



Salary setting mechanisms across EU Member States and the issue of seniority and variable pay – brief review of Eurofound material and findings

A contribution to current debates in Bulgaria
1 September 2017

Review of the gross salary and minimum wage setting mechanisms across EU Member States

Eurofound's report from 2009

(https://www.eurofound.europa.eu/sites/default/files/ef_files/docs/eiro/tn0808019s/tn0808019s.pdf) provides information on the wage formation in the EU, especially on the levels of collective bargaining, main determining factors, actors involved and the role of government bodies. Especially of interest may be an overview table 1 summarising the wage formation systems in the EU countries.

In 2014, Eurofound has published a report summarising the Changes to wage-setting mechanisms in the context of the crisis

(<https://www.eurofound.europa.eu/observatories/eurwork/comparative-information/changes-to-wage-setting-mechanisms-in-the-context-of-the-crisis-and-the-eus-new-economic-governance>). The report explores the impact of the crisis on wage-setting mechanisms and it examines the impact of the EU's new economic governance regime (the country-specific recommendations and Memoranda of Understanding) on wage-setting mechanisms. It looks at changes in wage bargaining levels, the extent of horizontal coordination across bargaining units, links between the different levels involved in wage setting, minimum wage-setting and indexation mechanisms, and the volume and duration of collective wage agreements.

Most recent data can be found also in database of wages, working time and collective disputes (<https://www.eurofound.europa.eu/observatories/european-observatory-of-working-life-eurwork/database-of-wages-working-time-and-collective-disputes>). This includes an Excel sheet with coded variables and code book that can be used for its interpretation. In case of wages, the database includes information on features of collective wage bargaining systems, setting of minimum wages, public sector pay setting, collective wage outcomes and collective bargaining coverage.

Eurofound's report from 2015

(<https://www.eurofound.europa.eu/observatories/eurwork/comparative-information/changes-to-wage-setting-mechanisms-in-the-context-of-the-crisis-and-the-eus-new-economic-governance>). The explores the impact of the crisis on wage-setting mechanisms and the impact of the EU's new economic governance regime. It looks at changes in wage bargaining levels, the extent of horizontal coordination across bargaining units, links between the different levels involved in wage setting, minimum wage-setting and indexation mechanisms, and the volume and duration of collective wage agreements. Overall, the extent and consequences of change in wage setting has been greatest among the countries receiving financial assistance packages from the troika of European and international institutions.

The most recent information regarding the statutory minimum wages can be found recent Eurofound's article

(<https://www.eurofound.europa.eu/observatories/eurwork/articles/statutory-minimum-wages-in-the-eu-2017>), which provides information on the mechanism and discussions

regarding setting of statutory minimum wages in the EU countries in 2016. The reader can also find data on the levels and evolution of minimum wages in the EU countries. The figure below shows how the levels of the statutory minimum wage in 2017 were determined.

	Government	Tripartite	Social partners	Independent expert committee	Indexation
Belgium					B
Bulgaria					
Croatia					
Czech Republic*	U				
Estonia	D		N		
France****	D			N	B
Germany				N	
Hungary					
Ireland	D	N	N	N	
Latvia	N	N	N		
Lithuania		B			
Luxembourg**	D				B
Malta					B
Netherlands					B
Poland	U				N
Portugal***	N + D	N	N		
Romania	D	D			B
Slovakia	D	N	N		
Slovenia	D		N		N
Spain	U		N		
United Kingdom				N	

Note: Indexation can refer to adjustments linked to changes in prices, wages, productivity or GDP

	Was not involved at all
	Was not able to agree on a level of MW
	Was consulted about the level
	Brought the final level into effect
N	Provided a non-binding recommendation.
B	Provided a binding recommendation.
D	Decided the final level taking into account recommendations of other players.
U	Decided the final level unilaterally.

* Czech Chamber of Commerce provided a non-binding recommendation.

**

Luxembourg's statistical institute (STATEC) and the General Inspectorate of the Social Security (IGSS) were consulted.

*** The political parties the Left Block, the Communist Party and the Green Party were

**** The mechanism of indexation provides a binding minimum increase.

What kind of additional labour remunerations (reward, bonus) are being included in the basic salary, and by what type of legislative documents is this regulated?

EU level data

The European Company Survey 2013 looked into occurrence of 5 forms of variable pay among employees in the EU.

