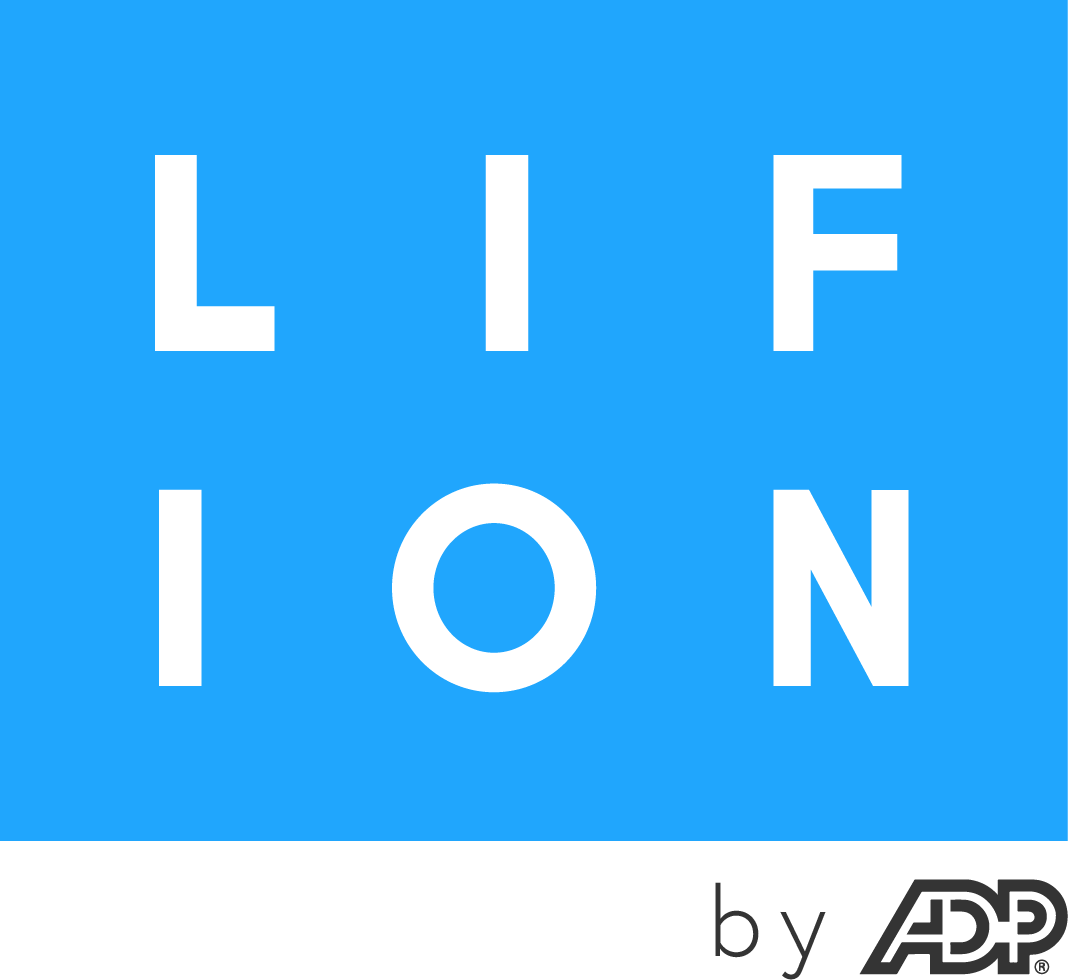
***DRAFT***



Compensation Breakdown for India Market

**Version History**

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1. Cost to Company

Cost to company (CTC) is a term for the total [salary package](https://en.wikipedia.org/wiki/Salary_packaging) of an employee, used in countries such as India and South Africa. It indicates the total amount of [expenses](https://en.wikipedia.org/wiki/Expenses) an employer (organization) spends on an employee during one year. It is calculated by adding salary to the cost of all additional benefits an employee receives during the service period. If an employee's salary is [₹](https://en.wikipedia.org/wiki/Rupee)50,000 and the company pays an additional ₹5,000 for their health insurance, the CTC is ₹55,000. Employees may not directly receive the CTC amount.

The CTC can include many elements in addition to salary/wages, such as health care, pension and allowances for housing, travel and entertainment. Tax is also deducted from the cash amount the employee receives directly. The term CTC is used by companies to more accurately reflect the incremental spend per employee (the concept of Direct Cost) from the perspective of an organisation. Another way to look at CTC is: all the money that would not need to be spent if the number of employees is reduced by one. Obviously, the indirect cost like the cost of facility, the support teams like HR, IT, Management, etc would still be incurred and hence not included in CTC. Therefore, the CTC doesn't not include any component, that can not be attributed directly to the employee.

A prospective employee is quoted overall cost that the company has to bear for employing the associate. This is called as Cost to Company (CTC hereinafter) and is widely used in India to indicate the overall compensation package. Companies quote CTC to refer to overall pay package and pay negotiations also happen on this figure. It is also quoted on the offer letters.

Organizations break the CTC into various comp elements and pay them at the appropriate intervals (some are paid per pay period, some of them may be paid at annual frequency). Some organizations (including ADP India) provide the option to associates to structure their CTC for tax efficiency..

