TeamLease™
Putting India to Work

COMPENSATION AND TOTAL REWARDS TRENDS

Analytics Solution Provider
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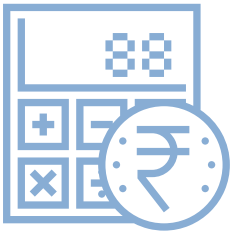
KEY TAKEAWAYS

Trends, Employer considerations and Taxation



- **A radical compensation mix - comprising between 60% and 40% fixed-to-variable and between 38% and 85% intangible -to-tangible - is ushering in the Total Rewards era in India**
  - The age of plain salary increments is long dead, and the last 7 years have brought rapid transformation in Compensation diversification and personalization
- **A holistic employee perspective has upped spending on recognition to 52% of benefits budgets and on privileges to 55%, with new-age businesses bringing fun, finance and wellness together**
  - From flex-time at Flipkart, recreational games at Snapdeal and fitness programs at Fitbit, to flex-time at Flipkart, recreational games at Snapdeal and fitness programs at Fitbit, to 'Compressed workweeks' at Facebook and Elder Care Assistance at Wipro, new-age companies innovate way better
- **As a critical component of Total Rewards, Flexi-benefits are fast gaining currency thanks to personalization, higher perceived value and better tax benefits**
  - While the actual cost of flex-benefits is 10% - 15% of salary employees perceive them to be adding 42% to their compensation package, because flex-benefits save substantial tax and potentially increase take-home pay
- **With nil impact of GST on gifts and perquisites, and little impact on most other components flexi-benefits potentially increase net income for employees by 28%**
  - Gifts and perquisites above INR 4,999 are taxed as per the income tax law and only financial benefits as insurance and travel, among the many flex-benefits components, attract 12% - 18% GST

KEY TAKEAWAYS

Organizational, Government Initiatives and Employee Satisfaction

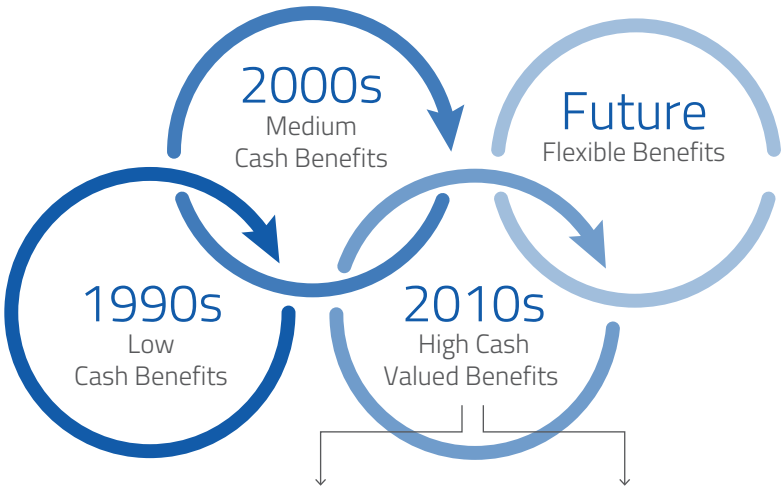
- **Sectors employing a bigger pool of mid-level professionals have a rationalized compensation and rewards structure, and hierarchical profiling shows up sharp increase in variable pay higher up the hierarchy**
  - BFSI, Telecommunications, IT, E-commerce and FMCD/G, belong in the category of sectors that have rationalized C&B structures; Healthcare & Pharmaceuticals, Manufacturing and BPO/ITeS have wider organizational bases and a plethora of options; KPO, Retail, Media & Entertainment and Travel & Tourism have lean but innovative structures

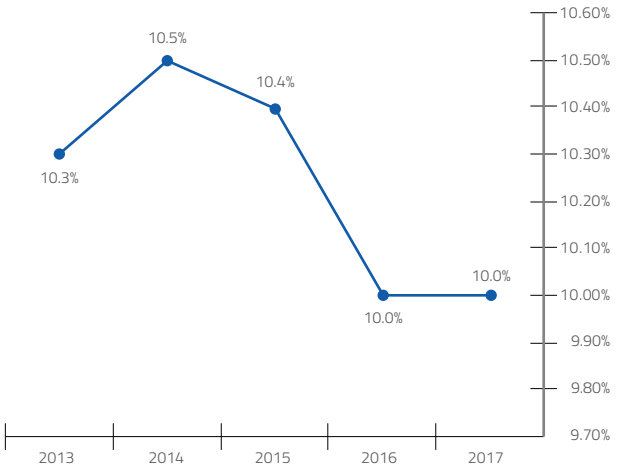
- **While organizations are taking active measures to retain critical talent substantial mismatch between employee and employer expectations at both the talent acquisition and retention phases diminishes economic value to both**
  - Employers have an "attraction disconnect", a lopsided view of employee expectations during acquisition, and a "retention disconnect", fairly appropriate yet diluted understanding during the retention phase; Employee carry liberal benefits expectations throughout the lifecycle and have substantially low satisfaction levels on compensation and benefits

- **Organizations need to be honest with their intent, put earnest effort and prioritize on - aligning rewards with business objectives, communicating effectively and personalization, in that order**
  - Compensation and Benefits need to be structured to have a cultural fit, be personalized, voluntary and convenient, and with the leadership participating; and avoid a force-fit, with insincere, apathetic and cumbersome programs that do not walk the talk

COMPENSATION TRENDS

the evolution of payout attributes





2010-11	Pay for Performance
2011-12	The Emergence of Total Rewards
2012-13	Employee Value Proposition & emergence of short-term & long-term variable pay
2014-15	The rise of non- cash benefits
2016-17	Flexible rewards program & customized compensation

Plain old salary increments are not exciting anymore and so have plateaued over the last 5 years ... As employers take a holistic view of talent engagement compensation trends have **rapidly transformed** and Total Rewards have risen in popularity

