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THE CAFETERIA SYSTEM IN HUNGARY: DEVELOPMENT AND NEW DIRECTIONS

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The cafeteria system in Hungary is a specific form of flexible benefits, which became widespread across the country in the 90's due to their preferential taxation. They are found in most sectors, within small and large companies, as well. The cafeteria system is popular among employees, not only because of the flexibility, but also because some of the elements may contribute to the monthly expenses. Over the years the regulation of the cafeteria kept changing in line with the governments' objectives in economic and social policies from time to time. In 2012 there is a major shift in the regulation of the benefits. This is the analysis of the evolution of the cafeteria system from 1996 until today, especially the drivers of the key changes and the how the key players adapted to the changes. We are also looking into the expected directions over the next few years.

Keywords: cafeteria, flexible benefits, compensation, taxation of benefits, Hungary

INTRODUCTION

Cafeteria systems appeared in Hungary in the 90's, and since then it became widespread, majority of employers offer them as part of their compensation package. It is important to the employers that the cafeteria system contributes to the competitiveness of the compensation package, thus increasing the commitment and satisfaction of its employees. Another important factor is the cost effectiveness of the system versus other compensation elements, such as cash compensation. Therefore employers keep adopting their packages to optimize to the regulatory environment at any given time.

The Management and HR Research Centre at Szent István University (Gödöllő) conducts a research on cafeteria benefits in Hungary, which takes place fifth time this year. It tracks and analyses data each year on how employers shape their offerings in the changing regulatory environment. The 2012 research at the time of publishing this study is in the data collection stage, the detailed results will be available later this year. In this study our objective is to introduce how the cafeteria systems developed in Hungary. In addition, we summarize the key considerations which influenced the development of the cafeteria systems in Hungary, and based on which the question block of our research questionnaire has been designed.

CAFETERIA BENEFITS

Benefits are only one part of the total compensation. There are various definitions of benefits, ranging from broader to more specific approaches. A broader definition sees benefits as "part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments" (Milkovich et al, 2011). A more practical approach defined benefits as non-cash compensation (Mercer, 2004). In this study we refer to benefits as provisions which are above the statutory requirements, not part of the cash compensation structure, not linked to individual performance, and provided equally to defined group of employees. Common characteristic of all the above approaches that benefits is considered to increase employee satisfaction and commitment and the improvement of competitiveness of the compensation package.

The flexible approach (cafeteria systems) in compensation has been invented in the US, where it has widely spread in the 70's and 80', especially in the area of benefits. It means that there is a „menu" of possible benefit provisions and related costs, and

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employees can choose the elements they prefer within the available allowance. This allows employees to optimize the benefit package to their lifestyle and preferences. In such a way the perceived value of benefits may be maximized. Advantages of such flexible systems included the possibility individualizing the benefits package by employees, which became an important consideration as the war for talents became fiercer, and attraction and retention of employees put more emphasis on the individual. Outside this there were other advantages, such as improved cost control by the employer or the ease of harmonisation e.g. in case of integration of two organisations (e.g. during M&As) (Poór, 2007).

These plans were brought to Europe by the international companies, and became widespread in the 90's, especially in the UK and Ireland. Later the flex systems became widely used in Europe. Although it started to gain presence in Asia, it still has large potential as the employment trends are changing there, too (Chow Koo, 2011). In the US the range of flexibility is much wider; employees may even flex part of their salaries for benefits such as equities, additional vacation or medical insurance (Fragner, 1975; Halterman, 2000). In Europe, salaries are protected by labour laws, and basic benefits such as basic medical insurance and pension are provided by the state, therefore the flex plans are structured differently (Culberth et al., 2009).

The number of elements offered in a flexible plan is a key consideration. It depends on the size of the employer, the demographics of its employee base, and available resources for the provisions and their administration. According to a study made by Towers Watson in 2011 in the United Kingdom, 59% of those employers which offer cafeteria provide the choices of 10 or more elements. The most typical offering is between 11 and 15 elements (39% of the companies); in comparison to the 2008 result where the most frequent packages included 5 – 10 elements (38%). This indicates the increasing value of flexibility (Towers Watson, 2011).

THE EVOLUTION OF BENEFIT PLANS IN HUNGARY

Prior to the market economy employers in Hungary provided wide range of benefits. These were mainly social provisions, such as usage of the company's holiday facilities, subsidised meals in the company's canteen, health & safety related provisions or company products). After the introduction of the personal income tax in 1988 the wages were grossed up, but the benefit provisions remained tax free, providing a clear cost advantage for these benefits. (1987/VI)

During the privatisation companies, especially those with foreign ownership, have re-evaluated the role of benefits in the total compensation package. International companies attempted to implement their compensation philosophy regarding base pay, incentives, as well as benefits – they adopted their approach in the Hungarian regulatory environment. The range of provisions was still based on the heritage of the pre-market economy era.