- payment by results (for example, piece rates, provisions, brokerages or commissions);
- pay linked to individual performance following management appraisal;
- pay linked to group performance (of the team, working group or department);
- profit-sharing schemes (pay linked to the results of the company or establishment);
- share-ownership schemes offered by the company.

The table below summarises the percentage of establishments in the European countries that use these types of variable pay.

Country	Payment by results	Pay linked to individual performance	Pay linked to group performance	Profit-sharing scheme	Share-ownership scheme	Any form of variable pay
Austria	53%	56%	28%	46%	7%	79%
Belgium	30%	32%	18%	20%	5%	47%
Bulgaria	34%	40%	41%	34%	5%	64%
Croatia	35%	40%	20%	19%	3%	49%
Cyprus	28%	37%	16%	22%	6%	53%
Czech Republic	58%	74%	36%	51%	4%	88%
Denmark	36%	53%	25%	35%	6%	71%
Estonia	57%	54%	49%	42%	8%	86%
Finland	46%	44%	34%	51%	12%	78%
France	39%	40%	26%	41%	8%	69%
Germany	31%	44%	19%	30%	3%	61%
Greece	32%	39%	21%	17%	2%	57%
Hungary	23%	34%	15%	16%	2%	51%
Ireland	31%	38%	23%	24%	7%	60%
Italy	18%	35%	18%	18%	3%	48%
Latvia	30%	48%	32%	23%	1%	67%
Lithuania	72%	67%	48%	53%	13%	85%
Luxembourg	38%	43%	29%	29%	12%	66%
Malta	46%	43%	24%	13%	0%	70%
Netherlands	39%	48%	24%	34%	7%	68%
Poland	39%	55%	40%	34%	4%	74%
Portugal	27%	35%	25%	21%	3%	53%
Romania	40%	45%	29%	32%	2%	60%

Slovakia	50%	55%	40%	53%	3%	85%
Slovenia	40%	72%	48%	55%	8%	82%
Spain	34%	35%	23%	25%	5%	52%
Sweden	30%	36%	24%	38%	9%	63%
United Kingdom	36%	41%	25%	26%	9%	63%
Total	34%	43%	25%	30%	5%	62%

More information can be found at:

<https://www.eurofound.europa.eu/publications/report/2016/industrial-relations/changes-in-remuneration-and-reward-systems>

National systems of supplementary pay

The overview report of European Working Conditions Survey

(https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef_1634en.pdf) looks into the proportion of workers in Europe who receive pay components

additional to their basic fixed salary or wage that can be of variable nature. Figures below show the percentage of European employees receiving such components and their development from 2000. In 2015, about 15% of employees received pay based on individual performance. Profit-sharing schemes and shares in the company have been slowly increasing in importance since 2000, involving 12% and 4%, respectively, of workers in 2015. Piece rate or productivity payments are reported by 11% of employees in 2015.

Figure 88: Extra components of pay (employees only), EU28 (%)

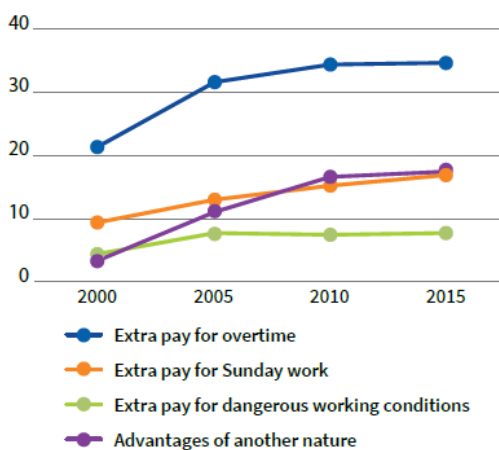
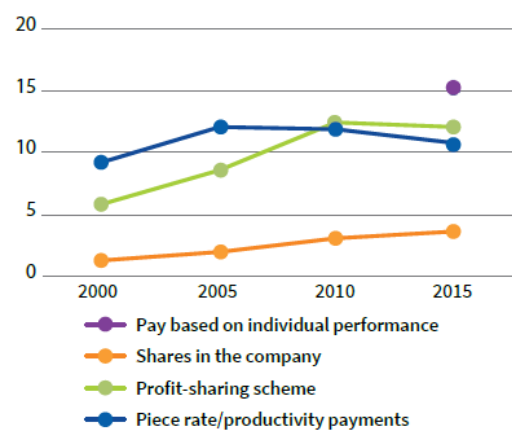


Figure 89: Performance-related components of pay (employees only), EU28 (%)



