SARA

SOUTH AFRICAN REWARD ASSOCIATION

March 2008

IN THIS MONTH'S EDITION...

- Talent shortage is the number one employer concern
- Following the crowd in total cost packages
- Social security and retirement savings reform
- SARA welcomes new members
- SARA Conference 2008 - Call for Papers
- E-research
- SARA Conference and Banquet 2007 DVD
- Bursary news
- Work life management courses
- Events programme 2008
- News from the latest EMG event
- Tax presentation on international assignments
- Employment opportunities
- Website postings
- Editor's note

TALENT SHORTAGE IS THE NUMBER ONE EMPLOYER CONCERN

A shortage of skilled and talented workers has become the most pressing concern among employers, supplanting the perennial leading problem, rising cost of health care, according to the 14th annual Top Five Total Rewards Priorities survey conducted by Deloitte Consulting LLP (Deloitte) and the International Society of Certified Employee Benefit Specialists (ISCEBS).

According to the survey, conducted in America, nearly three-quarters of the 413 U.S. human resources professionals surveyed cited talent as their top concern. This is not only an American concern, but a concern of many South African companies as well. Meanwhile, 71 percent identified cost containment of health care as a top five concern this year, dropping from 80 percent last year. Other leading issues are the willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own reward budget (58 percent), clear alignment of total rewards strategy with business strategy and brand (56 percent), and demonstrating appropriate return on investment for reward expenditures (42 percent).

"Clearly, talent management is the top organisational challenge - higher than managing the cost of total rewards, especially health care," said Tim Phoenix, a principal in Deloitte's Human Capital service area and co-director of the survey.

Economic Insecurity
Responding to questions from an employee perspective, survey respondents pointed to economic security in retirement

and financial growth opportunities before retirement as primary areas of concern.

Forty-two percent of respondents cited the ability to afford retirement, including post-retirement health care, as the most important area of concern to them, while the ability to earn additional rewards that allow oneself to stay on top of inflation and advance in real economic terms was cited by 26 percent.

Even though respondents' personal concerns were clearly about retirement, when asked to name their top total rewards challenges for their organisation, only two percent mentioned the cost of providing retirement benefits to employees, and a mere one percent picked the ability of the employees to retire.

"This disconnect between what employees need or want and what employers are doing in the area of total rewards can be detrimental to the financial performance of an organisation, especially as talent challenges become increasingly acute," cautions Philip A. Grisafi, CEBS and 2008 ISCEBS president. "Employers are still struggling to find that magic formula for controlling costs while retaining and motivating their employees."

In the hope of finding that balance, according to the survey respondents, companies are abandoning the traditional vertical 'corporate ladder' approach and are addressing their long-term workforce needs through a more flexible 'lattice' employment model. This new framework can enable workers to customize their careers and move smoothly across a widening range of job options and structures.

Communication, consumerism, customisation

Consumerism and customisation in total rewards strategies is being driven by cost concerns, and a convergence of powerful workforce trends. Change is in the works. Overall, 84 percent of survey respondents (versus 70 percent a year ago) expect to make changes in the specific elements of their total rewards program or strategy; new differentiation of total rewards by business unit or workforce segment; or new alignment with the employment brand.

Nearly three-fourths (71 percent) of survey respondents plan to increase employee communication and education surrounding reward programs, and a majority (56 percent) plan to redesign some of the reward programs to better align the interest of employees and the organisation and promote employee engagement.

"While cost reduction is an important employer motivation for emphasizing consumerism, the customisation of rewards strategies is also being driven by the convergence of powerful workforce trends, such as the shrinking pool of skilled labour,

the increasing impact of technology and the evolving expectations of Generations X and Y," explains Dick Kleinert, a principal in Deloitte's Human Capital service area and co-director of the survey.

Generation Gap?
When asked whether they have made, or are planning to make, changes to their total rewards programs with generational preferences in mind, nearly one-third of respondents (32 percent) answered in the affirmative.

Phoenix and Kleinert believe that response will likely rise sharply in future surveys, as employers begin to link their current worries about future talent acquisition, with a greater appreciation for the profoundly different attitudes about work and career expectations of Generation Y or Millennial workers (those born after 1980), versus now-retiring Baby Boomers - and even many in Generation X (those born between 1965 and 1980).

A full copy of the report is available at www.deloitte.com/us/2008Top5 or at www.iscebs.org

NOTE: For purposes of this survey, the term "total rewards" is defined as all compensation, benefits, perquisites, and any other direct or indirect payments made to employees.

