

HEALTH WEALTH CAREER

BREXIT - KEY ISSUES FACING EMPLOYERS IN HEALTH, WEALTH AND CAREER

AN INTRODUCTION

Position at 29 June 2016

WHAT CAN BE DONE NOW?

- The political uncertainty in the United Kingdom of Great Britain and Northern Ireland (“UK”) is arguably higher now than it has been at any time since the second world war. As a result, although many issues that are now faced can be considered, it will likely be some weeks before a new political leadership emerges with a new directional vision
 - It is still theoretically possible (but politically difficult) that a Brexit could be avoided
 - The United Kingdom remains a full member of the European Union (“EU”) until 2 years after the so-called “Section 50” notification is made to terminate the UK’s membership of the EU
- At this stage, we recommend that companies with interests in the United Kingdom:
 - Consider the relevant issues faced for which project workstreams will be required
 - Allocate people to each workstream and define the overall project governance framework
 - When the likely direction becomes clearer, analyse the issues and define the strategy
- We will continue to monitor developments closely and will produce updates as events unfold

SUMMARY OF SELECTED KEY ISSUES TO CONSIDER (1/4)

- **Site selection**

- It is not clear whether the UK will still remain in the free-trade-zone. In case the UK is outside the free trade zone, companies may examine whether the existing (particular headquarter and production) sites remain appropriate. On 29 June 2016, Vodafone Group Plc became the first FTSE100 company to announce that it may move its headquarters from the UK depending upon the outcome of the free trade negotiations.

- **Expatriates and foreign workers**

- The rapid fall in the value of the pound will mean that the value of packages for both inbound and expatriate expatriates may have changed significantly when measured the host country's local currency terms. This immediate impact, and the expected higher volatility in the value of sterling in the medium term, may warrant a review of expatriate packages.
- Even for expatriates not entitled to a special expatriate package, employees and their employers may be concerned whether they will still have the right to live and work in the country in which they are currently employed as and when the UK exits the EU.
- Special communication to target foreign workers may be warranted to provide information to potentially impacted employees and their families. Given the reported increase in racial abuse in the UK following the referendum result, the company may wish to reinforce diversity messages

SUMMARY OF SELECTED KEY ISSUES TO CONSIDER (2/4)

- **Pan-European pensions**

- The impact that an exit from the EU on pan-European plans based in the UK or with UK based members or investments will need to be considered

- **DB pension plans**

- The significant falls in government bond yields and the equity markets in particular may require companies and trustees to revisit funding plans and investment strategy. Companies may wish to check the immediate impact on company reporting for Q2 2016
- Any economic slowdown and/or company restructuring may impact on the strength of the employer covenant
- We may see increased administration burden arising from questions from plan members, demand for updated statements, benefit quotations

- **DC pensions**

- The market volatility may have caused significant concern among the plan membership, especially in the UK. Companies and trustees may consider producing additional communication to provide context and to remind members of the investment choices that they have. Special focus on members about to retire may be necessary in cases where the reduction in expected pension is significant
- As for DB plans, we may see increased administration burden from member queries

SUMMARY OF SELECTED KEY ISSUES TO CONSIDER (3/4)

- **Employee benefit insurances**

- At present, an employee based in the EU can be covered under insurances issued by any EU member state. After exit, unless agreement can be reached to the contrary, insurances issued in the UK could be treated as “non admitted” policies in the EU (and vice versa), leading to potential tax bills and non-compliance penalties where insurance policies are being used cross border, or for expatriates.

- **State benefits**

- At present most state benefits from EU member states are payable irrespective of where in the EU the individual resides. After exit from the EU, some benefits may be curtailed for individuals living outside the country in which the benefits were earned (e.g. unemployment benefits, some state pension benefits) unless bilateral agreements are reached. An example of this is the annual inflation increase to the UK state pension, which is payable for retirees living in the EU, but not for retirees living in most other countries.

- **Data protection**

- If the UK does not obtain safe-harbour status following an exit from the EU, there will be restrictions on the transfer of personal data to the UK. This may require changes to processes, server locations and the location of shared service centres

SUMMARY OF SELECTED KEY ISSUES TO CONSIDER (4/4)

- **Equity plans**
 - The volatility in the markets may lead to a review of the design of equity related reward programs, and a close look at the impact of the movements in case of awards that vested shortly after 23 June 2016, or that were granted shortly before.
- **Workforce planning**
 - Many companies are already beginning to assess what an exit from the UK from the EU if accompanied by restrictions on immigration could mean in terms of the ability to attract the required talent into the UK
 - An exit from the free-trade zone may impact the chosen location of, in particular production and headquarters. Any change would impact the number and nature of employees required at each location
- **If Scotland and/or Northern Ireland decide to and are able to remain in the EU**
 - The impact on having to treat the employees in different parts of the UK differently should be assessed, both in terms of all of the preceding issues considered above, and the HR systems and also in organizational structure within the UK

