Actuarial Society of South Africa

EXAMINATION

October 2024

Subject N211 — Communications

EXAMINERS' REPORT

This subject report has been written with the aim of helping candidates. This report summarises the main points that the examiners were looking for and some common problems encountered.

General Examiner's comments

Question 1

This question required a redraft of information presented in two different formats into a handout suitable for those attending an actuarial convention. The story portion was populated with two fictitious characters: Lena (Gen Z) and Mark (Millennial), representing young recruits and middle management, respectively. This meant that the information given about the characters could be generalised to represent two different generations of employees. Better candidates used the information in this way or gave a very short summary of who the characters represented and the main points of the story. Some candidates led readers to believe that Nexus Innovations was a real company and/or the fictional characters were real.

Candidates were instructed to use the given title to the handout *Harnessing the Power of Generation Z: Bridging Challenges and Opportunities in the Workplace*. Content should have been presented in this order, preceded by an explanation of who falls under Gen Z. This technique allows an early acknowledgement of challenges followed by a persuasive build-up, leaving readers with the positives of Gen Z in the forefront of their minds. This was important as the handout was to counter reluctance to hire Gen Z workers.

Most candidates gave a balanced view of Gen Z characteristics and referred to their workplace expectations. Better candidates used content to guide readers to understand how to utilise Gen Z characteristics to the benefit of an organisation, ending with an overview of the positives of Gen Z.

Since the provider of the handout is a recruitment company, it was expected that the recruitment company name and at least one way to contact the company (eg website or email address) appear in the handout.

A handout should be visually appealing. This could be achieved by using different text formats (e.g. using larger font for the heading, bolding main points etc.) and including graphical comparison between the characteristics of different generations. Graphics should be of appropriate size and fit naturally into the text. As such, graphical content is normally commented on in the text itself.

Good structure and planning resulted in a unified and coherent handout, where content was emphasised where appropriate (i.e. it led to the intrinsic arrangement of data).

Content marks were generally higher than communication marks for this question. Some candidates lost unnecessary word count and formatting marks. It was clearly stipulated in the instructions that words and numbers in graphs and tables must be counted. Tables are usually part of the automatic word count but graphs, if inserted, are not and must be added manually. Their inclusion needs to be checked through highlighting to ensure the correct word count. Students must add this to the bottom of their answer; those who failed to do so, lost all word count marks (as did students who gave wildly incorrect word counts - we check!) The format mark includes spacing. Single spacing with 0/0 (not multiple 0/8) is recommended in all Word questions.

