

EVOLUTION OF CAFETERIA SYSTEMS – PAST-PRESENT AND FUTURE

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Abstract

The author's aim is first to review the most important features of the cafeteria system (goals, typical 'stakeholders' and strategic HR issues). Then they examine the evolution of the system of flexible benefits since 1996, when the first such systems appeared in Hungary. Authors also analyze how the main drivers caused the changes, and how the key players of the cafeteria systems adapted themselves to these movements. The reader can also find insight into the major changes for 2012 and the potential impact of these changes on benefit policies of Hungarian firms. The contribution shows some alternative opportunities and challenges driven by different influencing factors. They also touch upon the findings of empirical surveys that the cafeteria systems are significantly influenced mainly by the size of organizations and to a lesser extent by form of ownership.

Key words

Benefits. Flexible remuneration. Cafeteria. Hungary. Croatia. Romania. Serbia. Slovakia.

Introduction

The cafeteria systems introduced in the early 1990s have widely spread by our days with most employers applying them as a component of their remuneration package. Companies using cafeteria attribute a great importance to the contribution of the cafeteria to the competitiveness of their remuneration package and thereby to the increasing commitment of their employees or employee loyalty. Cost efficiency is also an important criterion inducing employers to continuously update their systems in accordance with the actual changes in taxation in order to provide their employees with the benefits at the lowest possible cost. Employees still tend to focus primarily on the net salaries. Although the cafeteria package contains items that they consider important, its contribution to the daily costs of living is perceived as having only a limited range both in time and in the assortment of goods it can buy. Since the early days of 2012 we have witnessed significant changes in the regulations concerning the cafeteria systems and the ensuing corporate practice. This is the reason why we find it justified to examine the changes that this component of the remuneration package has undergone since 1996 – when it was first introduced – to the present day. It is equally important to review the motivations underlying the major changes, as well as the different ways the actors in the market chose to adapt themselves to them. Authors have also investigated the main changes introduced in 2012 and their potential impact on the remuneration policies of business firms, and offer some alternatives for the opportunities and challenges that are open in the new circumstances.

Materials and methods

Traditional benefit systems have a fixed nature, inasmuch as they offer similar items and ranges of benefits to all employees. As a result, their administration is relatively simple but the system itself is *inflexible* because it does not allow any consideration to the (changing) environment and employee demands. Even the sporadic attempts at adjusting them to employee requirements are inevitably of a general character because the benefit systems based on the principle of *'identity'* can only seek solutions that are *'suitable for everybody'*. This, however, is impracticable because – to give a simple example – the kind of benefit that is suitable for an employee who regularly spends his/her holidays in the company's holiday

home is certainly not suitable for someone who has never claimed that benefit because of his age or habits. Life insurance is not an important benefit for young, unmarried or childless employees, because providing for the future of their families is of less importance to them, while the same benefit can be extremely important for young employees with families, who have to travel extensively.

In Germany, Great Britain, France and Sweden employees of employers with cafeteria plans may obtain such benefits as health insurance, group-term life insurance, voluntary "supplemental" insurance (dental, vision, cancer, hospital confinement, accident, etc.), and flexible spending accounts through the plan. Though some cafeteria plans offer an explicit choice of cash or benefits, most today are operated through a "salary redirection agreement", which is a payroll deduction in all but name. Deductions under such agreements are often called pre-tax deductions (Kaufman, 2013; Doerner W.M. and G., 2012)

This is the dilemma that the so-called *cafeteria model* or 'self-service' model is meant to solve. On the one hand, it contains a 'menu', i.e. the range of benefits that the company can reasonably offer (including their related costs), and, on the other hand, a sum or budget that is available for the individual employees for this purpose. On the basis of the costs and the given budget employees can decide themselves according to their own preferences which benefits they want to choose (what is important for them, what they can really use).

In this way employees can get reliable information on the costs of the various benefit items (i.e. how much the company actually spends on such purposes) and they are also given the possibility to choose. Both of these considerations can improve the level of satisfaction to a considerable extent. It must be very difficult, however, to compile the list of the benefits offered, and take care – at the same time- of maintaining a comparability or equivalence in the value of the various benefits, and of establishing their 'exchange rates'.

Stakeholders of the cafeteria systems

The cafeteria system incorporates the support and agreement of both (or three, sometimes four) parties concerned, because it can equally express

- the objectives of the companies,
- the objectives of the employees,
- the consent and (varying) support of the government and
- the influence of the cafeteria sector(e.g. suppliers).

It must be emphasized that HR processes, including the motivation systems, usually involve two actors: they express the interests and objectives of employers with due regard - at the same time - to the interests of employees as well (in this particular case in agreement with the unions). Milkovich et al. (2011) summarize the viewpoints of the two parties as follows:

Employers:

- proportion of benefits to the total compensation costs;
- value of costs related to the value of benefits;
- offers made by competitors;
- the role of benefits in attracting, keeping and motivating employees;
- compliance with the laws and regulations.

Employees:

- fairness (as compared with a former period or with the other employees).
- personal needs related to age, gender, marital status and the number of dependents.

As a specific feature of the cafeteria systems two additional and very important persons appear in addition to the original two actors, transforming the game into a 'play of

four'. Although the latter two do not always appear directly, they become decisive factors in the relationship of the original actors as well. The new actors also help the emergence of additional goals and interests, inducing new relationships and conflicts.

1) Surveys have found that *firms* have the declared objective to extend both the quantity and quality of the compensation they provide as employers and improve the attractiveness of the workplace by ensuring job satisfaction of key employees in an effort to prevent them from leaving the firm. In addition to that, every cafeteria system is based on the explicit or implicit consideration that - in contrast with other forms of remuneration - cafeteria offers significant advantages in taxation and labour charges. Besides acting as incentives and means of motivation, fringe benefits have become increasingly popular components of compensation packages - primarily because of their cost-efficient nature. Until late 2006 these benefits offered practically unlimited opportunities for obtaining or granting extra income without public charges. In that year an upper limit of 400,000 HUF per group was introduced for benefits that firms were allowed to offer their employees without tax and public charges. Although this restriction was later lifted by legislation, several new and personalized limitations were introduced as a pre-condition of tax-exemption for some forms of remuneration in kind that previously had been tax-free. Until 2009 the spread of fringe benefits suffered limitations only from the newer and newer criteria of tax exemption, and the related heavy administrative workload. On January 1, 2010, however, the fringe benefits ceased to be tax free.

2) Surveys have also found that *employees are fundamentally* interested in improving their income position. If that goal cannot be achieved through wages and salaries, the benefits will also do. The majority of employees have always considered salaries - and fixed monthly salaries in particular - to be the most desirable form of remuneration because this is the guarantee of their security; a regular income allowing them to pay the equally regular costs of subsistence (livelihood, overhead, family expenses, etc.). In this context it should be noted that the tauter the competitive position of the employer at the labour market, the more importance is attached to the role of benefits in attracting and keeping the company's employees and its position in relation to its competitors. This consideration is not always expressed in the benefits, but in compensation there is stability (it can be relied on) and higher net gain. Some services become available at a cheaper price, or the same gross salary will contain a higher net ratio for discretionary spending. Employees appreciate the cafeteria package on the basis of the usefulness it ensures them as individuals. The individual's appraisal of the usefulness of benefits largely depends on the employee's age, gender, family status and the number of family members he/she has to provide for. In addition, fairness also appears as an important requirement for employees both over time (e.g. as compared to previous years) and in relation to the other employees (Milkovich et al., 2011).

3) *Governmental* support was also needed; it used tax cuts, exemption and lower labour charges in an attempt to channel the spending of incomes. The second part of this study presenting changes in regulations will point out which forms of benefits were given priority by the government and through what kind of relieves in taxation and accounting they were implemented. Thanks to the regulations introduced in 2008 and 2009, the cafeteria system could result in a decrease of up to 33.5% in costs, while no further payroll deductions became necessary so that employees received the same amount in wages and salaries, but with a higher net value.

4) As time passed, a whole *service industry* developed to cater for these benefits: on the one hand, enterprises organizing, registering, or counseling cafeteria services began to proliferate. On the other hand, certain business ventures discovered in it the opportunity to increase demand for their services (hotels, catering, restaurants, wellness, insurance agents, health services and the pharmaceutical trade). These organizations got integrated into an

independent force with lobbying power of their own. More and more commercial services consider it a break point that their services can now be bought for 'soft money' as well. (e. g. use holiday checks to pay for language courses).

The fact that this system has now more than two actors involved (employer and employee) becomes evident mainly in situations when the behavior of actor groups 3 and 4 changes for some reason and the government preferences or taxation rules have changed or new, occasionally dysfunctional opportunities have emerged where employees can spend their benefits (e.g. at the secondary market for the holiday check where a benefit –originally meant to be a targeted support - can be turned into disposable cash).

