

Basic wage component of pay packet



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INTRODUCTION

Compensation Management is the most important concept from the organisation's point of view. Today, it is the biggest problem for every organisation to retain and attract the employees. So, to remove these problems an organisation should have a deep knowledge about Pay-packet composition. Pay packet is a comprehensive term consists of several elements. Its compositions are – Basic wage, Dearness allowance, House rent allowance, City compensatory allowances, annual statutory bonus, Incentive, Bonus (Fixed Variable and variable), various other perks, Benefits, Medical, Conveyance Etc.

The pay-packet remains the important element of human resource management to retain and motivate employees. It is must for every organisation that they should evaluate their Pay packets due to lot of factors like: trade unions, competitions, legal framework, market situation and public policy etc. Therefore, organisations are finding the need to develop various incentive schemes and payment by results systems to make pay directly related with performance.

To-day it become essential for every organisation to give the fair pay packet to the employees for their work either because of competitive pressures, legislation or wage settlements, and the need to attract and retain the right people. That's why organisations are searching for means to find innovative approaches to make pay packet performance oriented and attractive.

CONCEPT OF WAGES, SALARY AND PAY- PACKETS

Concept of wage

Payment made to labour is generally referred to as wages. It can be time-rated or piece-rated. It can be rate per hour, per day, per week, per month or per year. In Price-rated system, it can be by completion of job-task and wages fixed for per unit of performance.

Concept of Salary

Money paid periodically to persons whose output can not easily be measured, such as clerical staff as well as supervisory and managerial staff, is referred to generally as salaries. Concept of Pay-Packet is a comprehensive term and consists of several elements like basic wage, dearness allowance, house rent allowance, city compensatory allowance, annual statutory bonus, incentive bonus and various other perks and benefits etc.

BASIC-WAGE COMPONENT OF PAY PACKET

The basic wage provides and stable base to the wage structure. It is the price to be paid to get a given job done. This could be on monthly, weekly or daily basis.

Basic wages is built upon the statutory minimum wage, through the awards of the Industrial Tribunals and directives of the Pay Commission at National and State Levels and the collective bargaining. The minimum wages, according to the recommendations of the 1949 Report of the Fair Wages Committee appointed by the Government of India should provide not merely for bare subsistence of life but for the preservation of efficiency of workers

by providing some measure of education, medical requirements and amenities. It was after the end of the Second World War that the Industrial Tribunals and Courts have set the pattern of basic wages in Industries through awards. Basic wage of Industrial worker is based on a “ Standard-Budget” concept or a family of four, should include food, clothing, housing and fuel. This is also known as Need Based Minimum Wage. The underlying assumptions behind the basic wage legislation are that the industry does not have the right to exist unless the minimum needs of workers are met.

The Committee on Fair-Wages (1948) and 15th session of I. L. C. (1954) propounded certain wage concepts such as minimum wages, fair wages, living wages, and need based minimum wages.

Minimum wages- not merely for basic subsistence but also for the preservation of efficiency and providing some measure of education; medical etc.

Fair-wage – while the lower level of fair wage is the minimum wage the upper-limit is the capacity of the industry to pay. Between these two limits, the actual wage can depend on (i) the productivity of labour (ii) the prevailing wage rate (iii) National income (iv) the place of industry in national economy.

Living-wages – It represents and inclined decency, protection against ill health, requirements of essential social heads and insurance against some future misfortune etc.

Living wage is a concept enshrined in our constitution and state will make all efforts to attain it.

The concepts of Nominal/Money wage and Real Wage also require explain in brief.

- Nominal/Money wage is the earning in cash or its equivalent
- Real wage is the money wages discounted by cost of living index to denote the purchasing power of the wages.

Differentials in basic wages are normally based on a set of criterion which the Fair Wages Committee suggested. They are as follow:

- The degree of skill
- The strain of work
- The experience involved
- The training required
- The responsibilities undertaken
- The mental and physical requirements
- The disagreeableness of the task
- The hazard on the work
- The fatigue involved

Basic wage is generally practiced through scales of pay. An employee draws his basic pay in a range provided in the scales. He also gets increments on periodical basis. Basic pay generally remain static, unless an employee moves upward (gets promotion) or downward. (gets demotion).

DEARNESS ALLOWANCE COMPONENT OF PAY PACKET

The words dearness allowance primarily suggests and refer to allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. The system of D. A. for employees began during Second World War when Government sanctioned a scheme of grain allowance to their lowest paid employees. Gradually, it was extended to all classes of employees as a means to protect, to some extent, the real income of wage-earners and salaried employees from the effect of price-rise and inflation. Instead of increasing wages, DA is paid to neutralise the rise in prices. The assumption behind DA rise is that if the prices go back to the earlier level, the DA can be reduced or withdrawn.

In other countries, where similar practice exists, it is known as a practice of inflation adjustment or cost of living allowance (COLA). Even in India, Sec.-3 of Minimum Wages Act refers to it as cost of Living Allowance.

DA forms a variable component of Pay-Packet, since rate of dearness increases more than once every year, whereas the basic pay scales are revised after longer spells of time.

