"IAS 19" and employee benefits: a guide to effective management of the compensation system in Algeria.

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ABSTRACT

The implementation of a remuneration system is a delicate and sensitive task, which must take into account the psychological weight of the tools attached to it, such as motivation, recognition and professional development. The constraints of a remuneration system are external competitiveness, internal equity and the wage bill. To build such a system, it is essential to determine the results and objectives that the organization wishes to achieve, taking into account factors such as the balance between direct and indirect remuneration, the complexity and responsibilities of the role, and internal and external equity. The ability to achieve results is critical to the success of the organization. In this article we look at the importance of a remuneration system in an organization, how to develop a remuneration policy that is in line with the objectives set, and how to create an attractive and motivating remuneration system that includes benefits, such as those governed by IAS 19, to enhance the skills of employees.

Keyword: *System, compensation, Employee benefits, employee, IAS 19, accounting, human resource.*

Introduction:

Designing a remuneration system is a delicate and sensitive task as it has a significant impact on the motivation, recognition and development of employees. The tools used in this system have an important psychological weight that should not be underestimated. In general, a remuneration system must meet three constraints: external competitiveness to attract and retain the best performing employees, internal equity to ensure fair pay according to seniority and performance, and control of the wage bill to prevent it from increasing too quickly and putting too much strain on the company's finances. To design an effective remuneration system, it is important to start by determining the results and objectives desired by the organization. This involves developing a compensation philosophy that takes into account several factors such as the balance between direct and indirect compensation, the complexity and responsibilities of the position, and the skills and experience of the candidate or employee. It is also important to pay attention to internal equity and fairness in relation to market offers.

In examining the limitations of employee benefit plans, we note the multiple challenges faced by governments and employers with respect to public and private benefit plans. We also highlight the importance of effective management of employee benefits and the conditions for success that must be met to maximize their effectiveness. Specifically, we discuss the importance of having an employee benefits management policy in place, analyzing benefits needs and clearly communicating them. Finally, we look in more detail at two types of programs: flexible benefits programs and early retirement programs.
To this end, this research work attempts to answer the following question:
« How to set up an attractive compensation system using employee benefits as defined in the international accounting standard IAS 19 "Employee Benefits"? »

1. Benefits to individuals: definition and history

Benefits, commonly referred to as 'social', are components of indirect remuneration, i.e. remuneration that is not paid in cash to employees. In other words, they are the conditions that employees enjoy in terms of fringe benefits, time off, additional benefits and working conditions.

1.1 Definition of benefits

- Employee benefits consist of private and public pension and group insurance plans that aim to protect employees against various life contingencies, such as illness, disability or morality.
- Time off includes holidays and congresses that employers offer to their employees under the Working Hours Act, and very often go beyond the requirements of this Act. These are conventions related to public holidays, personal reasons, marriage, illness, maternity, paternity, death, etc.
- Fringe benefits consist of bonuses given to an employee or expenses reimbursed by the employer (car, parking space, meals, tuition fees, financial advice, assistance program, etc.).
- Working conditions also include working hours and unpaid leave, which have a direct and indirect impact on the remuneration of time worked. Unpaid leave, for example, may require disbursements for the training of replacement employees.

As Ferland (2004); clarifies as a component of the group of employee benefits; insurance is the result of a unique contract that confers personal benefits _ either benefits; or a sum paid by the insurer to the insured for the performance of an obligation resulting from a contract from which an employee may eventually benefit; to categories of people according to the conditions of a pre-established program; or plan of a public or private nature, of a compulsory or optional nature; and whose management is based strictly on membership of a legally defined group (St-Onge, 2007).

Under group insurance, insured persons are not designated as individuals but as classes of persons eligible for a pre-determined plan that guarantees them the right to receive benefits when events, conditions or circumstances arise. Such insurance plans may be public or private in nature, depending on whether they are funded by governments (federal or provincial) and subject to a citizenship test or private interests on behalf of an employer or union and subject to a company or association membership test, insurance plans may also be compulsory or voluntary depending on whether they are imposed by federal or provincial legislation and/or by a collective bargaining agreement or by the contract with the insurer The group insurance market is huge: between April 2001 and March 2002, $23 billion and $3 billion respectively were spent in Quebec in public and private plans in life and accident and health insurance (Ferland; 2004).

