TOTAL GUARANTEED PACKAGE – TGP
Aka – CTC, TCTC, TCE, All inclusive Package

2013
Presentation content

- What is a total guaranteed package?
- Why the trend?
- How does it work?
- What package structuring options are available?
- What is a typical process - the phases?
- What are the do's and don'ts (or the lessons learnt)?
- Are there tips on software use?
- What does the ongoing maintenance of the Payroll and HR systems require (what needs to happen every year...)?
- What are roles of HR and Finance - pro's and con's of where it sits and who should administer it?
Top 12 Global Reward Trends

1. Employee Engagement
2. Total Reward Approach
3. Retention Trends
4. Linking Pay to Performance
5. New Long Term Incentives
6. Non-Financial Rewards
7. Globalisation
8. Governance
9. More Flexibility and Reward preferences
10. Setting Non-Executive Director (NED) Pay
11. Rewards for Creativity
12. Dual Career Paths and Flat Structures (Broadbanding)
Six Categories Drive Employee Engagement

**People**
- Senior Leadership
- Manager
- Coworkers
- People Focus
- Customers

**Total Rewards**
- Pay
- Benefits
- Recognition

**Company Practices**
- People/HR Practices
- Managing Performance
- Brand Alignment
- Organization Reputation

**Work**
- Work Tasks
- Sense of Accomplishment
- Resources
- Work Processes

**Opportunities**
- Career Opportunities
- Learning and Development

**Quality of Life**
- Work/Life Balance
- Physical Work Environment
Retention Trends

- Retention of critical skills and top executives is a top driver of remuneration policy and strategy
- People join companies and leave bosses
- It is all about engaging top talent
- Once all the hygiene factors are sorted out, then one can turn to remuneration
- Remuneration is 25% of the stay decision
- BUT, remuneration is the ticket to the game – it has to be right
Retention – Remuneration Options

- Market Stance
- Restraint of trade payment
- Sign-on bonuses/Retention bonus
- Sign-on Loans
- Rolling or banking of bonus incentives earned
- Flexibility
- Post retirement benefits
- Long-term incentives (LTI)
- Short-term incentives (STI)
- Deferred compensation
Total Reward Approach

Organisational Culture

Business Strategy

Human Resource Strategy

TOTAL REWARDS STRATEGY
- Remuneration
- Benefits
- Work-Life
- Performance & Recognition
- Development & Career Opportunities

Attract
Motivate
Retain

Employee Satisfaction & Engagement

Business Performance & Results
## Total Reward Strategy Continuum

<table>
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<tbody>
<tr>
<td><strong>No Choice</strong></td>
<td>Individual Benefit</td>
<td>Other optional Benefits: Subsidised Daycare Corporate Discounts</td>
<td>Cost driven</td>
<td>Choice in certain Benefits e.g. medical aid</td>
<td>Full flex plan, possibly with pension, vacation and variable pay choice</td>
<td>Total Reward Including cash &amp; benefits delivered according to employee preference</td>
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<tr>
<td>Benefit by Benefit Flexibility e.g. optional Life Insurance</td>
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<td></td>
<td>Employment Deal Including hours, environment wealth</td>
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<tr>
<td>Benefit by Benefit Fixed Allocation</td>
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**Total Reward** Including cash & benefits delivered according to employee preference.
Components of a Remuneration Structure

**BASIC SALARY**
- Internal Equity
- Job Grading
- External Equity
- Salary Survey
- Union Negotiations

**POLICY**
- Attract
- Develop/ Learn
- Motivate
- Productive
- Loyal/ Retain

**SHORT TERM INCENTIVES**
- Profit Share
- Gainshare
- Bonus
- Commission

**UP TO ONE YEAR**
- Bonus
- Commission

**OVER ONE YEAR**
- Deferred Compensation
- Share Schemes
- Retirement Funds
- EVA
- “Rolling” Incentives
- Value Added

**FRINGE BENEFITS/PERKS**
- Tax Law
- Job Grades

**LONG-TERM WEALTH ACCUMULATION**
- Retirement Funds
- EVA
- “Rolling” Incentives
- Value Added
The Total Earnings Picture

Variable Pay

+ 13th Cheque  
+ Fixed Allowances  
+ Car / Housing Benefits  
+ Other Benefits  
+ Cost of employee benefits

Fixed Pay

+ Long-term Incentives / Shares  
+ Post-service Employment Costs

Base Pay / Basic Salary

Total Guaranteed Package

Total Remuneration / Total Cost of Employment

Total Earnings / Total Cost to Company
Guaranteed Total Package Approach

Guaranteed Total Package concept continues to be a trend

<table>
<thead>
<tr>
<th>Main Reason</th>
<th>Employer</th>
<th>Employee</th>
</tr>
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<tbody>
<tr>
<td>Cost containment</td>
<td>Commercial sense</td>
<td>Flexibility</td>
</tr>
<tr>
<td>Equality/equity</td>
<td>Equality/equity</td>
<td>Choice</td>
</tr>
<tr>
<td>Commercial sense</td>
<td>Commercial sense</td>
<td>Equity</td>
</tr>
</tbody>
</table>
Possible scenario for two employees doing the same job