By our days it has also become self-evident that all this represents a relatively stable business with a turnover of several billion HUF not only for those who manage and operate the cafeteria system, but also the service organizations that realize this trade in discount- price goods and services. In consequence, it will be necessary to perform a separate study of the market and competition – because it could not be realized within the scope of the present study- in order to find out what kind of new criteria and interests are represented by the transformation of some forms of benefit, the new media of benefit (Erzsébet voucher, SZÉP card) and the emergence of new actors (go-betweens and service providers). It would be equally important to learn in what way and to what extent they can contribute to making the whole system more cost-efficient and transparent.

Income-strategic issues related to cafeteria

It follows logically from the above considerations that the apparently very simple cafeteria concept (a small investment can generate significant advantages that everybody can benefit from) is in reality far from being that simple and unambiguous. The development and operation of the system leads to the piling of a number of various goals on top of one another and the emergence of a wide range of optimization criteria (individual, corporate or national, related to social policy incomes and costs, HR and remuneration, etc.). The advantages cannot be denied but the limitations should also be sized up in all the individual cases, therefore the whole cafeteria model needs and is worth a thorough analysis.

In the next part we highlight a few specific points to assist this process. It is not our intention to talk anybody in or out of using cafeteria, all we hope to achieve is to contribute a few ideas to the careful deliberation of the issue and a well-founded decision, primarily from a corporate income strategic aspect and later on from the viewpoint of HR functions.

Motivation and satisfaction

It is generally agreed that the benefits of the cafeteria system can meet fundamental employee demands, and the system is capable of significantly contributing to the attractiveness of the workplace and the satisfaction of employees. This may be true, and we have thought so ourselves to this very day. At the same time, certain reserves can be brought up concerning this basic statement, i.e. it is not necessarily true: the firm should create the right background for it first.

Benefits of a considerable value granted to employees in addition to the salaries/wages undoubtedly increase the value of the workplace either when it recruits, or when a fluctuation dilemma arises, i.e. when workplaces get compared. At the same time, this is only enough to create a *general feeling of satisfaction*, because it is not linked to any specific or actual performance, therefore the motivation it generates is limited. If – in addition to the cafeteria – there is also a specific system of performance incentives in place, it

can naturally function as an excellent complementary while in itself, *it may not be sufficient to prevent employees from leaving.*

Since cafeteria is not linked to a specific achievement, it can easily be taken for granted, however good some of its components may be. As we get it 'anyway', because we are 'entitled to it', in the course of time *it may lose its power to elicit satisfaction.* It is therefore very important to connect or complement cafeteria with *internal means of communication* that can continuously maintain awareness and remind employees of the existence of fringe benefits, of their importance, and of the advantage they represent.

In this respect benefits received on a *monthly basis* (e.g. a lunch ticket that is to be picked up, or a transfer to the health fund that is to be signed for) have a longer impact than for example, a one-time holiday voucher, or culture coupon, that is received and spent once, losing its impact and falling into oblivion in quite a short time.

Flexibility, possibility to choose

The fundamental dilemma that every motivation system has to face is that real impact can only be achieved if the compensation is adjusted to the individual needs of the person who is to be motivated; however, these needs tend to vary considerably not only by individuals, but also by groups (created on the basis of age, marital status, child-care duties, etc.). Uniform benefits (just like packages) always bear the risk that the compensation offered by the company – in proportion with the average performance of employees – is not fully appreciated by those who receive them, because they would need a different kind of benefit in their current situation. The cafeteria system can tackle this problem rather well, by *offering the possibility to choose* at least within a group of beneficiaries in a specific system.

Canrinus et al. (2012) found in their researches that flexible benefit, or cafeteria plans generally allow employees to choose between cash compensation, tax-exempt benefits, and taxable benefits without the choice itself resulting in the inclusion of the tax-exempt benefits in taxable income. Flex plans allow employers to upgrade and customize the array of benefits offered while keeping a handle on total benefit costs. Flex plans range from the most simple (that merely pay group insurance premiums with pre-tax dollars) to the most complex (that provide benefit credits and a choice of types and levels of benefits that may be chosen and paid for on either a pre-tax or post-tax basis).

It is, however, not able to manage the situation when employees – although they definitely express an interest in receiving an income they can spend directly – receive *a benefit of some different dimensions instead.* The service provided by the employee and the compensation offered by the employer in return may be proportional as far as the money-value is concerned, but not in terms of usefulness, because it cannot be used to meet specific needs. This problem becomes more significant as pressure for subsistence gets stronger – in consequence of low income levels, taxation or devaluation caused by any other reason and income becomes ever more crucial for subsistence (a realistic eventuality for a large number of people with low incomes).

With a little luck, employees can manage to find a short-term offsetting solution – by persuading a friendly shopkeeper to exchange lunch tickets for groceries – but other benefits do not lend themselves easily to such a solution (holiday vouchers or the SZÉP card, not speaking of insurances). This can, unfortunately, induce employees to make efforts towards *cashing benefits* received for purposes they consider less important, even *if it means suffering a loss*, i.e. they convert it into a more directly useable form. As a result, the benefit offered with a positive intention at the outset, becomes a nuisance both for the employer who gives it (because he cannot realize his objective) and the employee who receives it (because he/she

gets less money). The only person for whom this deal can be profitable is the one who pays in cash for the cafeteria service - supposing he can find a way of making the best use of it. The SZÉP card, which replaced the former holiday voucher, is meant to eliminate this grey market as well.

Social/ income position

Cafeteria benefits are usually targeted and more concentrated than wages. They are usually linked to some entitlement (holiday, recreation, travel, meals, etc.) and are paid monthly or annually (e.g. cheque books, vouchers, transfers on insurance or cash accounts). The *advantage* is self-evident: recipients are not required to save money during the month or year, because the vouchers or the money are sure to be credited to the employees' account. In some cases the continuously deferred spending of monthly income and its concentration for a future bigger activity (e.g. holiday paid for with the SZÉP card, or wellness financed from savings for the health fund) can even prove to be a good investment).

It can therefore be concluded that those employees will show more readiness to accept the cafeteria system who are prepared to *accept a temporary resignation of fix salary* or continuous income for the sake of a one-time, more expensive act of consumption (like a holiday, or simply a dinner in an elegant restaurant). However, employees who live from hand to mouth (with difficulty to buy food, pay utility bills or installments on loans) cannot appreciate that. In the long run the SZÉP Card might help them to realize some surplus income, but the day-to-day problems are more overwhelming for them. Consequently – and in good agreement with what has been said so far - employees with low salaries/wages will naturally prefer the kind of remuneration that can be used directly to finance costs of everyday life (i.e. that allows them to buy food, medicine, or pay their overhead) and only employees in higher income groups will consider forms of remuneration meant for longer term and requiring more serious deliberation and decision.

Therefore the applicability and efficiency of the cafeteria systems greatly depends on the social/income status and segmentation of employees in a particular organization: lower income groups will not be able to appreciate them, while they will be popular with higher income employee groups.

Sources of total cost-benefit rate

It should be admitted, that the popularity of the cafeteria system can be attributed mainly to the fact that it considerably *improves the cost/benefit ratio* in contrast with the wages. The total cost paid by the company to guarantee its employees the same net amount of HUF will be considerably lower if this payment is debited with less public charges after taking the liabilities of both the employer and the employees into consideration and it is not impossible that the otherwise equal gross amount can be the source of a higher net, disposable income due to the various tax allowances and refunds.

This makes cafeteria easy to 'sell' and impressive tables or presentations can be made to point out how much disposable income is left out of every HUF 1,000 of the company's labour cost in the hands of the employees if they are paid salaries/wages on the one hand, or if they are granted some cafeteria component, on the other. The employer's effort and good intention to find solutions favorable for the employees and emphasize his employee-friendly attitude is clearly visible and can be easily demonstrated.

This is a completely rational 'business' behavior on the part of the employee, however certain risks should also be taken into consideration.

The gist of the matter is that the company *sells the state benefit system quasi as his own*. The employer emphasizes how much more he gives, although in reality it is the state that

lets off more money. A classic example shows that the company transfers either a part of the gross wages it has already accounted for or transfers to the cafeteria the money saved for future wage-increases emphasizing that in these way employees get paid more. As far as the employees are concerned, this solution might as well be advantageous for them in the short run provided the cafeteria system offers them choices that reduce their regular monthly expenses (e.g. monthly ticket, lunch ticket). At the same time, the Cafeteria is not part of the guaranteed income (which means that the employer might even cease to provide it and it does not contribute to the employees' pension fund either, consequently it is rather disadvantageous to replace salaries with cafeteria benefits in the long run. The fact that the Cafeteria – in contrast with promotion or bonuses – is not suited for differentiating the recognition of the various individual performances is a further disadvantage. Considering the differences in their objectives and roles, it is not expedient in the long term to replace salary-type remunerations with fringe benefits either for the employer or the employee, and later on this practice would give rise to tensions or dissatisfaction).