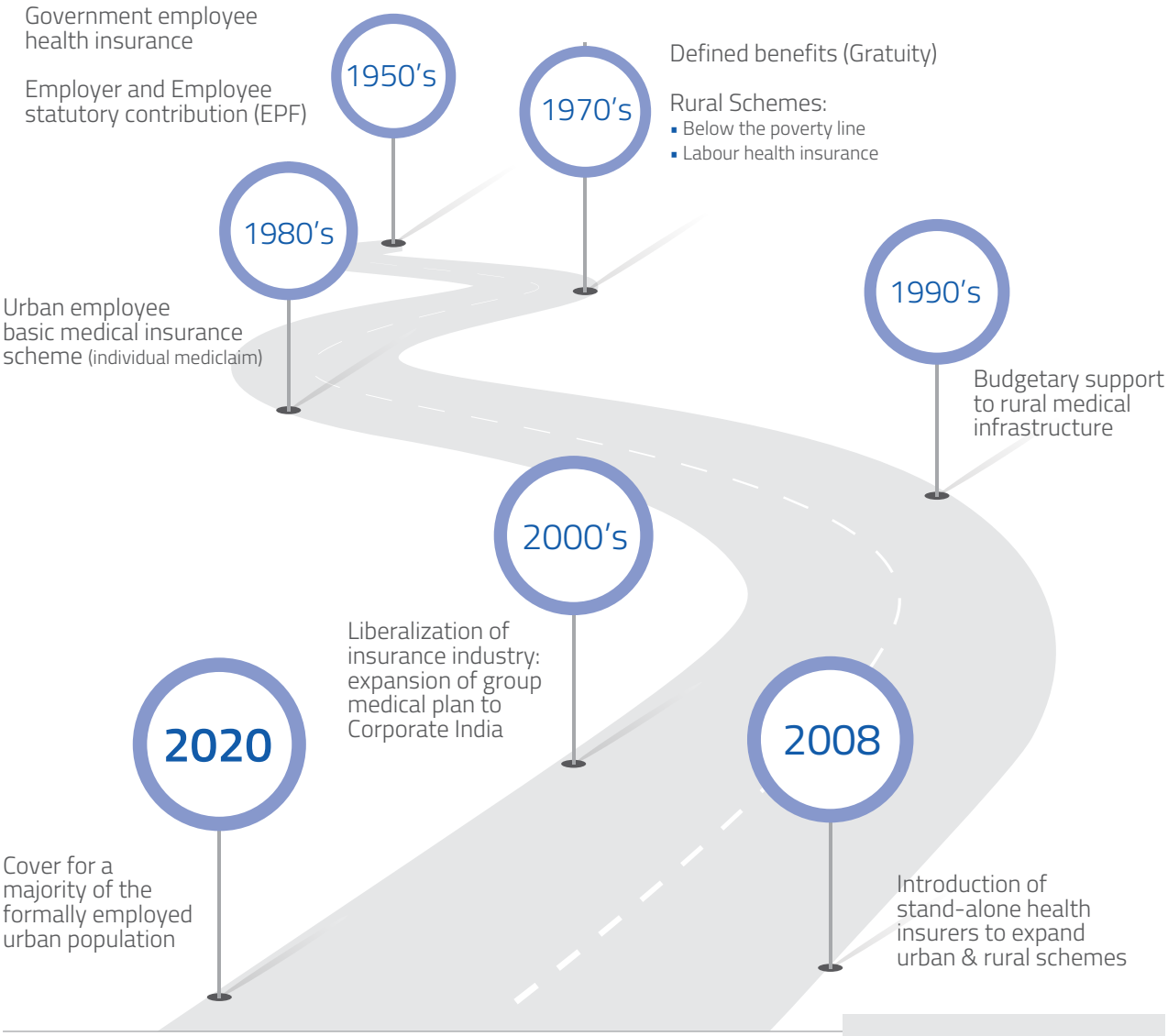
The Total Rewards Model

Total Rewards Strategy: *Compensation -> f {Variable Pay; Fixed Pay; Tangibles; Intangibles}*

Organizational Structure, Business Strategy, Human Resource Strategy	Compensation, Benefits, Work-Life, Performance & Recognition Development & Career Opportunities	Attract Motivate Retain	Employees: Satisfaction & Engagement	Business: Performance & Results

COMPENSATION TRENDS

the evolution of health benefits



Benefit Types

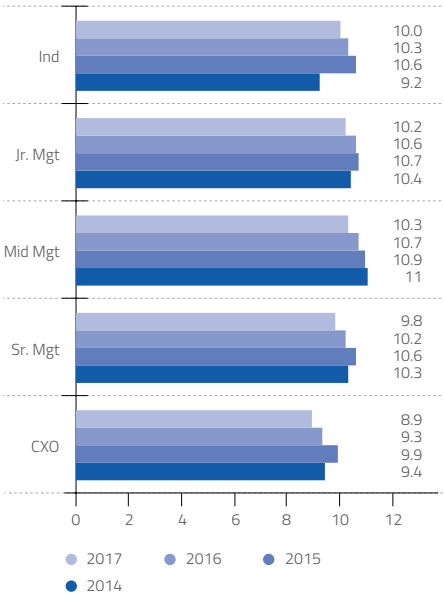
Benefit Type	2010	2011	2012-13	2014-15	2016-17
Group Medical Insurance	100%	100%	100%	100%	100%
Corporate Floater Prevalence	65%	67%	70%	72%	76%
Facilitate parent's coverage	70%	65%	54%	76%	80%
Parent's coverage @100% employer sponsored	51%	40%	35%	41%	35%
Room rent restrictions	57%	76%	86%	85%	85%
Co-pay on claims	13%	33%	32%	34%	37%

Health / Medical benefits are a mainstay of India's Benefit System; and employers have innovated to make this a very valuable benefit component ..

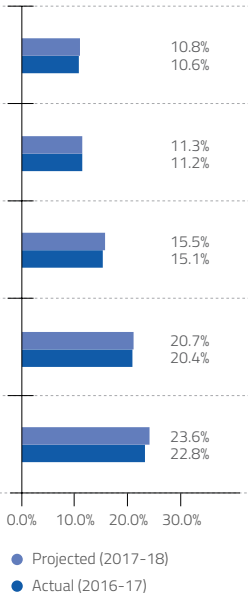
.. On the other hand, the benefits basket has also expanded and **diverse components** have gained prominence