1.2 The evolution of the benefits offered to individuals

The provision and evolution of employee benefits and the role of governments vary greatly from country to country. The same is true for the financing of these schemes through taxes and for the relative contributions of employers and employees. The Americans, for example, have chosen to solve the problems of insecurity in industrial society by relying mainly on private initiative. Thus, unionized staff in large companies and in urban centers in the United States are fairly well protected compared to non-unionized employees in small organizations.

Employee benefits and their management have changed significantly since the industrial revolution. Until the end of the 19th century, cash wages were the only form of compensation that employees received for their services. Industrialization contributed to increasing the risks associated with income protection. Parallel to industrialization, important changes occurred in society, notably the development of urban life and, consequently, the greater expenditure of families on their income. Politicians of the time, like those of today, did not remain indifferent to the changes in mentality that were taking place in the population, for example, in Canada, the Old Age Security Act came into force in 1927. This law would allow unemployed and needy elderly people to receive state benefits. In the 1930s, the first income protection scheme appeared the direct relief program.

However, the first major state intervention in benefits was rather involuntary. In 1941, in order to control inflation, the federal government adopted a wage control program and imposed very high corporate profits. In response, employers implemented so-called "fringe benefit" program- as they were called at the time, even though they were considered unimportant - to attract and retain the required staff. The presence of trade unions in large industrial companies, which generally have a greater capacity to pay, also explains the implementation of this program.

In sum, the increased intervention of the state has been such that the role of private enterprise and trade unions is no longer to get things started in these areas, but rather to complement the benefits offered by the state. The principle of complementarity between different public and private group insurance schemes ensures that an insured person who is eligible for benefits from different public or private schemes is not in a better financial situation following a claim (Ferland, 2004). Today, this principle is increasingly problematic as the state gradually reduces the benefits offered by its plans and employers are less and less able to pay for them. How to deal with and list individual supplementary benefits. Their diversity makes it difficult to assimilate them: they are not totally variable as some are defined as supplements to fixed remuneration, they are not totally fixed as they are often linked to the exercise of a given function or to a given event, and they are not collective as they are selective and their value does not depend on collective results. Nevertheless, selective individual fringe benefits are developing in response to two main concerns:

- The first is the need to diversify forms of remuneration and to create stronger and more selective incentives for employees, especially managers. By selectively and distinctively developing these benefits, mainly in kind, the objective is clearly to develop motivation.

- the second concern is fiscal. The development of individual benefits in the form of options or cafeteria plans corresponds to the possibility of arbitrating a part of the remuneration in the form of benefits in kind, subject to lower taxation.

In both cases, these benefits are only effective and interesting for highly paid executives and employees. More specifically, but in response to different needs, this type of benefit is highly developed for expatriate executives.

In the first case, they can represent up to 20% of the annual salary, as is the case in Great Britain, and more than 10% on average in countries such as Germany and France. On the other hand, in the second case, the proportion of benefits can go beyond 30% of the remuneration.

1.3 The advantages of benefits :

Practices and preferences evolve according to countries, their practices and their culture. A few years ago, the company car was not very developed, but in France it is very popular because it is distinctive. It is more developed today and is losing some of its appeal (also for tax reasons, which have become less advantageous). It is giving way to company housing, which is extremely limited and is the preserve of senior civil servants and expatriate executives. American executives particularly appreciate memberships in private clubs and VIP benefits or entertainment expenses paid by the company.