Vouchers appeared in the early 90's, and the industry supporting the benefits systems developed, including issuers of vouchers, consultants, admin service providers, software solutions, which made it possible to introduce cafeteria systems. Cafeteria appeared in Hungary in the mid 90's. (1995/CXVII) Although their administration is more costly and labour intensive than fixed benefits', the cafeteria became very popular among employees therefore more and more companies made them available. Pioneers in the cafeteria were some of the large national companies (such as MOL), and the international companies which acquired businesses in Hungary. However, cafeteria was shortly adopted by businesses of all sizes and sectors.

Flexible plans were adopted early in the privatisation era in the 90's, not only by international companies, but large state-owned employers also introduced such benefit packages. Gradually cafeteria benefits were widely spread in Hungary. The cafeteria is applied in various structures. There are modular systems, combination of core benefits and cafeteria, as well as fully flexible packages. There are also different practices to define the allowance. Most companies applies the same allowance amount for all employees, some companies have different allowance for different employee groups (e.g. managerial and non-managerial), whilst others provide the allowance in the percentage of the basic salary.

THE RESEARCH

The Management and HR Research Centre at Szent István University and Larskol consultants carry out a research each year. The research is benchmark type, which intends to provide basis for comparison in future researches. In addition, it intended to get a snapshot on how companies perceive the role of benefits in the current environment. The last data collection took place in 2011. The 2012 research is

the fifth year of the study – it is currently in the data collection stage.

Participation in the research is voluntary and free of charge, confidential data are handled with appropriate confidentiality and security. The technique of the data collection is web-survey. The questionnaire contains 9 blocks of questions, related to the participating company's main data, the type of benefits provided, guaranteed benefits, flexible benefits, the operation of the flexible system, cafeteria allowances, impact of tax changes, impact of 2012 changes, as well as the willingness to implement cafeteria where there is no flex offer currently. In the study the conclusions were based on descriptive statistical features such as averages, frequencies and distributions.

Although the sample is not representative of the Hungarian employers, given the list of the participants it includes some major or leading organizations, and a variety of sectors and sizes are represented, therefore the results illustrate the tendencies in benefits policies.

2011 HIGHLIGHTS

In this section we summarise the key conclusions of our 2011 research from which we developed the context of the 2012 study.

92% of the respondents offer some kind of benefits outside the wages. However, only 57% of them provides the possibility of the flexible choice to employees, either with a core + flex or in a full flex package. There is a connection between the size of the organisation and offering of flexible choice. 70% of companies which employ more than 1000 people do have cafeteria in place, and only 20% of those employing 10 or less people. (Figure 1)

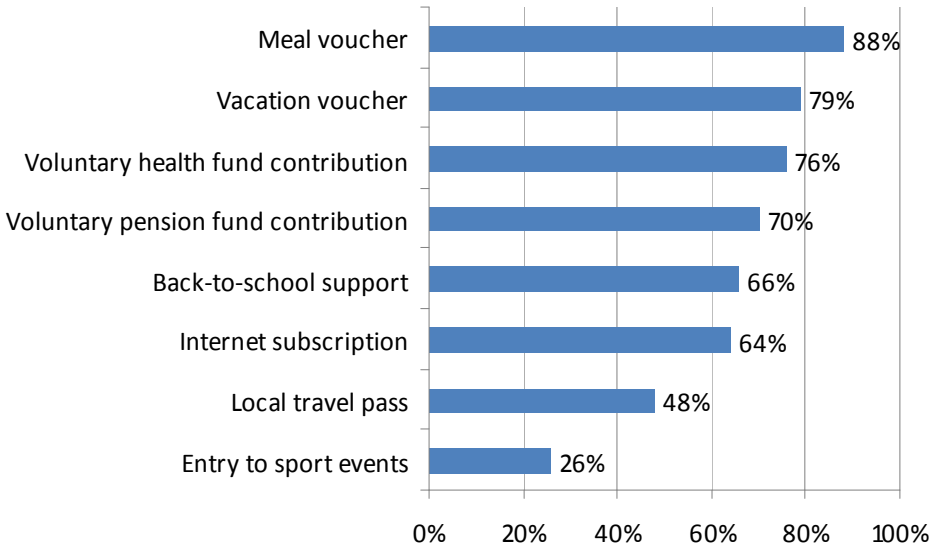

Figure 1: Most popular cafeteria elements
(Source: Authors' own research)

The most popular cafeteria elements are the benefits with the preferential tax rate. There is one new item on the list: entry to sport event, which is not yet widely offered despite of its tax free status, and it did not appear among the most popular guaranteed elements, either.

In the recent three years the cafeteria gained presence in the public sector, this was the main driver in the implementations post 2008. Only 11 organizations implemented cafeteria after ceasing the tax exemption on benefits. 45% of these operates in the public sector.

Another interesting point is the main purpose why organisations introduced cafeteria systems. The ability to plan the costs and using the advantages of the tax exemptions are among the leading reasons. The early adopters of cafeteria put far more emphasis on the employee commitment and retention, as well as the employer's reputation, although the cost considerations were also important to them. In the latest implementations the cost related motivation dominating among the organisations.

A surprising finding that 39% of the respondents never evaluate the effectiveness of the cafeteria system, 42% looks at it occasionally, and only 19%

of the employers carry out a regular review, 77% of these companies are among large organizations.

