

## Bricks and books: When can benefits be so much more?

South Africa | 01 June 2013 | Issue

### Authors and contributors



[Kelsy Moodley](#)



[Michael Prinsloo](#)

By the late 1800s, industrialists such as Cadbury had noted the importance of benefits beyond regular cash remuneration. These additional benefits included retirement funding and medical services. In some cases, industrialists provided so-called ‘model villages’ where the company provided housing and all other infrastructure.

Non-traditional employee benefits, such as housing and education, have been offered on South African mines and farms for some time. However, housing is a basic human need. Our survey suggests that across the sectors there are members who value-in-kind benefits such as housing and education subsidies as highly as their take-home pay<sup>1</sup>.

While employers may feel that their current total rewards system is sufficient to meet the needs of their employees, the argument presented here introduces an additional facet of employees’ needs that employers might not have considered.

With the rising costs of both housing and education, employers need to ask what benefits really matter most to members. For instance, higher-income earners may value an education subsidy more, relative to low-income earners, as they may have a deeper interest in private-schooling, as opposed to public-schooling, for their children.

**In South Africa, housing and education are regarded as valuable and worth saving for.**



### What do workers need?

Common economic theory suggests that, except in special cases, an in-kind transfer is relatively less effective at improving welfare than a cash transfer of equivalent cost, since we rarely measure wealth with intangibles like a child’s education<sup>2</sup>. But in South Africa, housing and education are regarded as valuable and worth saving for<sup>3</sup>. So it needs to be recognised that the perceived value of a housing subsidy, for example, may be greater than the cash equivalent. This is a ‘win’ for both the employer and employee, so in-kind transfers should form part of the list of employer priorities.

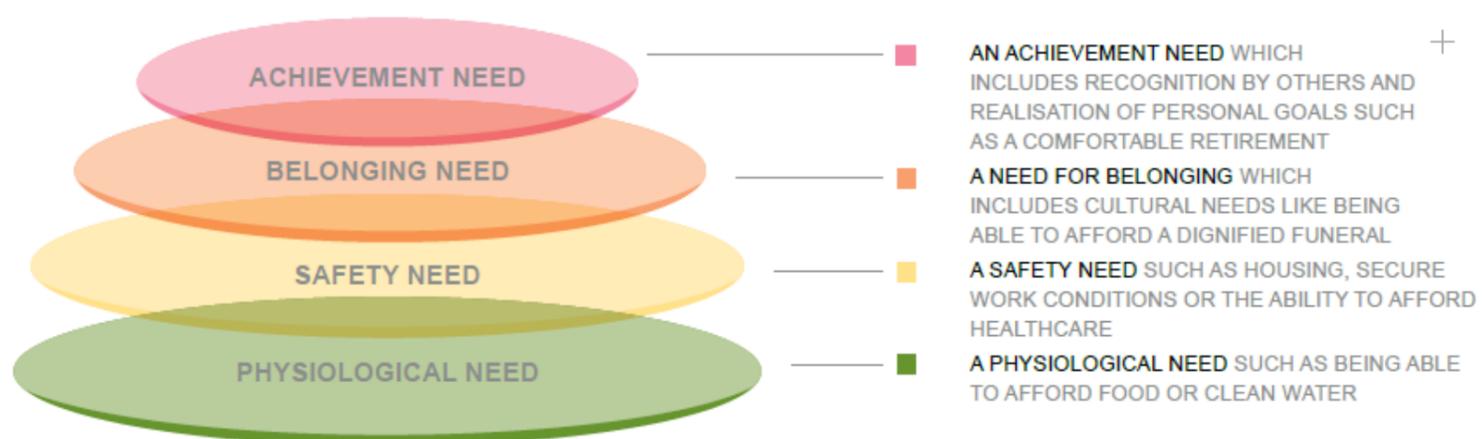
To facilitate home ownership for individuals where credit may not be available, some retirement funds allow members to borrow against their retirement savings. However, this may not go far enough. From an employer’s perspective, housing close to the place of work has certain secondary advantages such as reducing time spent in long commutes, traffic congestion and pollution. However, the supply of housing in the area or the infrastructure needed to service a community may be insufficient. Finding a way for someone to be able to buy or build a house is unhelpful if water, sanitation, healthcare and roads are simply not there.

