Restrictions that may be imposed on exercise** – this section was reasonably well answered.

The relevant section of the Tuition Manual was Section 3, Chapter 1, 1.3.

Question 2

Write an email to the Global HR team which sets out the key features of the Lifetime Individual Savings Account (LISA) and the circumstances in which an employee may wish to consider one.

This question was well answered, many learners obtained high marks and were able to provide the main features of a LISA, namely:

- Annual contributions
- Tax Treatment
- Access
- Reasons why an employee may wish to use a LISA

However, a commonly omitted point was that LISA contributions count towards the annual £20,000 ISA allowance.



The relevant section of the Tuition Manual was Section 3, Chapter 2, 2.6.

Question 3

When considering a Company's benefits strategy, contrast the two ways in which benefits can be valued and list examples of when each are likely to be used.

Another well answered question and good marks were obtained.

Learners were generally able to correctly identify the two ways benefits can be valued, ie. employer cost and employee cost. Also, the circumstances in which each would be used - employer cost: recruitment, introduction of flexible benefits and in total reward statements; employee cost: external benchmarking and mergers and acquisitions.

Unfortunately, a few learners selected the correct chapter of the tuition manual, but did not identify the correct section of that chapter and although they provided some written content, they failed to obtain any marks. As stated earlier, it is very important to read and re-read the question paper before attempting to answer the question.

The relevant section of the Tuition Manual was Section 1, Chapter 2, 2.1.2.

Question 4

As HR Manager, prepare a summary setting out the ways in which your employer could provide childcare provision for employees. You should include details of the Income Tax and National Insurance that may be payable by employees that opt for this childcare provision.

This was a question where factual information was required. It was reasonably well answered and most learners were able to differentiate between the types of childcare provision upon which Income Tax and National Insurance is paid and those where it is not paid.

Some of the facts omitted from answers included:

- Childcare arranged by the employer with a provider is sometimes referred to as directly contracted childcare
- Childcare vouchers may affect the amount of tax credits a person can receive.

The relevant section of the Tuition Manual was Section 3, Chapter 4, 4.2.1.

Question 5

As Benefits Manager to a medium sized industrial company write a summary setting out the current National Living Wage (NLW) and National Minimum Wage (NMW) rates.

Your summary should cover:



- **Wage rates for different age groups and apprentices (5)**
- **Main items included and excluded when calculating pay for NLW and NMW purposes (5)**

This was a straightforward question and learners obtained good marks.

There was some confusion in the rates for NLW and NMW – some learners giving the rates for 2021 and some giving the rates for the current year. Candidates were, however, marked based on the rates for whichever year they gave.

Some points which were commonly omitted included:

- Stating that there are rules concerning the definition of ‘working time’
- Overtime is included in the calculation of NMW and NLW, but travelling time between home and work is excluded.

The relevant section of the Tuition Manual was Section 1, Chapter 1, 1.2.3.

Question 6

Private Medical Insurance is one of the most valued employee benefits, but increasing costs are an important consideration for employers when providing this benefit.

Identify how Managed Care and Directional Care can help the employer with cost containment.

This was a well answered question with high marks obtained by learners who had studied the tuition manual in sufficient detail and were able to recall the salient facts concerning Managed Care and Directional Care.

Some of the points often omitted from answers included:

Under Managed Care:

- Pre-authorisation or concurrent review being required for long in-patient stays, particularly for psychiatric conditions
- Providing examples of non-standard benefits eg. Wheelchairs or ramps

Under Directional Care, most learners were able to itemise the typically agreed services, namely:

- Hospital group
- Group of specialists
- Diagnostic centres
- Network of physiotherapists
- Open referrals from member’s GP

However, a full description of Directional Care whereby preferred suppliers will have agreed to provide their services (subject to agreed protocols and clinical standards) at specially agreed charges in return for volume of business was sometimes lacking.

The relevant section of the Tuition Manual was Section 2, Chapter 2, 2.4.1 - 2.4.2.



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