THE STATE OF THE COMPENSATION AND REWARDS ART profiling hierarchies

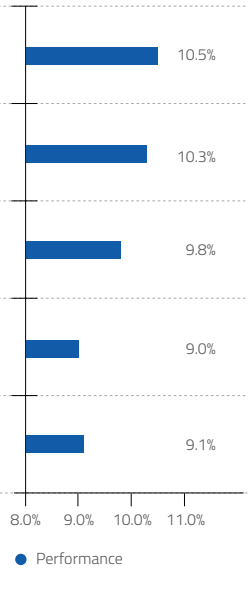
Salary Increase



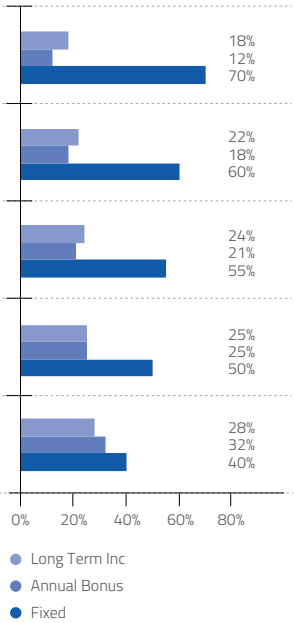
Avg. Variable Pay



Avg. Increment by performance



Compensation Mix



CEOs

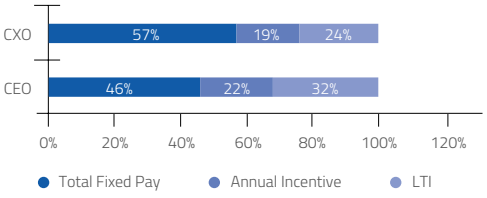
Compensation (INR lac per month)

	Total Fixed Pay	STI	LTI
Manufacturing	25.6	9.5	3.0
FMCG/Pharma	33.3	11.4	14.1
Services	36.6	11.3	15.5
IT/ITeS	22.4	13.6	10.8

Pay Mix (%)

	Total Fixed Pay	STI	LTI
Manufacturing	55%	27%	18%
FMCG/Pharma	52%	18%	30%
Services	48%	16%	37%
IT/ITeS	38%	20%	41%

Compensation (INR lac per month)



Variable pay and long term **incentives** gain more currency as one goes up the hierarchy … Executive compensation is heavily loaded with these components; and they comprise almost half the total compensation, right at the top

Considerations:

Compensation Practices: Fixed pay, Variable pay, Short term incentives , Long term incentives

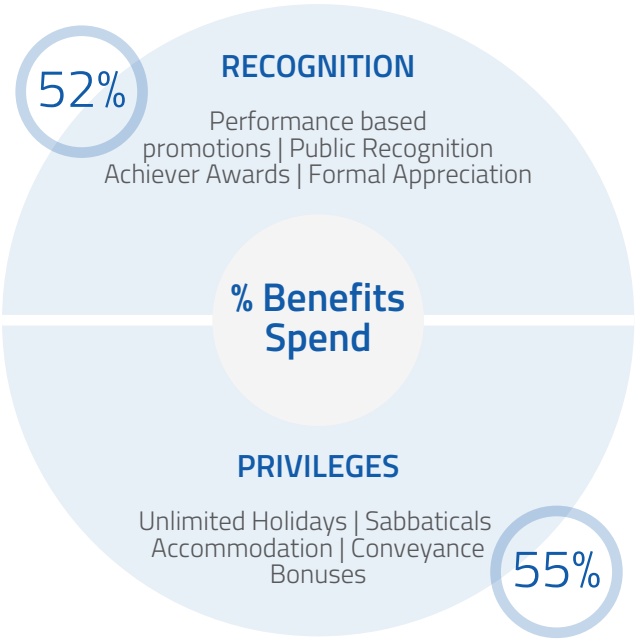
Work-Life Programs: Workplace flexibility, Paid and unpaid time off, Health and well-being, Caring for dependents, Financial support & Community involvement

Benefits programs: Insurance, retirement, disability and community involvement types of practices

WHAT'S TRENDING Fixed versus Variable, Cash versus Kind, Tangible versus Intangible

Employee Stock Purchase Program | Education Assistance (For Higher studies) | Service Awards | Flex time/remote work | Mentoring/development programs | Give Them A Gift Card | Company swag | Group Mediclaim / Insurance Scheme | Personal Accident/Insurance Scheme | Company Leased Accommodation

Compressed workweek | Job Sharing
Modified Retirement | Child Care Assistance | Elder Care Assistance



Incentives Bonuses	85%	**Tangible [Cash/Kind]**
Theme Events Sports Activities	65%	**Semi-tangible [Symbolic]**
Counseling Unstructured Time	38%	**Intangible [Emotional]**

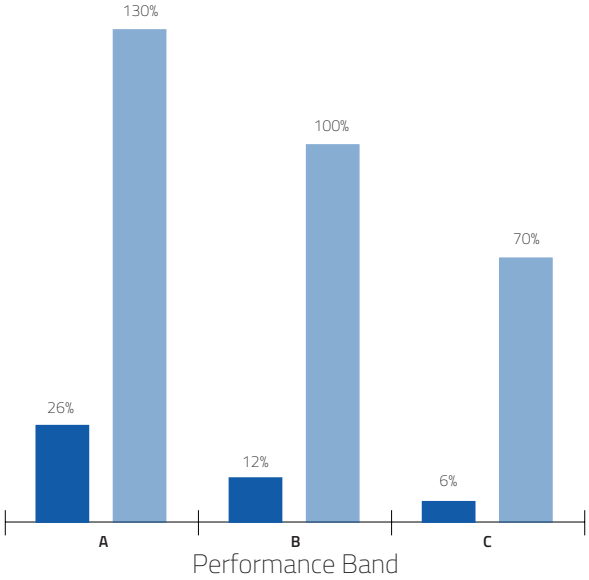
Variable Trends Pay by Hierarchy

Management Levels	Earlier	Today
Sr. Mgt.	18% - 20%	25% - 30%
Middle Mgt.	10% - 12%	18% - 20%
Jr. Mgt.	05% - 08%	10% - 12%

All the way from Tangible through Emotional, benefits are varied and suit different employee profiles and needs ..

