

# Fringe benefits

The range, variety and importance of fringe benefits in employment policies have grown in recent years, partly because of the nature of personal taxation and partly because of pressure from other sources such as the rapidly increasing competition for employees. Fringe benefit packages have been adopted in order to motivate employees to enhance their performance and to encourage them to maintain and extend their continuity of service with their employer. They include benefits that attract little or no tax, such as meals and holidays, and deferred earnings such as pensions. Fringe benefits have considerable value to many employers in that they represent a form of reward that does not necessarily have progressive or long-term effects in the way that a salary increase does. A salary increase is usually for all time. It affects all future settlements because most settlements are percentage based. Also a salary is the basis for settlements such as redundancy and pension rights whereas many fringe benefits may not have such long-term effects.

The total list of benefits offered today is considerable and is continually growing as employers look for new ways to woo employees. They can be divided into three main types: financial, part-financial and non-financial.

- Financial benefits include commissions, bonuses, profit sharing, share options.
- Part-financial benefits include pensions, meals, cars, subscriptions.
- Non-financial benefits include holidays, sick pay, medical insurance.

See Figure 13.1 for a list of fringe benefits selected from various companies' information.

Staff restaurant, free meals	Company newspaper, staff newspaper
Luncheon vouchers	Discount buying
Living-in accommodation, staff hostel	Discounted holidays
Assistance with finding accommodation	Familiarization weekends
Training and educational fees	Discounted meals in company hotels or restaurants
Use of customers' facilities	Savings schemes, loans, house purchase assistance, relocation grants
Free uniform, laundry services	Long service awards
Paid holidays in excess of statutory minima	Christmas bonus, birthday gift/cards
Pension scheme, sickness leave	Suggestion bonus, language proficiency, employee introduction bonus
Company car – personal use, fuel for private use	Jury service pay
Mobile phone – personal use	Share option scheme
Maternity leave, paternity leave	Volunteer reserve paid time-off.
Medical services, private medical insurance	
Social and sports clubs, cinema and theatre passes	

**Figure 13.1** Some fringe benefits offered in the industry

*Source:* Company induction material.

In considering fringe benefits it is vital to recognize that what may be considered an 'incentive' or 'motivator' today may lose its motivating effect with time. This may be because what is offered by only one or two employers to start with will be offered by many employers as they follow suit. Alternatively, what may have been offered as a reward for exceptional services one year becomes expected and a 'matter of right' within the next two or three years.

Having made this point, it is necessary to bear in mind also that, although the presence of many fringe benefits in a remuneration package may not be a positive incentive to work harder or to perform better, the absence of fringe benefits, on the other hand, may be a disincentive and will put an employer at a disadvantage in recruiting or retaining staff.

In some cases, offering high salaries, commissions or bonuses may compensate for lack of fringe benefits, but owing to the fact that non-cash benefits may be taxed lightly or not at all, these have been playing a bigger part in employee compensation in recent years. They can add another 25% to the total payroll costs but a similar increase to salaries, due to personal tax, would almost certainly not enable employees to purchase the same type of benefits or to enjoy the same standard of living.

Fringe benefit programmes should be designed to further the employer's objectives and should, in particular, be designed to assist in human resource planning. Where, for example, it is desirable to have a stable, mature management team providing plenty of continuity, such as is required by many brewery companies, a very generous pension and life assurance scheme, along with loan facilities (e.g. for house purchasing among other things), will assist in retaining the management team. On the other hand a dynamic young organization may want a fairly steady flow of 'high flyers', the majority of whom will not want to stay for long because there will not be room for all of them. In this case high salaries and good incentives payments will be preferable, as this type of person will not be so interested in benefits such as pensions.

The differing needs of employers along with pressures exerted by competing organizations and by statutory requirements will all help to dictate what type of fringe benefits programme needs to be offered. There are many different components and the permutations can be numerous. Increasingly, fringe benefits are elements of a 'flexible' benefits scheme, which may consist of core benefits, core plus choice. Choice, in turn, can be limited or very open. In some cases, for example, an employee may be able to choose the type of car they would like, up to a limit. In a more open scheme an employee may be able to exchange the car benefit for an equivalent cash addition to salary. Such schemes recognize that each employee may have particular needs, which may vary at different points in their career. Figures 13.2 and 13.3 illustrate some fringe benefits offered.

## **Financial benefits**

These were covered in more detail in Chapter 12; as was said there, they should be directly related, as far as possible, to performance. Discretionary handouts have little positive motivational value.