Nonetheless even this solution could be made acceptable with the simple argument that all the company does is cleverly and legally take the opportunity deliberately offered by the government. Should there be a shrinking in the benefits, we might blame the government for it, but the *enterprises would also find it hard to maintain a positive image* in this situation. One thing they could do is to swallow the consequences of benefit cuts and continue providing their employees with the benefits at the same level as before, even though it would mean losing some of the cost-advantage deriving from the benefits, and incurring an increase in the input, which is not only detrimental for the profit, but may be impermissible as well. If, on the other hand, they pass it on to the employees, i.e. by keeping the cafeteria resources at an unchanged level they reduce the amount available for the employees it is most probable that the latter will get angry not only with the government, but will also blame their employers for not lifting a finger to protect their interests. The fact that the employees have got used to getting the specific benefit for years and especially if they consider it as a special achievement (e.g. something frayed out in the course of the latest collective bargaining, and cherishing it as a positive discrimination distinguishing them from members of the other professions) will certainly have an impact on internal satisfaction and commitment as well. It can be concluded then that the requirements of taxation and social charges enjoy a serious priority but imply certain risks as well.

State and company preferences

The state has its own preferences in supporting the cafeteria system or some of its elements. It may encourage a healthier diet (by offering cooked lunch at the workplace) and offers the benefits that make it worth for the suppliers to provide this service, or at least to operate a buffet (accepting food vouchers) while offering a suitable choice at bargain prices. It may encourage self-care (life insurance), contribute to accessing the workplace (supporting community transport), etc.

These goals or preferences can be taken for granted. Ideally a company can find among them the ones that harmonize with its PR objectives (wellness, transport), and in this way the *two sets of objectives will complement each other and create a synergy*.

There is, however a limitation, namely that the *dimensions in which the government thinks*, or defines its own preferences are different from those of the corporate/institutional level. What is seen at the macro level to be an overall social interest and problem may not have the same weight at corporate level. Supporting the company restaurant or cutting the price of community transport may be seen as a common interest but admission tickets to a sporting event or a voucher for a formerly tax free cultural event would most probably not have been part of a HR strategy.

A company becomes particularly *vulnerable* if it is left with the task of *explaining the situation* and introducing changes in the benefit system simply because a swerve in the government's preferences has cut the resources of one benefit, while probably increasing the resources granted to another.

If, on the other hand, it is not possible to find a direct link between the content of the government and company objectives, only a very indirect one, - while the elements of the cafeteria are determined by the tax and contribution allowances - the whole cafeteria system gets out of HR competence and the *benefits will change according to financial considerations* and this will definitely moderate commitment and identification first by the companies, and later by the employees themselves.

The same can be concluded about the *relationship between the government's intentions and individual preferences* as well, with some logical modifications. The government's intention is given, and the vast majority of those concerned may even agree with it, but individual opinions may strongly depend on the actual social and financial position of the particular person (family). The per capita income of the family may be low, or there may be a strong pressure to save, e.g. in order to repay a loan raised to buy a flat: in such cases the persons concerned will not appreciate the opportunity to have a healthy lifestyle, or to enjoy the pleasures of wellness.

Administrative workload

Another fact we should point out is that the development and running of a cafeteria system is often more complicated than payroll accounting and payment of the wages, especially in cases when the former offers alternatives, assigns different multipliers to the various components or uses differentiated value brackets. This activity requires additional (and different, specialized) skills that the company could otherwise do without.

These skills, the service provided and the IT background would not represent a serious obstacle by them because they are available at the market at a reasonable price. It should be realized, however, that a system of this kind usually requires *additional care* and means a certain amount of extra cost.

If the employer hasn't got the required internal capacity and buys the services of an intermediary, he is likely to receive professional service, information, assistance with the administration, legal advice, etc. (perhaps at a reasonable price). It should also be expected at the same time, that the intermediary is actually an *agent* who wants to sell something, i.e. we cannot be certain that the product (including the statistics and comparisons as well) is really as good as the seller claims. (If the cafeteria service provider is at the same time, say the salesman of a certain card-distributor or fund, he will be interested in making people join that service even if it is not the best product.)

Service Providers' Criteria

In a market economy entrepreneurs seek to find those niches where they can gain a foothold. The need for an enterprise or service provider capable of supplying the services included in the cafeteria plan is not only self-evident, but actually a precondition for the proper operation of the system.

On the other hand, one should be prepared for its dysfunctional impacts as well which can mean a deviation from the original goals - as a negative but natural concomitant of the market system.

If income is regarded as a source that the subsistence of an individual (or family) depends on, it is obvious that a salary transferred to a personal bank account has better chances of guaranteeing subsistence than a contribution to a health fund or admission to a sport event. One reason is that the latter have a *more restricted range of utilization* and the

benefit can be realized only in an indirect way and, what is more, is not always financial in nature. On the other hand, it is also conceivable that the beneficiary considers this non-wage type and not directly work-related compensation to be '*softer money*' than the wage he (or she) has earned with hard work, therefore he will spend it more readily buying things that otherwise he would not spend so much money on. (This behavior will, of course, strongly depend on the financial position and living conditions of the individual or the family...)

This approach makes benefits appear more like incentives of consumption offered by the government than components of a corporate remuneration system.

Service providers do their best to exploit this opportunity trying to have more and more services recognized by the government or offering them to the consumers. In this case a conflict of interests is to be expected between the intentions of the state and the business interests of the enterprise concerned. As a result, the range of services offered by providers in return for a given set of vouchers *may have become quite different from the original concept*. The case of the already abolished 'holiday check' illustrates it very well: after a certain time it was not necessary to take a leave to spend it, because its acceptance was gradually extended to cover a number of other services (travel, language courses, other types of training, etc.)

The ones who provide the benefit

In the classical wage-bargaining systems wage levels (plus wage components) and their increase take shape in the course of negotiations between employer and the trade union. If they can reach an agreement either or both of the parties can present it as his own achievement. Employees can also feel the need for or the existence of the trade union justified by the pay rise it has frayed out for the employees. In principle the benefits (cafeteria) are supposed to fit into this system considering that they are parts of the total earnings (and labour costs) that have been the subject of collective bargaining.

The emergence of the specific forms of compensation further complicates the situation. On the one hand, it *creates a special dimension of bargaining* due to the fact that there can be a difference between the cost/benefit content or ratio of the various forms of income and compensations. The repertory of tactical items can be further enlarged by the possibility that a compensation not payable as a wage element (for lack of finances) may become negotiable and obtainable in the form of a compensation consisting of benefits that are even cheaper for the company.

On the other hand, while wages and rates are open to bargaining and depend on the outcome of the fight between the employer and the trade union, benefits can be negotiated in other channels as well. They can even be removed from the chosen channel and granted as compensation, *an employee-friendly gesture*. (There have been examples for the management strongly resisting the demand for pay rise put forward by the trade union, but after the conclusion of the bargaining granting - as a unilateral gesture - various fringe benefits to the employees saying, 'we do not need a trade union for that!')

Cafeteria-related issues of HR strategy

There is usually some kind of explicit or implicit intention to realize an income policy objective or improve employee satisfaction underlying cafeteria plans. This is the way in which a particular organization expects to increase the net (disposable) income available for its employees at a given level of total costs, and - of course- in agreement with its own criteria of *economical operation*. When employees take a job or weigh the benefits (compensation) they can realize in return for their performance (service) at the given workplace they quite naturally include the fringe benefits as well in their calculations. This is how both parties can compensate either for their dissatisfaction with the potentially lower

wages or for a weaker labour market position and on the whole employee satisfaction can be created.

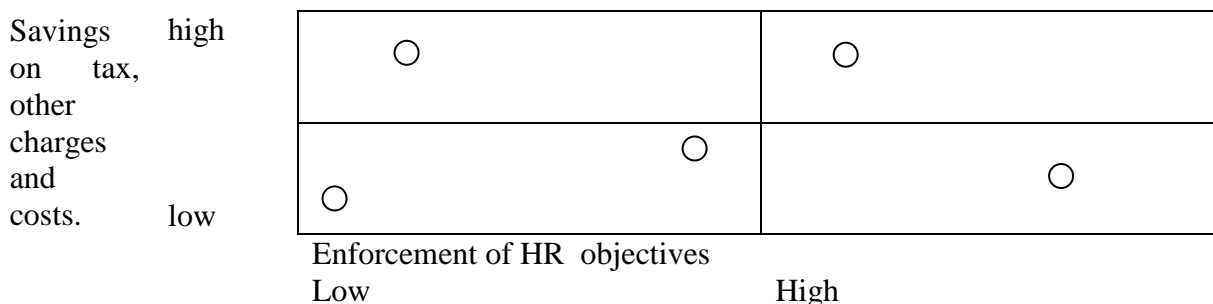
The system appears to have achieved a kind of real ‘success’ and expansion as expressed by the fact that some parts of the labour market have already ‘priced’ it - mainly the in the public sector as we have mentioned earlier, where employees are not only more demanding, more highly qualified, but have a relatively higher income level or have to cope with stronger constraints in wage levels – tending to consider it as a natural part of the remuneration and a necessary complement to the wages.

