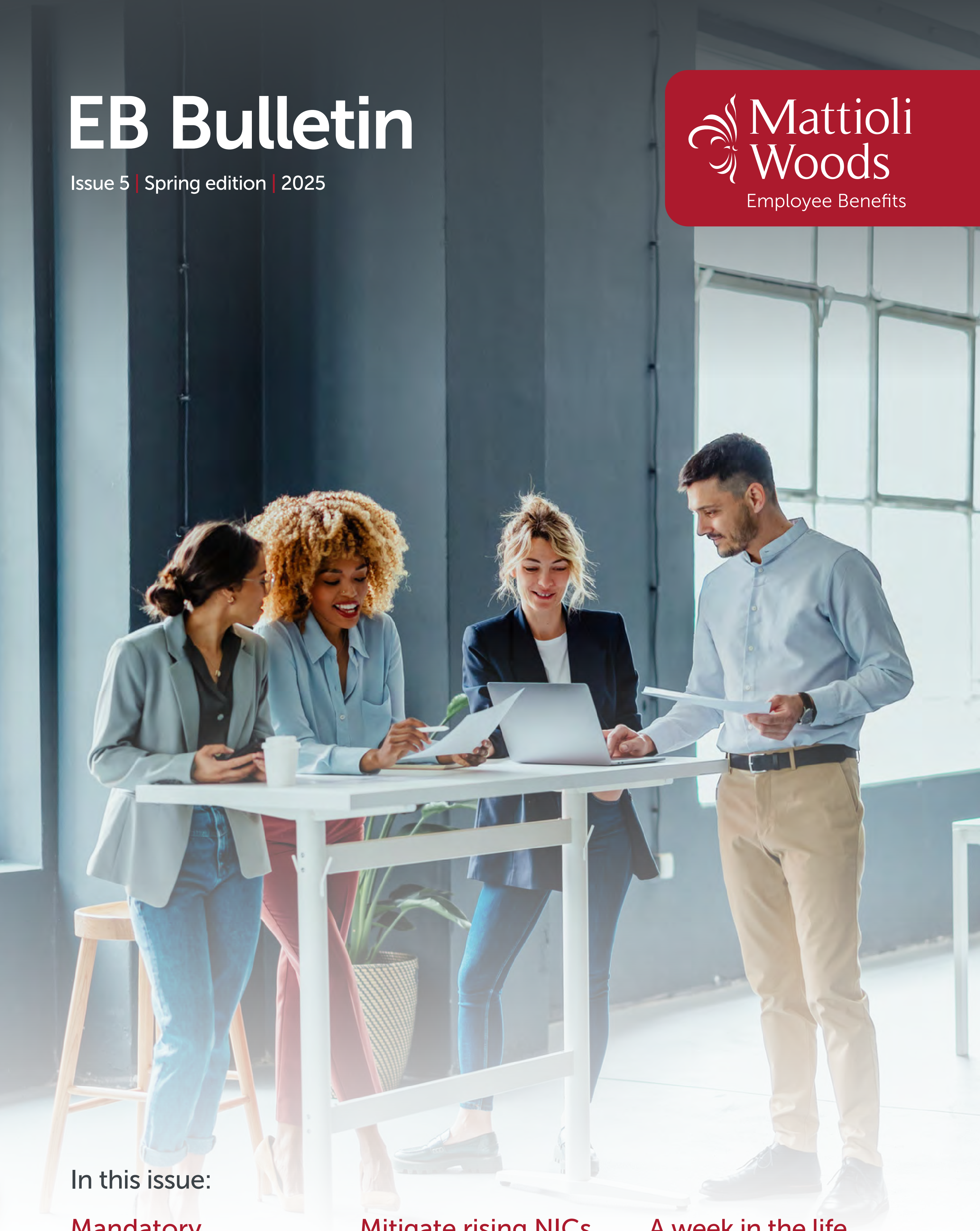
EB Bulletin

Issue 5 | Spring edition | 2025

Mattioli Woods
Employee Benefits



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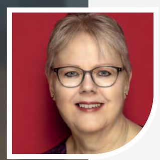
This issue's contributors:

Sean McSweeney
Employee Benefits Team Director



Joy Chaplin
Employee Benefits Consultant

Andy Robbins
Senior Employee Benefits Consultant

James McDonald
Employee Benefits Consultant

All content is correct at the time of writing.