As far as the administration is concerned, 87% of the companies operate the system with in-house administration. Outsourcing the whole or a part of the administration is more typical among the large organizations, too. The most typical administration tools are spreadsheets (38%) and cafeteria solutions integrated into the payroll systems (34%). Only 9% of the companies administrates the systems on paper.

CAFETERIA AND TAXATION

Government influence on benefit choices also became prevalent. The government limited the tax exemption to a defined range of benefits which were supported, and imposed high tax to the rest of in kind provisions. Later each year the range and maximum tax-free amount of benefits were slightly changed. In 2010 a preferential tax rate has been introduced to all benefits which were not required by the law and previously were tax-free. (Government recommendations, 2011). Since 2012 an additional contribution is also payable on benefits. As a result, the gap between the cost of preferential and non-preferential benefits is smaller each year (Figure 2).

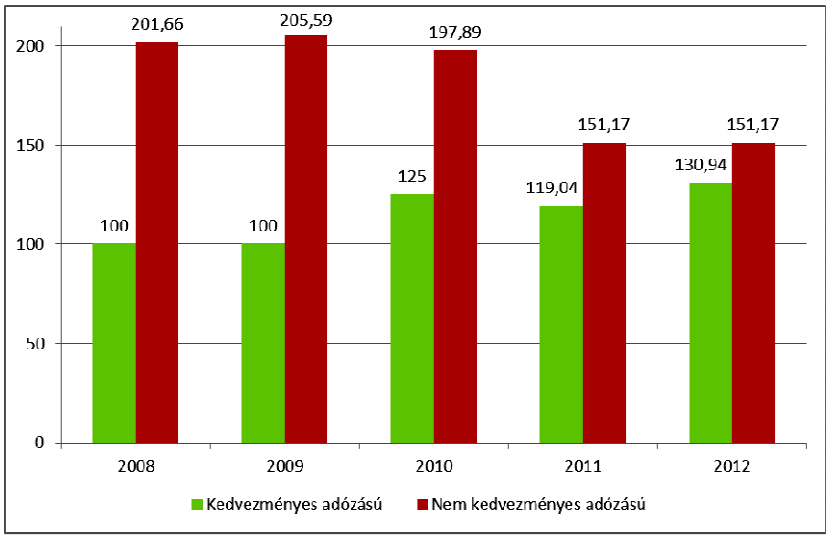

Figure 2: Total cost of 100 HUF net benefits
(Source: Authors' own research)

In our research we have found that majority of the companies passed on the tax burden fully (58%) or partly (14%) to employees. Only 27% of the companies took the additional costs resulting from the taxes.

2012 UPDATE

In 2012 significant changes were implemented to the range of benefits with preferential taxation. It is expected that the electronic payment forms will gain more importance in the future. Apart from the cards of the voluntary health funds and the web based internet voucher the paper vouchers dominated until the end of last year. The appearance of the Széchenyi Recreation Card (Széchenyi Pihenőkártya, SZÉP card) may bring breakthrough in this area. The card has been introduced in July 2011. Originally it was designed to replace the vacation vouchers. In 2012 the card has been developed further, it now has 3 sub-accounts, which may be used to pay for catering, recreational and accommodation services. In our 2012 research we anticipate that the SZÉP card will appear among the most popular cafeteria elements. The previously available cafeteria vouchers remain in place.

The government, besides its regulatory role, wants to gain more presence in the cafeteria market. Until now the state was involved indirectly in issuing the vacation vouchers through the National Holiday Foundation (Nemzeti Üdülési Alapítvány). The foundation introduced the Erzsébet meal vouchers. The amount of the social security contribution paid on the Erzsébet vouchers is available for the foundation to finance tenders for social programmes. The Erzsébet voucher, contrary to the other meal vouchers, enjoys the preferential tax treatment. Due to this fact, as well as the controversy around the expansion of the range of outlets contracted to accept the voucher some market players argued for a case of discrimination – the reconciliation is still in progress.

Although the allowance with preferential tax rate increased to a significant amount (500 thousand HUF per annum) the cost of the preferential benefits increased by 10%. There are other changes impacting the cost of employment. The minimum wage was increased by 19%. In addition, the government requires employers to compensate the adverse effect of the recent tax changes for those who earn less than 300 thousand HUF per month. This is a one-off adjustment, but its cost impacts guaranteed wages, therefore the impact remains permanent. The companies which do not comply will be closed out from government tenders. On the other hand there is a government fund which aims to share the burden with employers if they meet certain criteria. It is subject to our 2012 research how all these factors may impact the benefit allowances.

CONCLUSIONS

The cafeteria systems are in continuous development both internationally and within Hungary. The main driver of the changes in Hungary is the changes in the tax and social security regulations.

The main factors we observed in 2012 is the further increase of cost of benefit provisions, increasing participation of the government, more importance of electronic payment forms and appearance of new elements. A current research aims to find out how these factors influenced the employers in adjusting the cafeteria benefits in 2012.

The cafeteria benefits contribute to various forms of the recreation of employees, and include appropriate range of choice enabling diverse range of employees to customize benefits to their own preference. In the future we expect the further development of the cafeteria systems. The research of the national and international trends in flexible benefit plans remains a topical field.

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