

2nd Quarter 2006 Newsletter

BEE Remuneration Trends

The Employment Equity Act no 55 of 1998 clearly states that designated employers must have a detailed employment equity plan to address the inequities of the past. In the 1st Quarter Newsletter Remchannel reported that very few organisations have a formal policy to attract and retain designated group employees.

Even in the absence of formal policies, Remchannel clients have indicated that market premiums are being paid to previously disadvantaged individuals with specific skill sets. Although it seems to be common knowledge in the industry, organisations do not have substantiating benchmark data to present to management and remuneration committees.

By popular demand Remchannel has designed a new report which provides a quartile analysis by job/position title for all race groups. The report will assist reward professionals to make informed decisions about the attraction and retention of previously disadvantaged skills in South Africa.

The table below indicates the monthly total guaranteed package premium for a Functional Divisional Executive at Paterson E3 level as extracted from the Remchannel March 2006 publication:

Functional Divisional Executive – E3					
African			White		
LQ	M	UQ	LQ	M	UQ
R59021	R75928	R81285	R58300	R68524	R84804

If you are a Remchannel client you can contact your designated Survey Manager for further information on the new report.

Benefit Trends in S.A.

Vehicle Benefits

The Minister of Finance has continued the effort to eradicate the abuse of the company car benefit and a travel allowance paid to employees, and is increasing the efforts of the

Revenue Office to prevent additional remuneration being paid for non-work related travel expenditure.

Of great concern is that the results of the 2006 Vehicle Benefit Survey indicate that 50% of respondents still allocate travel allowances on a by grade or by level basis. This practice presents an enormous tax risk to organisations and clients should once again take cognisance of the following liabilities:

- The under-deduction of PAYE as well as the concomitant interest and penalties.
- Employers who allocate travel allowances by grade or level in the organisation have a major tax risk should they be audited by SARS.

Does your benefit policy make your organisation an employer of choice?

With the changes in tax legislation and the subsequent loss of net income, employers are turning to benefits to remain the employer of choice. Although the simple guidelines provided by the BCEA (Basic Conditions of Employment Act) ensure that South African employers remain within the law, these are hardly sufficient to attract and retain key skills in an organisation.

Remchannel will conduct a fully fledged benefits survey for all industries during June and July of this year. The survey will cover all benefits, inclusive of leave policies, maternity leave policies, medical aid benefits and many more. A workshop will be scheduled during the last week of May 2006 where participants can provide input into the design of the questionnaire.

If you would like to participate in the survey or require further information, please contact Carol Shepherd.

Salary & Wage Movements in S.A.

The 2005 GDP statistics released by Statistics South Africa indicate substantially faster real economic growth. The reported year on year real GDP growth rate for the first three quarters of 2005 was 5.1% compared to 4.5% for the 2004 calendar year. Although the growth tempo slowed down to a rate of 4.2% in the fourth quarter of 2005, the 2005 growth rate has been the highest rate in 21 years. The average year on year CPIX for 2005 was 3.8% and the average CPI for the same period was reported as 3.4%.

These factors have an influence on the nature of the salary and wage movements for the coming 12-month period.

The trend over the years has indicated a link between increases granted and the CPI and CPIX indicators. This is once again evident from the March 2006 publication of the Salary and Wage Movement survey as indicated below:

Basis for Establishing Increase	Percentage of Participants
CPI	17%
CPI plus Additional Percentage	17%
CPIX	25%
CPIX plus Additional Percentage	19%
Other	22%

In the other category the majority of participants indicated that in addition to taking cognisance of either CPI or CPIX, a combination of elements are utilised to determine increases. The elements which were reported are listed below:

- wage negotiations
- affordability
- market movements
- company performance
- individual performance
- return on equity

The March 2006 survey indicates projected median increases for the next 12 months in the National All Industry sector to be at 6.6%. The results of the next publication will be available in **September 2006**.

Remchannel Business Partners

In order to provide clients with a well defined value proposition, Remchannel has created strategic business partnerships with various organisations and individual consultants. These partnerships will enable clients to utilise the skills of carefully selected individuals who share the same business ethics and values for which Remchannel has become renowned.

The most recent partnerships are with VIP Payroll and Tax Consulting and the benefits of these partnerships are outlined below:



As an authorised VIP business partner, Remchannel will offer a discount of 10% on your Remchannel subscription fee during the year that you install VIP payroll. The discount will be on the proviso that the installation is based on a referral from Remchannel.