The scheme of DA is having usually three parameters – (I) Index factor (ii) the time factor (iii) the point factor. The Index is usually the All India

Consumer Price Index (AICPI) Number for Industrial Workers (Base 1960 = 100 AICPI). The allowance may go up with the revision in the index based on average for a selected period to off-set the temporary fluctuations in the index. Also, a doze of DA is related to certain prescribed increase in the number of the Index points.

There are different patterns of calculating DA, using the above parameters –

The Central DA – Applicable to Central Government employees and employees of certain central PSUs. In this pattern incident of neutralisation goes upto 100% for lower slabs.

The Industrial Pattern – Applicable to most of the PSUs and also some private sectors. The DA is paid at the rate certain rupees (say Rs. 3) for per point increase in the Price Index.

DA system in Banks and LIC is yet another pattern which is different than above types. It has better benefits than IDA pattern.

PAYMENT BY RESULT INCENTIVE PAYMENT

Wage is “ a fair day’s remuneration for a fair day’s work”, i. e. standard performance. An incentive wage is described as “ a method of payment for work of an acceptable quality produced over and above a specified quantity or standard”. Payment-by- Result (PBR) refers to a method which provides, for the “ direct linking of workers earnings to a measure of their performance”.

Where pay is the contingent upon performance, employees give their best under incentive conditions rather than non-incentive conditions. The

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incentives can be financial or non-financial and both types of their role under certain conditions.

PBR system (wage-incentive being one) can be distinguished on the basis of unit of accountability for performance and classified into three categories (i) individual performance (ii) group performance (iii) enterprise performance.

Individual Payment-by-result – The purpose is to accomplish higher-level of performance with promise of extra remuneration for extra effort over the standard. Several individual PBR systems are in vogue. Some of the well known systems are price-rated system, premium bonus system (standard hour/measured work day plans) or work-improvement system.

Group payment by result scheme – The PBR schemes discussed above can be applied on group basis also. Group PBR is appropriate where jobs are interdependent; where it is difficult to measure individual performance separately and where group pressures influence the output of the members of the group. There should be objective system of measurement of the group performance and members must be aware of it.

Enterprise-level schemes – These schemes emphasis gain sharing arising through redirection in labour and other costs. The gains arising out of improvements in performance over and above the base or norm is shared between the employees and the organisation according to pre-determined ratio.

Managerial Incentive Plans

Managerial employees get the following types of additional incentives –

- Commission on a percentage of profit

- Company's share on concessional rates

- Bonuses in cash or kind (discount coupons, paid holidays, etc.)

STATUTORY BONUS

Payment of Bonus Act, 1965 ensures payment of bonus each year. This ranges from 8.33% to 20% of wages. The Act compels even the loss-making industries to pay 8.33%. For profit-making companies, the Act provides formula to declare annual bonus, which has to have the ceiling of 20%. In this sense, the annual bonus has become a sort of “deferred-wage” every employee gets its.

The method of calculation of annual bonus is given below:

First gross profit is to be calculated in the manner specified in the First and Second Schedule of the Act.

From the gross profit so worked out the available surplus is to be computed by deducting prior charges, such as (a) depreciation admissible under Section 32 (1) of the Income Tax (b) development rebate, or investment allowance, or development allowance deductible by employer from his income under the Income Tax Act (c) direct taxes payable by the employer on income, profits, and gains during accounting year (d) actual dividend payable on the preference share capital, and (e) 8.5 return on paid-up capital and 6% return on reserve shown in the balance sheets at the commencement of the accounting year. In the case of banking company the return on paid-up capital and reserves to be deducted is to be i % less and

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(go such further sums as are specified in respect of the employer in the Third Schedule of the Act.

From the “ Available Surplus” so computed, 67% of it in case of foreign companies and 60% in case of other companies are to be constituted as “ Allocable Surplus” for payment of bonus to the employees covered by the Act.

Every employer whose establishment is covered by the Act, has to pay a minimum bonus equivalent 8. 33% of the salary and wages including dearness allowance during the accounting year, or Rs. 100 to all eligible workers over 15 years of age, and Rs. 60 in case of workers below 15 years of age, whichever is higher, irrespective of the fact whether there is any allocable surplus or not. Minimum amount of bonus is to be paid in proportion to the number of days actually worked.

If in any accounting year the allocable surplus exceeds the amount of minimum bonus payable to the employees, the employer shall pay to every employee in respect of that accounting year bonus which shall be an amount in proportion to the salary or wage earned by the employee during the accounting year subject to a maximum of 20% of such salary or wage. In computing the allocable surplus for this purpose the amount of set on and set off from the previous years will be taken into account.

Although this Act is applicable to all those persons who receive monthly pay upto Rs. 3500, but in the case of person with monthly pay between Rs. 1600 and Rs. 3500 only pay of Rs. 1600 is to be taken into account for working out

the amount of bonus payable to them, for this purpose the term pay includes basic pay and dearness allowance.

The employee not covered by the Act, also get an amount equivalent to bonus either on Ex-gratia or Reward or by any other name. Therefore, bonus has become an integrated part of pay-packet.