Introduction

Hello

Welcome to our spring 2025 edition of the EB Bulletin!

As businesses navigate recent increases in employers' National Insurance contributions (NICs), this issue explores how a well-structured salary exchange scheme could generate considerable savings.

Our Employee Benefits Team Director, Sean McSweeney, provides valuable insights on preparing for the mandatory payrolling of benefits in kind (BiKs) – now postponed until April 2027. While the new deadline seems generous, the move will demand significant process changes.

Elsewhere in this edition, Andy Robbins examines default investment strategies, helping you ensure your workplace pension scheme meets employees' needs. We're also excited to introduce a new feature – '**A week in the life of an EB consultant**' – where James McDonald shares a behind-the-scenes look at how he supports clients in optimising their benefits strategies.

As always, if you have any questions about the topics covered, don't hesitate to contact your Mattioli Woods consultant or email us directly.

Happy reading!

Saira Chambers
Employee Benefits Director

Payrolling of benefits in kind to become mandatory

Sean McSweeney, Employee Benefits Team Director

In the Autumn 2024 Budget, the Chancellor confirmed that the mandatory payrolling of benefits in kind (BiKs), first announced by the previous Government in January 2024, would proceed as planned, taking effect from 6 April 2026.

However, on 28 April 2025, HMRC announced that the measure will be postponed until April 2027. This decision follows extensive consultation with stakeholders, which highlighted concerns about the readiness of employers, payroll service providers and HMRC's own systems to meet the original deadline.

The rationale for mandatory payrolling of BiKs

HMRC aims to modernise taxation and reduce administrative burdens on employers. The new process will eliminate the one-year delay in BiKs tax payments, ensuring a more efficient tax collection aligned with income receipts. Employees will receive clearer, more accurate information about their taxable benefits, helping them better understand their tax obligations.

From P11Ds to real-time reporting

Currently, BiKs are assessed for tax and National Insurance contributions (NICs) through the P11D process. This assessment typically occurs after each tax year ends. Employers must submit a P11D form to HMRC for every employee receiving certain taxable benefits by 6 July annually, creating a substantial administrative burden.

Once HMRC receives the submission, it calculates the tax and NICs owed and adjusts employees' tax codes to recover any unpaid amounts over the remainder of the tax year. As a result, employees pay tax and NICs on these benefits in arrears.

However, from 6 April 2027, employers must payroll BiKs in real time through the Full Payment Submission (FPS), submitted to HMRC every time employees are paid.

Which benefits are affected?

Mandatory payrolling will apply to most BiKs, including company cars, gym memberships, mobile phones, and private medical insurance. However, employers may choose to payroll these benefits voluntarily before the deadline. Employment-related loans and accommodation will remain exempt from mandatory payrolling, although these exemptions are expected to be reviewed in the future.

What should employers consider now?

To prepare for the transition, employers should take the following key steps:

- **Identify benefits subject to BiKs:** thoroughly review your current P11D reports to identify all benefits subject to BiKs taxation. Creating a comprehensive inventory now will help prevent complications as the implementation date approaches.
- **Information collection:** plan how you will gather the necessary information each month.
- **Payroll provider support:** assess the level of support you will require from your payroll service provider.
- **Payslip adjustments:** determine what changes should be made to your payslips.
- **Salary exchange benefits:** consider how this will affect any salary exchange benefits you currently offer.
- **Employee education:** develop a strategy to educate employees about the potential for 'double' tax on their benefits during the 2027/28 tax year.

How can our benefits platform help?

Managing this process could quickly become overwhelming – like running a P11D project every pay period. Fortunately, there's a smarter way. MyWay, our flexible benefits platform, is designed to remove the complexities of payrolling BiKs and ensure your business is ready for the new requirements.