PRNewswire

Go to top

FOLLOWING THE CROWD IN TOTAL COST PACKAGES

The stock market is notorious for the herd mentality of investors. In the current environment of record oil prices, US sub prime crisis and commodities squeeze, the crowd dumps their shares, to run away from the sky supposedly falling down on them. Individuals and institutions are ruined in the process. In the reward arena, most organisations have adopted total cost packages for their workforce. Others are planning to follow the crowd by changing from the traditional basic salary plus allowances and benefits, to total cost packages. But should total cost packages even be considered in 2008?

What is a ‘Total Cost Package’?
A total cost package is a method used by an employer to remunerate an employee based on a package, being the guaranteed sum of money the employer will spend on that position. The guaranteed sum is allocated by the employee to

earnings, benefits, allowances and company contributions, subject to various regulations.

Some of the popular drivers used for introducing total cost packages are:

1. Organisational Values
Proponents of total cost packages emphasise the alignment to organisational values and culture. An organisation that professes, “people are our most important asset” and remunerates them on a total cost package is leaving little doubt about their status as another overhead item. The method used to remunerate employees should not reinforce the common detachment between organisational values and employee experiences

2. Attract Talent
While total cost packages, were a runaway success in the 1990's and lured talent, this is no longer the case today. Total cost packages have moved from a cutting-edge innovation to a conventional basis of remunerating employees. It is no longer a source of competitive advantage. Job seekers are wary of total cost packages and place greater value on take home pay comparisons (even though it has shortcomings) when deciding whether to change jobs.

3. Cost Control
A favourite with management and bean counters are the cost containment benefits of total cost packages. In particular, the organisation seems protected from medical aid escalations the employee funds it by reducing their cash component. There are three observations in this regard. First, cost containment can be addressed by modifying the existing medical aid benefits without resorting to a total cost package. Second, the opportunity to differentiate the organisation in the talent market by providing excellent medical aid benefits; is lost to conformity. Finally, the objectives of cost containment are better achieved by proactive management of all employment costs instead of only fixating on one or two guaranteed components.

4. Tax Efficiency
The opportunities to structure remuneration packages in a tax efficient manner have been systematically eroded in the past decade. A dangerous myth is that total cost packages are automatically more tax efficient than the traditional model. It may have worked in the pre- SARS compliance era when allowances and fringe benefits were abused for favourable tax deductions. Selling tax efficiency to win employee support is a reckless proposition as they discover the cracks when submitting their tax returns.

5. Internal Equity
It is no secret that organisations grapple with employees not being remunerated fairly in comparison to others. Achieving internal equity through a total cost package is an attractive sweetener. Or is it? Where inequities are present, a total package conversion will necessitate appropriate adjustments, at an additional cost. By simply fixing past inequities in this manner, the real culprits such as dysfunctional management practices, go unchecked. The prevalence of pay inequities among employees remunerated on a total cost package is thriving today, years after inception.

In conclusion, the traditional basic salary allowances and benefits model can achieve many of the benefits associated with total cost packages. The challenge is for organisations to remunerate employees with truly innovative offerings in future.

This article was adapted from 'Totally Costly Packages' in Accountancy, SA February 2007

By: Yusuf Mahomedy
Work Radical

Go to top

SOCIAL SECURITY AND RETIREMENT SAVINGS REFORM

There has recently been a lot of media speculation regarding the retirement reform that Government is currently undertaking. The spread of e-mails with unfounded statements led to further incitement. We trust that the following information regarding the proposed reforms will address some of the current uncertainty.

Background
Government is in the process of conducting research regarding the reform of South African social security and retirement provision. For this purpose an Inter-departmental Task Team on Social Security and Retirement Reform was appointed to develop a structure for future social security and retirement benefits. The development of the Social Security and Retirement Reform must be viewed in light of our current retirement fund industry dispensation.

A large number of people, who are economically active in South Africa, do not participate in any form of formal retirement fund structure. Furthermore, it is a well known fact that a significant part of the population does not make the necessary, if any, provision for retirement. This in turn results in widespread hardship and a burden on Government. The Social Security

and Retirement Savings Reform is being proposed to address these issues.

Current proposals
The current proposals by the Task Team consist of 4 layers of arrangements. The first layer will be in the form of social assistance like the social old age grant, disability grant, child support grant and foster care grant. The social assistance will be paid out of general state revenue and no contributions will be made towards this layer. This will be very similar to the current social grant system.

The second proposed layer is a statutory contributory arrangement through a National Social Security Fund (the NSSF), which will be funded from contributions and is aimed at providing a basic level of income protection at retirement, unemployment, injury, disability or death. Every person in formal sector employment, shall contribute a percentage of the first R75 000 (current proposed threshold) of his/her annual salary to the NSSF. Consideration is being given to exempt members of large occupational and bargaining council funds from contributing to the NSSF.