In fact, in order to try to find a coherent typology for these different benefits, they should probably be classified according to the real reasons for their establishment. Although they were subsequently extended within the same category, they were most often originally instituted to meet particular needs. It is possible to list four of them (Roman B., 2022).

a) **Benefits linked to the constraints and particularities of the position**

Job-related benefits are among the oldest. They are in principle linked to certain duties and disappear in the event of a change of function or assignment. Representation and reception expenses, housing, car and telephone benefits, office equipment, catering expenses, clothing, etc. are linked to the characteristics of a job. If the job involves representation, presentation, reception or travel, the company will pay for or provide the jobholder with the appropriate means.

b) The benefits of geographical mobility and expatriation

This is usually done in a uniform way for all employees concerned in the same category, thus helping to define a status with a series of advantages. This is usually done in a uniform way for all employees concerned belonging to the same category, thus helping to define a status conferring a series of advantages. An example of this is expatriate status, which is relatively popular with large international groups.

c) Distinctive advantages and inventiveness.

Distinctive benefits are usually those awarded to senior managers or high potentials of the company. Whatever the outline of the categories chosen, the benefits package will be defined according to the needs of the categories. This can range from individualized supplementary benefits (top-up pension; specific insurance, unemployment insurance for executives) to more traditional distinctive benefits (car, driver, accommodation, home telephone expenses, club memberships, travel)...

d) Optional benefits, for tax exemption purposes

Elective benefits are usually part of the cafeteria menu from which the employee can 'compose' his or her remuneration.

This explains the important part given in the allocation of bonuses to specific skills such as flexibility; the level of support, loyalty beyond the pure contribution of bonuses for management corresponds well to the concern of remunerating performance but also of behaviors which condition the adherence to objectives, the cohesion of teams and ultimately the effectiveness of the human resources invested.

e) medium-term and deferred bonuses

While traditional variable remuneration, whatever their form, are defined over longer periods - from two to four years - are developing, they respond to two types of expectations.

The first relates to medium-term performance. The aim is to correct the perverse effect of performance that is evaluated and rewarded over too short a period of time. In this case, it is impossible to assess the consequences and conditions under which the performance was achieved. For example, an increase in the instantaneous margin may result in a delay in the loss of customers, or conversely, an increase in the number of customers may result in no margin or a negative margin. In other cases, a certain type of commercial management based on rapid sales growth but which leads to intolerable turnover or compensation in terms of remuneration or retention, the amount of which far exceeds the profit from the growth in turnover. In all these cases, extending the evaluation period would give a fair view of the performance achieved and its sustainability.

Finally, it may be a question of defining bonus amounts in relation to a multi-year growth plan over three years and giving a clear perspective by accompanying the implementation of the plan with a vision of the variable remuneration that is associated. However, it is recommended in this case to maintain a high degree of flexibility in order to be able to manage the inevitable changes that occur over time.

In their most advanced forms, medium-term bonuses are indexed to value creation with EVA (Economic Value Added) indicators. This type of remuneration is therefore very similar to stock options and even more so, to performance shares, the allocation of which depends on the evolution of indicators of this type in the medium term, the only difference being in reality the tax treatment.

The second concern is to use medium-term bonuses for other purposes such as retaining a person over a period of time, either through guarantees on the level of future bonuses or by differentiating the person in the company.

1.4 Accounting standard IAS 19 "Employee Benefits":

The accounting and administrative vision of the payroll manager who applies the remuneration policy to the letter and whose task is to ensure that all employees will have representative pay slips corresponding to the activity carried out on the due date.

The employer is obliged to pay each worker the remuneration due to him/her regularly and in arrears.

The remuneration contained in the sums owed by the employer may not be withheld, seized or withheld on any grounds whatsoever, to the detriment of the workers to whom they are owed.

In the accounting view, the employee has competitive benefits that are implemented by the employer by applying the international accounting standard IAS 19[1] "Employee Benefits" which is defined as follows

Employee benefits refer to all forms of consideration given by an entity for services rendered by its employees.

Short-term benefits refer to employee benefits (other than termination benefits) that are due in full within twelve months after the end of the period during which the employees rendered the related services.

Post-employment benefits refer to employee benefits (other than termination benefits) that are payable after termination of employment.

Post-employment benefit plans refer to formal or informal arrangements under which an entity provides post-employment benefits to one or more of its employees.

Defined contribution plans refer to post-employment benefit plans under which an entity pays defined contributions to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all the benefits corresponding to the services rendered by the employees in the current and prior periods.