With MyWay, you can:

- **Automate BiK calculations** every pay period, eliminating manual errors and saving valuable time
- **Instantly update payroll** whenever benefits change throughout the year
- **Reduce administrative burdens** and maintain ongoing HMRC compliance
- **Access a complete audit trail** to ensure accuracy and transparency
- **Provide employees with clear, real-time visibility** of their benefits and tax position before they make selections

Early action, smoother transition

While the delay gives employers more time to prepare, the move to mandatory payrolling of BiKs will still demand significant changes to your processes and systems. Taking action now will help minimise disruption and ensure compliance when the new rules come into effect. MyWay supports a smooth transition and simplifies your BiKs reporting from day one.

Contact us today to discover how MyWay can help your business adapt with confidence.

MyWay.

Mitigate rising National Insurance contributions with salary exchange

Joy Chaplin, Employee Benefits Consultant

As businesses adjust to the recent increase in employers' National Insurance contributions (NICs), we're pleased to offer strategic solutions to help manage these changes while maintaining competitive employee benefits.

The 2025 NIC changes

Since 6 April 2025, employers have been navigating significant changes to their NIC obligations. Secondary Class 1 NICs increased by 1.2% to 15%[1], while the earnings threshold (the point at which employers begin paying NICs) reduced from £9,100 to £5,000[1]. These adjustments have led to a substantial rise in employment costs for many businesses.

Salary exchange – a powerful cost-saving tool

A salary exchange scheme remains an effective solution for managing these increased employment costs.

This arrangement allows employees to exchange part of their salary for non-cash benefits, creating notable tax advantages:

- **For employers:** lower gross salaries mean reduced NICs, offsetting the rate increase
- **For employees:** higher take-home pay and immediate tax relief on pension contributions at their highest marginal rate

Salary exchange can be used for desirable benefits like bike-to-work schemes, childcare vouchers and holiday purchases. Not only does this flexibility help to offset rising NICs, but it also enhances employee wellbeing while strengthening your ability to attract and retain top talent in today's competitive job market.

Furthermore, employers can achieve additional NIC savings when employees direct bonuses into their pension plans.

> **“A well-structured salary exchange scheme could generate considerable savings.**

Cost savings in action

Number of employees
100

Average annual salary
£30,000

Employee contribution
5%

Annual salary exchange total
£150,000
(100 x £30,000 x 5%)

Annual employer NIC savings
£22,500
(£150,000 x 15%)

This example highlights how a well-structured salary exchange scheme could generate considerable savings.

Why partner with us?

With over 15 years of experience implementing successful salary exchange schemes across diverse industries, we combine expert guidance with a personalised service. We will design a scheme tailored to your specific business needs and handle implementation with minimal operational disruption. We will also provide clear communication that drives employee participation and deliver ongoing support to optimise your scheme's effectiveness.

With new NIC rates in effect, now is the ideal time to explore how salary exchange could benefit your business.

Get in touch

Contact us today for a complimentary consultation and discover how much you could save.

[1] HM Revenue & Customs (HMRC)

Do default investment strategies meet your employees' needs?

Andy Robbins, Senior Employee Benefits Consultant

According to The Pensions Regulator[1], over 11 million people have been enrolled into a workplace pension since the introduction of auto enrolment in 2012. Most of these are defined contribution schemes where the employer and/or pension provider decide how best to invest the money.

Legislation

Legislation governing default strategies for workplace pension schemes differs depending on whether the product provider offers a contract-based plan or a trust-based scheme.

Under the previous UK Government, an agreement was established setting out aspirations for the largest pension providers to invest 5% of their default investment strategies into unlisted equities by 2030. In November 2024, the current Government announced it will broaden this initiative under a new Pension Schemes Bill in 2025[2].

This article explores three considerations of default strategies:

1. Lifestyle strategies
2. Target date funds
3. Illiquid assets

Lifestyle

There is a consensus that most pension scheme members can tolerate greater volatility with their investments while they have a longer term to retirement. Lifestyle strategies aim to deliver growth by investing the pension scheme members' funds in a greater proportion of equities in the early years, with a gradual movement into lower risk, less volatile assets as the member approaches retirement.