## **Profit sharing**

Although many profit-sharing schemes may not be justified directly on motivational grounds, because individuals do not receive a commission or bonus related to their own efforts, and because these awards may be expected as a matter of right, profit sharing may well be justified for indirect reasons. Awarding a bonus of this kind may not assist directly in increasing profits, but withholding an award may have an adverse effect on employees' morale. Whether this share of increased profits should be in the form of a bonus or salary increase depends on current performance of the employer's business; for example, if there is a strong upward trend in profits an increase in salaries could be awarded, whereas if a year's performance was exceptional and not certain to be maintained, a bonus may be preferable from the employer's point of view, because it is a once-only payment and because it does not have a gearing-up effect on future wage increases, pensions, etc.

## **Share option schemes**

These enable employees to buy options on company shares with loans provided by the employer. The better the company performs, the more the value of the shares increases. These schemes are strictly controlled by law; for example, they do not allow an employee to sell the shares until a certain number of years have elapsed. Once the prerogative of executives only, many organizations in the service sector are now offering such schemes to all staff with a certain length of service, full and part time. The supermarket chain Asda has had considerable success with its scheme and attributes a lowering of labour turnover to the scheme and the way it ties staff in to remaining with the company for a specified number of years, at least three years in the Asda, for example. Of course such schemes are only of real motivational value if the company is successful and its share price improves.



**HAVE YOU MANAGED TO EARN AN ADDITIONAL £5-£1000**

many team members have already done so by taking advantage of the incentives offered such as:

- ❖ **NEW BUSINESS BONUS SCHEME**  
by introducing new business to the Company,  
you can earn yourself anything from **£25-£1000**
- ❖ **SUGGESTION SCHEME**  
bright, fresh and new ideas could reward you from **£5-£250**
- ❖ **NEW EMPLOYEE INTRODUCTORY BONUS**  
introduce a friend, colleague, relative or acquaintance  
and receive for each person. **£50**
- ❖ **LONG SERVICE BENEFITS**  
Those reaching 2, 5 and 10 years service with 'Friendly Hotels PLC' receive *Free Accommodation, a meal for two and a Bonus.*  
For further details see the current Employee Long Service Benefits Booklet.
- ❖ **SPECIAL PRIVILEGE RATE OF £10.00** per person  
bed and continental breakfast for all full-time employees with over 1 year service.
- ❖ **EMPLOYEE DISCOUNT RATE PROGRAMME INTERNATIONAL**  
Worldwide discounts of at least 50% from rack room rate.  
Maximum stay is seven days.
- ❖ **PROFIT SHARE SCHEME**  
(FREE to all employees with over 3 years service) and become a part-owner of **Friendly Hotels PLC.**
- ❖ **SAVE AS YOU EARN**  
and acquire shares in the company in 3, 5 or 7 years time at discounted share prices.
- ❖ **'FRIENDLY' FACE and PERSON**  
Monthly competition 'smiles all day bring clients your way'  
and receive another award!

Full details of the schemes can be obtained either from your Manager or Headquarters and we will be circulating 'fliers' regularly with your wage packets.

Do join in, or chase up your Employee Consultative Committee in arranging Social Events within your unit.

If you have any further ideas of Events; Competitions or Activities that you would like to either organise or join in, then let your Manager know and we will see if they can be arranged.

For your own development, and no matter what your age, have you considered gaining additional qualifications such as NVQ's? Contact your Personnel Manager for further information.

Please do check your employee notice board for more new ideas and incentives as they are introduced - for your benefit *so why not join in NOW...*

*"Applicable only to properties owned or managed by Friendly Hotels PLC"*



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**Figure 13.2** Examples of one company's incentives  
Source: Reproduced by courtesy of Choice Hotels Europe.



The logo for the Choice Hotels Europe Suggestion Scheme is enclosed in a decorative border. At the top, there are three square icons: 'Comfort' with a stylized 'C' and horizontal lines, 'Quality' with a stylized 'Q' and horizontal lines, and 'Clarion' with a stylized 'C' and a horizontal line. Below these icons, the text 'CHOICE HOTELS' is written in a large, bold, serif font, followed by 'EUROPE' in a smaller, bold, serif font. Underneath, 'SUGGESTION SCHEME' is written in a bold, sans-serif font, and at the bottom, the reward range '£5.00 to £250.00' is displayed in a bold, sans-serif font.