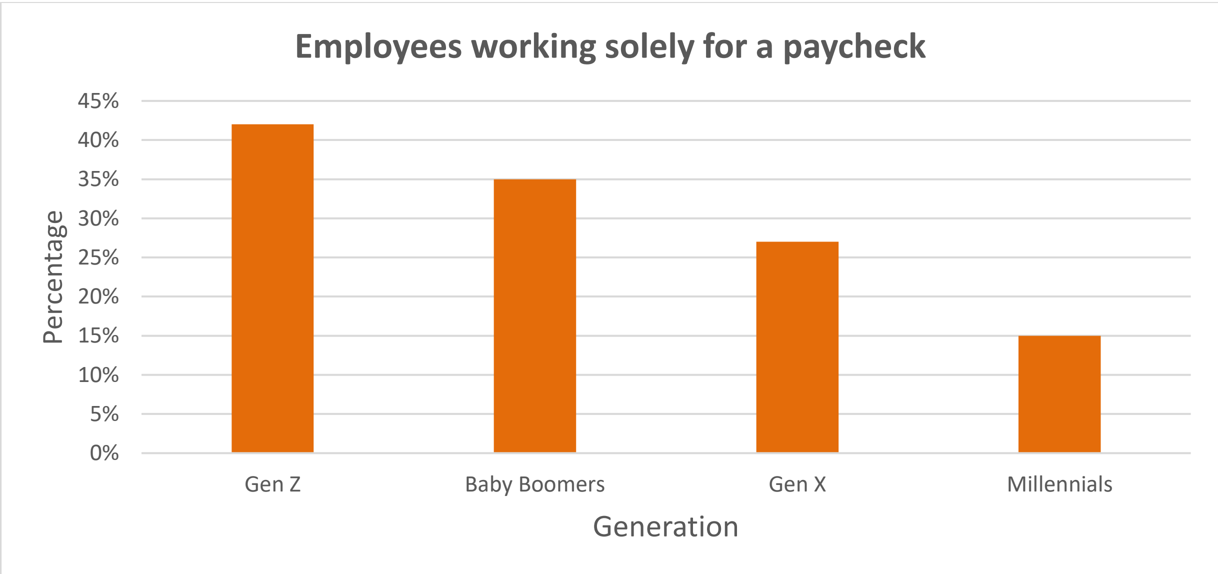
<u>Question 1 - Draft Solution</u>

Harnessing the Power of Generation Z: Bridging Challenges and Opportunities in the Workplace

Generation Z, born between the mid-1990s and early 2010s, is rapidly entering the workforce, bringing fresh perspectives and innovative skills. However, many employers express concerns regarding their motivation and work readiness. Understanding both the challenges and potential of Gen Z is crucial for businesses aiming to harness their talents effectively.

Current Perspectives on Gen Z Employees

Recent surveys reveal significant concerns among business leaders about Gen Z. Alarmingly, **27% of leaders reported firing a Gen Z employee within a month of hiring**, citing a lack of motivation and readiness for the workforce. Further, **three out of four managers** find Gen Z the most challenging generation to work with, noting that **half of Gen Z employees appear to be coasting**, with **42% admitting they work only for a paycheck**. This disengagement is concerning compared to previous generations.



Acknowledging Deficiencies

Some Gen Z workers face specific challenges that can hinder performance:

1. **Lack of Motivation**: Many struggle to find purpose in their work, leading to disengagement and a lack of initiative.

2. **Workforce Preparedness**: Some enter the job market without essential skills or an understanding of workplace dynamics, causing friction with experienced colleagues.

3. **Cultural Fit**: Their desire for autonomy and meaningful connections can clash with traditional workplace structures, resulting in misunderstandings.

The Potential of Gen Z Workers

Despite these challenges, Generation Z brings unique strengths to the workplace:

1. **Technological Proficiency**: Growing up in a digital age, Gen Z is adept at using technology and social media, making them valuable in a digital work environment. Their familiarity with AI tools and remote collaboration can enhance efficiency and drive innovation.

2. **Desire for Autonomy**: **79% of Gen Z desire more autonomy** in their roles, which can foster creativity. When given responsibilities, they often find innovative solutions.

3. **Focus on Relationships**: **57% of Gen Z seeks better connections with colleagues**, compared to 19 % of previous generations. This desire can foster a collaborative workplace culture, enhancing team dynamics.

Connection seekers:

Gen Z's Other Gens

4. **Diversity and Inclusion Advocates**: Gen Z is globally connected and socially aware, valuing diversity. Their perspectives can help organisations create more equitable workplaces.

Bridging the Gap: Strategies for Employers

To effectively engage and integrate Gen Z, employers can adopt several strategies:

1. **Offering Mentorship Programs**: Establish mentorship initiatives where experienced employees guide Gen Z workers, bridging knowledge gas and instilling purpose.

2. **Creating Flexible Work Environments**: Offer flexible arrangements that cater to their desire for autonomy can improve job satisfaction and productivity.

3. **Encouraging Career Development Opportunities**: Provide training programs that enhance their skills and prepare them for their roles. Regular feedback can motivate improvement.

4. **Encouraging Collaboration**: Create opportunities for team-building activities and cross-generational projects to help Gen Z build relationships and learn from older colleagues.

5. **Providing mental health support:** Offer counselling advice to avoid burn-out.

Conclusion

While Generation Z presents unique challenges, their potential for innovation, adaptability, and social awareness should not be overlooked. By understanding their needs and addressing their deficiencies, employers can cultivate an environment where Gen Z thrives, ultimately benefiting the organisation. Embracing this generation is not just about managing challenges; it's an opportunity to rejuvenate workplace culture and drive initiatives that will shape the future of work.

