EXIMIA ProShare

Risky business: participants with lots of shares

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Employers have a duty of care to inform and educate their people on asset diversification and the risks involved in putting all their eggs in one basket.

You've probably got policies in place to protect your employees' physical and mental wellbeing. But what about their financial wellbeing? If they're holding on to large portions of company shares, that can still be risky business.

If Sarah has been working with you for 25 years, and invested in company share plans for 20 of those, that investment will likely be a sizeable portion of her savings. This can be risky, especially if she's a SIP participant: she may have plenty of shares that she's held for five years or more.

There are many factors that may impact Sarah's investment. Its value will fluctuate due to market conditions, company performance, geopolitical factors, and a host of other reasons. So, if she has too much of her own money invested in a single stock – her employer's – and that stock loses significant value, her savings could take a major hit.

Bad as that would be, it could be even worse. Sarah could face the double hit of her employer plunged into liquidation, leading to redundancies and shareholders losing their entire investment. As both an employee and a shareholder, Sarah's financial wellbeing would be impacted.

Good governance requires Sarah's employer to help her understand the risks associated with sitting on a large amount of the company's shares.

The numbers speak for themselves
SAYE is considered a low risk, entry-level plan. But if an employee participates year on year, at what point does it become risky for them? A 2018 YBS survey called 'Financial behaviour and decision making' examined current share plan participant behaviour. It found that on average, participants held 31% of their non-pension wealth in company shares. But 50% had more than 15% of their non-housing and pension wealth in company shares – and 13% had over 90%! Imagine what a tumble in the share price would do for someone at that end of the spectrum – it doesn't bear thinking about.

So just why do participants retain shares at maturity and beyond?

82% - expected share price to go up
59% - wanted to be a long-term shareholder
34% - are saving for a special event
23% - inertia
12% - said the share price went down after exercise
10% - lack of knowledge about how to sell shares

We know we have a duty of care towards employees, but how do you begin to address this lack of activity?

Let's start at the very beginning
When you're launching your share plan, build into your communications narrative the importance of using share plans as one method of investment. This message can be woven in at various points throughout your communications, subtly emphasising that employees need to consider other ways to invest, too.

Be clear
Clear communication is key. Make sure your participants know where they can find all the information they need about the choices available to them. Highlight the risks associated with holding on to their shares, without overstating it. And make sure the information you provide is in plain English. Drop the jargon and make it as easy as possible for them to engage with what you're saying. Animated videos are a great way to get a message across.

The lost loot
You (or your plan administrator) will hold data on high-risk participants. Target them with relevant messages. Some may have forgotten that they've been saving into a share plan, or simply don't know what to do with their pot of shares. For these participants, you may need tailored communications – including individual face to face meetings.

It may be that they're intentionally sitting on large pots of shares. Perhaps the share price dropped and they want to see if it rises. There's also an ongoing Capital Gains Tax advantage to keep shares in a SIP, because growth is exempt from CGT.

These are just some of the factors that may be influencing their 'sell or keep' decision – but your participants need to regularly weigh up their options; and you need to regularly remind them of this.

Knowledge is power
Knowledge helps us to make informed decisions. If employees are sitting on large pots of shares, it could be because they don't know what else to do with them, or because they don't understand the risks involved. It's not your place to give financial advice, but you

could be the middle man. Providing access to a financial advisor would be seen as a huge benefit to many trying to navigate their financial situation.

If independent advice is not a route you – or they – want to go down, financial education would still be a welcome asset.

It's not one-sided

Employees benefit from participating in your share plan. But so do you. It's why you have a duty of care. You're responsible for giving employees all the information they need to make informed financial decisions for their future.

Share plans are attractive because they usually come with benefits not available to the general public. However, participants need to be educated on diversification to help them manage risk. If you communicate your share plans effectively, then they're easy for employees to join.

But you must continue that same level of support and communication throughout a participant's journey. Most employers don't provide this ongoing engagement piece, especially once shares have vested. Yet at this point, participants need to feel confident managing their investments. Educating them on diversification is key.

To discuss how you can educate your share plan participants at all stages of their journey, contact Martin directly – martin@eximiacomms.co.uk