*Dear Colleague,*

**WHAT IS A SUGGESTION?**

*A suggestion is any proposal you are able to make which will help to run your hotel, Inn or unit more efficiently and thereby more successfully. In fact, your suggestion could apply not only to your place of work, but a number of others within the Company. For example, you may be able to put forward ways to:*

IMPROVE	Service, method of operation, control of stocks, layout and use of forms and equipment, and many more.
INCREASE	Revenue of every kind including accommodation, food, drink or more specifically on functions, weekend business and bar turnover.
REDUCE	Purchasing costs, energy costs, particularly on heating and lighting, waste and breakages.
CUT OUT	Accidents, pilfering and any kind of unnecessary routines, returns and handling.

*Your knowledge of the work you do and your experience enables you to make worthwhile, constructive suggestions. Your ideas will all be carefully considered and will often be of value, however small the benefit may appear to you.*

**WHO CAN SUBMIT A SUGGESTION?**

*All employees, except Management and Headquarters Executives, may send in suggestions and will be eligible for an award.*

*Heads of Departments may only forward suggestions which do not directly relate to their own department.*

**Figure 13.3** Example of one company's suggestion scheme

Source: Reproduced by courtesy of Choice Hotels Europe.

## Part-financial benefits

There are many benefits that may be awarded which can be described as partly financial. These are benefits that the employee cannot normally dispose of in cash or kind, but which enable him or her either to avoid spending personal resources on these benefits or to enjoy a higher standard of living. These benefits include such things as pensions and life assurance schemes, company cars, expense accounts. The major part-financial benefits are as follows.

### Pensions

Most schemes grant a fraction of final earnings for each year of service. The better schemes grant one sixtieth of final salary (sometimes the average of the last few years) for each year's service, thereby enabling a person with forty or more years' service to retire on forty sixtieths (or two thirds of final salary), the maximum pension currently permissible. Provision is also normally made for a person's dependants, whether he or she dies in service or in retirement. Some schemes are index linked; some are not.

One of the benefits to employers of comprehensive pension schemes is that they enable employers to retire their older employees, particularly for health reasons, replacing them by younger people, knowing that the older ones will be well provided for in retirement.

### Life insurance

In itself this is hardly a benefit that will persuade a person to join one employer rather than another. From the employer's point of view, however, the major value is that it provides for the dependants of employees who die in service. Without this provision the employer may feel that there is a moral, if not a legal, responsibility to look after an employee's dependants, particularly if that person dies in the course of work. If no insurance is provided, some other provision may have to be made on a discretionary basis and, where large numbers of people are employed, cases may be treated inconsistently. Also, the burden may fall more heavily in one year rather than another and, worst of all, if the employer goes out of business the dependants of ex-employees may be completely unprovided for.

### Company cars

Generally speaking, these are provided for one of two reasons. First, because an employee needs a car in order to do the job. This would include people such as regional or area managers, marketing and training staff, and stock takers. Second, cars are provided to improve a person's standard of living without incurring the full tax liability that paying an equivalent cash amount would impose.

The provision of company cars is a highly contentious benefit, however, for reasons such as these:

- 1 Cars are very nearly cash equivalent and therefore if a car is provided to one employee in a particular job grade because it is needed, another employee of similar grade but who does not need or receive a car may well expect a cash equivalent.

- 2 Cars are status symbols both within the organization and within the community at large and wherever status is concerned people are very sensitive and often irrational.

### House purchasing

Purchasing a house is usually the biggest investment that a person ever makes and often moving house is one of the biggest obstacles to employee mobility. (The fact that labour mobility in the hospitality industry is high while home ownership by the industry's employees is relatively low is probably not unrelated.) By helping employees to buy a house, employers can increase the stability of their labour force. At the top of the scale this assistance can take the form of cheap loans, but, more practically, it can be confined to the employer acting as guarantor.

### Removal or relocation expenses

These payments are intended to indemnify an employee for the cost incurred in moving home when being appointed, transferred or promoted by the employer. The amount allowed should be such that the employee is no worse off financially as a direct result of moving house. The expenses included in this, however, can be extensive, including estate agents costs, legal fees, furniture removal, new school uniforms, temporary accommodation, etc.

The employer's responsibility should be confined purely to indemnifying the employee for the actual costs incurred in the employee's transfer from one home to another. Considerations of capital appreciation should be excluded.

These are the major part-financial fringe benefits offered by many employers. There are many others as well which enable employees to enjoy a better standard of living and these include advantageous purchasing of food, insurance, furniture, etc. These can all be arranged through the employer's own suppliers or agents.

