Cross-party political support for ProShare's Annual SAYE & SIP Report

We at ProShare were delighted to formally launch our Annual SAYE & SIP Report at a special Parliamentary reception, kindly hosted by Stephen Kerr MP on what turned out to be a beautiful summer's day on the terrace at the House of Commons.

ProShare owes Stephen a debt of gratitude not just for his support for our event but for his continued championing of employee share ownership. We are hugely grateful to our co-sponsors, Buck, Computershare, Equiniti, Link Asset Services and YBS Share Plans, who collectively made the event possible. We were pleased to be joined by specially invited guests from a cross-section of the UK's most successful companies who offer their employees a share in the success that they help to create.

We are immensely grateful to Jesse Norman MP, Financial Secretary to HM Treasury, who was kind enough to make a speech voicing his department's support and his own personal support for employee share ownership and ProShare's work in this field.

Employee share ownership's cross-party appeal

Parliamentarians from both sides of the House were in attendance at the reception, in recognition of and support for employee share ownership's continuing broad cross-party appeal.

In her speech, Gabbi Stopp, Executive Director of ProShare noted that employee share ownership is one of the UK's most admired but domestically least well-known exports – a 'Cinderella' export, if you will. UK businesses still have a far broader choice of employee share plan than their European or American counterparts.

EMI, the Enterprise Management Incentive scheme has since 2000 been a great plan for incentivising key staff at cash-strapped start-ups and SMEs. It has been emulated by many other European economies including Sweden (which we at ProShare were delighted to advise on) and Ireland. SAYE & SIP, which our report is focussed on, have been around for almost 40 and 20 years respectively. They have stood the test of time, thus far, but for how much longer?

Share plans helping to address financial inequality

By helping employees to convert their pay – cash, which is eroded by near zero interest rates and higher inflation – into a share, an asset which may appreciate in value and earn dividend income, SAYE and SIP are helping to address aspects of financial inequality. Pay rates have largely stagnated since the 2008 financial crisis, whereas asset prices have appreciated considerably.

Employee share plans transform modest wages into something more meaningful in value, and they do this at some considerable scale, with 2.3 million employees participating in SAYE or SIP last year according to our report. These plans help people to get onto the housing ladder, to cover the costs of raising a family, fund education, save for retirement – for far too many people, pay alone is no longer enough to do those fundamental things any more.

SAYE & SIP have many key advantages:

- their fair and inclusive all- employee ethos, protected by legislation;
- their affordability, with low minimum contribution levels;
- their fostering of good financial habits, of regular saving and investing; and

- their support for people putting something away for the proverbial rainy day.

But these advantages have been eroded over time, and the lower average take-ups for SAYE & SIP in our report this year show that SIP especially is losing traction with younger members of the workforce. Ironically, these are the people who could benefit the most from joining plans early – they have more time than most of us to benefit from interest, dividends and the joys of the compounding effect. It is they who arguably need ESO most, yet their participation rates are the lowest.

The workplace of today

The workplace of today is very different to that of the 1970s when SAYE was conceived, and we should probably be grateful for that… but the vexed question of which rights and benefits apply to each employment status – employees vs workers vs contractors vs gig workers – is now causing ESO an existential problem, as well as other areas of work identified in the Taylor Report commissioned by this government. As far as our difficulties are concerned, the clue is in the name – ***employee*** share ownership.

Changing expectations of work mean that the average employee tenure is shortening, especially for younger generations in the workforce. The SIP 5 year holding period is worryingly out of step with the reality of those employees' working lives.

Add to that the complexity of having a 3 and a 5 year tax treatment hurdle in the one plan, and far from encouraging participation and retention, these features now actively discourage people from joining SIP in the first place.

It's not all bad news though. We were delighted to gain cross-party support last year for extending the SAYE contribution holiday from six months to 12, which is now enabling many employees on maternity or sick leave to restart their contributions on their return to work rather than have valuable options lapse and become worthless. The impact of this change, which came into effect on 1 September 2018, should be more obvious in next year's report. [This year's report covers the period from 1 January 2018 to31 December 2018.]

Gender pay gap & share plans

ProShare, with the critical help of its plan administrator members, has compiled the SAYE and SIP report for more than ten years and in that time the report has evolved. This is the second year in which we have measured the savings and investment gap between female and male participants in SAYE and SIP, an idea sparked by the Government's Gender Pay Gap Reporting Regulations.

The SAYE savings gap has increased, from 20% in 2017 to 22% in 2018, in favour of men. The SIP investment gap has narrowed, from 38% in 2017 to 27% in 2018. So it's a mixed picture – some progress made but overall men are still saving and investing more into SAYE & SIP in absolute terms.

The value of the average employee shareholding in SIP is £12,030 – a cause for celebration. But we should temper our celebration, as there is a 13% gap in favour of men. In a plan where nominally innocent and perfectly valid design features such as Free share awards calculated as a percentage of salary, and matching share ratios which favour those who can afford to invest more into partnership shares each month, these gaps should not be a surprise to us. They are downstream effects that are symptomatic of broader issues around pay and barriers to progress at work, which the Gender Pay Gap Reporting Regulations seek to address.

Supercharging employee share ownership

SIP take up has plateau-ed at around 29% for the past 5 years, clearly signalling a loss of traction with employees, especially in the younger generations. This is a wake-up call that we should all be listening to – and I urge our political friends to work with us to address this challenge. We want not just to future-proof employee share ownership but to be more ambitious, to supercharge ESO, as a tool for reducing financial inequality. Let's boost employee share ownership and give more people a meaningful stake in a system where their contribution to our economy's most successful companies is fairly rewarded by a share of the value their expertise and labour helps to create.

At a time where politics and society seems quite riven with difference and discord, employee share ownership is that rare, utterly uncontroversial cause that all mainstream political parties, businesses, and workforces can get behind and support. So let's work together to make our common aspirations a reality and bring ESO and its benefits to the mainstream audience they so richly deserve.