On the other hand, little attention has been paid so far to the question whether a company – otherwise successful in optimizing its taxation and other charges – *is capable of enforcing its own and the specific HR criteria* (and if it is, in what way and to what extent). Companies focus only on the first set of criteria most of the time – which is understandable considering that this is what at least 3 out of the formerly quoted 4 actors attribute the greatest importance to, without weighing the underlying HR criteria.

The tax/HR matrix of benefits

When a cafeteria plan is developed it is very important to clarify what kind of discounts its individual components involve as far as tax, other charges and cost-accounting are concerned, and also to what extent they can serve specific HR objectives of the company. It would be not only worth, but also necessary to analyses this point in detail and item by item, with regard to the specific situation of the organization.

This would allow the set-up of a *portfolio-matrix* classifying (and presenting as in Figure 1) the various benefit components according to the extent of tax benefits, on the one hand, and the internal benefits to be achieved in the field of HR, on the other. (The company may have considered a gift coupon rather advantageous for the taxation of the company for some time, with an absolutely worthless HR impact.) Maintaining an own sports field (tennis, or football) may not prove useful from the viewpoint of taxation but HR will appreciate its recreational value. This will be discussed in more details later on. (1. Figure)



1. Figure. The tax/HR matrix of benefits

Source: Authors’ own research

Differentiation on the basis of performance, incentives

Cafeteria plans are flexible insomuch as they allow employees to spend the amounts allocated to them on types of benefits that best suit their needs, also taking into consideration at times that certain components of the benefit package may have different impacts on taxes and net income.

It is more important, however, to decide how, by what criteria we should define the *amount to be allowed* for individuals. There are two typical solutions:

1. *Overall leveling*: everybody has the same amount to spend on various benefits. This solution emphasizes the social, caring approach, with regard to subsistence needs.

2. *Hierarchical differentiation or differentiation based on the value principle*: the amount allowed for benefits is differentiated by the person's position held within the organization's hierarchy, or – what is more or less the same – is calculated as a percentage of the base rate, i.e. the differentiation used for the salaries is applied to the benefits as well. In this case social considerations are complemented – although in quite a mechanical way – with the stronger and more differentiated impact of the value component as well, strengthening and differentiating loyalty and morals. This model also implies that higher wages are paid to employees of higher value (and vice versa) and keeping them satisfied and loyal to the company is more important than in the case of employees of lower importance/wages, therefore the organization should be prepared to swallow the related higher costs.

Organizations should make - at the very beginning - an HR strategy decision on which of the two principles it intends to follow (both having their proper role, their advantages and limitations).

It is, however, rarely debated – even though it is also an issue for the strategic decision – whether differentiation should take into consideration not only the hierarchic and/or position assessment principle but the actual differences in performance as well. This dilemma gains importance as the proportions within the full remuneration are shifted towards the benefits. The decision whether this increasing part of the pay serves purposes related to

- social welfare
- labour market (improving general company image, keeping labour)
- motivation (incentives),

or *any combination of these* does make a difference because the widening or narrowing of the elbow room available for recruitment or motivation strongly depends on it.

Satisfaction study

It would be important to include employee satisfaction with the cafeteria system in the – fortunately more and more frequently applied - *employee satisfaction surveys* and analyses employee opinions on the cafeteria at a level of detail that recognizes its importance. This would give an insight into employees rating of the benefits' order of magnitude, the differentiation of the supply, the options made possible and the flexibility of the system (including its fairness and the social criteria applied). It would also show how competitive the system is compared to other institutions of the industry (or trade), and how it contributes to the marketability of the whole compensation package. On the other hand, HR experts in the center and the regions, as well as managers could give their opinion on the extent to which they can promote the implementation of HR goals and enforce the requirements of cost-effectiveness.

Cafeteria in CEE region

Most of the elements of the employee benefit systems typically used in developed countries can be also found in the following four researched countries. However, the related laws regulating these benefits and the related administrative rules largely differ from those in force in the above mentioned developed countries.

Croatia

The most common benefits among all traditional employee benefits in Croatia are Christmas and Easter benefit payments, vacation contributions and gifts for children. These are received by all employees equally in a given company. The majority of businesses provide cash benefits for employees at the birth of a child, and the most profitable companies also pay to workers a thirteenth salary if a child is born. Contributions towards travel expenses are

included in the monthly salaries, and their proportion and amount is stipulated in the Collective Agreement. Contributions towards voluntary health-insurance and pension schemes are also increasing. The different forms of benefits are regularly used by corporations; employee benefit systems or cafeteria systems are mostly used in the subsidiaries of multinational corporations. Some benefit systems have also been modified due to the downturn, e.g. instead of receiving vacation contributions employees are offered contributions towards private pension schemes at approximately the same value.

Romania

Calculated on the basis of an employee's gross salary, employers have to pay the following contributions to the welfare system:

- social security contribution (The amount depends on the working conditions.),
- healthcare contribution,
- contribution towards the unemployment fund,
- work accidents insurance fund,
- contribution to the sick-leave fund.

The amount of contributions is often modified by the government. At present, employer contributions amount to 30-40% of employees' gross salaries. Meal and food vouchers were introduced in 1998. Their value is stipulated in decrees. The Romanian Tax Law and the Law no. 2009/193 on the Use of Gift Vouchers and Crèche Vouchers enabled employers to give their employee's children gifts at Easter, Christmas and on Children's Day (June 1). The law also enables employers to give their female employees gifts on Women's Day (March 8).

The issuing and the use of vacation vouchers is also stipulated by a government decree (no. 2009/8). The decree stipulates that those businesses that were profitable in the previous year can give each employee holiday vouchers. The combined value of the vouchers given to a single employee cannot exceed the sixfold value of the minimum wage. The vouchers can be used to pay for tourist services provided in Romania by licensed tourism businesses.

The IntegraHR company conducted a survey among 12,000 Romanian employees in May 2013. It showed that meal vouchers proved to be the most widely used benefits in the country. Company phones were in the second place followed by health insurance and training programmes in the third and fourth places. Gift vouchers, contributions to private pension funds, company cars, contributions towards living expenses, travel passes, vacation vouchers and fitness passes were also on the list.

Serbia

The elements of the Serbian employee benefit system are stipulated in the Serbian Labour Code and in the Collective Agreements either as reimbursements of expenses or as allowances. Workers in Serbia can be reimbursed the following expenses: travel expenses to and from work at no higher amount than the price of public transport tickets, daily allowance for business trips in Serbia and abroad as well as catering and accommodation expenses for those on business trips, catering during regular working, vacation contributions amounting to 75% of the average salary, which are intended to increase the quality of employees' recreation. Employers are also entitled to compensation in case of a workplace accident or in case of an illness arising from work. Employees are also entitled to receive severance payment in case of retirement and if an employee becomes incapacitated. Besides these, in case of an employee's death his or her family is entitled to the relevant covering of the funeral expenses. As stipulated by the directives of the collective agreement, employers can give their employees' children gifts at Christmas and New Year if the child is younger than 15. Besides

this, employers can also make contributions towards an employee's voluntary health insurance and pension scheme. Employers can also give workers jubilee bonuses and social benefit payments. They can also give discounted loans to employees to cover the costs of purchasing fuel for the winter.

Slovakia

The social policy of employers in Slovakia is stipulated by the Slovak Labour Code (Zákonník práce). Social policy is dealt with in Part Seven (Labour Code 2013). Corporate social policy (Szlávicz, Á. - Kontra, Cs. Gy., - Kerekes, K., - Šeben, Z., 2013), which serves employees' interests, is implemented through the so called Social Fund. The social security of employees is also increased by tax benefits, which result mainly in a slightly lower corporate tax base. There are also tax deductible items which decrease employees' tax base as well. These reflect the efforts of the government in the field of social policy. (Wéber, P. - Gyurián, N., 2011) The contributions covered by the employers from the social fund are the following:

- contribution to the catering of employees above the set limit stipulated by law (laid down in §152 of the labour code),
- travel expenses to and from work,
- contributions to attend cultural and sports events,
- contributions towards the recreation of employees,
- contributions towards the employees' healthcare,
- contributions for those in social need and loans for them,
- contributions to the employees' voluntary pension schemes (on top of the employer's compulsory contributions),
- financing of other social-policy activities related to the well-being of employees.

Contributions can also be paid out from the social fund to:

- spouses and the dependant children of employees,
- pension beneficiaries including those who took early retirement, disability retirement, military service retirement or military service disability retirement. The beneficiaries are entitled to these contributions if they were the employees of the given employer at the time when they retired.