### Non-financial benefits

Although the main benefits in this category can cost the employer considerable sums of money, they do not normally provide employees with any direct financial advantages. Instead they afford employees other benefits such as a degree of security or more time for leisure.

### Holidays

Holidays can be used as a stimulus to labour stability; for example, extra days over the statutory minimum can be granted after a certain number of years' service. Extra holidays must be reasonably obtainable, however, because working for 15 years, for example, for extra holiday entitlement will contribute nothing to retaining staff. It is much better to grant two to four extra days after two to four years' service, leading up to an extra week after five years. Figure 13.4 illustrates one example.

Years of service	Holiday entitlement per annum
During 1st year	4 weeks (pro rata to actual service)*
2nd year	4 weeks and 2 days
3rd and 4th year	4 weeks and 3 days
5th and 6th year	4 weeks and 4 days
7th year onwards	5 weeks

\* The statutory minimum paid holiday in the UK in 2005 is 20 days which may include public holidays hence the statutory right to paid holidays is actually 12 days!

**Figure 13.4** Example of a service-related holiday entitlement scheme

## Sick pay schemes

As with several other conditions of employment, details of pay during sickness have to be entered in the statement of conditions of employment. This is required by the Employment Rights Act 1996 and, in the absence of such details, an employer may have to pay a sick employee the full wage or salary until dismissal of the employee after giving full notice of termination.

It is for this reason as well as for normal human relations considerations that employers should formulate a sick pay policy that is consistent with their human resource management practices and which is affordable. It is important to recognize that in some employment situations sickness leave, with pay, can increase considerably the incidence of absence. This appears to be particularly so in the public sector, where sick leave may be seen as another form of holiday entitlement.

## Statutory rights

Parliament has created certain rights to time-off and pay in the case of holidays, sickness and maternity. Many employers offer conditions additional to the minima laid down by Parliament.

## Private medical treatment

Private medical treatment is one particular fringe benefit that is being granted to many employees these days. The direct advantage to the company is that employees can be treated at a time convenient to the company and not when it is convenient to the National Health Service (NHS). This is particularly appropriate for key members of the staff. Sometimes the cover provided by the company includes the employee's family as well.

Some employers may feel it is too expensive or even inappropriate to pay for this service, but even so employers can arrange 'group rates' and monthly deductions of premiums from salaries, enabling their employees to benefit from preferential rates at no cost to the employer. A combination of these two methods can be adopted in which senior employees are paid for by the company and the remainder of the employees have the option of participating in the group scheme. The HCIMA

has negotiated a group rate with BUPA for members who may not have the benefit of a company scheme.

## Tax pitfalls

Note that although some fringe benefits may offer tax advantages this is not always the case. The provision of company cars and fuel for private use creates tax liabilities. Various incentives such as foreign trips can catch the unwary. In one case a couple who benefited from a lavish holiday including seven nights in a five-star hotel received a tax bill for £4600 – the tax due on the value of the holiday. It is for the employer to account for any tax due on any fringe benefits that are taxable.

## Concluding comments

This chapter has dealt with the major benefits that can be offered to employees. Employees will not qualify for all these benefits automatically. Some benefits should be incentives to stay with the organization and to seek promotion; therefore they should be granted only for service and seniority. On the other hand certain benefits may be offered to all employees upon joining, for example, discounted purchasing facilities.

Increasingly there is a trend to offer employees some choice over what and how they take such benefits, for example an employee may choose a smaller car in order to have more salary. One may describe such systems as *à la carte*.

Fringe benefits play a vital part in an employer's human resource policy, since the nature of all the benefits offered influences considerably the type of employees who will be attracted to the employer and who will stay. And since the cost of fringe benefits can add significantly to the payroll cost, it is essential that the range of benefits offered and their likely effects are fully considered.

## Further Reading and References

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## Questions

- 1 Describe the objectives of fringe benefits schemes and the various alternatives in regular use.
- 2 Discuss which you consider to be the most important principles for fringe benefits to be effective. What do you understand by 'effective' in this context?

- 3 Discuss what external factors influence the nature of fringe benefits.
- 4 Discuss the relationship between fringe benefits, incentive schemes and alternative methods of wage and salary administration.
- 5 Discuss the role played by fringe benefits, wages and/or salaries and incentives in implementing an employer's human resource policy.
- 6 Evaluate the approach to fringe benefits used by an employer you know well.