



The SESCO Report

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Your “Human” Resource Since 1945

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A Case for and Against the Add-On Bonus Incentive

Since the beginning of time, employers have been looking for a way to inspire employees to produce at higher levels on a continuing basis. This desire has now approached the urgency level as our world economy creates smaller and smaller gross profit margins. Since payroll, for most companies, is their largest, most controllable cost, it is only natural that this expense needs to be monitored and reviewed on a regular basis.

The idea sounds simple enough; we pay a reasonable hourly rate, meaning a reasonable attempt at a competitive wage, and then tack on a bonus incentive that will spur individuals to produce above standard in the quality and quantity expected. To make the process even more meaningful, we may even couch the plan in a participative envelope where employees will become closer to the decision-making points of the delivery of service to customers, and then make the bonus incentive a derivative of the measurements. By providing financial numbers, including net profit, everyone will be committed to performance and fulfilled with the process.

As well intended as this method of compensation is, it most always falls short of the mark. Even though we are spurred on by the concept, bonus incentive pay plans can frustrate employer and employee

alike, oftentimes providing the basis of poor morale.

What Employees Expect in the Way of Compensation

Initially, most employers don’t understand that a large percentage of workers in their organizations don’t have a burning desire to jump out of bed in the morning and produce a product or service with the resulting profit motive. You will never convince most leaders of this, but the fact remains, creating a large, financially sound and profit-generating institution is not the driving force that motivates most workers. If it were, employees wouldn’t be satisfied with an hourly job and would be in business for themselves in some capacity.

What is on the minds of most employees, however, is the need and desire to:

- Provide a reasonable and comfortable wage for themselves or their families.
- Obtain a good measure of job security.
- Have a substantial amount of pride and satisfaction in what they do.
- Receive regular compensation that is fair, both in relation to their co-workers and the marketplace.
- Experience a quality of work life that is comfortable, if not enjoyable, both socially and environmentally.
- Have ample time off from work to do many other things they hold near and dear to their hearts.

As far as their compensation is concerned, most hourly employees insist on the following tenets in their pay plan:

- They do not want their paycheck at risk. They want to know what they can expect each payday. In fact, they will take less money if they are assured of it on a

week-in/week-out basis rather than the opportunity to make more on some type of variable plan that is not assured.

- If a bonus pay plan is used, they will discount the bonus as wages. This is true even if the individual makes thousands of dollars a year from such a bonus offering. For example, a person making \$10 an hour (\$20,800 per year), plus a \$4,000 annual bonus incentive, will be quick to tell you that he or she is only making \$10 an hour, and not the \$11.92 that is really received. Their response will be the bonus is something “extra” and not guaranteed — “I may not get it next week, next month, or next year. I make \$10 per hour.”
- Employees want and expect competitive wages. They know what is being paid in their community, and if their rate of pay is not up to par, then no amount of bonus will make it right. Predictably, most employers can’t pay a meaningful bonus and still have upper-end competitive wage rates as well. Truly, this is a Catch 22 situation in that compensation is the employer’s largest controllable cost.
- Employees are very cause-and-effect oriented. When the individual handles 50 calls this week, 20 more than last week, don’t expect him or her to understand the reasoning why the bonus payment was not what they expected it to be. The most frustrating part of any employee incentive program is the credibility gap that exists between management and employees when the bonus number does not come out to be what is expected.

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ADD-ON BONUS INCENTIVE

If You've Decided to Put a Bonus Incentive in Place Anyway

To give your bonus plan a good chance to succeed, consider the following tenets that should be considered in creating and implementing a successful incentive offering:

- Define exactly what it is you want employees to accomplish in the incentive opportunity. Define the goal, the production standard, and completely spell it out. It should not be left up to, "Do more," or "If we make a profit, we'll share it." Be specific, such as, "If our (your) customer service results in 'x,' you will receive 'y'."
- **(Reminder — Penalties for loss of quality should be considered.)**
- The attainment goal must be measurable. Keep it simple, and the closer the employee is to confirming the validity of the data the better.

- Be sure the employee has an effect or impact on what is expected/measured. Giving an individual a share of the net profit is too remote a measure and beyond the employee's frame of reference. In time, the individual will lose interest since they can't figure it out. **(Important Point —** The Corporate profit and loss statement is the employer's scorecard — not the employees. You are excited about it, but don't expect them to be. Most employees are satisfied with the knowledge that the company is successful.)
- Incentive compensation should be timely — perhaps weekly, monthly, but no longer than quarterly should be considered. Additionally, a brief note of explanation of circumstances is important, supporting the payment, but avoid prolonged meetings offering financial analysis or explanation. Talking numbers is boring and even the best of speakers can't make it appear any better.
- Communications should be developed that incorporate not only bonus payments with regular hourly rates, but also fringe benefits to give the employee an on-going feel for their total financial compensation on a regular and recurring basis.

Important Reminder: for those employees that are nonexempt and are due overtime for hours worked in excess of 40 hours per week, please remember that this add-on incentive bonus or commission must be included in the regular rate (wages) for the purposes of computing overtime. This is the number one FLSA violation creating significant back wages for employers who are audited. Contact SESCO if you have any questions concerning this FLSA requirement and how to easily compute the additional monies owed on top of the bonus or commission.

Immigration Law Compliance

SESCO is fielding more and more questions concerning immigration law compliance. Given the current immigration statistics, it is likely that your business may have a question concerning an applicant or potential new employee. Please consider the following checklist and contact SESCO as you have questions.

