

## Pioneering maturity option – SAYE case study

Marks & Spencer has been running sharesave plans for a number of years and over the past couple of years the option price has been extremely favourable. The company has been very diligent in ensuring that employees have the right information to make a choice and do not miss out on the benefits of the plan.

This year M&S had a three-year and five-year plan maturing on 1 January 2009. There were approximately 6,600 employees in the three-year and 3,500 employees in the five-year plan.

The three-year plan was well underwater (option price £3.49 against a share price of approximately £2.28) but the five-year plan had an option price that was very close to the share price.

M&S and its provider Equiniti met to review the options available and decided that, for the five-year plan, as the share and option prices were comparable, they would send a traditional exercise form to staff, with a warning to check the share price before submitting their instructions.

M&S felt that the staff who participated in the three-year scheme would be disappointed about the lack of gain and this did not align with the company's objective of developing a culture of share ownership among employees. Rather than send the traditional exercise form, M&S and Equiniti came up with the idea of using the proceeds to buy shares at the current market price. A maturity pack was designed and sent to all employees within the scheme. The communication materials gave the employees a number of options as part of a 'one-stop shop':

1. to use some or all of their savings plus bonus to buy shares on a predetermined date in January; or
2. to take their savings and bonus as cash in the normal manner.

The brochure demonstrated the benefit to the employees, and that as well as getting the same number of shares as the original option in the business they could get cash back, or an even greater number of shares for the same amount of savings.

The share purchase took place later in January and the results were excellent – 1,000 employees (approximately 15% of employees in the 3 year plan) took up the share purchase option.

Of the 1,000 employees opting for shares, 650 elected to invest all of their savings with only 350 electing for the 'cash-back' choice. This shows a real appetite among staff to own a share of their employing company.

### Fact box

£1.8m of savings plus bonus were committed to the share purchase. £1.4m was used for the purchase of shares. £400,000 was returned as 'cash-back'. 619,519 shares were purchased for the employees and transferred into their 'Share Service Accounts' (Corporate Nominee).

### More about the author

Bob Birkhead is a Senior Employee Share Plan Consultant at Equiniti and can be contacted on bob.birkhead@equiniti.com.

Equiniti is a Gold Member of **ifs** Proshare.

## 2009 *ifs* ProShare Annual Conference and Exhibition

This year's Conference and Exhibition will be held on Thursday 24 September at One Wimpole Street, Home of The Royal Society of Medicine, 1 Wimpole St, London, W1G 0AE. This change of venue has enabled us to make some cost savings, which we are passing on as part of our sponsorship packages and delegates' rates.

We already have three confirmed panel discussions and these are as follows.

1. A cross-party panel discussion on 'The Politics of Employee Share Ownership'. MPs who have confirmed their attendance on the panel are Mark Hoban (Conservative Shadow Treasury Minister), Andy Love (Labour member of Treasury Select Committee) and Lord Richard Newby (Liberal Democrat Treasury Spokesman in the House of Lords).
2. A panel discussion on 'The Challenges of Employee Engagement and Productivity'. Confirmed panellists are David MacLeod, who is leading the Employee Engagement review for the Department for Business, Enterprise and Regulatory Reform; Charles Cotton, Reward Advisor, Chartered Institute of Personnel and Development (CIPD); and John Earls, UNITE trade union.
3. A panel discussion with representatives from HMRC.

### Delegates' rates for this year will be as follows:

Company member	one free place, additional places £50 per delegate
Non-member company	£175 per delegate
Service provider/adviser member	£425 per delegate
Non-member service provider/adviser	£750 per delegate
Book two delegates places and receive a third place free of charge.	

Our website will be regularly updated over the coming weeks and months, so for up-to-date information please visit [www.ifsproshare.org](http://www.ifsproshare.org). For more information on sponsorship packages please contact Julie Richardson on 020 7444 7104.

# Stick or twist? IS SAYE still worth the gamble?

When my phone rang on a cold and wet January morning, I was snapped awake by a question based on the latest industry rumour: 'Is it true that Computershare is pulling out of the SAYE market?'

Once I'd finished laughing – and then cursing as I'd been distracted to walk through a particularly large puddle – I took some time to stop and think about where this rumour might have come from, and why people might think it plausible.

The smoke would have started in the fact that yes, this is a time when SAYE providers may be reviewing their commitment to the market. Why is this?

