Compensation and Benefits

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**Abstract**

 There are significant differences in the compensation and benefit packages all over the world. The first part of compensation is the basic salary, which is the highest in Germany, among the countries selected. The number of hours worked in a week, also vary across the countries with two countries having 44 hours work week. All the countries use either defined benefit plans, defined contribution plans or a combination of both. The difference exists in the percentage of contribution made by the employees and whether any contributions have been pooled in by the employers. In Korea, the employers have to contribute with a 12th part of annual payroll of the employee with employee can put in additional contribution if desired. The assets kept with the external sources will provide an opportunity of 100% tax relief to the employers, whereas those kept within the company will provide only 35% tax benefit. The return on investments are completely exempt from taxes, whereas the benefits received will be taxed. In Brazil, private sector employees can get full pension on their retirement if they meet any one condition from the prerequisites. They must qualify for retirement on the basis of length of contribution or on the basis of age. In the US, the pension plans provided the maximum options to employees.

A comparison of compensation and benefits between Korea, Brazil, Germany and the USA

Employee benefits and compensation present challenges to businesses working in any country, especially if it is working outside of the home country. This document will provide a comparison between the compensation and benefit plans for four countries namely Brazil, Korea, Germany and the US. The first criteria for comparison will be the minimum wages offered by employers in the above countries. For the sake of analysis, we will give the amount of minimum wage in US dollars. The minimum wage in Brazil is $ 1.09 per hour, in Korea, this rate is $ 0.0037 per hour, in Germany, the minimum wage is $ 9.73 per hour and in the US, it is $ 7.25 per hour. The lowest minimum wage is in Korea, because the country has not been able to compete with China, in most of the markets. The economic prosperity of Germany is shown by the highest minimum wage offered by the country. There are both positives and negatives associated with the minimum wage plan, implemented by businesses. The major purpose of minimum wage is to avoid any exploitation of the employees at the hands of employers. A minimum wage must be enough to make sure that the employees are able to have food, clothing and shelter. (Amadeo, 2019). A minimum wage that is enough to cover the basic expenses, will raise the morale of employees. There is lesser inequality among the employees with the minimum wage plan in place. With more money in hand, employees will be able to spend more and there will be an increase in demand for various products. The opposing arguments state that minimum wages are paid out of funds which can be used for some other, better purposes. The raised labor costs will mean that the businesses will hire fewer workers, as compared to the past. This will raise the unemployment rate in country. This aspect will negatively impact the industries which are labor-intensive and will benefit the capital-intensive firms. The countries like Korea and Brazil should reassess the level of minimum wage offered by the employers and increase it gradually so that employees can cover their basic needs. It will not be an easy task for Brazil as the country has a huge population and abundant supply of labor will be available for the employers even at this low minimum wage.

 The second thing used to compare the countries is the number of hours employees have to work in a single week. In Korea, the working week is 40 hours which makes 8 hours per day, for five days. In Brazil, this limit is extended to 44 hours per week whereas in Germany, there is a variation in number of hours to be worked, with a minimum of 24 and a maximum of 48. The working week in the USA is 44 hours long. This difference in the working week will be analysed by keeping the Maslow’s hierarchy of needs theory in view. The basic pay will help the employees to cover their basic needs in terms of food, clothing and shelter whereas a reasonable working week will help the employees to satisfy their social needs because they will have to get sufficient time to spend with their families. This will also motivate the employees if they have enough time to spend with their families. Another related point, is the number of vacations available to the employees, whether paid or unpaid. In South Korea, there is one day per week of paid leave for the employees and 15 day paid leave once one year of employment is completed. In Germany, the employees can have paid sick leave only after they have served a minimum of four weeks with the said employer. In Brazil, the employee will get paid leaves only after he has served at least 12 months with a certain employer. The US law also permits the paid leaves after an employee has spent a minimum of 12 months with an employer. (ICLG.com, 2019).

 The companies require to register their employees for payroll by the 15th day of the month when company starts its operations. The salaries are based on the number of years that a person has worked, with a particular organization. Employees are required to contribute an amount which is taken by multiplying monthly wage by the rate of contribution for that particular category. There is a mandatory scheme provided by the government which helps the people working in the private sector, and is named the retirement benefits system. It provides various options to organizations in the form of retirement pension plans and retirement pay schemes. There can be defined contribution plans or defined benefit plans under the retirement pension plan where the retirement pay scheme only contains the defined benefits. The employers who have five or more people employed are liable to provide them with an RBS plan. After the year 2010, RBS has been extended to cover employers who have less than five employees. In the defined contributions plan, employers have to contribute a 12th part of annual payroll of the employee while employee can put in additional contribution if desired. The other two options namely the RPS and defined contribution plans depend upon the return offered by funds in which money is invested. The retirement payment scheme allows three types of asset management namely by insurance firms, banks and asset management companies and by the company itself. Under the defined contribution plan, the benefits will be dependent upon fund performance by employers. The employees who have completed at least one year of employment with an employer, are entitled to one month’s pay or more for all the years they have worked. Under the retirement payment plan, the employee will get the amount of money in form of annuities or full sum of money, provided, he has served for at least ten years in the organization and is aged 55 or above. If these conditions are not met, employee is allowed to transfer the accumulated amount of money to an individual retirement account. The option of receiving the amount of money as an accumulated sum is only available under the RPS, irrespective of the type of instrument used by the employer. There is a considerable amount of tax relief available to the employers. The assets kept with the external sources will provide an opportunity of 100% tax relief to the employers, whereas those kept within the company will provide only 35% tax benefit. The return on investments are completely exempt from taxes whereas the benefits received, will be taxed. There were some recent additions to the upper limits of contributions made by employees for tax exemption. The amount was raised from 3 million to 6 million in the Korean currency (OECD , 2009). There should be more options in the pension plans and should especially include the stock option and profit sharing plans, because both these options will motivate employees to work harder.