.. There is a **substantial spread**, today, to choose from

Pay Increase / Variable Payout by Performance

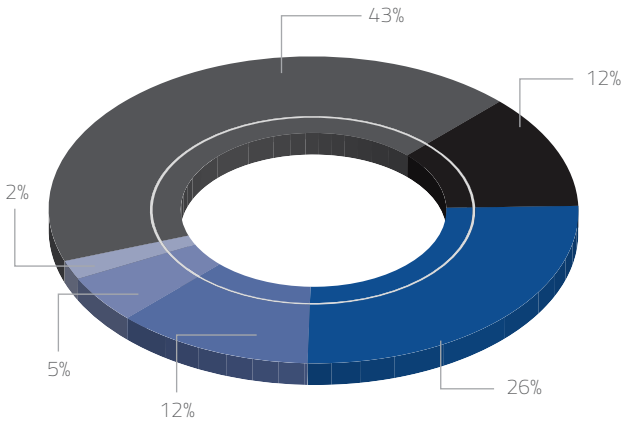


FLEXI-PAY / FLEXIBLE BENEFIT PLAN AND TAX IMPLICATIONS [GST and IT]

Flexible Benefits [definition] trade one element of a rewards package for another

Cost to Business: up to	Actual worth: about	Perceived Value: nearly
25%	10% - 15%	42%
of total HR Budget	of salary	of compensation package

The Benefits most important for Employees



- Healthcare Plan
- Pay Raise
- Performance Bonus
- Vacation Time
- Maternity, Paternity & Adoption Leave
- Professional development or educational benefits

Personalization, Higher Perceived Value for employees and Lower costs for employers, and Better Tax Benefits are why flexi-benefits are becoming **extremely popular**

Flexible Benefits Categories

- Tax efficient benefits
- Insurance Benefits
- Health care benefits
- House rent allowance
- Leave travel allowance
- Risk benefits
- Retirement benefits
- Leave benefits
- Family Benefits
- Other Benefits

How Flexi is beneficial

- **Cost saving**
  increases take-home
- **Value of money**
  employee decides allocation
- **Tax-free benefits**
  helps not to shed additional lump-sum tax amount
- **Retention**
  due to personalization

The case for Flexi Benefits

- Should recognize diverse needs
- Should improve relations
- Should make the most of tax breaks

FLEXI-PAY / FLEXIBLE BENEFIT PLAN AND TAX IMPLICATIONS [GST and IT]

Benefits & Taxes

Transaction	Implication (Employee)	Implication (Employer)
Gift below Rs.5,000 given to employees	Exempt under the income-tax law	▪ No withholding tax liability ▪ No GST implications
Gift exceeding Rs.4,999 but restricted to Rs.50,000	Taxable as perquisite under the income-tax law	▪ Withholding liability arises ▪ No GST implications
Perquisites forming part of employment contract /cost to company & provided to all the employees	Taxable as perquisite under the income-tax law	▪ Withholding liability arises ▪ No GST implications
Gift exceeding Rs.50,000 given to employees	Taxable as perquisite under the income-tax law	▪ Withholding liability arises ▪ No GST implications

Application of GST

Housing	No
Meals	No
Cab Service	5%
Vehicles	No
Health Care	No
Other benefits	No

Financial Service (Insurance, Investment funds)	12-18%
Education	No
Residential accommodation	No
Business Class air travel	12-18%
Train Fare	5%
Pension	No

Taxation implication of Flexi Benefits

CTC Break-up	Scenario 1	Taxable salary in Scenario 1	Scenario 2	Taxable salary in Scenario 2
Basic Salary	₹ 450000	₹ 450000	₹ 450000	₹ 450000
HRA	₹ 360000	₹ 180000	₹ 360000	₹ 180000
Special Allowance	₹ 118200	₹ 118200	₹ 13600	₹ 13600
Transport Allowance	₹ 19200	₹ 0	₹ 0	₹ 0
Education Allowance	₹ 0	₹ 0	₹ 1200	₹ 0
Telephone Reimbursement	₹ 0	₹ 0	₹ 12000	₹ 0
Fuel & Driver Reimbursement	₹ 0	₹ 0	₹ 32400	₹ 0
Medical Reimbursement	₹ 0	₹ 0	₹ 15000	₹ 0
Meal / Shopping Coupons	₹ 0	₹ 0	₹ 13200	₹ 0
LTA	₹ 0	₹ 0	₹ 50000	₹ 25000
PF Employee Contribution	₹ 0	₹ 21600	₹ 0	₹ 21600
Total CTC/Net Taxable Salary	₹ 947400	₹ 769800	₹ 947400	₹ 690200
Less: Tax Liability		₹ 57820		₹ 41900
Net Take home		₹ 889580		₹ 905500

THE STATE OF THE COMPENSATION AND REWARDS ART profiling sectors

Healthcare & Pharma

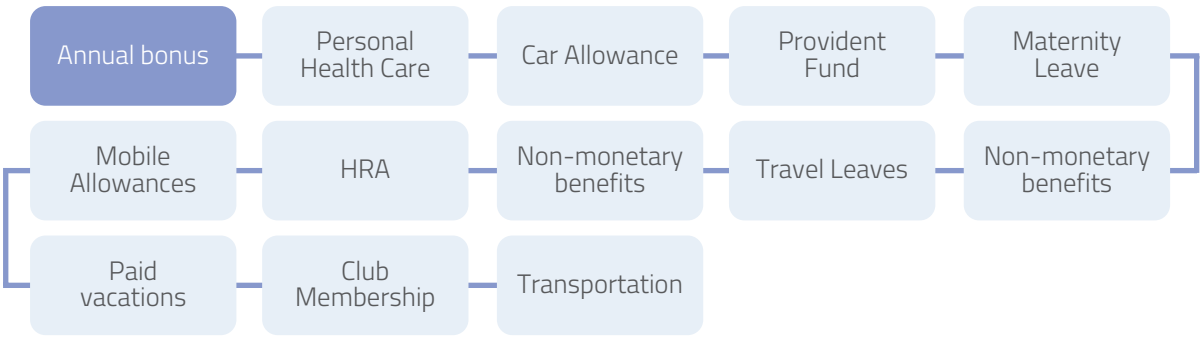
Manufacturing

Traditional organizations from mature sectors seem to offer a **plethora of options** in the Compensation & Benefits mix, to cater to a broad-based workforce