Types of national systems of supplementary pay

Four types of national schemes have been identified in a study conducted by Eurofound on the extent and evolution of supplementary pay in the EU Member States. Some of them are more widespread than others and some are more predominant in certain EU countries. The four types are:

- Performance-related schemes
- Use of wages and salaries in kind
- Use of supplementary social security contributions
- Financial participation schemes

Performance-related schemes are used extensively in countries such as Belgium (34% of all employees who receive additional pay depending on results or occasional bonuses), Finland (35% of salaried employees receive remuneration based on individual performance and 39% based on team or group performance). National data show that 64% of workers in the Netherlands receive flexible pay partly dependent on performance. Similarly, Luxembourg reports a high number (80%) of workers receiving bonuses and allowances in addition to their basic remuneration. Other countries make less use of this type of remuneration (eg Italy, Spain, and Greece). Business associations in certain countries report high number of work places using performance related schemes (eg UK 55% of workplaces, in Latvia and the Netherlands 34% of employers).

Wages and salaries in kind are used extensively in some countries.

- In Belgium almost all employees (95%) enjoy non-monetary fringe benefits: commuting reimbursement (67%), luncheon vouchers (61%) and hospitalisation insurance (60%) are the most prevalent
- In Finland, in-kind rewards are fairly common: in 2013, over 30% of the total workforce benefited from the kilometre allowance covering which covers use of the employee's own car for business travel. Meanwhile, 22% received a full-time per-diem allowance; 15% enjoyed phone benefits and 11% received meal benefits and fewer than 3% received employer-paid tickets for public transport or had access to a company car.
- In France, 3.8 million employees benefit from lunch vouchers paid by employers and around 95% of all workers also benefit from a supplementary health insurance paid by their employer.
- Approximately half of Latvian full-time employees benefited from at least one type of complementary in-kind benefit -such as health insurance, company gift, travel costs, service company car, paid mobile phone,- within the last year.
- Statistics from Norway, show widespread use of benefits in kind in the private sector: 73% of private -sector employees work for a company that provides electronic equipment such as mobile phones for private use (including cell phones and cell phone plans). Meanwhile; 55% of private sector employees work in a company that provides gym

facilities, gym membership, physiotherapy or similar services to their employees; 38% work in a company giving that offers free holiday accommodation and longer holidays longer than what is required by law or the collective agreement and free holiday lodging, and; 37% work in companies that provide private medical care and 1% works in companies that provide childcare benefits.

Workers in Greece, Ireland, Italy and Spain receive less often such forms of pay (e.g. 22% of Spanish employees, 10% of Greek and Irish and 9% of Italian employees).

The use of *supplementary social security contributions* are quite extensive in Belgium and France. Approximately 50% of Belgian employees receive supplementary retirement insurance and more than 46% of French employees receive employee and saving scheme). In Finland, Greece, Italy and Spain a smaller share of employees receive such schemes (between 3 to 9%).

Lastly, *financial participation* is less used than other schemes. Among them, profit sharing schemes are more common. Data from the European Company Survey (above) indicate high use by companies.

Variable pay in total remuneration

The Eurofound study investigated the proportion of variable pay in the total employee remuneration using national data. It is found that variable pay usually represents a relatively significant percentage of total salary levels, ranging from 5% to 11% in most of the countries where information is available. Some indicative national data indicate are presented below:

- the share of variable pay in **Belgium** is around 11% of the total yearly salary.
- In **Spain**, 13% of the total gross salary is made up of extraordinary payments (both fixed and variable) with payments in kind making up just 0.13%
- In **Slovenia**, variable pay forms 15% of wages
- Data from the **Portuguese** Ministry of Economy show that non-regular rewards and allowances (XLS) stand at a yearly mean of €2,579 (15.8% of mean total earnings)
- Productivity bonuses for **Italian** employees account for 4.5% of their gross pay

Regulation of supplementary pay schemes

A mixture of provisions in labour codes or employment legislation, tax and civil codes as well as collective agreements regulates the supplementary pay schemes in the EU Member states. In countries where social dialogue plays a bigger role in regulating employment issues, national legislation only establishes the framework conditions. Countries in that group include Finland, Denmark, and Norway.

In other countries, it is left to the market to regulate pay issues while the state regulates basic contents of pay (e.g. Malta, Ireland, UK).