 In Germany, the pension system was updated in the year 2001 which meant that the employees would have a legal right, regarding the retirement benefits. There are only defined benefits plan provided to the employees in Germany. The employers are free to choose among the available options to make the occupational retirement structure. In book reserves, employers show the promised pension benefits on the balance sheet without any discrimination made among the assets used to generate these benefits. They are very similar to the pension funds because they pay the pensions promised, as they fall due. Creation of a pension reserve should also be properly shown in the company balance sheet. A safety instrument called PSV provides employees with cover in case of insolvency of the employer. A support fund is an institution that allows retirement provision but there is no legal right towards the benefits generated. The liability of meeting pension issues remains with the employers and they have to use support funds to meet these liabilities. The employees do not have any legal right on the support funds but they have the legal right towards the employer. Another form of pension plan, is an insurance contract between the employer and insurance company with the employee being the beneficiary. The policy is held by the employer in favour of employees. There are specialized institutions which are focused at managing pensions. These institutions have a provision related to pension benefits and they also give a legal right to the employees over pension benefits. There are funds which are dedicated to pensions and give a legal right to employees on the benefits of pension. This option also includes an insurance cover against insolvency of the employer. The contributions made by employees are decided by making a collective agreement between the parties involved. Most of these options discussed provide retirement, disability and survivor benefits to the employees. The retirement age is decided upon by the relevant plan. The tax exemption is limited to 2496 Euros and an additional 1800 Euros are exempt from taxes. Investment returns are not charged to any tax whereas benefits are included in taxable income. The contributions made by the employer, to book reserves, can be deducted by the employee and do not count in his taxable income (OECD.org, 2009). The pension plans should include more options for the employees, especially the likes of profit sharing and stock option plans.

 In Brazil, private sector employees can get full pension on their retirement if they meet any one condition from the prerequisites. They must qualify for retirement on the basis of length of contribution or on the basis of age. People can take retirement once they have contributed to pension plan for 35 years in case of men and 30 years in case of women. Retirement age for men is 65 years, whereas for women, it is 60 years with a minimum record of 15 years’ contribution towards plan. The benefit is calculated as an average of 80% of the amount equivalent to the best monthly earnings from 1994 to the date of retirement. In case of retirement by age, the amount of benefit is multiplied by 70% plus 1 percentage point for each year served and is limited to 100%. People are also allowed to take early retirement at the age of 53 but they must have 30 years of contribution for men and age 48 with 25 years of contribution for women. Pensions are completely exempt from taxes (OECD, 2017). There should be an option where an equal contribution is pooled in by employer and employee which will motivate the employees to work harder for the organization.

 In the US, employers offer several pension plans to the employees with different types of payments. Most of the private pension plans are either defined benefit, defined contribution or a combination of both. Historically these plans were defined in terms of benefits and most recently, they have been replaced by the defined contribution plans. The form of contribution in the 401 K plan may be restricted to the amount that is equivalent to 50% of the employer contribution and can go to a maximum of 6% of employee’s salary. Another variant of this plan is to share a certain percentage of profit towards the plan, according the individual salaries. Some plans also offer ownership of stock to the employees with purchased shares held in a suspense account. The individual retirement arrangements are investment opportunities which receive contributions from the owner of the vehicle, and distribution is made from employer plans. An employer who has less than 100 employees can contact with an IRA provider that the employees earning a minimum of $ 5000 will be allowed to put a percentage of their salaries in this plan. The maximum contribution for the year 2009 is $ 11500 and $ 14000 for employees older than 50 years. There is an equal contribution from the employee and employer up to 3% of salary or a straight 2% contribution from the salary. The benefits of IRA are available at any point in time with an extra tax payment of 10% if these withdrawals are made before the age of 59.5 years. These plans cover many aspects including single owners of businesses, or a complete group which my want to set up a pension plan. The defined benefit plan will make it compulsory for the covered employees to make regular contribution to it. In the defined contribution plan, employees may or may not be making compulsory contributions towards the plan. A normal defined benefits plan will require ~~that~~ employees to make payments which are equal to 1 or 1.5% of final average annual earnings for every year of service. A defined contribution plan will require the employees to make contribution equal to 25 % of their pay adding to contribution made by the employers. These contributions made by the employees are not subject to income taxes. The employees have the option whether they want their contributions to be added to taxable income or not. The contributions made by employees are exempt from tax up to a limit of $ 16500 or $ 22000 depending on the age of employee.

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