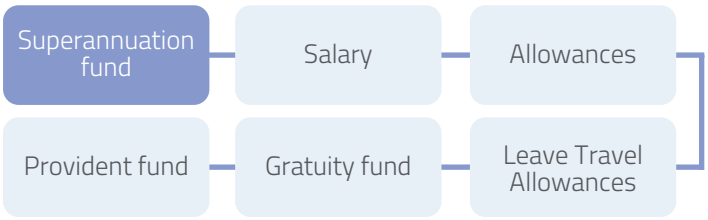
BPO / ITeS

THE STATE OF THE COMPENSATION AND REWARDS ART profiling sectors

BFSI

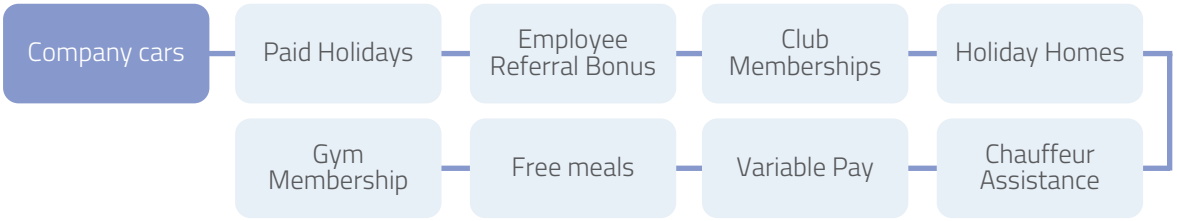


E - Commerce

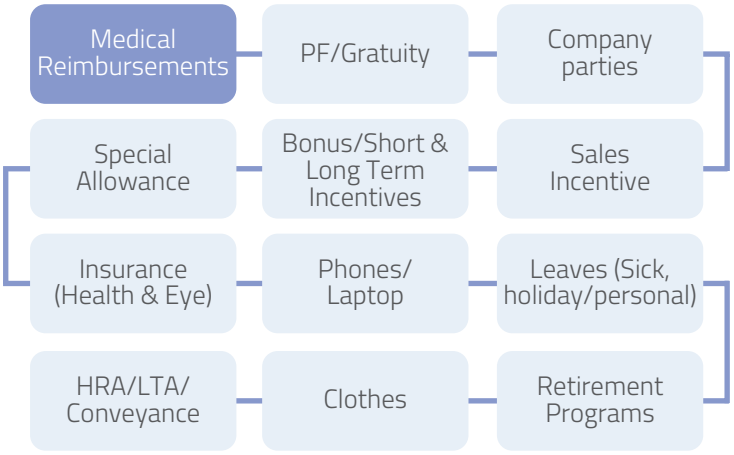


New economy businesses have **rationalized** the benefits mix by stripping it of those elements that employees perceive as irrelevant

