



SARA EMG Toolkit

Assignee Reward

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Agenda

- ▶ (Some) Assignee Pay Alternatives
 - ▶ Salary build-up
 - ▶ Global HQ
 - ▶ Split Payments
 - ▶ Host Based
- ▶ Worked Example
 - ▶ Salary build-up (key jargon)
 - ▶ Salary build-up calculation

(Some) Assignee Pay Alternatives

Home Base	Salary Build-up	Global HQ	Split Payments	Host Base
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Each organisation is unique, so consider...

1. Is it understandable?
2. Is it simple to administer?
3. Is it fair (to assignees and employer)?
4. Will it entice the right talent to go on assignment?

Salary build-up

- ▶ To ensure that assignee neither lose nor gain as a result of differences in the cost of living, tax and social security between the home and host countries.
- ▶ Maintains internal equity between countries but could be complex for assignees to understand.
- ▶ The current market related home salary is used as the base for calculating and assignee's package.
- ▶ Hypothetical (home) tax is deducted before hardship, cost of living and other premiums are added to arrive at a net assignment package.
- ▶ The net assignment package is then "grossed up" in the host country for local tax and other statutory deductions to ensure the net pay is delivered to the assignee.

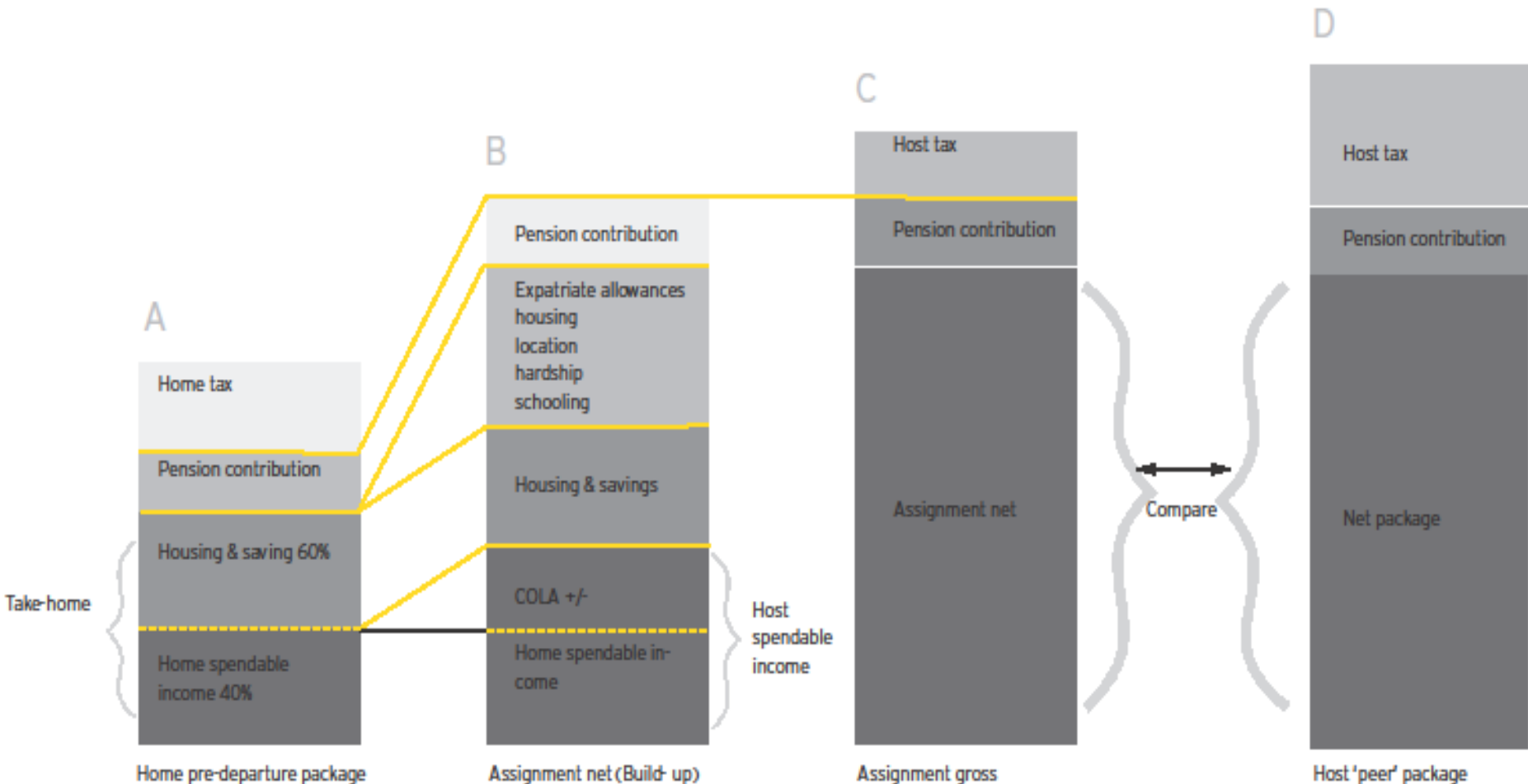
Global HQ

- ▶ Assignees are compensated as if all of them originated from the same geographic headquarters and are being paid on the same salary build-up.
- ▶ Assignees from different nationalities working together in one country receive the same compensation packages, promoting perceptions of equity. If an assignees move to another country, they will be paid the same as assignees already working there.
- ▶ Can be complicated to administer because social security, pension, and taxation laws across country borders needs to be managed.
- ▶ The approach could be useful to incorporate assignees from countries outside an organisation's normal geographic footprint into a salary build-up pay policy.

Split Payments

- ▶ The assignee's pay is split between home and host countries where the normal pay continues to be paid in the home with additional assignment related payments in the host country.
- ▶ This approach is useful for shorter term assignments, where the home entity sees the assignment as part of development and the host entity fills a temporary skills gap because of the simplified financial administration (each pays its own portion).
- ▶ The payment of assignment related benefits could be unattractive to assignees in certain African location.
- ▶ This approach should not be confused with dual contracts used for tax planning purposes.

Understanding Assignment Packages - An approach



Host Based

- ▶ Applies the local (i.e. host country) assignee market pay rates.