Employee A:
- Still stays in parents home
- Lives across the road from work – walks
- Has no children
- Is newly married and is on spouses medical aid

Employee B:
- Owns own home
- Travels further to work – drives
- Has children at school
- Is married and is on company medical aid
The potential inequality for Person A

Item:
- Housing benefit
- Car benefit
- Educational assistance
- Medical aid

Potential inequality:
- Not entitled to housing benefit because staying in Parents home
- Little scope for business usage and claiming deductions
- No kids, so no educational assistance provided
- Loses out on employer offered medical aid because on spouses medical aid
**Total Guaranteed Package Concept Picture**

**Add-on approach**
- Salary (Base)
- Car Allow
- Bonus 13th C
- Med Ben
- Ret Ben

**Total Package approach**
- Total Guaranteed Package
- PE
- BV
- MV All
- Add Leave
- Ret (ER)
- Co Car
- Cash (leftover)
- Savings Ded
- Med Ded

Employee decides between benefits & cash.
Definitions

- **Total Guaranteed Package**
  Total of fixed and regular income / benefit items and employer contributions to Employee Benefit Funds (Retirement, Medical and Group Life) – expressed in annual terms

- **Pensionable Earnings**
  Proportion of total package to be used for calculating death, disability and retirement benefits and contributions

- **Benefit Value**
  Proportion of total package to be used for calculating income and benefits that used to be based on basic salary (e.g. overtime, retrenchment, leave value)

- **Cash**
  Balance of total package not allocated to other structuring components (replacing basic salary as cash component)
Build-up Calculations – what is in and what is out

Basic Salary
+ Allowances (travel / entertainment / PC / telephone)
+ Guaranteed annual bonuses (13th cheque)
+ Benefits (company car / company housing)
= Basic (Cash) Package
+ Employer Contributions (medical aid / retirement / group life)
= Total Guaranteed (Remuneration) Package
+ Inconvenience Pay (overtime / standby / shift)
+ Short-term Incentives (production / performance bonuses)
+ Employer Contributions (statutory)
= Total Cost of Employment
+ Abnormal Payments (severance / post-retirement med)
+ Long-term Incentives (Shares)
= Total Cost to Company
Fundamentals / Principles

- Internal Equity
  - *A standardised structure ensures fairness and equity*

- External Market Competitiveness
  - *All Employers compete for good talent*
  - *A uniform, competitive and appropriate remuneration structure enhances benchmarking*

- Structuring Flexibility
  - *Individuals are allowed to choose their own benefits from the different options available to them*
Benefits / Advantages

- Simplified administration
- True worth known and understood by Employees
- Safety in the event of a tax audit
- **Simplified cost control and costing**
- Greater flexibility within a total guaranteed package structure - easier to structure packages in accordance with individual needs
- Better positioned to attract and retain high quality staff
- Greater flexibility within a total guaranteed package structure
- More equitable and defendable approach to remuneration
- Fixed and known guaranteed employment costs - no hidden extras
- Simplified and more accurate market comparisons and bench-marking
Conversion Principles

- **Introduce flexibility** without necessarily increasing costs (allow individuals to structure in line with job requirements)
- **Move to equity** in line with output reward structure (test internal equity & market competitiveness post conversion)
- **Match** employment **cost with** employment **period** (post retirement medical aid subsidies)
- **Differentiate** between employment costs and operational costs (include employment costs, exclude operational costs)
- **Maintain fairness** - no-one should be worse off on conversion
- **Base future increases** on total package (in line with labour market)
- **Decide on implementation date** (when ready)
- **Assist employees** with structuring (modelling)
I was wondering…

- With all these advantages and benefits – why are folk nervous to go this route?
- What are folk afraid of?
- Where does the scepticism come from?
- Is this another “management trick” to screw the worker?
- Who is the real beneficiary here?
# Most common fears

<table>
<thead>
<tr>
<th>Item</th>
<th>Problem</th>
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<tbody>
<tr>
<td>Medical Aid</td>
<td>It increases in cost quicker than inflation</td>
</tr>
<tr>
<td>Cars</td>
<td>I won't be able to drive a big car anymore</td>
</tr>
<tr>
<td>Allowances</td>
<td>I won't get all my “add on” allowances</td>
</tr>
</tbody>
</table>
## Possible solutions