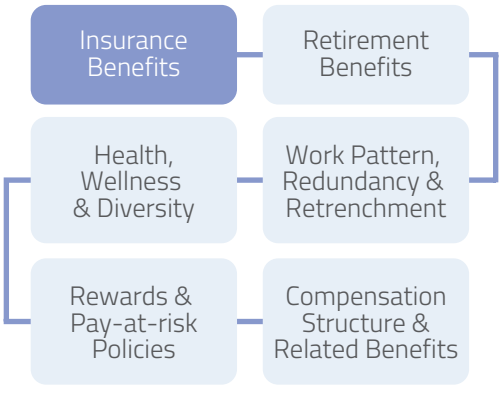
Information Technology



Telecommunication

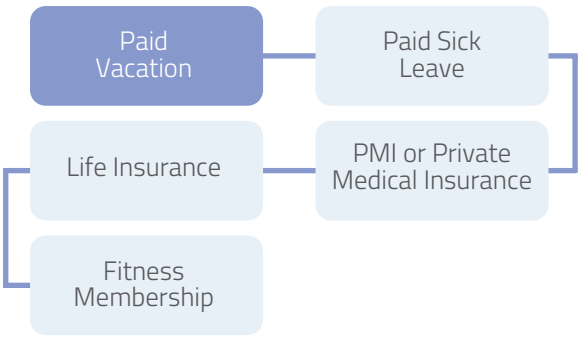


FMCG & FMCD

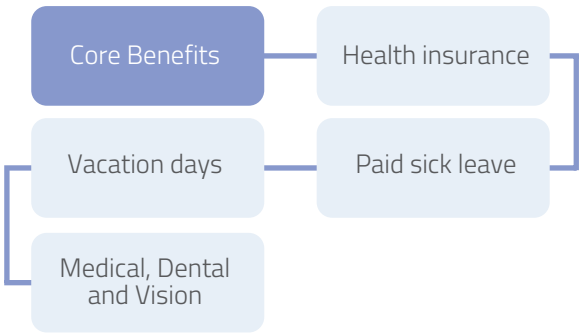


THE STATE OF THE COMPENSATION AND REWARDS ART profiling sectors

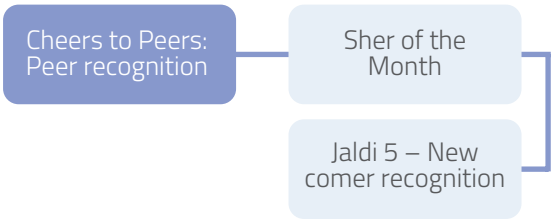
KPO



Retail

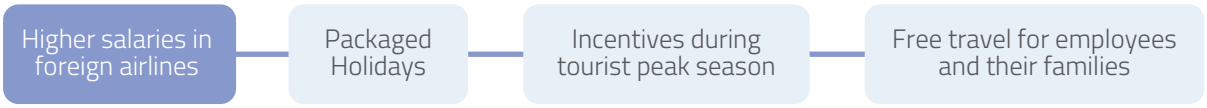


Media & Entertainment

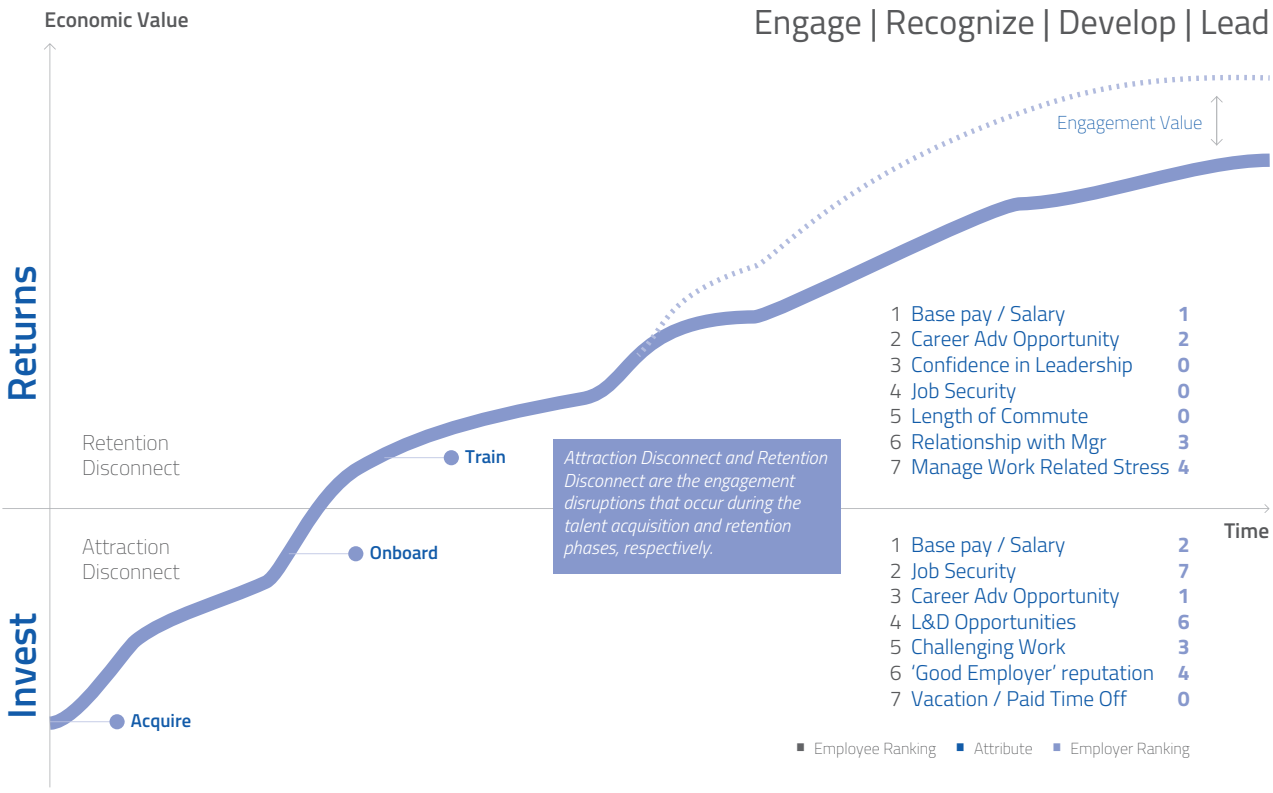


Businesses that are seen to be fun places to work at have rather **lean** compensation & benefits structures

Travel & Tourism



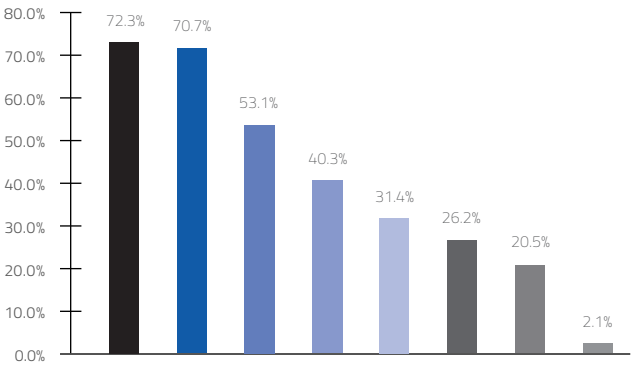
HOW THE REWARD VALUE-RETENTION RELATIONSHIP FARES TODAY



Mismatch between employee-employer expectations **adversely affects engagement**

TACTICS

- Pay employees above the labor market
- Provide more incentive/bonus opportunities
- Let key employees know they're essential to the business
- Create flextime/telecommuting opportunities
- Create a succession plan to replace key individuals
- Discuss with key employees their future opportunities within the organization
- Provide cash bonuses for retaining key employees
- Provide meaningful and enriching job designs for key employees
- Provide key employees with stock options/equity awards
- Create an extensive benefit package



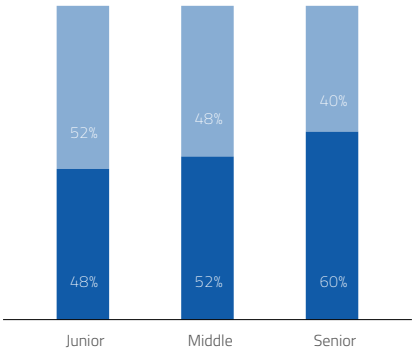
Leadership Accessibility	72.3%
Accelerated Career Development Opportunities	70.7%
International Assignments	53.1%
Discretionary incentive pool	40.3%
Additional learning & development opportunities	31.4%
Retention bonuses for a specified period	26.2%
Discretionary Stock options	20.5%
Split Salary increase budget	2.1%

HOW THE REWARD VALUE-RETENTION RELATIONSHIP FARES TODAY

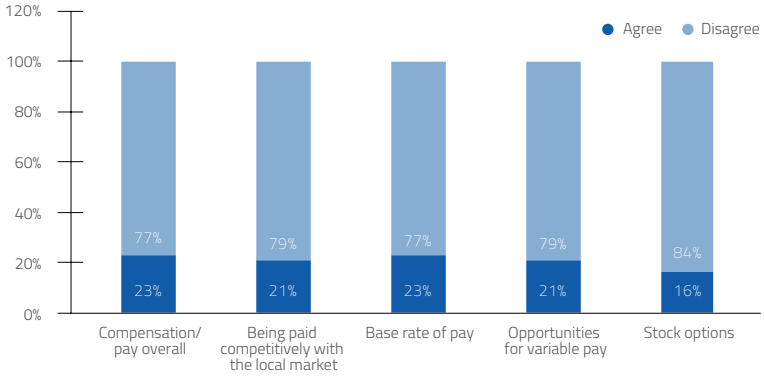
The Employee Point of view

Attraction	Engagement	Retention	Satisfaction	Recommendation
74% want benefit programs to join	Rewards, Perks, Paid Time Off drive engagement for 61%	Health / Wellness, Financial Benefits help loyalty for 57%	Custom / Flexi Rewards, Flexi Work, WFH and Insurance 68%	Maternity / Paternity Benefits, Performance Bonus, Stock Options motivate 55%