According to the press release of the SODEXO catering and service company, meal vouchers were the most widely used employee benefits in Slovakia in 2009 (1. Table). These data were published on the basis of a survey conducted among 400 managers and HR managers (SODEXO, 2009).

1. Table. Provision of different employee benefits according to the survey (%)

Meal contribution, meal vouchers	98,5 %
Company mobile phone	84,3 %
Drinking water at the workplace	79,5 %
Contribution at an employee's jubilee	71,8 %
Contribution to an additional pension scheme	62,3 %
Cultural contribution	54,3 %
Taking of paid time off instead of sick leave in case of a short-term illness	50,8 %
Contribution to trainings	50,3 %
Company car	42,3 %
Contribution towards doing sports	41,5 %

Dress allowance	39 %
Gift vouchers	38,3 %
Study leave	35,8 %
Travel contribution	35,5 %
Company laptop computer	35 %
Occasional financial contributions in case of unexpected events	32,8 %
Contributions towards an employee's mortgage loan	3 %
Other contributions	9 %

Source: SODEXO catering and service company (2009): News - Press Releases. Modified by the author

Changes in cafeteria-related regulations in Hungary (1996-2011)

The beginnings

There is no separate act on the cafeteria system, the fundamental legal background to the use of fringe benefits is found in the Act on Personal Income Tax. Since these benefits are most of the time – although not exclusively – defined as compensation in kind, the provisions of article 69 should by all means be considered as governing. This is also underpinned by Törő (2005) in his study on the legal aspects.

In terms of domestic regulations employees are entitled to receive compensation (i.e. wages) in return for their work, but they distinguish three types of wages or wage-type payments.

The *first* includes direct compensation, the second indirect compensations and the third is the category of the non-pecuniary motivating factors. As we progress from the first to the third, we can observe a decrease in legal restrictions and regulations, while more and more forms of remuneration are left to the employer's discretion, which can either grant them or abolish them. The first category contains the component of direct wages, i.e. the remunerations that the employer should pay the employees for their work regardless of performance, for the simple reason, that he is obliged by the law to pay this kind of compensation.

This category includes the wages/salary itself together with all the wage supplements, like allowances linked to wages. The status of bonuses is a matter of controversy, but we include them here. Although it is not the employer's duty to pay bonuses, it is the employer's prerogative to decide whether he wants to pay bonuses or not. However, once he has decided for bonuses, he is obliged to pay it to all employees who meet the requirements.

The *second* category contains indirect remunerations. The main feature of these remunerations is that the employer is not obliged to pay them to the employees, he himself has to make the decision whether to grant this kind of payment to his employees or not. Among members of this category we should mention bonuses, which are of pecuniary nature and can be paid to employees at the discretion of the employer in recognition of the work performed. Another frequently used indirect form of remuneration in Hungary is payment in kind; in this case all employees are given the same pay in kind, and as such it is usually exempt from taxation. The worst challenge to the latter form of remuneration is the cafeteria system itself, having the very pleasant feature over the payment in kind that it allows employees to decide freely on the form of compensation they want in addition to the tax benefits and choice of payment in kind.

The *third category contains* incentives of non-pecuniary nature, with several psychologically important elements like oral recognition or promotion which either means higher pay or being appointed to a higher position. Members of this category are well

elaborated and widely used primarily in the public sector (public sector employees and civil servants) where they go together with actual pecuniary incentives). (Ember, 2008). In his research project Herczeg (2004) investigates the perception of the cafeteria system as reflected in the relationships among the employees. We can also agree with the positive features of the cafeteria components emerging in the studies of its impact on human resource policies written by Bencsik (2004), Badak-Begella (2007) and Malatyinszki (2009).

The institution of payment in kind was first mentioned in the provisions of Act CXVII of 1995, published in 1996. Employers prefer mainly tax-free payments in kind. In 1996, the first year, this category included the following items:

- educational, health and social services financed from sources provided by the state, municipalities, social security and the churches on condition that holidays and stays in spas are not considered as health or social services;
- The Holiday Voucher, issued by the Hungarian National Holiday Fund can only be included up to the amount defined in Act CXVII of 1995;
- services offered by day-care centers, kindergartens, schools or cultural institutions run by the trustee of the Fund, dormitory fees, vocational health services, funeral services;
- Maximum 2,000 HUF of the value of meals provided in kind by the employer, or a monthly discount of maximum 1,200 HUF from the value of free or discount voucher for the purchase of consumption of ready-made food. Meal in kind means the meal consumed on the day of employment either at the workplace or, during the lawful lunch break, at the meal provider in the vicinity of the workplace.
- An amount of maximum 10,000 HUF from value of a one-time gift in kind given to an individual employee by the employer, on the occasion of his retirement;
- an amount of maximum 500 HUF from the value of each of the gifts given by the trustee not more than three times a year to individuals on the occasion state or church celebrations, or family events, as well as the value of the goods or services presented to the individual at the termination of his activities closely related to a business, official or diplomatic event as an act of entertainment.

Entertaining includes all the catering and related *services* (travel, accommodation, social programme) offered on the occasion of official, professional, diplomatic or religious events, or programmes. Occasions for entertaining guests include: business negotiations, general assemblies, members' meetings, meetings of supervisory boards or board of directors, press conferences as well as receptions, conferences, congresses, training programmes, exhibitions, presentations, etc. organized by the trustees.

The concept of entertaining does not include the daily coffee, tea, refreshment, or meal regularly provided to the employees. Similarly, catering costs of an International Women's Day celebration, catering on a name day, or a toast on New Year's Day at the workplace, excursions with the participation of the employees and their families, sporting events on week-ends, etc. are not eligible as entertainment costs. Why not? Because it follows from the definition of entertaining itself that the purpose of the event and the range of participants is of primary importance. The main criterion for the selection is whether the event is related to the activities of the trustee, whether it serves their interest and who the guests are! Some of the clothes given to private persons by the employer – provided the quality and character of the product in question is related in some way to the responsibilities of the employee.

The next stage - 2003

The range of cafeteria components granted tax exemption got significantly enlarged thanks to Article 69 of Act No CXVII of 1995 edited as a single document together with the amendments in force since the beginning of the new millennium, and particularly since 2003.

The annual amount of entertaining became tax-free up to 0.5% of the total annual income accounted. As to the individual value of business gifts, the limit of tax-exemption rose to 10,000 HUF. A new component was added as well, for example in the case of Hungarian private persons living in the country only the equivalent of the monthly minimum wage in force on the first day of the year was tax-free of the counter-value of the registered holiday check issued by the Hungarian Holiday Fund. The tax-free part of the meals provided in kind by the employer also increased to 4,000 HUF/month. In the case of free or reduced- priced vouchers meant exclusively for the purchase of ready-made food or dishes the tax-free part is limited to 2,000 HUF of the total value. The part under 15,000 HUF of the value of a one-time present in kind given by the employer to the individual on the occasion of his/her retirement has become tax free, just like the amount received from a social organization or church once a year or the amount of less than 5,000 HUF of the value of an object offered as a prize of a contest or competition, as well as the medal or trophy won at a competition as a prize a reward, regardless of the value. Tax-free benefit in kind status was granted to the benefit provided to individuals - after a given period of time spent in the electricity industry - or their widow(er)s and the benefit provided to the widow(er) in the form of electricity up to the amount defined in the pricing regulation for pensioners, as well as the value of monthly tickets of tickets provided for getting to and from the workplace in terms of a government decree on the reimbursement of transport costs.

More recent changes (2007-2010)

In the second part of the decade the tax-free part of the meal vouchers continued to increase thanks to the provisions of chapter XIII of Act CXVII 1995 - edited in a single structure with the amendments - which entered into force in 2007. Start of school-year benefit was introduced: the one-time benefit granted to each school-age child at the beginning of every school-year became tax-free up to the sum of 20,000 HUF. For internet users at home the internet voucher covered the costs of installation, connection and monthly fee without a maximum amount being set for tax exemption. At the same time, the annual amount of 400,000 HUF was set as the upper limit of tax exemption for all the benefits in kind. The culture voucher made monthly tickets, theatre tickets, opera season tickets and library membership tax-free up to the annual limit.

Health Fund benefits allowed health related products, services, dental services and other therapies to become tax-free up to an amount that equals 20% of the minimum wage. Voluntary pension fund benefits, which could be paid in one sum or in the form of annuity, became tax free up to 50% of the minimum wage.

In accordance with the provisions of Articles 69-70 of Act CXVII/ 1995 - in force – since January 1, 2008 – the upper limit of tax-free cold meal benefit rose to 6,000 HUF per month. In the case of warm meals this limit increased to 12,000 HUF, and start of school year benefit to 20,700 HUF per child/year. Gifts of small value became tax free up to 6,900 HUF, voluntary pension fund contribution on the part of the employer up to 34,500 HUF/month per capita, and monthly contribution to the voluntary health fund up to 20,700 HUF, similarly to the employer's contribution to the voluntary mutual fund. A new benefit was also introduced: housing assistance of 1 million HUF per capita, tax free, for 5 years.

