United Kingdom: Employer and employee implications of the vote to leave the European Union

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In brief
The UK public voted on June 23rd to leave the European Union (EU), generating significant implications for businesses with a workforce in the UK.

There will now be a period in which the UK government will negotiate the terms of departure from the EU. UK policy makers will have to strike a balance between the choice of freedom from EU regulations and budget contributions while maintaining some level of access to the single market.

The difficulty for employers and employees will be the uncertainty. The exact implications of the vote to leave depend upon the UK government’s next steps and the final negotiated agreements with the EU. EU regulations currently determine crucial compliance areas when recruiting/moving talent between the UK and EU such as social security coverage, benefits, and immigration. Potential changes to these regulations, combined with the impact of uncertainty on financial markets mean that businesses will need to dedicate time and resources to understand the impact of the UK’s exit on their current employment and reward arrangements, global mobility processes and strategy while being ready to manage queries from their employees on the personal impact. The latter may include “is my job secure?”, “will I have to return to my home country?”, “where will I pay social security?”

This Insight highlights some of the potential changes and recommends actions which businesses should take now to ensure they are prepared for the future.

In detail
EU regulation currently applies to a wide range of areas from immigration and global mobility, to social security, executive pay, and pensions. The UK’s vote to leave will undoubtedly have unique implications for many organisations however, we have outlined below the key areas of potential change for employers and employees:

Immigration
Exit from the EU could mean the end of the current EU Freedom of Movement principles as they apply to the UK. This would impact EU nationals seeking to exercise their rights to work, study, or simply move to the UK and also UK nationals wanting to move to or continue to live/work within the EU. It may also impact businesses’ ability to recruit and deploy both high and low skilled individuals into the UK.

The full extent of this impact won’t be known until we know the trading negotiation position and whether or not this includes a requirement to implement
Freedom of Movement. Although it is widely expected that grandfathering will occur, whereby existing EU migrants would be able to continue to live and work in the UK, it is still unknown what transitional arrangements, if any, will be made.

As a first step, employers need to understand the potential implications for their workforces and be ready to answer queries employees may have. It is important to note that there will be no immediate changes after the Referendum. Estimates suggest a minimum period of 2 ½ years before the UK would leave the EU. In this time, current freedom of movement rules will continue to apply until the date of a formal exit.

Nevertheless employers and employees need to be aware that following an exit, any immigration requirements for EU nationals in the UK will depend on the final agreements negotiated. Employers will need to keep abreast of the changes and be ready to communicate with their employees including key talent.

Social security
Currently the social security position of employees who are assigned from one European country to another are governed by EU regulations and therefore, exit from the EU may mean that these no longer apply.

If this happens, mobile employees working on a temporary basis in another EU country would no longer be able to utilise the EU rules on social security coverage. This could potentially lead to:

- increased social security costs,
- lack of benefit coverage,
- fragmentation of social security pension benefits, and
- increased costs for employers who could have to provide more comprehensive private medical insurance to employees.

Employers will need to ensure they have a clear understanding of the current social security position of their globally mobile employees and be able to ascertain how these may change, both to be able to advise their employees but also to understand the potential cost implications for the business.

Consideration should also be given to any potential impact on employee’s rights to claim social security benefits and appropriate policy decisions to ensure that social security does not become a barrier to any ongoing or future people movements.

Pensions
Volatility in share prices, bond yields, prices and foreign exchange volatility could affect pension schemes and sponsoring employers. Employers with Defined Benefit schemes should consider how they manage their scheme investments to control risk and manage costs. Individual employees will also need to check that their investments remain appropriate, especially those nearing retirement and those considering purchasing an annuity.

However, the vote to leave also provides a potential opportunity to create more freedom for the UK to change pension regulations. For example, an exit leading to the removal of strict EU cross border regulations could make the UK a more attractive base for pension schemes for multinationals.

Executive compensation
Changes within executive compensation are likely to be driven by factors such as public perception and alignment to company strategy in the short/medium term rather than the vote to leave the EU.

However, we do expect that the vote to leave and the current uncertainty in the markets may lead to a change in business strategy and consequently employers may consider reviewing their current remuneration plans and policies, including revisiting existing targets for current LTIPs where Brexit impacts negatively. This is likely to be resisted by shareholders, though, as was the case during 2014 when exchange rate fluctuations were impacting metrics driving LTIP payouts.

Employers may also need to engage with their employees, and key talent in particular, as fear of the change and uncertainty has the ability to reduce workforce confidence and productivity. Employers will need to equip themselves to understand specific employee concerns, from job security to impact on compensation strategies in order to motivate and retain talent.

Global mobility
The current EU freedom of movement rules have driven and shaped mobility patterns between the UK and EU. From commuters to remote workers and more formal assignments, it is not uncommon for internationally mobile employees to be employed in and paid from a different country to that in which they are working within the EU. In the longer term, the outcome of the UK’s trading negotiations may change the nature and volume of globally mobile employees moving in and out of the UK, necessitating employers to re-consider their global mobility strategy, employment arrangements, and delivery model.

On top of the social security and immigration considerations highlighted above, global mobility teams will need to carefully assess the
overall cost implications of exchange rate fluctuations for assignments touching the UK. It may be necessary to review assignment packages in this regard both to assess necessary changes (for example to cost of living payments) impacting employees but also to understand potential changes to total employer cost particularly driven by social security rule changes.

**The takeaway**
Global Mobility and Human Resource teams will need to understand the impact of the vote to leave on their business strategy before considering any impact on global mobility and HR strategy. This will include evaluating how the position will change as the effective date of the UK's exit approaches as well as quantifying the overall cost implications for their UK and global operations. In the meantime, they should be ready to answer immediate, specific employee concerns on the personal impact of the vote in respect of their immigration or social security status.

**Let’s talk**
For a deeper discussion of how this issue might affect your business, please contact your usual PwC UK Global Mobility engagement team or the following representatives from PwC UK:

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