


# 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

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

# Guaranteed Package Build-Up



## Base + 13<sup>th</sup> + 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




# 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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