


Return On Investment


Delivering Value on Remuneration Structuring



Overview

- Positioning of Topic
 - Business Case for Flexibility (my-pay-my-way)
 - What is in this for employees
 - Simple costing exercise (my idea on ROI)
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Overview (cont.)

- Employee Personal Financial Planning
 - Package Structuring Tool (PST)
 - Other Important Market Developments
 - Remuneration Action List
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Positioning of Topic

- Peet is concerned about how much an employee should cost you
- This presentation is about what to do with that budget



Package Structuring

- Limitations of Development on Employee Package Structuring has been reached
- Established Best Practice has now emerged which aligns:
 - Compensation Methodology
 - Employee Benefit Structure
 - Financial Planning Aspects
 - Policy Provisions
 - Tax Treatment
 - Payroll Operation

Approach to Remuneration

- Basic Plus Benefits vs. Guaranteed Package

Basic Plus		Guaranteed Package	
Salary	50 000	Package (CTC)	75 000
Travel Allowance	10 000	<i>Includes</i>	
Pension (15%)	7 500	Travel Allowance	10 000
Medical Aid	7 500	Pension (15%)	7 500
Total Cost	75 000	Medical Aid	7 500
		Salary	50 000

Guaranteed Package Build-Up



Base + 13th + Benefits


Under the salary plus system earnings would be represented as individual discrete buckets holding:

70 liters (basic salary)
+20 liters (allowance)
+10 liters (company benefits)
=100 liters


Cost to Company

Earnings are represented as a single bucket holding 100 liters

Why not Pay Cash Only?

- Business case for cash only?
 - Save administration
 - Trustee or Member Representative Time
 - No tax risks or time structuring
 - Reduced employee input
 - Take discussions on benefits (medical aid, retirement funding out of organisation)
 - Easy to understand
 - Quantification is no-brainer
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Realities of Package Structuring

- Why you have benefits
 - Competitors will deliver more value to employee with same budget
 - Business Interests Protected
 - Governance and Social Responsibility
 - How do you deliver more value to an employee?
 - Align remuneration to personal financial planning
 - Benefits at lower cost than what employee may personally obtain
 - Allow employee to access some tax advantages
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Employee Needs Evolve

Guaranteed Package		Guaranteed Package		Guaranteed Package	
Package (CTC)	75 000	Package (CTC)	75 000	Package (CTC)	75 000
<i>Includes</i>		<i>Includes</i>		<i>Includes</i>	
Life Cover (1 time)	300	Life Cover (10 time)	3 000	Life Cover (1 time)	300
Pension (5%)	3 750	Pension (5%)	3 750	Pension (20%)	15 000
Medical Aid (basic)	1 000	Medical Aid (comp)	4 000	Medical Aid (comp)	2 000
Cash	69 950	Cash	64 250	Cash	57 700


Benefits to Employees

- Personal flexibility which may be exercised annually or with life changing events
 - Tax efficiency and compliance depending on choices
 - Ability to select better benefits or more take-home pay
 - Converting unwanted benefits to more valued benefits or cash
 - Ability to better understand true cost of employment and perform market comparisons on an apples-with-apples basis
 - Promotes a more fiscally responsible lifestyle while still enjoying the safety net of the employer.
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Value to Employee Computation

- ROI: You pay something to employees = get something back:
 - Is what you get back same, more or less that you spend?
 - Spend on fancy-schmancy benefit provider: ROI = lunches, golf and presents
 - What is the wasted spend in organisation?
 - Do you really pay in accordance with Remuneration Philosophy and Methodology (market positioning)?
 - Who control employee benefits at employer?
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Employee Personal Financial Planning


- Take-Home
 - Pension
 - Life Cover
 - Disability Cover
 - Medical Aid, etc.
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Package Structuring Tool (PST)

- How Guaranteed Package is used
- Empowering decision making
- Sign-off and Risk Management Schedule




Market Developments

- New SARS Audit Questionnaire:
 - Share scheme: 15 questions
 - **Travel Allowance: 11 questions**
 - Outbound Expatriates: 11 questions
 - **Inbound Expatriates: 11 questions**
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Market Developments

- SARS Directive on Accommodation:
 - Company provided accommodation
 - **Higher Of:**
 - Cost
 - Formula (based on salary)
 - **SARS Ruling for Reduced Value and No Tax Risk**
 - **Valuation approach by Estate Agents**


Market Developments

- Company Vehicles:
 - 3.5%
 - Determined Value (old) + VAT + Maintenance
 - **Expatriates:**
 - Costing exercise
 - No policy change required
 - Tax Saving to employer (gross-up)
 - **Tool of Trade / Essential User**
 - 80% Rule
 - Gap between 60% and 80%
 - Balance travel allowance or Salary (cash component only)
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Market Developments

- King III on Good Governance:
 - Principles 2.25, 2.26 and 2.27
 - 56 Sub-Paragraphs
 - 206 Principles of Compliance

Value:

- Good governance
 - Use justification for robust approach to remuneration
 - Align employee remuneration with strategic objectives
 - Empowerment of Remuneration Committee
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Remuneration Action List

- Cost to Company / Flexible Package Structuring:
 - Business case
 - No employee worst-off
 - Cost neutral employer
 - Same budget = more value
 - ANY company provided housing – SARS Directive
 - ANY company vehicles – Calculator, Training, Decision Making
 - King III
 - Package Structuring Tool (PST)
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Questions

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