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575 words with diagrams

Question 2

Objectives

The question required the candidate to write an email reply to a friend explaining the change in income tax the friend experienced following a salary increase. The crux of the question was to understand that the purpose of an increasing marginal rate tax system is to tax higher levels of income at higher rates so that the proportion of tax to income increases with increasing income.

The question instructed the candidate to deal with five aspects of the explanation, namely

- summarise the payslip information provided by the friend,
- explain what is presented in the tax table used by the South African Revenue Service,
- perform a step-by-step explanatory calculation of the tax deducted for August 2024,
- comment on the difference between the average tax rate for a month and the marginal tax rate for the month, and
- comment on why an increasing marginal tax rate system is considered desirable and reasonable from a government perspective in a way that the reader will also view as fair and justified.

To perform well on the question the candidate had to first understand what they were explaining and then relay this explanation in simple easy-to-follow terms that a person unfamiliar with tax or mathematical calculations would understand. After reading the email the friend should

- be able to calculate their tax themselves,
- understand that the tax on the payslips is correct,
- understand that the more they earn the higher the proportion of their income will be deducted for tax, and
- be satisfied this that is a reasonable outcome.

Common Errors

Very few candidates grasped the concept that the point of an increasing marginal tax rate system was to tax higher bands of income at a higher rate and that the consequence of this is that tax as a proportion of income increases as income increases. This was evident in one common error and an omission in candidates' solutions.

The common error was a statement along the lines of "… therefore, tax increases with increasing income". This is of course true for fixed rate tax systems as well and not the key differentiator of an increasing marginal rate system. It does not help the explanation of why the friend's tax has increased by far more than the salary in relative terms.

The common omission was in the comparison of the average tax rate and the marginal tax rate. Candidates failed to observe that the average tax rate is made up of tax arising at different rates for different bands of income and that the marginal rate is the rate only applied to the highest income band.

Explanations of the tax table were generally poor. Copying the whole tax table or pasting a picture of the tax table was not helpful to the explanation; including it as an attachment to the email was the more appropriate approach. Candidates missed the opportunity to take observations from the table and explain those observations to the reader. It is possible that candidates glossed over the explanation of the tax table to get onto the step-by-step calculation which they were much more comfortable with.

The question included some bullet points on why increasing marginal tax rate systems were appropriate and justified. Candidates were expected to use these as prompts to write a justification to the friend in a way that the friend would no longer feel aggrieved by the large increase in tax. Candidates who just copied the bullet points from the question did not get the marks for this section.

Sections done well

Almost all candidates got all the technical marks for the calculation of the August 2024 tax deduction. As a result of this, this was not the section that distinguished successful and unsuccessful candidates. A few candidates made errors in the calculations. These included

- deducting UIF from income to get taxable income when the question was clear that this is not an income tax deduction,
- starting with the incorrect salary and even
- calculating net income as tax less UIF.

The summaries of the payslip information were generally well done. However, some candidates combined the summary of the payslip information provided and the calculations all in one long table which made it hard for the reader to follow this long list of numbers. The question gave clear separate instructions for each of these parts.

The correct calculation of the average tax rate for a month is the tax divided by the taxable income, rather than the gross income. This allowed a more appropriate comparison to the marginal tax rate, which is applied to taxable income in the calculations.

Summary

Overall, the technical marks for this question were low, primarily due to

- inadequate explanation of the tax table,
- omitting the comparison of average and marginal rates completely,
- failing to show an understanding of the marginal nature of the tax table and the consequences of this, and
- not translating the bullet points from the question into a convincing justification for paying proportionately more tax.

Some candidates lost unnecessary word count and format marks. It clearly stipulated in the instructions that words and numbers in graphs and tables must be counted. Tables are usually part of the automatic word count but graphs, if inserted, are not and must be added manually. Their inclusion needs to be checked through highlighting to ensure the correct word count. Students must add this to the bottom of their answer; those who failed to do so, lost all word count marks (as did students who gave wildly incorrect word counts - we check!) The format mark includes spacing. Single spacing with 0/0 (not multiple 0/8) is recommended in all Word questions.