On the other hand, detailed definitions and regulations of different forms of VPS are included in Labour or Civil codes and different employment Acts in countries including: Austria, Finland, France, Germany, Italy, Ireland, Luxembourg, Poland, Romania, and Slovenia. The following examples are provided for illustrative purposes:

In Austria, some variable forms of remuneration are covered, to a limited extent, in various employment regulations. For instance, regulations on commissions and profit-sharing can be found in the White Collar Workers Act (Angestelltengesetz); no regulations on commissions and profit-sharing are in place for blue collar workers. Additional legal provisions for PRP (Leistungsentgelt) are found in several further laws: the Employment Contract Law Adaptation Act (Arbeitsvertragsrechts-Anpassungsgesetz), concerning benefits deriving from employees' shareholdings towards the assessment basis of continued remuneration (for example, in case of sickness);

Legislation in Ireland only regulates financial participation schemes. The Irish government entered the field of financial employee participation with the Finance Act of 1982, which was intended to encourage the voluntary and widespread adoption of share-based profit-sharing.

In Germany, the Employee Financial Participation Act (Mitarbeiterkapitalbeteiligungsgesetz) was introduced in 2009 to increase employees' financial participation in their companies' ownership and profits. Government-subsidised employee savings (Arbeitnehmersparzulage) are topped up by €80 when they are used by employees to buy company shares. The employers' threshold for tax and social security contributions for staff receiving non-cash benefits in the form of company shares has been raised from €135 to €360 annually.

In France, there are two main types of employee saving schemes: PEE, which is collectively organised and provides tax incentives for workers to save money, and Perco, in which funds are blocked until the employee retires. A 2013 reform introduced the principle that all collective saving agreements should offer Perco as a way to save additional funds for retirement. Since a 2001 reform, it is possible to organise sectoral or regional inter-company schemes, designed to decrease administrative costs and to make PEE more attractive for SMEs. Profit-sharing schemes are tightly regulated in France.

In Poland, the Company Social Benefits Fund is also regulated by law. The fund is financed from annual deductions, and its main function is to subsidise social assistance for employees and certain family members. Every company employing at least 20 full-time workers must establish such a fund, unless the collective agreement provides otherwise.

The public sector is covered by specific provisions; some Member States have set an upper limit to the VPS for the public sector as the recent Eurofound comparative analysis demonstrates. The Estonian Act on Civil Service provides that VPS should not exceed 20% of the basic salary in the civil service. The Slovenian Employment Relations Act stipulates that 5% of the annual amount for basic salaries in the public sector should be assigned for the reward of job performance.

Countries that encourage the use of supplementary reward systems usually provide favourable tax treatment or reduced social security contributions.

The additional allowance (reward, bonus) for acquired professional experience is of particular interest to us. Is there such a mechanism and how it is implemented?

Eurofound research shows that variable pay schemes (VPS) are becoming more common among Member States in different sectors of the economy. The increase of VPS schemes may reflect a number of changes taking place in the workplace, such as, customer-facing sales and administrative jobs becoming more open to pay based on commission and managerial appraisal and reduction of seniority pay. Often, it is a management strategy to replace seniority with performance pay in response to product market change or introducing VPS to contain fixed pay costs and motivate and retain high performers.

It is indicative that a number of EU countries significantly reduced seniority pay. For instance an earlier Eurofound study found that the French manufacturing sector in 2004 had bonuses and supplements which constituted 12.9% of employee earnings, but only 1.7% was dedicated to seniority bonuses (compared with 2.2% in 1998). Austrian social partners through the 2007 collective agreement in the banking sector replaced the traditional seniority system with an appraisal-based competency progression system. Similarly, seniority schemes have become less relevant and wages are more closely linked to skills, performance and the labour market in Hungary.

Similar developments took place in the public sector; several Member States have been concerned with mechanisms to simplify pay scales and permit greater differentiation across the public sector, and VPS are part of the process. In the same comparative study, the Portuguese experts indicated that the government replaced seniority pay with an appraisal-based merit scheme as part of a thorough rationalisation of pay structures in 2007.

Overall, there is a noticeable trend away from piecework schemes and towards productivity bonuses, profit sharing and other forms of VPS as seniority systems are displaced.

While the recent global economic crisis had a negative impact on the overall use of VPS, there is some evidence that with the improvement of the economic climate those will increase. Such an increase is attributable (by employers) to their flexibility and connection with business performance. Also, in the context of an ageing population in short supply of skills required, VPS will be used to attract and reward the most talented individuals.