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METHODOLOGY ON EMPLOYEE REMUNERATION AND BENEFITS EQUALISATION

Section 197 of the Labour Relations Act requires that transferred staff be employed by the new employer on terms and conditions of employment that are on the whole not less favourable. This requires a holistic approach when considering employee terms and conditions of employment.

Our methodology on converting employees as part of the section 197 process is to provide a detailed process and to ensure the following –

- We provide a detailed analysis of remuneration and value of benefits with the transferor (heritage employer). This is done on an individual employee basis, for all in scope employees. The reason is that many employers do not have a Total Reward Statement, which encompasses all components of remuneration and benefits. Whilst an employee may understand their current take-home position, the value of benefits and tax drivers are often not well understood. Many employers claim, of course, that their employees are fully familiar with remuneration, but we mostly find that this only applies to obvious items such as take-home pay and main benefits. This step means that we draw-up a heritage employer Total Reward Statement on Guaranteed Pay in order to provide employees with a comprehensive and holistic view on all components of pay. This also includes a re-work of the employee take-home pay computation, to match the employee's payslip with the heritage employer.
- The employee remuneration is then re-computed for the target employer. This shows, before adjustments, the exact take-home and benefits position, where the employee joins the new employer's remuneration approach. We will need detailed payroll and benefit information from the heritage employer(s) and normally need to extensively meet with the remuneration expert, benefit specialist and payroll department, to ensure that every facet is understood.
- The heritage model is then compared to the new employer's model, and the differences are shown on a line-by-line item basis. This does not just refer to differences in Total Package, but also take-home pay and, very importantly, the differences in value of benefits. Examples might here be the differences in lump sum disability, income protection, accident insurances, life cover level, any benefits being approved or unapproved, fund admin costs, treatment of employee travel, miscellaneous allowances or benefits, which are often regarded as ancillary such as employee personal vehicle insurance, family funeral cover, lifestyle benefits etc.
- The process of equalisation is then started, to ensure that employees are not placed in a worse off position after the transfer. For example, where the employee had personal vehicle insurance with the heritage employer, but the new employer does not provide the benefit, there is a potential loss for the employee.

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We will then source costing on alternative cover, which the employee may elect to take, which will provide a similar and better benefit than the heritage employer's personal vehicle insurance benefit. The tax cost will be factored and grossed-up. This means that the employee will be shown, on his personal remuneration –

- A. The value of the previous benefit
- B. The cost of a replacement benefit
- C. The gross-up and why the employee will be able to purchase a standalone benefit, should they choose, which gives the same or better benefit
- D. That the employee's take-home position, after tax and after the cost of the new benefit, is the same or marginally better than with the heritage employer

The same process is followed for all terms and conditions of employment that impacts remuneration and benefits:

- Once the computational model is completed, showing the before-and-after position for all target employees, we can start the consultation process.
- We will normally have group consultation sessions, where items impacting all employees can be explained and the process forward be outlined. This ensures that employees have the benefit of questions asked by other employees and the answers thereon. It also contributes greatly to transparency and trust, to show that no employee is worse-off.
- We will then have one-on-one sessions with each employee, in which we work through their personal numbers and benefit values. The employee receives a copy of their heritage earnings and benefits statement, new earnings and benefits, and personal details on where equalisation was required, if any. Not all employees deal with change the same, and some prefer to analyse our workings first and then meet to ask questions. We have as many follow-up meetings as needed.
- The level of detail on our conversion calculators is not always easy to understand, but we have consistently received feedback by large corporates that they have not seen the same level of detail with any other provider. We are happy to show a sample conversion calculator as that often shows the depth and precision better.

We believe that our team is uniquely qualified and experienced to deal with these calculations and benefits. This includes own FSB License (we do not sell products), being Master Reward Specialists, (the highest designation by the South African Reward Association), Certified Payroll Specialists, (the highest designation by South African Payroll Association), Tax Practitioners and deeply experienced in remuneration structuring and benefits.

Please contact me for an obligation-free quotation or to clarify any queries you may have.

Regards

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