The tone should be familiar, friendly and personal, especially during the salutation, introductory/concluding sections and close as this is an email to a friend. The middle section could be more professional in style, given his concerns and need for understanding that the tax calculations are correct. Headings, particularly question headings, added an interactive quality. Candidates who avoided jargon and supplied easy-to-follow step-by-step explanations, using his August payslip as the example, scored the most marks communicatively.

<u>Question 2 - Draft Solution</u>

From: David Josephs <davidj@myemail.co.za>
Sent: Sunday, 31 August 2024, 10.30
To: Akani Simbini <flyer100@fastweb.co.za>
Cc:
Subject: RE: This tax can't be right
Attachment: SARS tax table.pdf

Hi Akani

It was great to catch up last week and celebrate your promotion. Congratulations again.

I have looked at the information you sent and must agree the higher tax is a bitter pill to swallow. The PAYE tax amounts for July and August 2024 are, however, both correct. Your observation that the tax increased more than 80% from a salary increase of R10 000 per month is also correct.

Hopefully the explanation below of how PAYE tax is calculated will help.

Information Provided

I have summarised the information you provided in the table below:

Salary Month	July 2024		August 2024	
Gross Salary		25 000.00		35 000.00
Deductions				
Provident Fund	1 500.00		2 100.00	
UIF	177.12		177.12	
PAYE Tax	3 093.08		5 638.33	
TOTAL		4 770.20		7 915.45
Net Amount Paid		20 229.80		27 084.55
Average Tax Rate		13.2%		17.1%

The 82% increase in PAYE tax is made up of your 40% salary increase and a 30% increase in your average tax rate.

The PAYE Tax table

Tax systems where higher income earners pay a higher proportion of their income to tax are called increasing marginal tax rate systems. The marginal tax rate is the rate of tax paid on the last rand of taxable income. You can think of this as slices of your income taxed at different rates.

SARS publishes a table for these calculations (see attachment). The table shows a fixed amount of tax plus a percentage of the annual taxable income that exceeds the start of the taxable income band for various bands of income. The fixed amount is the total of the tax on taxable income in bands of income below that band.

The tax rate percentage is 18% for the lowest and 45% for the highest taxable income band. Your July 2024 salary put you in the band with a 26% marginal tax rate and with your increase you moved into the 31% tax rate band.

PAYE Tax Calculation

The first step is to calculate your annual taxable income. Taxable income is your gross monthly salary less allowable deductions. Your provident fund contribution is an allowable deduction, but the UIF contribution is not.

Using your August 2024 salary of R35 000 as the example, your provident fund contribution is R2 100, so your monthly taxable income is R35 000 less R2 100, which is R32 900 per month, or an annual taxable income of R394 800.

The SARS tax table for 2024/2025 says that tax is calculated as:

R77 362 + 31% of taxable income above R370 500, which is
R77 362 + 31% x (R394 800 – R370 500)
= R84 895.

All taxpayers qualify for a deduction from their tax of R17 235 for the 2024/2025 tax year. This reduces your annual PAYE tax to R67 660. Dividing by 12 gives you your monthly PAYE tax of R5 638.33. This agrees with the amount on your payslip.

Average Tax Rate vs Marginal Tax Rate

While your marginal tax rate for August 2024 was 31%, your average tax rate for that month was 16.1%. The average tax rate is always lower than the marginal tax rate for two reasons:

1. not all your taxable income is taxed at the marginal rate of 31%; some is taxed at 18% and some at 26%.
2. the rebate given reduces the average tax rate, although the reduction gets smaller as income increases because the rebate is a fixed amount.

Increasing marginal tax rate systems

Increasing marginal tax rate systems reduce income inequality and therefore increase economic and social stability.

Governments require revenue for services and developing infrastructure and higher income earners can afford to contribute more after their basic living expenses are met.

Higher income earners have access to greater opportunities from economic development than lower income earners and therefore are expected to contribute more to the cost of economic development.

Conclusion

For your next promotion you will now have a better idea of what to expect and hopefully the increase in tax will be less of a shock. Call me if you have further questions.

Cheers

David

(649 words)