Defined benefit plans refer to post-employment benefit plans other than defined contribution plans.

Other long-term benefits are those benefits (other than post-employment benefits and termination benefits) that are not due in full within twelve months after the end of the period during which the employees rendered the related services.

Termination benefits are employee benefits payable as a result of :

- the entity's decision to terminate the employee's employment contract before the normal retirement age; or
- the staff member's decision to leave voluntarily in exchange for these allowances.

Vested benefits are those benefits that are not conditional on the existence of future periods of service.

The *present value of the defined benefit obligation* is the present value, before deducting plan assets, of expected future payments required to settle the current and prior period service obligation.

Current service cost is the increase in the present value of the defined benefit obligation arising from current service.

Interest cost is the increase in the present value of the defined benefit obligation over a period as a result of moving towards the settlement date of the benefits in a period.

The *plan's assets* include :

- Assets held by a long-term employee benefit fund; and
- Qualified insurance contracts.

Actuarial gains and losses include :

- experience adjustments (the effects of differences between previous actuarial assumptions and what actually occurred); and
- the effects of changes in actuarial assumptions.

Past service cost is the increase in the present value of the defined benefit obligation for services rendered in prior periods resulting from the introduction of a new post-employment or other long-term benefit plan or from changes made during the period to such a plan. Past service cost can be positive (if new benefits are introduced or existing benefits are improved) or negative (if existing benefits are reduced).

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[1] IAS 19 is an international accounting standard issued by the IASB (International Accounting Structuring Board) in February 1998. However, this standard has been subject to several amendments, some of which have been adopted at EU level. They are briefly presented below under the heading "At EU level".

Defined contribution plans are recognised as an expense each year. A defined benefit plan gives rise to the recording of a liability corresponding to the present value at the year-end of the share of pensions to be paid corresponding to the projected rights acquired at that date. Where applicable, in countries where there are autonomous pension funds that manage the company's social commitments, the market value of the pension fund's assets is deducted from the actuarial value of the commitment. The method used to assess the actuarial value is called the "projected unit credit method" (Pierre Vernimmen, 2012), which simulates the projection of services rendered by all the company's staff at the valuation date, taking into account actuarial assumptions (demographic, staff turnover, etc.).

2. Remuneration and remuneration strategy :

Remuneration is one of the fundamental elements of the employment contract. The employee receives a salary in return for the performance of work.

The remuneration is expressed in exclusively monetary terms and its payment is made in exclusively monetary means.

2.1 The foundations of remuneration:

Remuneration is one of the fundamental elements of the employment contract. The employee receives a salary in return for the performance of work (Labour, 2022). Wages, within the meaning of this Act, shall mean:

- ✓ the basic salary as it results from the professional classification of the employing organization,
- ✓ Allowances paid on account of the worker's seniority, overtime worked or special working conditions, in particular shift work, nuisance work and standby duty, including night work and area allowance.
- ✓ Bonuses linked to productivity and work results.

2.2 Remuneration, salary and wages :

In everyday language, these three concepts are often used interchangeably. The notion of salary refers to the remuneration received by civil servants. The distinction between salary (implying 'worker') and remuneration ('executive') tends to be blurred and the two terms are used synonymously.

2.2.1 The remuneration system :

The basis of the remuneration system is based on a question **: should we pay for the job done or for the contribution that each person makes to the functioning of the company?**

Each company sets up a remuneration system according to the evaluation practices used. The methods used include

- Pairwise comparison: this is a ranking in terms of "is superior to" for each job;
- Analytical methods such as the Hay method: this is mainly used for managerial jobs which are described according to a standard scheme and then analysed using three criteria (the purpose of the job in the organisation, creative initiative in relation to the degree of difficulty of the problems to be solved, competence).