Compensation Effectiveness

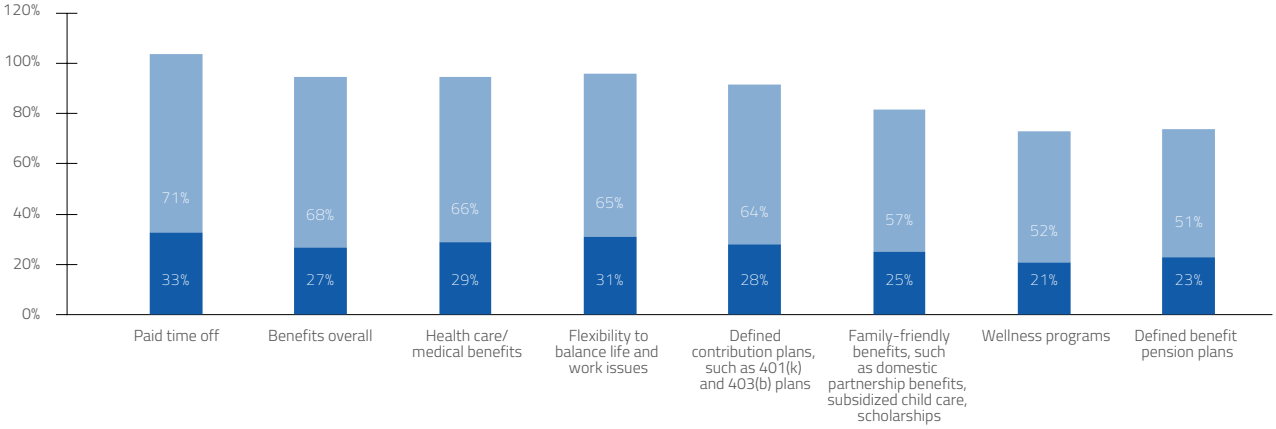


Compensation Satisfaction



Although businesses are able to achieve stated objectives with their current C & B initiatives, employee satisfaction levels are seen to be poor ..
.. Total Rewards are an imminent need of today's **unsatisfied** talent

Benefit Satisfaction



BEYOND HYPE AND HYPERBOLE

what works and what doesn't

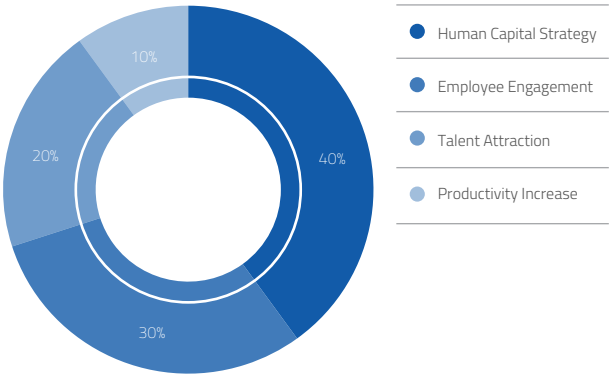
No Attraction / Appreciation
Benefit inadequacy (e.g. Insurance)
Lack of Budget Discipline
Inability / Unwillingness
Informal rewards/benefits programs
Gray Areas/Partial Flexibility

Fair, Merit based compensation Benefits
Stability
Work/Life Balance
Clear, Honest, Focused communication with management and team
Respect
Empowerment
Meaningful & Challenging work
Training & Development
Growth Opportunities - Promotion or New Skills
Support
Recognition

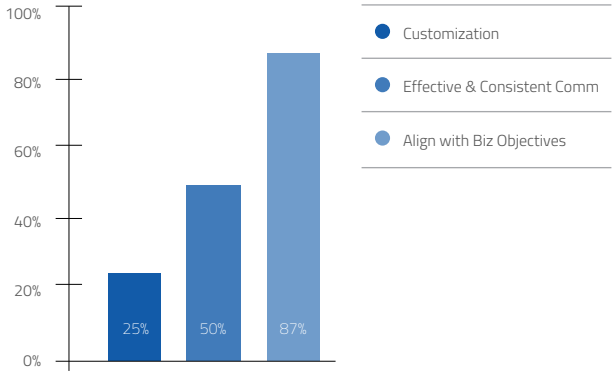
The bed rock of Employee Satisfaction

Employers should not be (seen to be) faking it. Honest intent and earnest effort are a **prerequisite** to making C & B strategies work

Compensation Effectiveness



Execution



WHAT TALENT WANTS

survey across age, qualification, profession and cities

Ranking by C&B Options

1 Fair/Competitive Salary
2 Personalized Healthcare Benefits
3 Flexible Hours/WFH Options
4 Rewards & Performance Bonuses
5 Career-oriented Learning Opportunities
6 Short/Long Term Incentives
7 Liberal Leave/Holiday/Vacation Policies
8 Health & Wellness Programs

Preferred Rewards & Recognition

1 Cash rewards for Incentives
2 Appreciation from Management
3 Holidays & Experiences
4 Performance Based Promotions
5 Public recognition of achievements
6 Fair, merit based promotions

The desired workplace Environment

42%
- Relaxed / Open plan offices

37%
- In-office recreation/gym / Creche

63%
- No / Casual dress codes

26%
- Sports / Events / Theme parties

55%
- Menu options at the party

19%
- Coffee / Drinks within arms-length

Total Rewards – Indispensable Elements

87%
- Personalized Healthcare / Insurance

62%
- Flexi-time / Vacation / Telecommuting

36%
- Innovative Rewards

29%
- Maternity & Paternity Leave / Child-care

44%
- Wellness Programs / Mentoring / Counseling

67%
- Career Advancement Opportunities

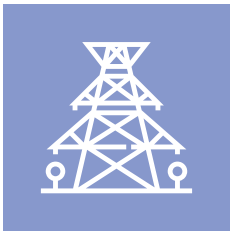
ANNEXURE

Compensation Structures, Components and Elements

TYPE OF SALARY STRUCTURE BY INDUSTRY

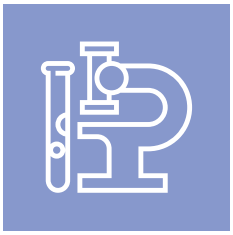
MARKET-BASED

- IT & ITeS
- BPO
- BFSI
- E-commerce
- Electronics



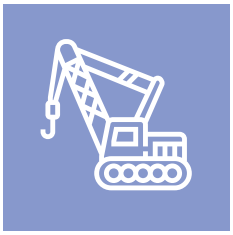
TRADITIONAL

- Retail
- Power & Energy
- Agriculture



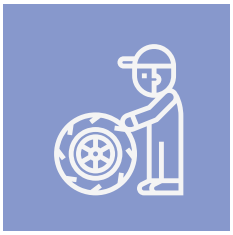
BROADBANDS

- Health & Pharma
- Hospitality



STEP STRUCTURES

- Construction & Real Estate
- Infrastructure



NO FORMAL STRUCTURE

- Manufacturing
- Textile
- Engineering
- Automobile

OTHER

- FMCG
- FMCD
- Manufacturing & Engineering

Based on industry structures, market forces and environmental influences industries have tailored their salary structures into one of six types