Historically, service providers have been attracted to the SAYE market as it offered them a 'captive' base of regular savers. Also, the resulting savings book offered handsome margins so that the providers were often able to offer free administration and communications to their clients.

In recent times this model is, in many cases, proving unsustainable. There are three main reasons for this. Firstly, a lower interest rate environment has meant lower margins for SAYE providers. Secondly, prevailing downward movements in interest rates expose the SAYE providers to huge potential losses because each participant locks in at a guaranteed bonus rate at the start of the contract. This guarantee must be met by the provider even if interest rates plummet, as they have recently. Thirdly, the design of SAYE enables employees to cash in their old plan in favour of a new SAYE offer. In a falling stock market, employees are more likely to do this in order to take advantage of lower option prices. This is a triple whammy for SAYE providers who bear the cost of closing accounts and refunding money and the cost of receiving and processing a new application, while losing the funds on the deposit from which it derives its revenues.

A recent change is the introduction of admin fees for most companies. This is because the employees of these companies do not generate sufficient savings balances for the SAYE providers to provide services at zero cost. Where free services are still being offered to small and medium-sized companies, these may be being subsidised by the interest margins gained from the savings of employees in large companies.

In addition, providers with SAYE as part of their core business have introduced new technology in order to drive efficiency and reduce service costs. This has included removal of email data transfers by using encrypted file share applications. Participant innovations include web and telephone enrolment, online savings account closure, and real-time maturity web services allowing participants to exercise, sell or transfer shares to complementary products such as a Nominee or ISA.

It would be fair to say, then, that the SAYE market has evolved away from one offering a commoditised, free service predominantly from banks, to one in which companies are able to choose from a variety of providers, each having developed its offering in a different way in response to prevailing market conditions. Customer choice is infinitely greater.

So – the reason I laughed in spite of having wet feet as a result of the call to spread the rumour, was that whoever started it simply hadn't thought it through. Well-established, efficient, customer-focused services mean that the SAYE providers are going to continue to deliver SAYE, regardless of interest rates.

## More about the author

Iain Wilson is Client Relationship Director of Computershare Plan Managers and can be contacted on [iain.wilson@computershare.co.uk](mailto:iain.wilson@computershare.co.uk)

Computershare are Gold Members of *ifs ProShare*.

Views and opinions expressed in external articles do not necessarily reflect those of *ifs ProShare*.

## EU Prospectus Directive (EUPD)

Over the last few years, through the EU sub focus group, we have been lobbying for a level playing field for all companies wanting to offer their employees the opportunity to join an employee share plan. Under the EUPD a number of exemptions are available to companies which means that these companies do not need to produce a prospectus when offering a share plan to their employees, but not all companies are able to take advantage of an exemption. This particularly affects companies with no listing on an EU-regulated market and unlisted companies.

In January 2009 the EU issued a consultation paper that contains provision for an amendment to the employee share schemes exemption in the Directive. This is indeed welcome news, assuming the amendments are agreed upon, although it will take two to three years for the changes to be implemented. Through the EU sub focus group a [response](#) to the consultation has been submitted. You will need to be logged into the site as a member to view the response.

In February the Committee of European Securities Regulators (CESR) issued an updated Q&A, which includes at Q71 agreement for a short-form disclosure regime. This has been awaited for some time and will provide relief in the short term, but in the longer term we wish to see the legislation changed so that all companies offering share plans to their employees will be able to benefit from an exemption.

Our thanks go to Jessica McMichael of Lovells and Jeremy Edwards of Baker & McKenzie who are the chair and vice chair of the sub focus group. Thanks also go to Janet Cooper from Linklaters and Luc Meeus from Baker & McKenzie in Brussels who represented *ifs ProShare* at a meeting with the EU to discuss the changes being proposed. Thanks also go to Adetutu Odutola at the FSA and all members of the sub focus group for their valuable input, which has led to some positive action being taken.

## Membership update

Invoices for the 2009/10 membership year were issued recently. For more information on membership benefits and subscription fees please visit our [website](#) where you will find full details of the different membership categories available.

*ifs ProShare* thank all their members for their support over the last year and look forward to working with them over the coming year.

Non members wanting further information or wishing to join *ifs ProShare* should contact Julie Richardson on 020 7444 7104.