To facilitate home ownership for individuals where credit may not be available, some retirement funds allow members to borrow against their retirement savings. However, this may not go far enough. From an employer's perspective, housing close to the place of work has certain secondary advantages such as reducing time spent in long commutes, traffic congestion and pollution. However, the supply of housing in the area or the infrastructure needed to service a community may be insufficient. Finding a way for someone to be able to buy or build a house is unhelpful if water, sanitation, healthcare and roads are simply not there.

Similarly, offering bursaries might give employees an opportunity to educate their children but the supply of education may differ from the demand. For example, there may be a primary school in a town but no high school, or the language in which learning takes place may not be appropriate. Even if there is a school, parents need to regard the school as being good enough. This perception might be based on the number of learners in each class, facilities, medium of instruction and whether the school is public or independent.

A modified version of Maslow's Hierarchy of Needs, illustrated below, is a useful tool for employers who are looking at providing a holistic total rewards system that goes beyond employee benefits. More importantly, employers should recognise the interconnectedness of these levels. A basic need for housing can interweave with an individual's feelings of achievement. This way the employer provides tangible assets by providing a benefits package, as well as a psychological sense of well-being that can improve both productivity and engagement.

## Maslow's hierarchy of needs



Adapted from Maslow, A (1943). A Theory of Human Motivation. Psychological Review, 50(4), 370-39

### What's in it for employers

Employers may argue that providing housing and education should be the role of the government. But from an employer's point of view, besides fulfilling basic human needs, providing in-kind benefits contributes to increased employee recruitment, retention and job satisfaction, particularly as housing and education for children are both long-term commitments. A recent survey also showed that employer provision of subsidies for housing and other benefits is in the interest of employee retention<sup>4</sup>.

For society at large, employer-sponsored programmes can result in community revitalisation and much-needed infrastructure development that can improve the livelihood of future generations. In terms of strategic objectives, such initiatives can help employers make sure they have a steady supply of workers going forward.

Under certain circumstances, the benefit may be tax-deductible in the hands of the employer. However, structuring the benefit so that it qualifies as a working condition fringe benefit, for example, may require specialist tax advice. The tax implications for the recipient should also be considered when structuring the benefit.

**There may well be grounds for allowing retirement fund withdrawal and retirement benefits to be used for housing and education.**

### Implications

Although housing and education benefits may be advantageous for both the employer and the employee, they are costly to provide, so employers would need to find cost-effective means of delivery. If the government wishes to encourage employers to provide this sort of benefit, policy intervention may well be required to ensure tax efficiency.

Similarly, the legislation around pension backed lending may need to be extended to cover education as well as housing. Ideally this could be by way of interest-free or low-interest rate loans with the amounts being repaid before retirement age. The loans would also need to be exempt from some National Credit Act<sup>5</sup> and FAIS criteria to be cost-effective and have as wide an impact as possible. There would need to be a reduction

in unsecured lending at the same time to make sure that average debt levels do not rise above serviceable thresholds.

In addition, although the National Treasury's proposed reforms promote preservation<sup>6</sup>, there may well be grounds for allowing retirement fund withdrawal and retirement benefits to be used for housing and education.

With respect to education, trusts may be a way to pay for education, particularly for employees who cannot afford to pay for themselves. Alternatively, providing for employees' children or donating land and facilities might also achieve the desired aim.

Finally, employers may be required to explore the above as well as other non-traditional benefits. The easiest way for employers to identify the needs of employees might be to enter into a dialogue with employees, directly or through their representatives.

## References

1 Alexander Forbes Benefits Barometer Employer Survey 2012

2 Smeeding (1977)

3 Finmark Trust (2011)

4 Alexander Forbes Benefits Barometer Employer Survey 2012

5 Act No 34 of 2005, as amended

6 National Treasury (2012c)

[EMPLOYEE BENEFITS](#)

[HOUSING](#)

[EDUCATION](#)