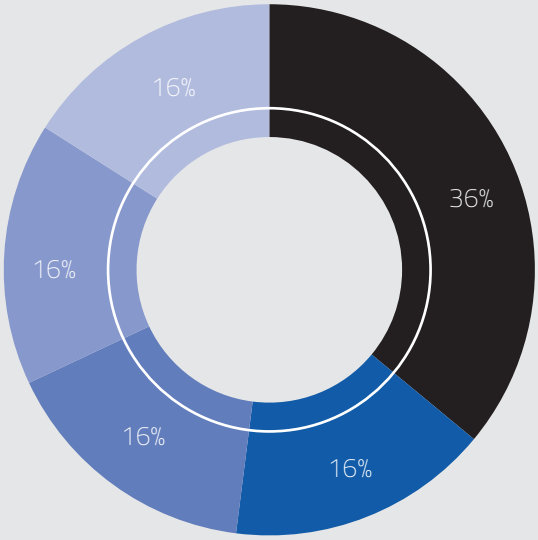
COMPENSATION STRUCTURES IN INDIA

TRADITIONAL	FLEXIBLE	OPTIMIZED	EVOLVED
Basic Salary	Basic Salary	Basic Salary	Basic Salary
COLA/DA	Flex. Plan	Special Allow.	Special Allow.
Personal Pay			
Special Allow.			
LTA	LTA	LTA	
Medical	Medical	Medical	
Edu Allow.	Allowances		
Bonus/Ex-gratia			
Housing	Housing	Housing	
Conveyance	Conveyance	Conveyance	
Variable Pay	Variable Pay	Variable Pay	Variable Pay
Retirements Benefits	Retirements Benefits	Retirements Benefits	Retirements Benefits

Broadly, C & B strategies fall into one of four types based on their adaptation to market realities, and the degree to which they have evolved

ELEMENTS AND COMPONENTS OF TOTAL REWARDS

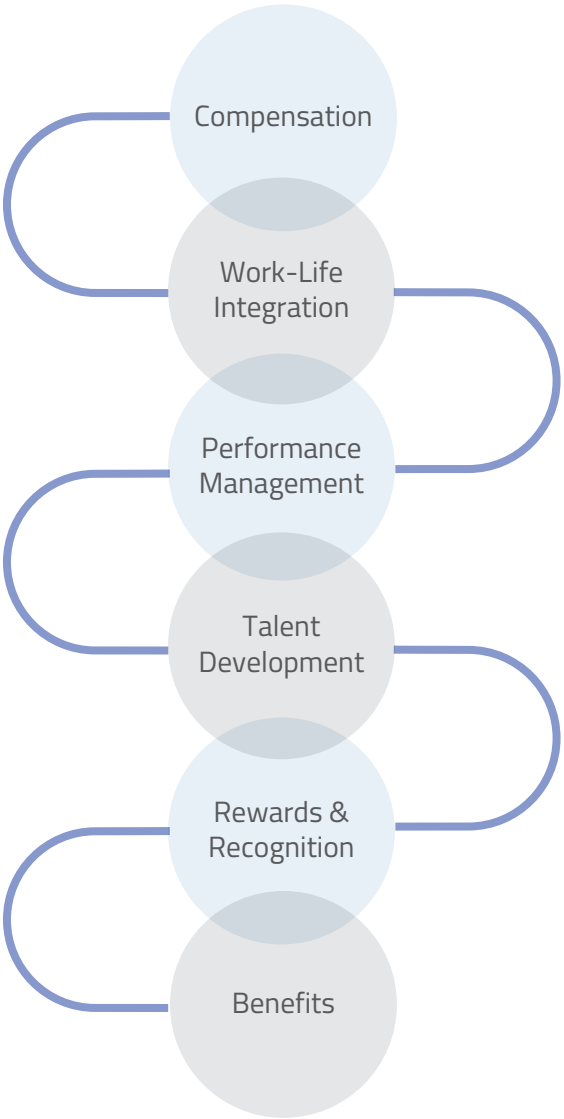
Components of Total Rewards



- **Component – A**
  Basic Salary
- **Component – B**
  Allowances/Reimbursements: SA/HRA/LTA etc.
- **Component – C**
  Variable Pay: PLB/AB/Ex-gratia etc.
- Component – D
  Retirals: PF/Gratuity/Superannuation
- Component – E
  Valued Perquisites: Company Car / Mobile Reimbursements / Lunch Sub Allow etc.

The typical components and the building blocks of a Total Rewards C & B strategy

Elements of Total Rewards



PREVALENT PRACTICE

CAR POLICY

percent of the companies have company leased and rest have company owned car option	**68%**
years is the average car replacement period	**4-5**

LEAVE ENCASHMENT POLICY

percent of the companies allow leave encashment during tenure and after separation	**39%**
percent of the companies allow leave encashment only after separation	**61%**

INSURANCE POLICY

percent of the companies have life insurance policy	**72.8%**
percent of the companies have accident insurance policy	**79.6%**
percent of the companies have medical insurance policy	**100.0%**

MEDICAL INSURANCE COVERAGE

Employee only	**15.7%**
Employee & spouse	**17.4%**
Employee, spouse and dependent children	**28.9%**
Employee, spouse, dependent children and dependent parents/ inlaws	**38.0%**

GRATUITY AND SUPERANNUATION POLICY

percent of the companies have superannuation policy	**41.7%**
percent of these companies manage superannuation fund in-house and rest through third party	**60.2%**
percent of the companies manage gratuity fund in-house and rest through third party	**68.1%**

LONG TERM INCENTIVE PLAN

percent of the companies have LTI plan	**46.4%**
percent of these companies extend LTI plans across all levels and rest at select management levels	**55.0%**

PREVALANCE OF VARIABLE PAY PLANS

Team Awards	**33.6%**
Special recognition awards	**59.0%**
Functional/Business unit	**50.7%**
Organisational	**62.9%**
Individual performance awards	**85.6%**

BEATING THE CONVENTION

what rewards do new age businesses dole out

New-age businesses have arrived at a relatively better balance of value and excitement in their benefits package ..

.. They bring elements of **fun**, **financial innovation** and **work-life balance**, together

All the above elements listed in the word-clouds are practices in some of the best start-up unicorns and acclaimed new-age businesses

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