2.2.2 The wage bill :

The wage bill refers to the financial sums that the enterprise devotes to the remuneration of its employees, i.e. the gross wages paid (net wages and workers' social security charges) and the employers' social security charges that it bears. In other words, the wage bill is the total wages paid over a period of time (month, year) in an economy or company. Its evolution depends on that of the average wage per capita and the number of employees (Lethielleux, 2006). There are several factors that can cause the wage bill to vary:

- ✓ Elements related to its composition : the level of individual salaries, the level of staff and the structure of qualifications ;
- ✓ One-off decisions taken in the past that produce inertia effects. Possible effects include

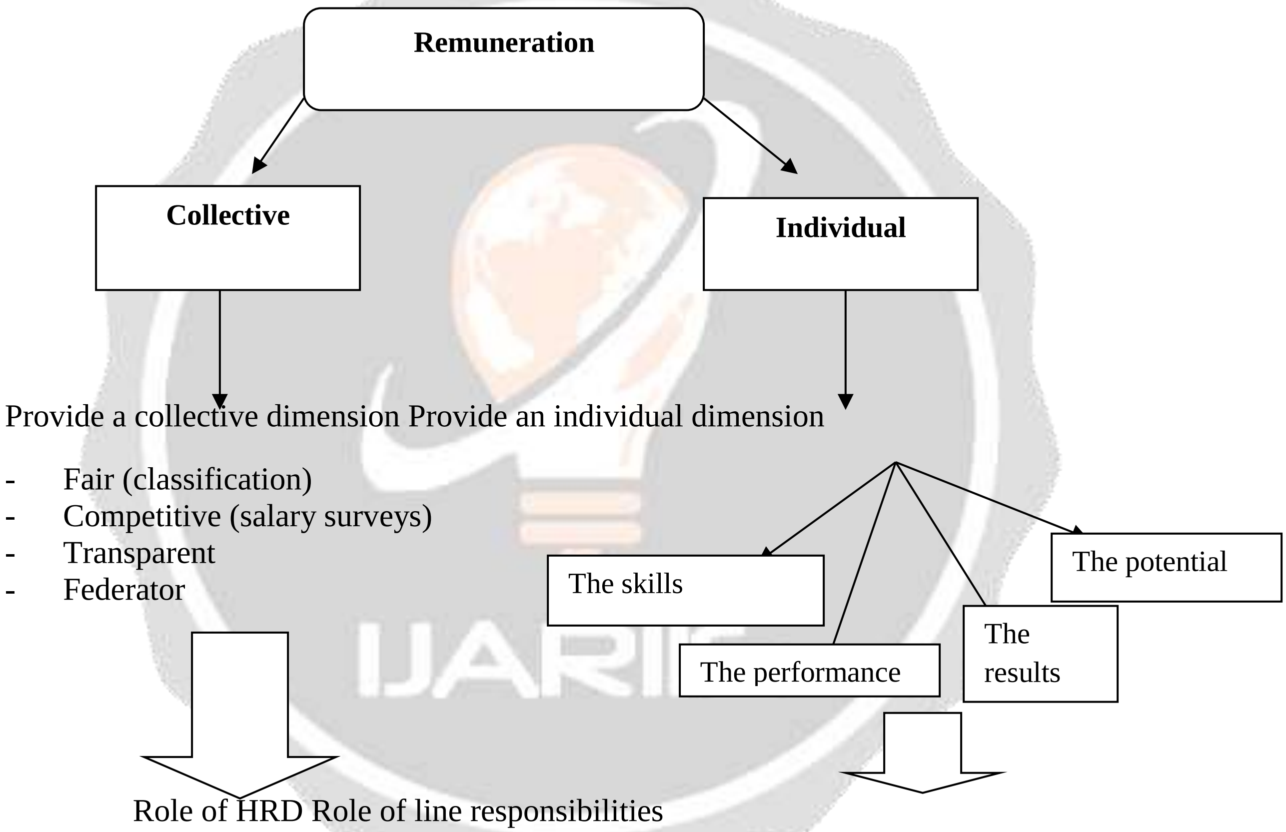
▪ **The noria effect: this is** the effect produced by the replacement of older employees by younger ones in the same positions. The latter are paid less because they have less experience, thus allowing the company to reduce its costs.