Articles 70-71 of Act CXVII/1995 in force since January 1st, 2009, abolished the 400,000 HUF annual limit for tax exemption.

In accordance with the provisions of Chapter XIII of Act CXVII/1995, in force since 2010, the former tax exemption of benefits in kind ceased in consequence of the economic crisis, including, among others: benefits for meals, recreation, organized training programmes, start of the school year assistance, retirement savings and mutual fund benefits. Benefits granted on the basis of social considerations continued to be tax-free. Housing-related tax

exemption also remained (except for the housing assistance provided by the employer that turned into non-taxable benefit). This group includes grants received from abroad for a stay abroad, remuneration paid to a foreign citizen for teaching and educating activity in Hungary as an invited professor, grants and allowances paid to Hungarian students studying in foreign institutes of higher education, or to foreign students in accordance with the government decrees governing compensations payable to students in higher education, or the Act on Higher Education.

Gift prizes awarded once a year by social organizations or churches were tax-free up to 5,000 HUF of their value as well as work wear products, use of company car for private purposes, or monthly or single tickets provided for transport to and from work. The use of computer and internet provided by the employer free of charge or at a special price continued to be tax free. A new element in the system is vaccination financed retroactively for 2009 as well, by the paying agent.

2011

The list of benefit components that are actually made available by the various employers in their cafeteria portfolio– has been made shorter and shorter in recent years – mainly due to the changes in the external conditions. This goes against the international trends which are characterized by an increasingly wider choice and a growing number of components. A survey conducted by the Towers Watson in the United Kingdom in 2011 found that 50% of firms providing flexible benefits offered a cafeteria plan consisting of more than 10 components to their employees. The most frequent component number was between 11-15 (in 39% of the firms) in contrast with the situation three years ago, when packages of 11-15 components dominated the scene (38%). These figures prove that the importance of individual choice has got increasingly appreciated.

Some cafeteria components were left out of the package because of the introduction of taxation, and others because of the administrative workload. There are relatively few new components. The admission ticket to sport events was introduced in August 2010.

In January 2011 one of the Hungarian financial institutions launched a special product on the Hungarian market, the employers' pension fund, which is considerably different from the well-known second and third pillars of the pension system (voluntary and private pension funds). In this case the employer is free to choose the group of employees for whom he intends to create a modern, flexible pension scheme run by the employers, which has a truly strong motivating power and also helps retain the employees. After paying the individually customizable charges the employer pays a preferential rate of up to 50% of the minimum wage. This benefit based on the principle of old-age self-care cannot become part of the cafeteria mainly because it differs by employer.

Another novelty is the Széchenyi Rest Card, made available in the second half of 2011 and meant to fully replace the Holiday voucher. It has the big advantage that employers can grant it in a relatively large annual sum of up to 300,000 HUF per employee. The first version of the SZÉP Card can be used to pay for several services, but it should be noted that these can be bought only together with accommodation, in order to generate solvent demand for domestic tourism. Since 2012 the SZÉP Card has come with three separate sub-accounts, allowing the purchase of accommodation, meals and leisure – time services.

Simultaneously with the SZÉP Card we witness the emergence of more and more electronic vouchers replacing the traditional ones made of paper. Some service providers brought up the idea of introducing such up-to-date vouchers, but so far their general acceptance has been prevented by various factors of uncertainty. By now it has, however, been clarified at an institutional level that the electronic voucher does not qualify as a money

substitute and does not even belong to the category of electronic money, consequently the cards are becoming more and more widespread.

Parallel with the gradual installation of the infrastructure (especially in rural areas where serious shortcomings are frequent) we should expect the expansion of electronic vouchers.

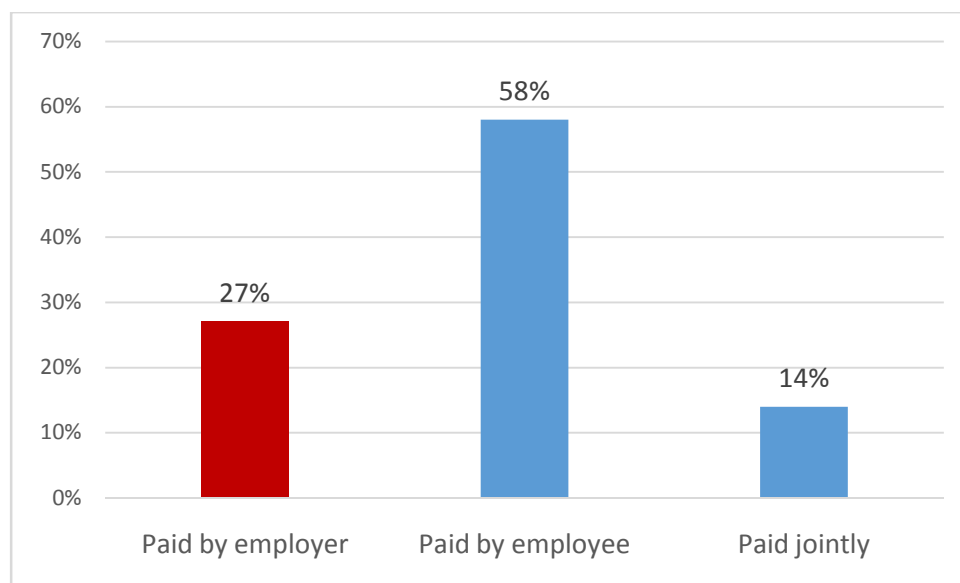
Meeting the new tax requirements introduced in 2010 and applied to practically all components of the cafeteria package obliged the organizations providing cafeteria to make certain decisions. Although the regulations provide that the financial load of taxation should be borne exclusively and beyond doubt by the employer, nothing prohibits the employer to transfer these taxes onto the employees, thus creating a difference between the net value of certain benefit items and their gross price increased by tax.

Our survey revealed that the vast majority of the companies did take this opportunity:

- not more than 27% of the respondents were ready to pay all the taxes;
- in 14% the parties shared the costs equally;
- but 58% incorporated tax in the so-called cost multipliers of the a benefit component, and 'paid' the tax at the expense of the beneficiaries

Most of the organizations that accepted to pay the taxes belong to the small and medium sized enterprises and on the average every third of them bore the tax burden on their own.

(1. Graph)



1. Graph. Payment of taxes

Source: Authors' own research

The appearance and increase of taxes imposed on benefits made a lot of companies uncertain about the *raison d'être* (or the maintenance) of fringe benefits, especially the cafeteria systems or about the return of the costs of introduction.

Cost criteria and the enforcement of HR objectives

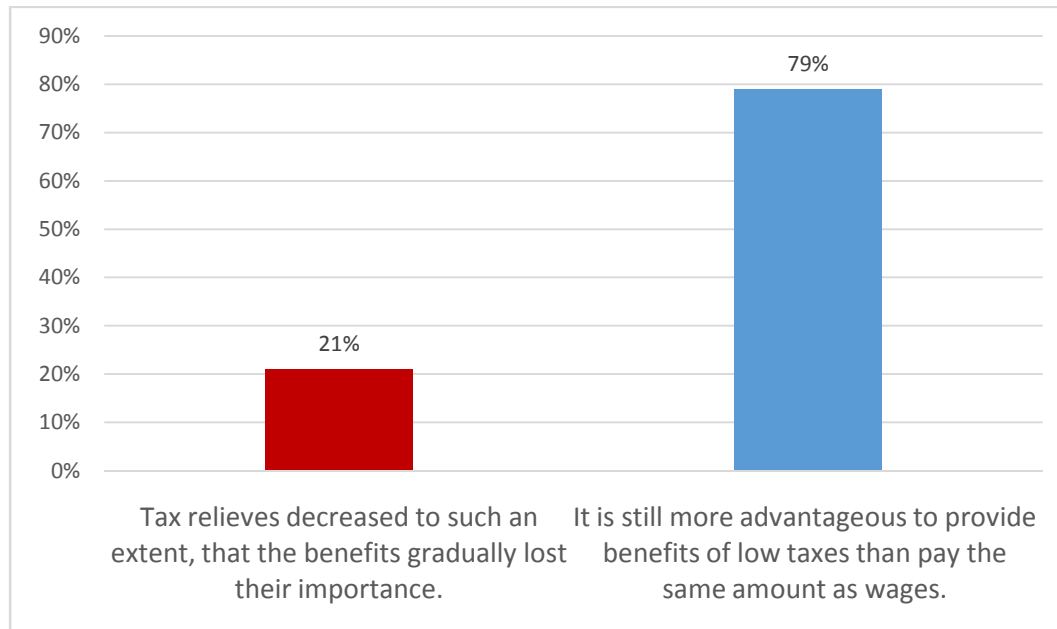
In the next part the most important benefit components are analyzed from the viewpoints given in the subtitle. (Obviously with the intention of just highlighting some points of interest because clear judgment is only possible after analysis of a specific case.) (2. Table)