The Task Team also proposes a third layer where additional mandatory contributions over and above the R75 000 p.a. salary threshold must be paid into either approved private occupational funds or approved individual retirement funds. The annual earnings ceiling for contributions will probably be in the order of R700 000 to R1 million. This arrangement can possibly be provided by a member's existing retirement fund.

Further additional supplementary savings will be the fourth layer and the vehicle will be at the discretion of the individual.

Transitional arrangements
We are still awaiting a unified proposal by the Task Team in respect of the implementation of the reform and no specific details of the transitional arrangements are known at this stage.

However, there is at this stage no mention in the proposals that a member's current value in a fund must be transferred to the NSSF and in our view such members will probably be able to continue to be a member in his current fund or in an umbrella fund (multi-employer fund).

Compulsory preservation
The compulsory preservation of new benefits (i.e. benefits that have accrued after the implementation of the reform) upon change of employment is also proposed. Members will have to preserve their benefits at resignation by either leaving it in

the NSSF or transferring the benefit to their new employer's fund or to an individual retirement fund. It was also indicated that Government wants people to withdraw their retirement savings as a monthly pension, rather than as a lump sum at retirement. Government has however indicated that they will not interfere with vested rights and people will not automatically lose their rights to make lump-sum withdrawals in respect of service prior to the introduction of the proposed changes. A phase-in period for the legislation can therefore be expected.

Conclusion
Please bear in mind that these are only proposals at this stage and we recommend that members do not react on media interpretations and reports on the reform. Government is committed to finding a suitable vehicle for providing retirement benefits and never expressed an intention to exploit existing arrangements, and it appears that Government would rather add new arrangements and slightly restructure existing arrangements to supplement the current retirement provisions.

By: Pieter Cronje
Manager: Legal and Technical
ABSA Consultants and Actuaries

Go to top

SARA WELCOMES NEW MEMBERS

SARA welcomes its new Corporate Members for April 2008 to the association:
Ross Macleod - Clover SA
Robert Bob Reynolds - Treverton Prep School
Quartus Glober - Eastern Cape Parks Board

Go to top

SARA CONFERENCE 2008 - CALL FOR PAPERS

The SARA Conference will take place on 6-7 November 2008. The theme of this years Conference is THE GREAT REWARD EXPEDITION. SARA would like to call on members to propose presentations on any case studies that have been implemented in their companies recently that they feel will benefit SARA members and are willing to share it with

them.

Please forward all proposals to Gillian at gillian@vdw.co.za by no later then 5 May 2008.

Click here for the paper proposal form.

Go to top

E-RESEARCH

The latest e-research from e-reward has been posted in the library on the SARA website. These reports are for paid-up SARA members and can only be accessed with a password.

To access the e-research area of the site click here.

Go to top

SARA WESTERN CAPE BRANCH MEETING

The minutes of the Western Cape Branch meeting, which was held on 17 April 2008 are now available on the SARA website.

To view these minutes click here.

Go to top

SARA CONFERENCE AND BANQUET 2007 DVD

At the end of last years Banquet a ten minute DVD of the Conference and Banquet was shown to all guests at Montecasino. SARA has had many requests for this DVD and we are happy to say that this DVD is now available for

purchasing at a cost of R80.00

Please note that if you are interested in purchasing this DVD please place your order with the Secretariat by no later then Friday, 30 May 2008. Email marisa@vdw.co.za or phone 011 789 1384.

Go to top

BURSARY NEWS

The SARA Bursary will once again be made available to SARA members for 2009. Members are to submit their applications by June 2008.

The selection criteria for the SARA Bursary are as follows:
The applicant needs to have an honours/PDM for Masters or a Masters for a Doctorate
The student should preferably be specialising in HR and/or Reward
SARA promotes the Reward profession and is sponsoring research that will grow the knowledge base, create instruments and practices that are scientifically founded
The research topic should be relevant to the reward environment and add to the knowledge and methodologies
The candidate should be committed to continuing to invest in remuneration as a profession

For any more information e-mail Gillian, at the SARA Secretariat, at gillian@vdw.co.za

Go to top

WORK-LIFE MANAGEMENT COURSES

Work-life Management Course: Get the best out of life and work! Find out how by attending the Work-life Effectiveness courses, developed in partnership with SARA.

The first course, Introduction to work-life Effectiveness, runs from July 21 - 23, while course two, Flexible Workplace is from July 24 - 26 at House of Pharaohs at 1 Gaunt street, Bryanston, Johannesburg.

