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The pitfalls of hourly wages

Dear Sir or Madam,

In this newsletter, we deal with the issue of hourly wages. What do I need to watch out for when structuring the pay slip? What needs to be included in the contract? What about the breakdown between the individual parts of the pay slip, like basic wage, holiday compensation (legally mandatory), and public holiday compensation (which varies from canton to canton)? Below we expand upon these questions, and the various methods of calculation.

What do I need to watch out for when structuring the pay slip?

When setting up the pay slip, you need to ensure that the following wage components are listed separately:

- Basic wage
amount in CHF which serves as the basis for calculation
- Holiday compensation
percentage figure, dependent on holiday entitlement
- Public holiday compensation
percentage figure which serves to equate monthly with hourly wages

An entry for basic wage including holiday and public holiday compensation, without detailed calculation, does not preclude the employer, in case of dispute, from having to remunerate these additional compensations on top of the wage payment already executed. It is recommended that you ensure a correct pay slip structure from the beginning.

What needs to be included in the contract?

Workload

The workload or the specific hours per month respectively are relevant for professional pensions and for accident and sick pay insurance.

Gross pay

Gross pay is separated into three parts

- basic wage
- added to the basic wage will be the percentage of holiday compensation
- added to the basic wage will be the percentage of public holiday compensation

Basic wage

Calculation of basic wage per hour:

Monthly wage x 12 / hours worked per year

A 13th month wage is not included in the calculation of the pure basic wage.

Example

An employee earns CHF 5'000.00/month, receives a 13th month wage, and is entitled to five weeks holidays. He works 41 hours per week. According to our formula his basic wage per hour is CHF 28.15.

$$\frac{5'000 \times 12}{52 \times 41} = \text{CHF } 28.15$$

Holiday compensation

The percentage of holiday compensation depends on the holiday entitlement. When calculating the holiday allowance, it is common practice to use 260 days per year. Thus the formula for calculation is:

Number of holidays / (260 – number of days of holidays) = holiday allowance in %

4 weeks per year equals	8.33%
5 weeks per year equals	10.64%
6 weeks per year equals	13.04%

With the help of a transparent presentation, holiday allowances are clear on each pay slip.

Public holiday compensation

With the exception of 1 August there is, from a legal point of view, no entitlement to public holiday compensation for employees working on an hourly wage. However, to avoid any discrimination in comparison to employees with a monthly salary, it is recommended to agree to a public holiday compensation. Public holiday compensation cannot be applied uniformly throughout Switzerland, as this is regulated on a cantonal basis. The defining criteria for public holidays are the regulations at the work location according to the contract of employment. The Swiss Employment Act allows cantons to equate up to eight public holidays with Sundays. Thus in addition to 1 August, as already mentioned, the number of public holidays is nine. Due to the distinction between fixed public holidays (either always on the same date or on the same week day) and moveable public holidays – which are always granted – there are on average 7.5 public holidays instead of nine that fall on a week day. Thus we have the following formula for our calculation example:

7.5 public holidays / (260 work day – 7.5 public holidays) = 2.97%

Professional pension plan

In parallel with monthly wages, the annual entrance threshold of CHF 21'150 (based on 2015 figures) is decisive here. Certain professional pension plans also consider the work load.

Example

A medical doctor, in addition to his full-time job (not self-employed), works 10% in another doctor's surgery. With the annual salary generated there he does not reach the entrance threshold. However, the pension scheme in force includes the proportional reduction of the coordination offset which means the premium to the pension fund still applies.

Accident insurance

Anyone working more than eight hours per week is not only covered by Occupational Accident Insurance (by the employer) but also by Non-Occupational Accident Insurance. The employer usually pays the occupational premiums and the employee the non-occupational premiums; it is possible for the employer to cover the non-occupational premiums as well.

Sick pay insurance

If an employer has taken out a sick pay insurance, then any illness is covered by this specific insurance as well. If the employee's share of the premiums appears on his pay slip (usually the split is 50/50, although it is possible for the employer to pay the full premiums), then an entitlement to daily benefit exists, should the employee become ill. A lump sum in compensation as percentage of the basic wage is not appropriate. However, if no such daily benefit insurance has been taken out, then for the employer there is still an obligation of continued wage payment, usually based on the number of years in work according to relevant scales.

Continued wage payment when unfit to work

Any employee with an hourly wage has the same rights as those with a monthly salary. Usually the average wages of the last twelve months are considered for the calculation of the daily allowance.

Social security deductions

Each and every wage payment is subject to social security (AHV/IV/EO) and unemployment insurance (ALV) deductions with the exception of paid-out child allowance and insurance benefits (accident or sick pay insurance). Another exception is payment of maternity or military compensation, which are subject to social security, but not to accident or sick pay premiums.

The artax team looks forward to helping you through the complex matter of payroll and employee compensation.

Kind regards

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