2. Table. Enforcement of Cost and HR objectives in the case of the most frequent cafeteria components

Benefit	Cost criterion	Fostering the enforcement of HR objectives
SZÉP Card (holiday voucher)	Offered at reduced charges	Strong if the implementation of the recreation objective is guaranteed. As it is used for other purposes, the importance of HR decreases
Company canteen / Erzsébet voucher, lunch ticket	Offered at reduced charges	Strong if there is a company canteen (or near the company) where it can be used, and the function of strengthening ability to work is guaranteed. Weaker, if it can be used for other purposes as well Weak, purposeless if used by other family members, spent on gala dinners, or sold to outsiders
Gift voucher	From 2010 on 54% income tax + charges payable	It is not backed by organizational HR objective, focuses on other government and lobby objectives. Now that tax exemption has ended, its importance is minimal.
Admission at reduced rate to sport and cultural events	Not tax or charges payable	Culture is a universal objective, and the organization is interested in increasing the familiarity of its employees with cultural events. Admission to sport events does not help employee participation in sports, only gives them good time and entertainment as viewers. Not backed by HR objective, it focuses on other government and lobby objectives.
Contribution to voluntary health fund	Offered at reduced charges	The unity of the government objective (supporting health) and similar company objective can be created. The company also has the objective to keep employees' health and help their recreation.
Contribution to voluntary pension fund	Offered at reduced charges	Government objective, but also a factor increasing the value of the job: here my future is taken care of. Strengthens identification and image, keeping labour (HR goal), especially important for those who are close to retiring.
Start of the school year assistance	Offered at reduced charges	Primarily a social welfare criterion. It improves work performance to the extent it mitigates the worries of the employee concerned.
Local transport	Offered at reduced charges	Helps transport between home and work. It is a common objective (because it is valid for community transport only) and company objective too.
Regular school-type training	Offered at reduced charges	Life-long learning is a general objective. Internal trainings are organized by HR; other types of training are indifferent for the organization. Used selectively, rarely becomes part of the cafeteria package

Source: Authors' own research

The survey we conducted in 2012 underpins the above assumption: 79% of the respondents think that it still makes sense to offer benefits because on the whole the total net value of the fringe benefits can be made available in a cost-efficient way regarding the public charges to be paid by both the employer and the employees. It seems, however, that the small and medium-sized companies attach less importance to the gain that can be realized through the fringe benefits than the large companies involved in the survey.



2. Graph. Vision of the role of benefits in the future

Source: Authors' own research

21%: Tax relieves decreased to such an extent, that the benefits gradually lost their importance.

79% It is still more advantageous to provide benefits of low taxes than pay the same amount as wages.

In 2012 further significant changes were introduced both in the range of fringe benefits and the possibilities of using them. One important goal of the modifications was to turn the motivating (or hindering) impacts of the tax relieves into the service of the actual goals of the economic policy. The regulation deems tax relieves desirable in order to enhance increase in consumption, implement social welfare objectives and encourage self-care. The state will take a more active and extensive part than before in the turnover of cafeteria – related vouchers.

The compensation elements that we have classified as benefits from the viewpoint of motivation fall into four tax law groups. The *first* group contains those qualifying as tax free income, therefore no taxes or charges are imposed on them. Within the wide range of tax-free incomes we can find some that the employers consider to be benefits. Here belong mainly elements of the social welfare type, or those that ensure the pre-conditions of work performance, or perhaps elements made compulsory in other regulations (e.g. life and health insurance, housing assistance, work clothes) but are typically not parts of a cafeteria system. In this category perhaps tickets to sport events (also to cultural events since 2013) or certain insurance types can be considered as fitting in the cafeteria plan.

The *second and third* categories contain elements that the act on personal income tax explicitly classifies as benefits. The act distinguishes two categories: fringe benefits (Article 70) and certain specified benefits (Article 71). The tax rate imposed on the two categories is

the same (net benefit = 16% of the net benefit multiplied by 1.19), with the only difference found in the contribution to health services: in the case of fringe benefits 10% of the net benefits multiplied by 1.19 applies to the fringe benefits and 27% on certain specified benefits, and the part of fringe benefits that exceeds their respective annual limits or the total annual sum of 500,000 HUF. Both groups of benefits can be introduced only if they are made available under the same conditions to everybody within the specified employee groups.

The most frequently used cafeteria elements are found among the fringe benefits (Examples are: benefits contributing to meals or recreation, as well as voluntary pension fund benefits (3. Table)). The tax rate imposed on them has not changed since last year, but the health care contribution imposed in 2012 increased the total charges on the benefit from 19.04% to 30.94%, and in 2013 to 35.7%. This is a significant change that can have an impact on the magnitude of the whole allocation but, at the same time, is still more advantageous than the payroll costs.

3. Table. Fringe benefits

Fringe benefits	Annual allocations (altogether not exceeding the amount of 500,000 HUF)	
	2012	2013
Holiday at a holiday home owned or managed by the employer (for family members as well)	Up to the amount of one month of minimum wage	
Meals at the company canteen	150, 000 HUF	
Erzsébet voucher	60, 000 HUF	96, 000 HUF
Széchenyi Rest Card accommodation	225, 000 HUF	
Széchenyi Rest Card - meals	150, 000 HUF	
Széchenyi Rest Card -recreation	75, 000 HUF	
Start of the school- year assistance	30% of minimum wage	
Local transport – monthly ticket	The price of the monthly ticket	
Training in mainstream courses	2.5 fold the minimum wage	
Voluntary health fund or mutual fund contribution	30 % of minimum wage	
Voluntary pension fund contribution	50% of minimum wage	
Employer's pension fund contribution	50% of minimum wage	

Source: Authors' own research

In the scientific literature (e.g. Hippler, T., 2010 and Lowen, A., 2009) the benefits professionals consider several factors when developing strategic benefits plans. Traditionally a company offered the same set of benefits to most or all employees. However, the increasing diversity of the work and labor forces has made standardized benefits offerings less practical: Demographic diversity is associated with greater differences in needs and preferences for particular benefits.

Many employers design their employee benefit programs (see in prior researchers – e.g. Artz (2010) and Reddick-Christopher (2009) to meet the needs of a diverse workforce

and may use cafeteria plans for more flexibility. In a continuous effort to respond to fluid economic and demographic challenges, the use of cafeteria, and other flexible benefit plans, will likely increase.

The elements classified as 'certain specified benefits' in Article 71 of the Act on Personal Income tax are often made available for the employees separately from the cafeteria system, according to a special regulation by the employer (e.g. mobile phone for private use), but some of them can be fitted into the Cafeteria system as well, like the benefits used in excess of the allocation. The amount of public charges in this category equals that of 2011 (51.17% of the value of net benefits). (4. Table).

4. Table. Typical examples for some specific benefits*

Benefit	Annual allocation (HUF)
Some fringe benefits granted in excess of the allocated amount or the part exceeding the total of 500,000 HUF	500,000 HUF per person
Gifts of little value	Maximum 3 times a year, up to 10% of minimum wage
Use of mobile phone for private purposes	20% of the total cost or after whole cost of separated private use
Company product at a discount price of free of charge	