ALLOWANCES, FRINGE BENEFITS AND SOCIAL SECURITY

The Pay Packet includes, such extra benefits, in addition to the normal wages or salary compensation or incentive payment etc., are referred to loosely as Allowances and Fringe benefits. They form substantial part of pay-packet and an employee decides his employment keeping the allowances and fringe benefits also in view.

Allowances

Successive wage settlement/awards have brought of a number of allowances which form integrated part of pay-packet.

Fringe-Benefits

The general objective of the organisation for offering fringe benefits to the employee is to attract, retain and motivate him. The specific objectives are related to the nature of each benefit. For example, extra-increments and accelerated promotions on acquiring higher and relevant qualification is intended to enhance qualifications and skill mix of the employees. Similarly nutritious food (milk etc. is given to make good of the efficiency losses and restore stamina to work.

There are many other considerations for instituting and expanding employee's fringe- benefits. For example paternalistic or humanistic considerations, statutory requirements, concern for security hazard of industrial life, tax considerations, utilisation of leisure time, inculcating some of involvement, competitive market conditions to attract and retain good performers.

Paternalistic or Humanistic consideration – Basically voluntary with welfare orientation to supplement wage compensation with certain infrastructures or facilities to provide for health; education, and housing as also social, cultural, religion, recreational activities, etc.

Statutory requirements – Since 1940s social welfare provisions have been incorporated in different legislations – canteens, rest-sheds, crèches, maternity and paternity provisions etc.

Concern for security – The need for catering to the social security needs of the employees, specially after retirement, come under this – Provident Fund, Gratuity and Pension Schemes are the main Housing-Scheme, Medicare after retirement and many other security schemes are coming in this area.

Hazard of Industrial Life – To avoid depletion of saving in illness, accident etc. certain provisions have been made – workmen compensation Act and the ESI Act etc. are the examples. Large organisations have gone for normal health care service of their employees and their family. Some have made good hospitals; some have gone for dispensaries and some for Medicare schemes.

Tax Considerations – Organisations develop tax planning to avoid tax obligations by restructuring the pay packet – A significant portion of the remuneration is split into variety of expenses like house-rent, medical, transport entertainment, education, interest-free loans, loans at concessional rate, etc. The purpose is to enable the employee to have maximum value for a given remuneration package. The tax-free extra list is ever expanding more prominently in Private Sectors and MNCs for their managerial staff. But tax authorities are taking exception of going beyond certain limit.

Utilisation of leisure time – Besides shortening of working hours and the phenomenon of extended week-ends the importance of leave and holidays for rest and recreation to maintain agile body and creative mind is on increase. In view of this, organisation are not only providing for paid leaves of different kinds (casual, privilege, sick, special casual leave, etc.) but also granting facilities for leave travel (usually in form of reimbursement of travel expenses for holiday travel in a year to two). To make it convenient and cheap, organisations have gone for constructing holidays homes at resorts or hire hotel or guest houses etc, for their employees and their families. Some of the private sectors and MNCs organise foreign trips for holiday along with family.

Inculcating sense of involvement – organisations have gone for novel fringe benefits to elicit employees sense of involvement. Most of them have been modeled on pattern with Japanese organisations – company's uniform (clothes, shoes, tie, watches, etc.), concessional lunch for every one in company's canteen; subsidised picnics etc. are the examples.

Competitive considerations – competitive pirating is common phenomenon. Organisations face problem of attracting and retaining. Also, organisations located in backward areas may face additional problems. Hence, a variety of incentives and benefits are offered- township, reimbursement of educational expense of children, self-lease houses, special allowances or pay (disturbed area allowance, construction allowance, difficulty allowance, etc.) are given. In addition, membership of clubs, professional associations, sponsorship for training and conferences abroad, buy back of company's houses, car, furniture at discounted rate etc. are also given.

UNDERSTANDING THE TRENDS OF PAY-PACKET

In this competitive-age, where job-hopping, is very frequent, the organisations are realising the need to be sensitive to mould the pay and fringe-benefits to suit the needs of the individual employees rather than offer a common, standard pay package with the result, flexible compensation packages (known as Ala Carta or In-Basket) are gaining widespread acceptance among managerial employees. Such practices are very much prevalent in MNCs and some big private sectors. But such flexible pay-package is still to be common practice in India.

In flexible compensation package, the total pay-packet is decided or negotiated and employee is given option to distribute it under different items like pay, house-rent, conveyance, entertainment, journal/book allowance, membership in club/professional India, furnishing allowances, drivers' salary etc. Most of the items constitute expenses that do not form the part of taxable income: there are some items which a particular employee may need and a particular employee may not need. He has a range of choice and

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he plans his choosing keeping his needs and tax-element in view. Flexible compensation often extends and goes beyond fringe benefits in traditional sense.

QUESTIONS

Q1. What do you understand by the concept of wages? Explain the concept of basic wage through examples?

Q2. Why dearness allowance is an integral part of pay packet, explain how is it administered?

Q3. Define and differentiate between bonus and fringe benefits, how are they linked to social security.

Q4. What are the hazards of industrial life, explain with examples?