- **The headcount effect:** if the company's headcount increases, then the wage bill will increase, and vice versa. This explains why some companies resort to job cuts to reduce their payroll.
- **The structure effect:** changes in the structure of qualifications in the company will have an effect on the wage bill as this is one of its components.
- **GVT (glissement, vieillissement, technicité): the** purpose is to measure the consequences of the various individual increases. Slippage refers to increases granted without any change in qualification or the nature of the work. Ageing concerns the effects of changes in the rates of seniority bonuses or the application of automatic increments. Finally, technicality corresponds to changes in an agent's qualification. These three elements are likely to explain variations in the wage bill.

2.3 The different actors in the remuneration system :

The two options of the remuneration system can be distinguished into two types, collective and individual, according to figure 1 (Cohen-Hagel.A, 2010).

Figure 1: Role of the different actors in the remuneration system



Source: Cohen-Hagel.A, toute la fonction ressources humaines, 2ème edition DUNOD, Paris, 2010, p 308

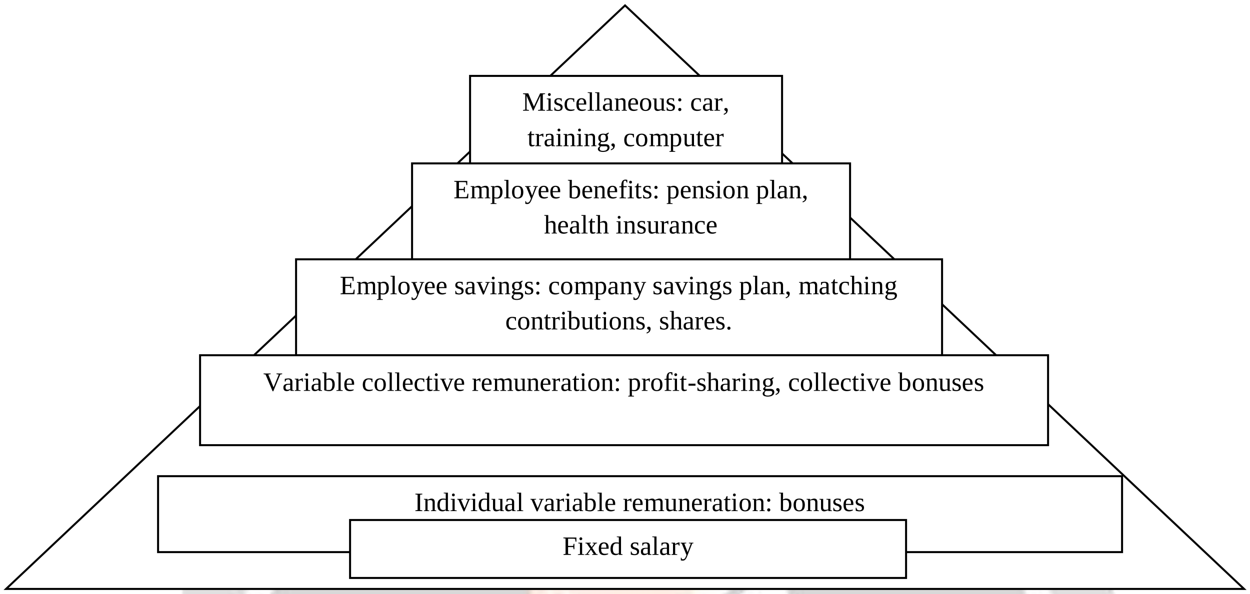
An effective remuneration policy will increasingly depend on how well the various tools available are combined (Peretti, 2019), such as:

- An annual base salary which represents the fixed and guaranteed part of the remuneration;
- Bonuses or variable remuneration that depend on results and may involve risks;
- Profit sharing ;
- Specific social and statutory benefits

3. The effect of the choice of remuneration on staff benefits:

Remuneration choices have an impact on employee motivation and retention. How can we build an attractive and motivating system without the risk of high salary costs?

Figure 2 : The various forms of remuneration



Source: Guerrero. S, " les outils des RH ", 2ème edition DUNOD, Paris 2009, p149.