* The list is not complete, the selection has been made by the authors

Source: Authors' own research

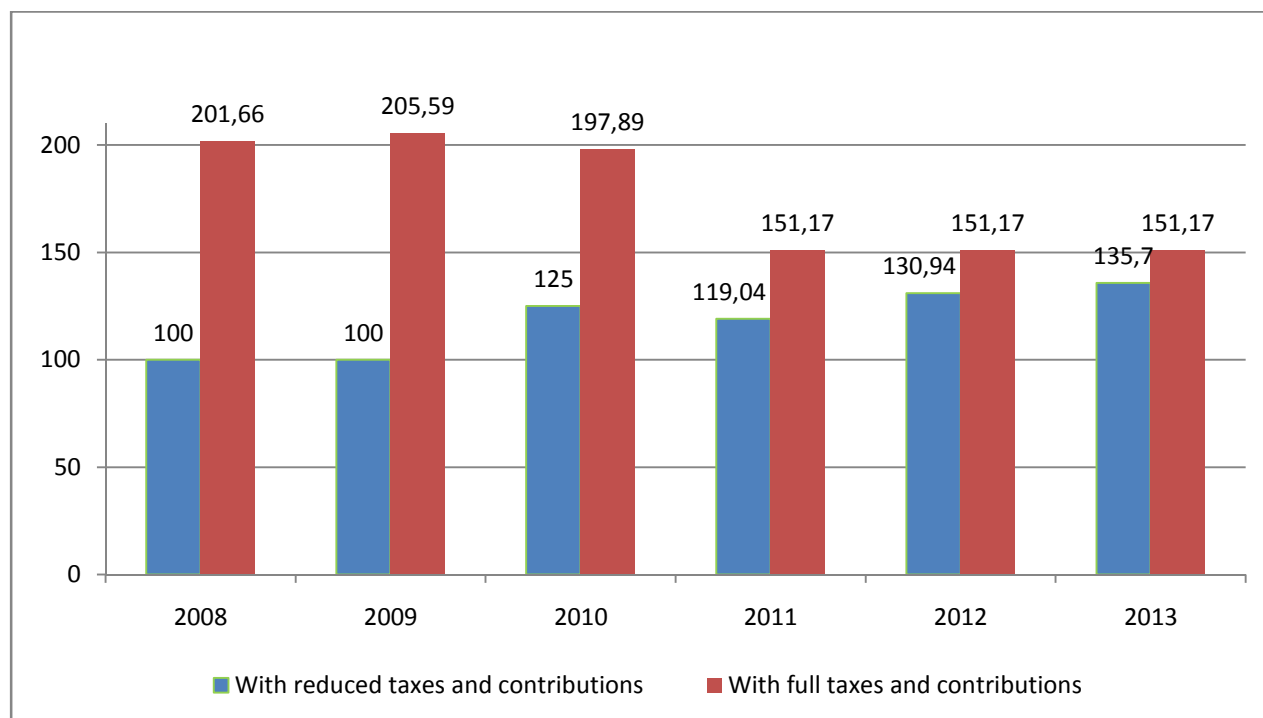
The formerly distributed cafeteria vouchers (for meals, culture, internet, etc.) continue to be available if they meet the criteria of the benefit defined in the act on income tax; from 2012 on the tax imposed on them will be either 30.94% or 51.17% depending on the kind of criteria the services they represent can meet. For example: start of the school-year assistance enjoys tax relief within the allocated amount, and this applies also to cases when employees receive it in the form of a voucher, while the internet or culture voucher can be provided upon payment of a public charge of 51.17%.

Internet subscription, very popular with the employees in former years has been excluded from among the benefits with tax relief, and is a good example for the impact of changes in the economic policy priorities on tax relieves. At the time of its introduction the promotion of internet access for the employees was a top priority, therefore the benefit was available tax-free and without upper limit until 2010. In 2011 it was taxed and limited in amount, while in 2012 it was removed from the category of benefits with tax relief probably based on the consideration that at the current high level of internet access the state is not interested any more in maintaining the former benefit.

The items that do not belong to any of the above three categories are not distinguished in the Act on Personal Income tax from other wage-type income and can, therefore, be given to employees upon payment of the same tax rate and charges as wages. This means a restriction on their prevalence, because in such cases employers prefer to pay wages, which employees can use in a more flexible way.

The exploitation of the tax and contribution allowances plays a significant role in the composition of the items to be included in a cafeteria system both on the part of the employer

and employees. Due to the introduction of EHO imposed on fringe benefits in 2012, public charges increased from the former 19.04% to 30.94%, while the level of taxes and charges imposed on other compensations remained unchanged (51.17%). From 2013 on the rate of contribution to the health services further increased as part of the wages (from 10% to 14%), thereby increasing public charges payable after the benefits from 30.94% to 35.7%. This continued narrowing down the differences between the total costs payable after the items with or without reductions although the items included with allowances still meant significantly more favourable conditions. (3. Graph)



3.Graph. Total cost of 100 HUF worth of net benefit

Source: Authors' own research

Since 2013 the regulations of the company meals have allowed more flexibility than other benefits. The rules of the company canteen run on the employer's premises apply not only to the eateries available exclusively for the employees of the particular employer and the card or voucher issued by the firm running the eatery can also be included in the subsidy of the meals. The Erzsébet voucher can be given to the tune of 8,000 HUF instead of the former 5,000 HUF/month. The other lunch tickets will not be granted tax or charges reduction, which allows the state to gain more ground at the market of meal tickets.

The range of services to be utilized with the leisure time sub-account of the SZÉP Card will be enlarged primarily focusing on the availability of some health and sport related services. According to the interpretation of the bill submitted start of the school year assistance, from 2013 on both parents will be able to get it in case they meet the individual criteria.

From 2013 on the use of the tax-free admission tickets for sport events (value 50,000 HUF /year) will be extended to cultural services as well, including tickets or season tickets to museums, exhibitions, concerts and theatres, as well as other cultural services (like library membership).

Risk insurance is expected to remain tax-free, but recommendations for its amendment included elements aimed at limiting its use. Life insurance policies including an investment component as well have been transferred among the other benefits offered with

higher charges imposed. When this study was completed, the final law and regulations valid for 2013 had not been published yet in Magyar Közlöny, therefore some smaller differences from the above can be observed.

The impacts of organization size and type of ownership

In this part we draw on the data-base created during a previously mentioned survey conducted in 2011 and 2012 with 302 companies operating in Hungary involved in order to present the impact of foreign ownership and company size on the application of the cafeteria system. (Note: it is not our goal to analyse every detail of the survey (Poór, 2012). All we undertake here is to highlight the key issues that are important for the topic under consideration here.

Introduction of the organizations involved in the survey

67% of the companies involved in the survey were in Hungarian ownership, while 33% were owned by foreigners. As to the number of employees, approximately 70% of these companies had fewer than 250 employees. More than 56% of the companies owned by Hungarians and hardly 15% of the companies owned by foreigners had an income from sales under 10 billion HUF.

Approximately two thirds (68%) of the companies were engaged in various industries. Commercial and service providing firms were represented to a lesser extent (32%) in our sample. Out of the 302 organizations investigated not more than 33% had a cafeteria system. Some form of the flexible benefit plan is applied by 43% of the foreign and 23% of the Hungarian companies.

Correlation analysis

The CHi-square test showed an equally significant relationship with the Cafeteria system and both variables tested, i.e. both the form of ownership and company size expressed in the number of employees were in correlation with the fact whether a company uses a Cafeteria system or not ($p=0,000$ – in both cases). Cramers'V co-efficient expressing the strength of the correlation was weak in the case of domestic/foreign ownership (0,216) while in the case of size it indicated a medium strong correlation (Antalóczy-Sass, 2005; Sass, 2007 etc.)

Due to their composition and item number, the 302 organizations are not fully representative for Hungary, but the range of the organizations involved in the survey is wide enough to allow us to draw adequate conclusions on the basis of the findings.

Conclusion

Practical experiences have shown that loss-making or financially less strong companies tend to apply fringe benefits at an annually decreasing rate. The business sector has to meet the expectations formulated by the state in the form of laws, namely that while they are revising the basic salaries they should take into consideration the decrease in the net wages caused by tax credit in the case of employees with lower income and compensate for it with a pay-rise. Meeting this expectation or the ensuing increase in the wage-costs can further reduce the allocations. At the same time, the total value of benefits made available under preferential conditions has increased. Further research should be needed to clarify how all these factors influence the decisions on the benefit allocations in 2012.

It is, however, worth taking the cafeteria elements into account in the future as well, and not only for cost-efficiency reasons. Cafeteria elements contribute to the various ways in which employees find recreation outside the workplace, relax, or spend their leisure and they

continue to offer a rather flexible assortment in which the employees can find the components that are most suitable for them to choose the ones that meet their demand.

Some employees – depending on their situation in life -might find it reasonable to have included for them in the offer components that are more important or more advantageous benefits for them than a benefit with more tax reduction but representing less value for them. In practice demand of this kind can be expressed mainly by employees with higher income and special qualifications. In this case the employer may find it worth considering the enlargement of the cafeteria's assortment with offers exceeding the allocation or falling outside the range of options available. This solution can work in a system where the employees are able to use the appropriate tax and charges multipliers (for benefits with or without discounts) to select from a gross amount allocated the components of their choice.

For the employers it is important to be able to plan the costs of benefits. This applies not only to the taxes and charges, but also the cost of administration. If the costs of administration (e.g. the costs arising from reprogramming the systems, training the employees in charge of the administration, negotiating contracts with the service providers, etc) mean a disproportionate load for the employer, it will work against flexible benefit policy. On the other hand, if the system gets simplified in the long run, employers will be more encouraged to enlarge benefits or offer flexible choices.

The cafeteria system is undergoing continuous transformation both in the international area and in Hungary. Changes in the domestic systems are driven by the enforcement of the discounts in tax and charges. These are the factors that determine the way companies adjust themselves to the regulating environment.

The trends prevailing in 2012 include the further increase in public charges, increasing state participation, further widening of the electronic utilizations, and the emergence of new elements.

Cafeteria elements can contribute to the relaxation, or entertainment of employees outside the workplace, to the variety of spending their leisure, and continue to provide adequately flexible assortment allowing employees to choose the benefits that meet their individual demands in the best way. On the whole it can be stated that companies which offer cafeteria at present as well, consider these benefits to be important components of the compensation package and will adapt themselves to the changing regulations by reasonably optimizing their cost-efficiency and HR criteria.

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