- ▶ Hybrid: better of the Build-Up or the Local Market approaches, to ensure that the assignment package is equitable and competitive in the host market.
- ▶ Due to the need for market data, the Host Based approach is typically only used where a strong local and / or assignee market exists in the host country, and reliable salary surveys exist.
- ▶ Used in high economic growth and high cost of living countries where demand for skills is high and there are a large number of assignees comprising many nationalities such as the United Arab Emirates, Hong Kong or Singapore.

Worked example

- ▶ Assignee salary of ZAR1,000,000 is assigned from South Africa to Tanzania.
- ▶ The cost of living difference is 124% between Dar es Salaam compared to Johannesburg.
- ▶ The hardships associated with working in Dar es Salaam (vs. Johannesburg) suggests a 25% premium.
- ▶ How much should the assignee be paid?

Salary build-up (key jargon)

- ▶ **Cost of Living Allowance (COLA)**

Net cash amount paid to compensate for increased cost of living in host location.

- ▶ **Hardship Allowance**

Net cash amount paid to compensate for adverse living conditions – such as climate, socio-political risks, lack of social infrastructure etc.

- ▶ **Notional Tax**

REDUCTION in salary based on the tax liability calculated in line with the home country tax (and social security) rules.

Salary build-up calculation

	Home salary	1,000,000	
Less:	Home pension (ee)	75,000	
	Medical aid	30,000	
	Notional tax	288,000	Using std SA tax calculation
	Net home salary	607,000	
Add:	COLA	87,408	Net home salary x 60% x 24%
	Hardship	250,000	Home salary x 25%
	Guaranteed net	944,408	Paid in home currency

Case study

▶ Background

- ▶ Assignee earning a salary of ZAR1,000,000 is assigned from the head office in Johannesburg to Kinshasa.
 - ▶ The cost of living is 180% higher in Kinshasa compared to Johannesburg.
 - ▶ The hardships associated with working in Kinshasa (vs. Johannesburg) suggests a 35% premium.
 - ▶ The assignment is intended to develop the assignee and fill certain skill gaps in the host location.
 - ▶ The assignee will be one of 10 employees assigned to Kinshasa.
 - ▶ The talent management program will probably require the assignee to move to another assignment, following this one.
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- ▶ How should the assignee's pay be structured?
 - ▶ How much will the assignee take home?

Solution

- ▶ How should the assignee's pay be structured?
 - ▶ A salary build-up approach would be desirable, given the likelihood of the assignee moving to another (maybe higher taxed) regime.
 - ▶ There may be an argument for split payment of the assignee's pay.
 - ▶ Using a global HQ approach would be desirable if more assignments will be linked to the talent development program in future.

Finally...

- ▶ Thanks to Hein Bischoff, for most of the content in this pack

Questions