The course will be presented by Celina Pagani-Tousignant, who is the president and founder of Normisur International, an international management consulting firm that specialises in corporate social responsibility, workforce development and executive coaching.

Please click here for more information

Go to top

EVENTS PROGRAMME 2008

E-reward workshop day: E-reward's workshop day 'Winnable Solutions for Reward Success' takes place on 4 June 2008 in London.

Being a successful reward manager is tough and trying to co-ordinate your policies with business goals is probably the most difficult skill for any reward manager to master. E-reward's new workshop will show you the right and the wrong way to achieve success in strategic reward.

Please click here for more information

Global Remuneration Professional Certification Seminar:
Important dates to remember.

Johannesburg
Venue: House of Pharoahs, 1 Gaunt Road, Bryanston Ext 5, 2021

Date	GRP	Module
19 - 21 May	GR3	Job Analysis & Job Evaluation
22 - 24 May	GR4	Base Pay Management
23 - 25 June	GR9	Strategic Communication in Total Rewards

26 - 28 June	GR3	Job Analysis & Job Evaluation
30 June - 2 July	GR4	Base Pay Management
11 - 13 August	GR5	Performance Management
14 - 16 August	GR6	Variable Pay
8 - 10 September	GR2	Quantitative Methods

Cape Town
Venue: Palm House, 10 Oxford Road, Wynburg

Date	GRP	Module
26 - 28 May	GR3	Job Analysis & Job Evaluation
29 - 31 May	GR4	Base Pay Management
18 - 20 August	GR5	Performance Management
21 - 23 August	GR6	Variable Pay

The cost per GRP seminar is R5 500 (SARA members) or R6 200 for non members. All seminars are scheduled between 08:30 - 17:00. Visit the SARA website to find out more about Global Remuneration Professional.

Go to top

Expatriate Management Group News

NEWS FROM THE LATEST EMG EVENT

At a recent EMG event Marius van Aswegen gave a presentation on 'A new paradigm in the management of people issues in an international venture'.

Click here for the Powerpoint presentation.

Go to top

TAX PRESENTATION ON INTERNATIONAL ASSIGNMENTS

The Expatriate Management Group invites you to a presentation on tax issues relating to international assignments. Learn more about the tax risks associated with expat assignments and what you need to know and do when sending employees to work for your company in another country.

Topics include:
• International assignee taxation in India (a corporate perspective)
• an update on international assignee tax matters for inbound expats to South Africa
• frequent travellers and tax issues
• economic employer issues
• a practical example of 'tax equalisation' and 'tax protection'

Attendees should be encouraged to invite their in-house tax representatives to attend as well!

The presentation is presented by Shohana Latchminarian (BDO Spencer Steward) and Marelize Loftie-Eton
(First Rand Bank and Cameron Clark of African Explosives) on Wednesday 28 May 2008 from 07:00 - 09:30 at the

Johannesburg Country Club Johannesburg in Woodmead.

There is no charge to SARA members, however, non-members pay R200.

Please RSVP to Marisa Bester by 22 May 2008 on marisa@vdw.co.za

Please note that a cancellation fee of R200 will be charged to members and non-members if registration is not cancelled 48 hours before the function or if delegate is a 'No Show' at the event.

Go to top

EMPLOYMENT OPPORTUNITIES

We trust that you have been receiving your regular SARA Jobs bulletin, and that you are benefiting from this service. Please remember to send us your opportunities, which are also posted on the SARA website at Professional Development.

Go to top

WEBSITE POSTINGS

New Jobs added to Employment Section:
http://www.sara.co.za/professionaldevelopment/employment/

Library, latest newsletters added
http://www.sara.co.za/library/ebulletin/

Corporate Member List updated
http://www.sara.co.za/saraandmembership/membership/membershipbase

Go to top

EDITOR'S NOTE

Dear Readers,

Welcome to the April edition of the *SARA Bulletin*!

Well, it is official, the number one cause for concern among businesses today is the global skills shortage. A worrying factor for some, but both a challenge and an opportunity for the reward profession to show its mettle. Business has become more than marketing good products or services, it is now the battle of the HR and reward profession to attract and retain skilled staff. Business, it seems, is going back to what it should always have been about - people!

As this bulletin carries the objective of keeping its readers up-to-date with the latest industry developments, I welcome and encourage you to send me your thoughts, editorial contributions and comments. I would also like to thank you for the information and support already kindly received.

I look forward to working with you in putting together another successful edition in May!

Please note that the views expressed in this newsletter are not necessarily those of the South African Reward Association.

Dion Abrahams

Go to top

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