It's important to know if you are in a lifestyle strategy, as pension providers tend to use several pooled funds at each stage throughout the life of the plan. The lifestyle switching process is an automated mechanism that usually happens gradually and passively.

From a positive perspective, automation provides security to the scheme member that their pension will be less exposed to adverse equity markets as they draw closer to retirement.

Conversely, automation does not allow for adjustments during any period of prolonged adversity, such as the issues experienced in the bond markets in 2022, nor does it factor in unexpected early retirement or a delay in taking income.

Target date funds

While lifestyle strategies are used by most pension providers, there are some that use target date funds (TDF) instead. These aggregate members by retirement age, with the pension provider placing the investments into a single fund, managed by an investment team.

One of the key benefits cited by the pension providers using TDFs over the traditional lifestyle strategy is that TDFs allow for active management of the asset allocation during the years approaching and through retirement. This avoids issues such as disinvesting during adverse investment climates and takes advantage of potential investment opportunities. However, this active management requires a significant amount of resource to ensure that active decisions do not create unnecessary risks.

It must be noted that both with a lifestyle strategy and a target date fund, there could be exposure to an increased level of volatility if benefits are taken earlier than the retirement age stated on the policy, or an insufficient chance of growth if taken later.

Illiquid assets

Illiquid assets are types of investments that are not as easily realisable as cash and therefore cannot be traded easily in the short term. In the 2024 Mansion House statement, the Chancellor outlined the objectives of legislative change to free up funds from UK pension providers to invest in new UK businesses (unlisted shares/ private equity), infrastructure and local projects, all of which can be classed as illiquid assets.

When investing in private equity, returns can often be great, as are the risks associated when companies fail, or underperform. Infrastructure projects can take a long time to come to fruition, without any realisable returns in the short term. The cost to the pension provider of investing in illiquid assets (and therefore the charges the members ultimately pay) may also need to increase, up to a legislative cap.

The Government is therefore proposing that only so called 'mega funds' will be sufficiently capable of using these types of investments to generate good outcomes for members.

What can employers do?

While the responsibility for structuring the default strategy usually lies with the pension provider, employers can take the following actions:

- Ensure the default strategy remains compliant with current legislation
- Monitor who is responsible for reviewing and updating the strategy
- Consider switching providers if there is consistent underperformance
- Support employee engagement through financial education programmes
- Encourage employees to regularly review their retirement age

Get in touch

If you have questions about your company's default investment strategy or engaging employees with their pension plans, contact your Mattioli Woods consultant or email us today.

[1] The Pensions Regulator
[2] GOV.UK

A week in the life of an EB consultant

James McDonald, Employee Benefits Consultant

Joining Mattioli Woods in 2024, James is an employee benefits consultant with over 16 years' experience helping employers design, implement and manage effective pensions and benefits schemes and strategies.

With a background across pensions, risk and healthcare, he works closely with his clients to understand their business and assess their full employee value proposition laterally.

A strong advocate for affordable benefits technology, James is a firm believer that clients should see a clear return on investment in their benefits spend; for example, through National Insurance savings, improved recruitment, retention, tax efficiency, employee wellbeing or productivity.

Monday

A drive up the east coast on a sunny day never fails to lift the spirits, and Monday's weather didn't disappoint. I spent the day onsite with a client in Dundee. Our focus was on flexible benefits software – a potential game-changer in offering a more personalised and sustainable employee experience.

Today's workforce values choice and with the right, affordable platform, staff can select the benefits that matter to them. From workplace savings such as pension schemes and sharesave plans, insured options like death in service, private medical insurance and cash plans, to equally valuable lifestyle and financial perks, including mortgage and pension advice, financial education, childcare support, digital GPs, and retail discounts – the possibilities are extensive!

Beyond improving employee engagement, wellbeing, recruitment and staff retention, a carefully implemented, compliant salary exchange scheme can also unlock significant National Insurance savings for employers. A real win-win!