<table>
<thead>
<tr>
<th>Item</th>
<th>Possible solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Aid</td>
<td>1. Exclude from TGP</td>
</tr>
<tr>
<td></td>
<td>2. Increase this portion of TGP by the medical aid increase</td>
</tr>
<tr>
<td>Cars</td>
<td>3. You could drive a bigger car and take less cash</td>
</tr>
<tr>
<td>Allowances</td>
<td>4. You could drive a smaller car and have more cash</td>
</tr>
<tr>
<td></td>
<td>5. All fixed allowances are “monetised” and added to package, or become a business expense</td>
</tr>
</tbody>
</table>
Conversion choices – your strategy

- Consultation versus Negotiation
- Benefit Values
- Pensionable Earnings
- Medical Aid Membership & Contribution Subsidies
- Equity Costs
- Voluntary Savings (13th Cheque)
- Motor Vehicle / Travel Allowances
- Company Cars
- Tool-of-trade Vehicles
- Value of Leave / Accumulated Leave
- Assistance with Structuring
Structuring Models

Excel Models - Functions

- Conversion model
  - Demonstration that it is fair
- Structuring model
  - PAYE
  - Dummy payslip

Tools to identify and understand the most suitable structure (based on individual choice)
A Typical Process – The Phases (1)

PHASE 1 – Design

- **Evaluation**
  - Review remuneration principles, policies and practices
  - Evaluate current employee benefits & conditions of service
  - Recommend changes

- **Cost Implications**
  - Verify most recent payroll & pay related data
  - Determine current total cost to the company
  - Quantify impact of changes on cost to the company
  - Recommend changes to the remuneration structure

- **Approval** (go / no-go decision)
  TGP approval document prepared for presentation
A Typical Process – The Phases (2)

PHASE 2 – Development

- **Documentation**
  - Draft remuneration policy & employment letters/contracts in support of the total guaranteed package structure
  - Draft letter to individuals regarding changes & implementation
  - Prepare presentation & communication material

- **Package Structuring Model**
  - Configure a model with which to structure individual packages
A Typical Process – The Phases (2)

PHASE 3 – Implementation

Communication / Individual Package Structuring
- Distribute general communication to all staff
- Distribute individual package build-up calculations
- Conduct general staff information sessions
- Assist individuals with structuring
- Process individual choices
Conversion Considerations
Do’s and don’ts / lessons learnt (1)

- Do not change if you do not understand the implications and consequences
- Make **sufficient resources** available
- Get expert advice if necessary
- Include all fixed and regular items that can be accurately quantified
- Keep variable items, business reimbursements and statutory contributions outside total guaranteed package
- Do not ignore inequities - it will not disappear
- Go for full equity and face the reality of reasonable costs on conversion
- If the cost of inequities cannot be absorbed on conversion, have a strategy to address internal equity over time
Conversion Considerations
Do’s and don’ts / lessons learnt (2)

- Consult and communicate well
- Ensure individuals understand the advantages, benefits, risks & responsibilities relative to total guaranteed packages
- Give individuals enough time to grasp the implications of the change (notice period)
- Assist individuals with the structuring of their packages - adds tremendous value
- Do not underestimate the value of freedom of choice to the individual
- Record and communicate annual amounts
- Round annual total guaranteed packages on conversion & with each increase
Conversion Considerations
Do’s and don’ts / lessons learnt (3)

- Grant increases based on the total guaranteed package in line with movements in the labour market (% may be lower than that of basic salaries)
- Do not accept responsibility for former components of total package (e.g. increases in medical aid contributions)
- Ensure compliance with law (e.g. Revenue Service’s requirements as contained in the tax law)
- Make sure that all systems (e.g. Payroll) & all documentation (conversion letters, employment letters / contracts, remuneration policies & employee benefit fund rules) correctly reflect & support total guaranteed packages
Payroll System Changes

On Conversion

- Make sure that all systems (e.g. Payroll) as well as all documentation (conversion letters, employment letters, remuneration policies, guidelines and employee benefit fund rules) correctly reflect and support the Total Guaranteed Package concept.

- Payroll systems will require **once-off changes on conversion**.

- Use software packages as tools to assist individuals with the structuring of their packages.
Payroll System Maintenance

Ongoing

- Review dates will be the same as in the past (unless it is changed and the change communicated on conversion)
- Systems are easier to use and maintain after the conversion (one standard reward system being used for all)
- Employees have the **right to restructure their packages at least annually** (or a significant life event e.g. death, marriage)
- Packages cannot be structured retrospectively
- It is the employers’ responsibility to keep track and stay in line with labour and related law changes
Considerations

- Employer / Employee relationship (employment contract)
- Remuneration strategy / policy / structure
- Nature and extent of flexibility (choice)
- Employee benefit fund options and rules
- Legislation (tax & other)
- Internal resources
- System capabilities / Administration
- Service providers (outsourcing)
- Costs (affordability) and risks
THANK YOU

for this opportunity
to be with you

Questions?