VIP offers products aimed at providing the best solution to clients. VIP Essentials, VIP Classic and VIP Premier provide flexible and cost-effective solutions to small entrepreneurs as well as large corporations with more complex payroll needs. Softline VIP backs all its products with extensive support services. If you are already a VIP and Remchannel user, VIP will assist you with the writing of the data extract for the Remchannel upload at a small fee.



Remchannel aims to help clients understand, develop, implement and quantify the effectiveness and compliance of their reward programmes and policies. In this regard we have established a business partnership with Tax Consulting. The principal of Tax Consulting is Jerry Botha, previously a senior manager at KPMG and thereafter an Associate Director at Deloitte. Jerry can assist Remchannel clients with expertise in the areas of employees' tax planning, employees' tax compliance, dealing with SARS audits, executive tax planning, expatriate taxation, payroll compliance, employee benefit structuring and all personal tax planning and compliance matters.

Can you justify the cost of benchmark remuneration data?

Organisations are often faced with the dilemma of justifying the cost of benchmark information and the return on the investment made.

As the payroll could contribute to as much as 60% of the organisation's expense budget it is becoming increasingly important to manage the costs effectively.

The management of remuneration is often a balancing act where the attraction and retention of skills and the budgeted payroll costs are in conflict with one another.

How can Remchannel assist in saving on payroll costs?

Scenario 1

The organisation requires the skills of a Remuneration and Benefits Manager. The source which the organisation utilises for benchmark data indicates the median annual total guaranteed package to be R670 000. A validated source of market benchmark information, such as Remchannel, indicates the market median total guaranteed package to be R610 000. If the organisation appoints the individual at R670 000 based on an invalidated source, there is a concomitant effect over a period of time.

The over expenditure on the individual's total guaranteed package based on a 6% escalation per annum over a period of 5 years is as follows:

Year	Market Total Guaranteed Pay Median	Appointment Guaranteed Pay	Over Expenditure
1	R 610,000	R 670,000	R 60,000
2	R 646,000	R 710,200	R 64,200
3	R 684,760	R 752,812	R 68,052
4	R 725,845	R 797,980	R 72,135
5	R 769,395	R 845,859	R 76,464

The organisation has overspent on the required total guaranteed package of the Remuneration and Benefits Manager to the value of R340 851 over a period of 5 years!

Scenario II

The organisation's Remuneration and Benefits Manager is currently earning R510 000 total guaranteed package per annum.

The individual is head-hunted and offered a package of R610 000 per annum. Due to budget constraints the organisation cannot retain the skills of said individual.

What does it cost the organisation?

International research shows that the cost of replacement is approximately 60% of the total guaranteed package of the loss of a key skill. These costs are attributed to placement fees, loss of productivity in the first three months and cultural adjustments.

The cost to the organisation could therefore amount to R306 000 in the first year!

Visit www.remchannel.co.za to ascertain what the Remchannel value proposition offers.

How highly do you rate Ethics?

The Remchannel team has always valued ethics and integrity as the number one priority for conducting business.

Remchannel does not supply market benchmark data for review purposes to non-Remchannel participants.

The business principle is that a stable, robust database can only be maintained if clients continuously provide updated market information for benchmark purposes. This ensures that all participants have the benefit of real time market benchmark information 365/24/7.

It should be noted that these ethics are protected in the contractual agreement which we enter into with our clients.

As a Remchannel client the benchmark data is for the **exclusive use of the participant** and may under no circumstances be provided to a third party.

Are your reward professionals walking on stilts?

Remchannel is the proud sponsor of the South African Rewards Association's (SARA) annual awards function.

SARA is a non-profit organisation dedicated to promoting excellence in the field of reward and remuneration management in South Africa. SARA also provides a vehicle for information exchange to facilitate remuneration research and to promote the advancement of remuneration as a profession. SARA aims to include professionals from a wide range of industries.

This prestigious event recognises the contributions of reward professionals in three categories:

- Reward Practitioner of the Year
- Reward Strategist of the Year
- Reward Team of the Year

Clients are invited to nominate reward professionals in these three categories. The winner in each of the categories will receive R15 000

in cash to be presented at the gala evening scheduled for the 11th November 2006. For further information please visit the SARA website at www.sara.co.za.

Contact Details

Remchannel will publish this newsletter on a quarterly basis. If you require additional background on the published information, please contact René Richter at:

+27 12 662 2403
+27 82 460 4348

Or

Carol Shepherd at:
+27 11 453 2194
+27 84 657 3526