Tuesday

Tuesday took me to Ayrshire for a catch up with my trusted peer Kathryn from People Puzzles and my colleague Stacy Cushnan. People Puzzles provides experienced part-time HR directors to ambitious businesses, helping them scale and succeed through strategic HR leadership. Stacy, one of our wealth management specialists, helps individuals and families navigate their financial journey with tailored, long-term advice focused on security and growth.

Our conversation covered the recent amendments to the Employment Rights Bill (who better than Kathryn to provide insight here), including my own experience of how businesses can help their employees become more financially educated and secure.

Stacy offered a brilliant perspective on how individuals can take control of their own financial wellbeing, and in the wake of recent political and economic shifts, we looked at how businesses can drive tax efficiency to get maximum value from the investment they make in their people.

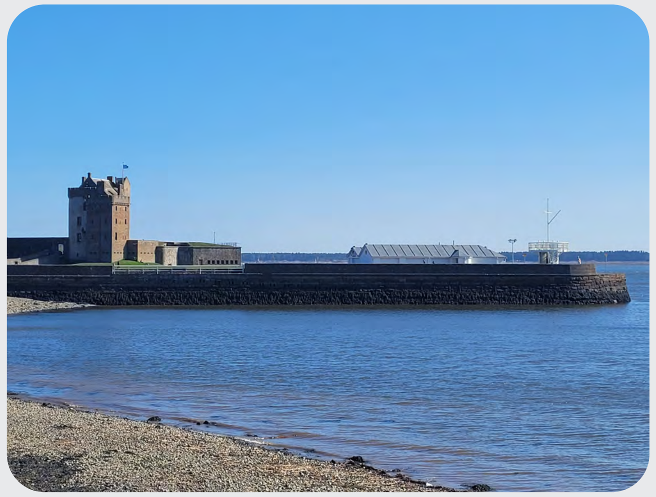
Being in Alloway, it would have been rude not to wander through the Robert Burns memorial gardens on my lunch. The eagle-eyed among you will spot the bridge from Tam o' Shanter in the background.

Wednesday

Today was spent in sunny Broughty Ferry to review insured benefits with a potential client – specifically their death in service, private medical insurance and cash plan. With the new Employment Rights Bill now in effect, it's vital to plan properly to use risk and health benefits strategically.

Instead of absorbing the cost of long-term absence through company sick pay, we're exploring how income protection could provide more sustainable support while reducing costs.

There's an opportunity here to improve employee engagement through benefits education, in turn supporting recruitment, retention and productivity. Affordable technology will offer a huge advantage.



Thursday

A trip to West Calder today to meet with a potential client who is dissatisfied with the service from their current pension arrangement provider. We're now assessing whether the scheme is the right fit for the business and its employees.

We'll be reviewing value for money (employee charges and employer fees), compliance, auto-enrolment needs, quality of support, investment performance (including whether default funds are appropriate), and engagement and education (member awareness, impact on recruitment and retention, alignment with retirement goals, and the effectiveness of the salary exchange structure).

Employers have a duty to maintain pension governance and compliance but we also help ensure internal processes and practices support these outcomes effectively and sustainably.

Discover James's Friday highlights on the overleaf.

Friday

I spent the day in Edinburgh with a national accountancy firm, getting a clearer picture of how peers in different financial professions are improving outcomes for their corporate clients. Conversations focused on the challenges our clients face in recruitment, retention, taxation, cash flow, payroll planning, and the impact of legislative changes.

These meetings allow me to ensure I'm providing my clients with considered, strategic guidance. They're also a good reminder of how closely finance and HR decisions are now linked, especially when businesses are looking to drive value from every area of spend.

All in all, a productive week when the weather gladly made me feel like I was writing a travel blog!

If you're a Scottish-based firm looking to review your employee benefits strategy, contact James today to arrange a complimentary consultation.

Get in touch

For more information or to arrange a meeting to discuss your employee benefits strategy, please email us at **info@mattioliwoods.com** or contact your Mattioli Woods consultant.

Registered Office: 1 New Walk Place, Leicester LE1 6RU. Registered in England No. 03140521.

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