The fixed salary is only one of the forms of remuneration that an employee can receive. A company that relies solely on salary to manage its staff runs the risk of entering into a dangerous war both for its wage bill and for setting fair and transparent rules for employees. While the fixed salary plays a major role in attracting employees, it is not enough on its own to attract and retain. Every HRD has other forms of remuneration that are complementary to the fixed salary and deserve equal attention.

Incentives, bonuses, commissions or any other form of variable remuneration linked to individual performance that rewards employees for their performance. Variable remuneration is sometimes linked to turnover and in this case the additional remuneration is directly linked to the company's income. This reduces the risk of an explosion of the wage bill. The other advantage of individual variable pay is that it motivates employees by recognising individual performance.

The aim of employee savings and collective variable remuneration is to link employees' remuneration to company results. It is hoped that this will involve employees in the strategic issues and financial results of the company.

Benefits include pension plans, health insurance, but also benefits that confer privileged status on those who have them: telephone, computer, car, training, etc. Providing long-term benefits makes people feel that they are treated in a privileged way. Therefore, employees who receive such benefits should be more attached to their organisation

Table 1: The impact of the main remuneration tools

Salary	**Attracting, motivating**
Performance-related bonuses and incentives	Motivate
Collective variable remuneration	Involve, build loyalty
Employee savings	Involve, build loyalty
Social benefits	Build loyalty
Various	Attracting, attaching, retaining

Source : based on (Guerrero, 2019).

4. The Algerian remuneration system :

How much do Algerian executives earn? In the opaque and hushed world of companies, there is often no correlation between the "merit" of the boss and his pay slip. Zoom in on the remuneration system of the heads of public companies. How much is a boss worth?
This is certainly an annoying question, as there is an omerta surrounding the emoluments of Algerian executives. This anarchy has its origins in the fact that in public companies, the logic of access to the position, as well as that of resignation, results from the combination of several internal and especially external considerations (co-optation, clans...). Insofar as the remuneration of the CEO of public companies is determined after deliberation by the members of the Board of Directors, the salary depends much more on the "stature" of the boss than on his or her "status"; company managers are very secretive when it comes to their paychecks. In the sample of **112 companies** surveyed by Cread, the acceptable response rate is only 28%. Managers' remuneration varies from one company to another. While the majority of managers surveyed declared a monthly salary level of less than DA 100,000, 22% of managers were in the bracket between DA 100,000 and DA 150,000, and three quarters of the female managers surveyed received a monthly income of less than DA 150,000. Only a minority of 3% admit that the monthly remuneration exceeds 200,000 dinars. To better understand the payment system in public companies, it is necessary to study the structure of their remuneration. This is made up of two elements (qualification salary and performance salary) which set the terms of pay equity. "The salary is made up of a fixed part which cannot exceed 10 times the guaranteed minimum national wage (SNMG) and a variable part, which is supposed to be linked to the company's performance, without forgetting the benefits in kind (housing rental, company car, plane tickets, cleaning lady, etc.), which are covered by the IAS 19 standard. Everything comes down to the variable part and the benefits in kind. In the public sector, managers are bound by performance contracts. The objectives are defined in such a way that managers double their nominal salary in most cases. In other words, the variable part has become like a given, a fixed part. But this is not inherent to Algerian companies. Even in international companies, the variable part of the salary is difficult to establish.

5. CONCLUSIONS

The remuneration system and the benefits offered to staff are key elements in the human resources management of an organization. Here are some key points to consider:

- **A good remuneration strategy:** Before implementing a remuneration system, it is important to define a clear strategy for remunerating employees according to their contribution to the company.

- **Use market data:** It is important to use market data to determine the wages and benefits offered to employees. Companies need to assess the competition and adjust their strategy accordingly.

- **Offer benefits:** In addition to the basic salary, companies can offer benefits such as insurance plans, pension plans, paid holidays, training program, etc. Benefits can be an effective way to retain and motivate employees. Benefits can be an effective way to retain and motivate employees.

- **Offer bonuses:** Bonuses can be used to reward employees for achieving specific goals or to recognize their outstanding contribution to the company

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