# HMRC

HMRC has completed its review of SAYE, which primarily looked at the issue of SAYE invitations straddling a prospectus change, as well as the trigger mechanism used to assess the need for bonus rate changes. Whilst still subject to ministerial approval we hope that changes will be announced as part of the Budget on 22 April and will of course communicate this to members when it is formally announced.

The Share Scheme Manuals for both CSOP and SAYE are now available on [HMRC's website](#). The manuals for both SIP and EMI are expected to be made available on HMRC's website in May.

## SAYE

New bonus rates came into effect on 17 February 2009. These are shown below with the current rates in brackets.

Type of contract	Total monthly savings	Tax-free bonus	Interest equivalent
3 year	36 payments	0.6 x monthly contributions (1.5)	1.08% (2.67%)
5 year	60 payments	2.6 x monthly contributions (4.8)	1.67% (3.04%)
7 year	60 payments	5.6 x monthly contributions (9.3)	1.98% (3.20%)

The early leaver rate was reduced from 2% to 0.5%.

## Training Courses and Workshops Programme

### March–June 2009

Tuesday 31 March	Internationally Mobile Employees
Wednesday 8 April	Introduction to Employee Share Plans – Technical Course
Tuesday 28 April	Share Plan Communications in the 21st Century
Thursday 7 May	Share Plans in Private Companies
Monday 11 May	Equity Incentives in today's market – a practical overview. Hosted by Pinsent Masons in Manchester
Tuesday 12 May	Tax and Share Plans
Thursday 21 May	Accounting for Share Plans
Wednesday 3 June	Introduction to Employee Share Plans – Technical Course. Hosted by BDO Stoy Hayward
Wednesday 17 June	Introduction to Employee Share Plans – Practical Course
Thursday 25 June	Executive Share Plans

### Booking

Each course will give delegates the practical skills and knowledge they need when managing or advising on an employee share plan. If you are interested in attending, all you need to do is select the course that best suits your needs and make a booking.

To make a booking, please download and complete the relevant Booking Form from our website; and return it with full payment to the address given. Courses are booked on a first come, first served basis.

T +44 (0) 207 444 7141  
F +44 (0) 207 444 7115  
E [ifsproshare@ifslearning.ac.uk](mailto:ifsproshare@ifslearning.ac.uk)  
W [www.ifsproshare.org](http://www.ifsproshare.org)

## Media, public affairs and lobbying

In January *ifs ProShare* met with representatives from HM Treasury. As the area responsible for policy it is important that we maintain a good working relationship with HM Treasury and going forward we will be having quarterly review meetings with them.

In March *ifs ProShare* met with Mark Lazarowicz MP. In 2002 Mark successfully piloted the Employee Share Schemes Bill through Parliament. Also in March the Rt Hon Alan Milburn MP spoke to our members about employee share ownership. We are in the process of arranging a follow-up meeting with Alan to further discuss employee share ownership with him. A copy of his speech can be seen on our [website](#).

During January and February *ifs ProShare* achieved media coverage in both the *Employee Benefits Magazine* and *The Scotsman*, as well as being mentioned on several online news websites.

One of our key lobbying activities relates to reducing the tax-free period on share incentive plans to three years from the current five years. Many thanks to those companies and administrators who completed our short questionnaire. This information will be used to compile a report to support our lobbying in this area.

## Events

The first quarter has been a busy time for us with a number of successful events being held, all of which were hosted by members.

We began in January with the Review of 2008, kindly hosted by S J Berwin. This gave us all the chance to look back at 2008 from the perspective of an adviser, a company and an administrator. This event was free for members and our thanks go to Gareth Amdor (S J Berwin), Penny Follows (Prudential) and Paul Stoddart (HBOS EES) for sharing their thoughts on what was an eventful year.

The first of our Business Breakfast Briefings for 2009 took place on 4 February and was kindly hosted by Killik Employee Services. We were delighted to have Steve Holliday, CEO of National Grid, as our speaker. He spoke passionately about his business and National Grid's employee share plans. A number of questions on a variety of topics were put to him during the Q&A session, all of which were answered enthusiastically and in detail.

Celebrating Excellence took place on 10 February and was kindly hosted by Baker & McKenzie. Paul Jackson, chair of the judges in 2008, was on hand to provide an overview of what makes a winning entry. All our 2008 winners were in attendance to share their experiences and ideas for best practice. This event provides a great networking opportunity as well as the chance to hear first hand from our winners.