1. Composition of CTC

CTC comprises of all the explicit monetary costs that the organization incurs on employing an employee annually. It however does not include non monetary costs such as costs related to office facilities, amenities etc. The composition of CTC varies from company to company and it may also vary based on Job Levels, Designation, Duties performed, Job Architecture. The local laws do not mandate standardization for break up of CTC. However some components are standard and are used all across while as others may vary.

Break Up of CTC - Most Common Components

|  |  |  |
| --- | --- | --- |
| **S.No** | **Component** | **Description** |
| 1. | Basic Pay | This is a standard comp component and is used by all employers |
| 2. | House Rent Allowance | This is a standard comp component and is used by all employers. The law mandates that this be atleast 40% of the Basic Pay |
| 3. | Special Allowance | This is not a mandatory component but the employer may pay this component to attract talent |
| 4. | Flexible Benefits | This includes components such as LTA, Children Education Allowance etc. The employer may choose to use these components individually or club them under Flexible Benefits |
| 5. | Employer PF Contributions | PF is a retirement benefit that employers are mandated to provide employees with. It is 12% of basic pay |
| 6. | Gratuity | (15 X last drawn monthly salary X tenure of working) divided by 26 |

1. CTC Breakdown for ADP India

Many employers follow a bottom up approach i.e. they fix the basic pay and then derive other components as a fraction of the base pay. They then aggregate all the components to arrive at the CTC number.

Other employers follow top down approach i.e. they fix the CTC and then derive its constituent components as a percentage of the CTC itself.

ADP follows the latter in India. The breakdown of CTC at ADP is as follows:

|  |  |  |
| --- | --- | --- |
| **S.No.** | **Component** | **Calculation** |
| 1 | Basic | G1-G2: 30% of total monthly gross  G3: 35% of total monthly gross  G4-G7: 49% of total monthly gross |
| 2 | HRA | G1-G7: 40% of basic |
| 3 | Ex-gratia | G1-G3 =20% of Basic  G4-G7: NA |
| 4 | EOC allowance | Rs. 15,000 per annum (G1-G7) |
| 5 | Broadband allowance | G1-G2: NA  G3L1-G4L2: Rs. 12,000 per annum  G5-G7: NA |
| 6 | Tablet / Computing Device | G1-G2: NA  G3-G4: Rs. 55,000  G5-G6: Rs. 75,000  G7: Rs. 90,000 |
| 7 | Gross monthly salary | Total of (Basic, HRA, Conveyance, FB, Special Allowance, Ex gratia, PF, Gratuity) |
| 8 | Total yearly compensation | Gross yearly salary + EOC allowance + Broadband allowance + Holiday + Home PC + Car Value + Ex-gratia |
| 9 | Birthday | Birthday Coupon Payment based on DOB – Birthday coupon payment based on DOB details. |
| 10 | Deduction for Events (Company day / Family day) | Basis emails |
| 11 | Incentive | Basis approval emails from client and BU, the payout is made to the Associate |
| 12 | Variable Pay % | Payout% per grade  G1-G4 12%  G5 15%  G6 20% |
| 13 | Components for F&F calculation | In case LWD of the Associate is on/before the 5th of the month, the salary of the previous month will be put on hold and will be paid as part of the F&F. For LWD post 5th of the month, the salary of the Associate in the month of exit will be processed along with F&F |

Here G1, G2, G3...G7 refer to the Job Grade & Level of the associate. ADP in India follows following Job Architecture:

G1L1 -> G1L2 -> G2L1 -> G2L2 -> G3L1->G3L2 ….. -> G6L1 -> G6 L2

When an associate is hired an overall CTC number is added as compensation.

Additional Details around Comp Decomposition:

1. Calculation of Monthly Gross:

**(Annual CTC – EOC)/1.12/12**

The subtraction is done because Variable Pay is not paid on EOC and division by 1.12 is done because Annual CTC comprises of both annual gross and

variable pay wherein variable pay is paid once a year and is 12% of CTC after EOC is subtracted. Finally division by 12 is to obtain the monthly Gross.

2.. Annual Gross:

**Monthly Gross\*12**

3. Base pay,:

**For G1 and G2: 30% of total monthly gross**

**For G3: 35% of total monthly gross**

**Between G4 and G7: 49% of total monthly gross**

4. HRA :

HRA is 40% of Basic (Basic as derived above) for all ADP India associates.

5. Flexible Benefits (FB)

**FB, for associates Upto G3, (basic \*30%) + 800**

**For G4 & above FB = (basic \*30%)**

6. Gratuity is 4.81% of monthly basic for all ADP India associates.

7. Employer PF contribution is 12% of monthly basic if monthly basic is greater than or equal to Rs. 15000. If however monthly basic is less than Rs. 15000, and monthly gross is greater than Rs. 15000, employer PF contribution is Rs. 1800. If monthly basic is less than Rs. 15000, and monthly gross is also less than Rs. 15000, employer PF contribution is 12% of monthly gross.

8. Special Allowance is calculated using the following formula

**Monthly Gross-Monthly Basic-HRA-FBP-Ex Gratia Bonus-PF-Gratuity**

9. Broadband Allowance

This is a fixed taxable earning for G3 and G4 associates specified directly as an explicit amount and is a part of CTC

10. Bonus/Ex Gratia - 2 months of basic/12 , only applicable to associates below G4. It is part of CTC

11. EOC is Rs. 15000 per annum for all ADP India associates