Policy

- Do you have a policy to comply with the Immigration Reform and Control Act of 1986? Yes or No
- Does your policy require the employee to complete the employee's part of the I-9 form within three (3) days after hire? Yes or No
- Does your policy require timely completion of the I-9 form by the employer? Yes or No
- Does your policy address what actions are required if an employee's right to work in this country expires while the employee is:
 - On approved leave? Yes or No
 - On strike? Yes or No
 - Laid off? Yes or No
- Does your policy address what actions are required if an employee is:
 - Promoted? Yes or No
 - Demoted? Yes or No
 - Transferred? Yes or No

See "IMMIGRATION," page 3

Special Thanks to New SESCO Clients!

Pashman Stein Walder Hayden, PC
Hackensack, NJ

Pumpelly Tire
Lake Charles, LA

Borden Mortuary Group
Louisville, KY

Human Care USA, Inc.
Austin, TX

Lake Land 'Or POA
Ruther Glen, VA

Apple Tree Enterprises, Inc.
Fletcher, NC

Rolfe Funeral Home, Inc.
Oklahoma City, OK

Lee County Redevelopment and Housing Authority
Jonesville, VA

Autolights Wholesale
Ferndale, MI

District 19 Community Services Board
Petersburg, VA

IMMIGRATION

- Does your policy state that you will not specify which documents are to be shown to you? Yes or No
- Does your policy state that once you are provided with documents sufficient to establish identity and eligibility to work, you do not require additional ones? Yes or No
- Does your policy state that you will not discharge or refuse to hire a person because of the individual's national origin or citizenship status? Yes or No
- Do you require all employees hired after November 7, 1986 to complete an I-9 form? Yes or No
- Do you offer employment on the condition of providing proof of work eligibility and identification? Yes or No
- Do you require all I-9 forms to be completed in ink (electronic is permissible)? Yes or No
- Do you instruct the individuals who are signing I-9 forms that they are doing so under the penalties of perjury? Yes or No
- Do you explain to supervisors their personal liability if they violate the law? Yes or No
- Do you have one individual or department responsible for answering inquiries concerning your policy on immigration law? Yes or No

Procedures

- Do you provide applicants with a complete list of all documents that are acceptable under the law? Yes or No
- Have you made a decision as to whether you will copy documents presented to you? Yes or No
- Do you consistently follow your policy regarding copying? Yes or No
- Is one person or one department responsible for I-9s? Yes or No

SESCO Client Feedback

"Hi! Thank you for the helpful information in The SESCO Report. I always find these very beneficial." ~ Laura Tomaine, Senior HR Manager - ReadyKids

"You are fast! When are we going to shake hands?" ~ Kent Gladish, Vice President - Technology & Manufacturing Association (TMA)

"Received. Thank you so much for the great info. I really appreciate this service!" ~ Kathleen Lichter, Compensation & Benefits Manager - ACE Metal Crafts Company

"Jamie, wow – sounds like this was an awesome turnout! Just wanted to share that we've been receiving good feedback so far... Kelly Webb Roberts mentioned to me that you are representing our association very well. Unfortunately, I couldn't join this AM (Auto Show chaos) but just wanted to send a quick THANK YOU for all you do for us." ~ Jennifer Morand, President - Chicago Automobile Trade Association (CATA)

FLSA Update

SESCO has communicated through our newsletter, special alerts and weekly updates, the U.S. Department of Labor (DOL) has recommended a significant increase in the FLSA salary threshold to \$1,059 per week or \$55,068 per year which represents a **55% increase** to the current threshold. The current salary threshold is \$684 per week or \$35,568 per year.

To be exempt from the FLSA regulations means the following are not required:

- Time recordkeeping
- Minimum wage
- Overtime for hours worked in excess of 40 hours per week (federal)

The position must meet one of the white-collar exemptions **and** meet the salary threshold to be exempt. Given the significant increase in the salary threshold, it may mean that employers will have to convert those positions that are currently exempt and meeting the \$35,568 threshold and be moved to nonexempt and thus overtime eligible. Obviously, this could create concern for both employer and employee. Labor costs may increase significantly thereby affecting profitability and most employees prefer to be paid on a guaranteed salary. Unfortunately, we are not sure if and when the final rule will take effect and what the actual salary threshold may be. There are some saying that the salary threshold may be even higher than the projected \$55,068 per year.

The Act requires a minimum of a 60-day notice to employers before it goes into effect. The target is April of 2024, but this remains to be seen.

As recommended, SESCO clients should:

- Conduct an audit of their compliance to the Fair Labor Standards Act.
- Assess those positions that are currently exempt and determine what the impact may be should the requirement be \$55,068 per year.
- Make a determination whether or not the position will remain exempt and absorb the increase or move it to nonexempt.
- If it is the latter, re: nonexempt, it is recommended that clients visit with their consultant to discuss a strategy and communications program.
- Finally, the Fluctuating Workweek Method of Payment (salary plus overtime) may be an option for both employer and employee.

Continue to monitor SESCO communications and as soon as we learn any news regarding this extremely important proposal, we will inform our clients immediately.



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RETURN SERVICE REQUESTED

Client Highlight



Endorsed Member Benefit

SESCO is proud to be retained by the National Funeral Directors Association, the world's leading, largest and most trusted association to support funeral professionals. NFDA provides members with critical information, innovative tools, resources (such as SESCO) and the professional community they need to service families, run sustainable businesses and become pillars in their communities.

NFDA has 20,000 individual members in 49 countries to include 11,000 funeral homes.

Funeral home owners and managers can contact SESCO concerning any human resource or employment law question at no charge. We also provide members with additional services to address their employee handbooks, human resource management systems, compliance to federal and state employment regulations and management of their most valued asset, their human resources.